



ENTERTAINMENT. IT'S VITAL.

**vivendi**

music, television, cinema, mobile, internet, games

2006 Annual Report



# vivendi

2006 Annual Report

The Annual Report in English is a translation of the French "Document de référence" for information purposes.  
This translation is qualified in its entirety by reference to the "Document de Référence".

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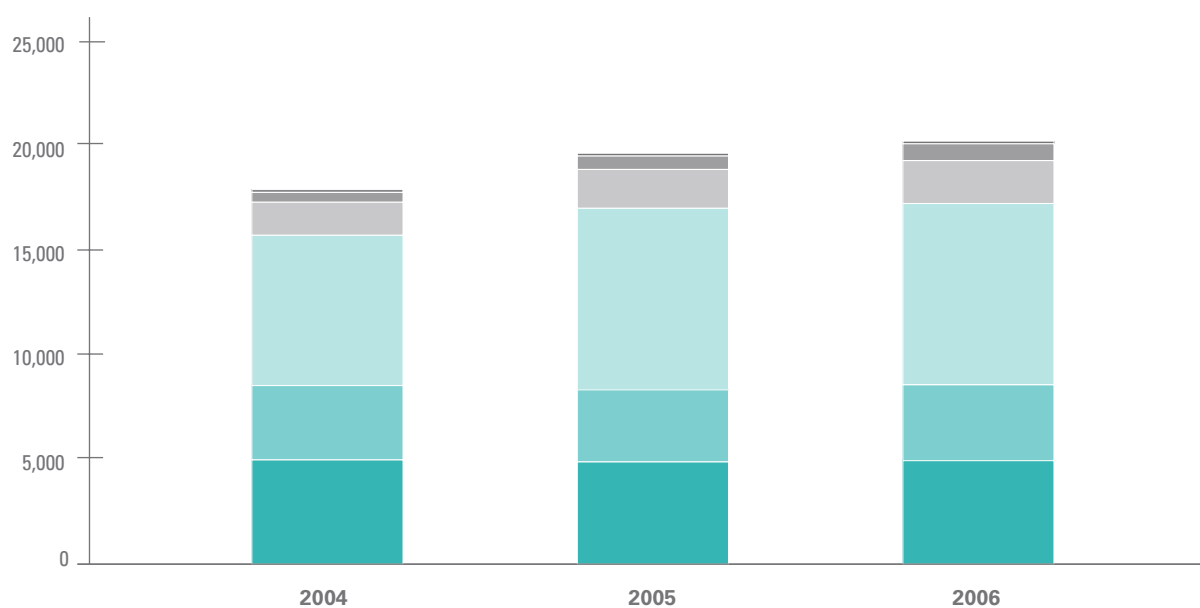
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## REVENUES BY BUSINESS SEGMENT

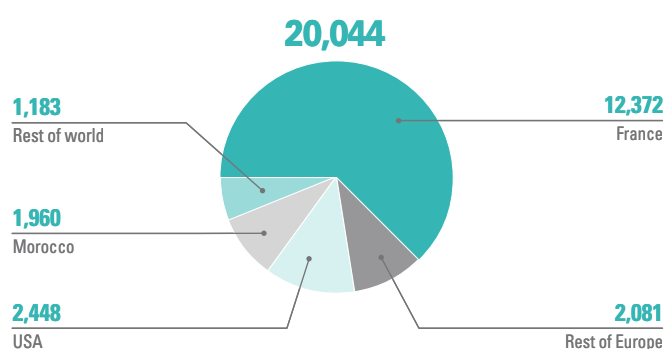
December 31 - in € million



	2004	2005	2006
Universal Music Group	4,989	4,893	4,955
Canal+ Group	3,560	3,452	3,630
SFR	7,192	8,687	8,678
Maroc Telecom	1,581	1,860	2,053
Vivendi Games	475	641	804
Non-core operations and elimination of inter-segment transactions	86	- 49	- 76
<b>Total</b>	<b>17,883</b>	<b>19,484</b>	<b>20,044</b>

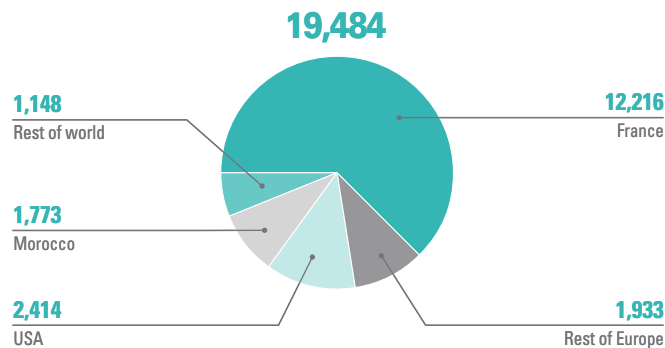
## 2006 REVENUES BY GEOGRAPHICAL ZONE

December 31 - in € million



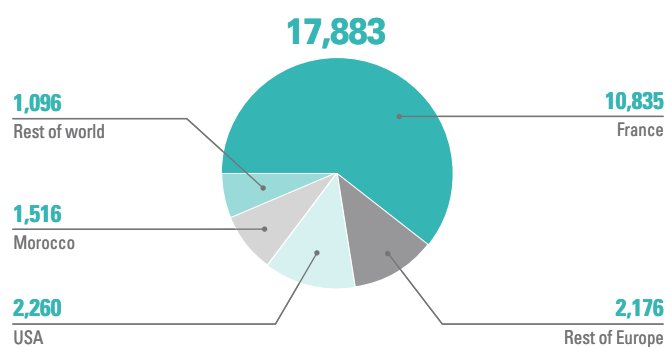
## 2005 REVENUES BY GEOGRAPHICAL ZONE

December 31 - in € million



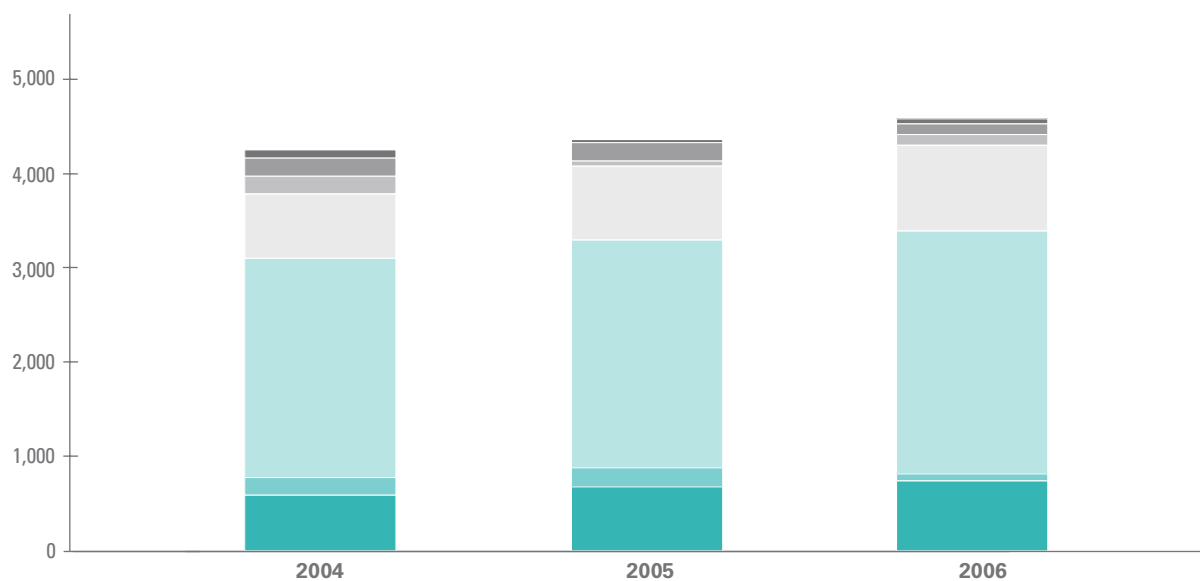
## 2004 REVENUES BY GEOGRAPHICAL ZONE

December 31 - in € million



## EBITA BY BUSINESS SEGMENT

December 31 - in € million

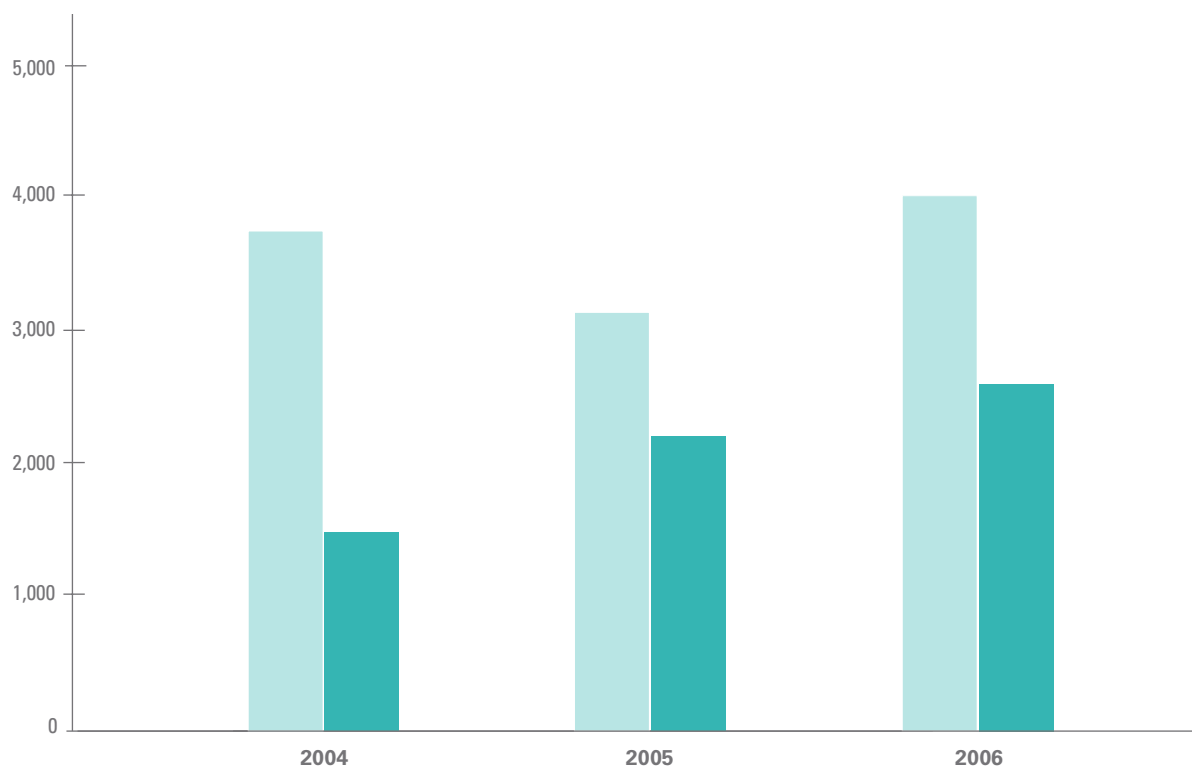


	2004	2005	2006
Universal Music Group	592	681	744
Canal+ Group	188	203	75
SFR	2,332	2,422	2,583
Maroc Telecom	685	786	912
Vivendi Games	- 188	55	115
Holding & corporate	- 193	- 195	- 113
Non-core	88	33	54
<b>Total</b>	<b>3,504</b>	<b>3,985</b>	<b>4,370</b>

The difference between EBITA and earnings from operations consists of the amortization of intangible assets acquired through business combinations that is excluded from EBITA.

## EARNINGS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT AND ADJUSTED NET INCOME

December 31 - in € million



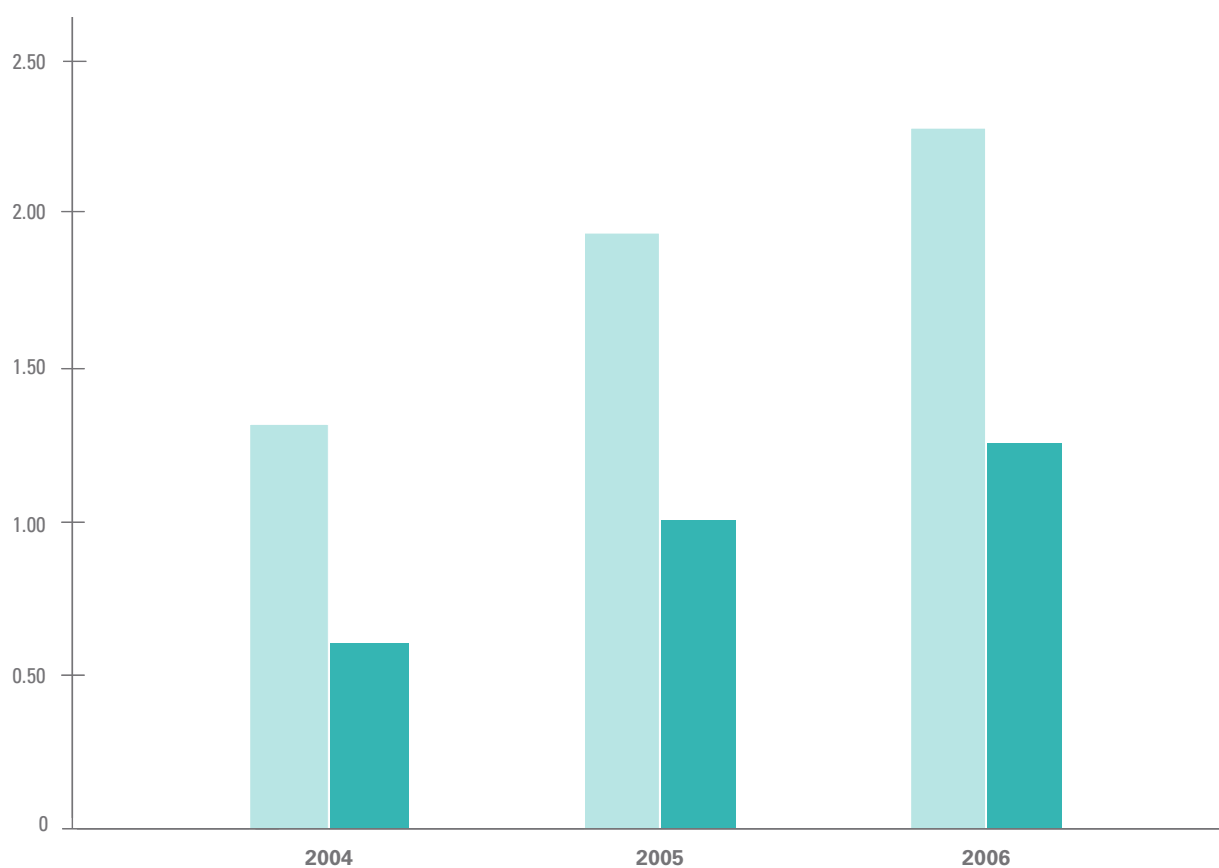
	2004	2005	2006
Earnings attributable to equity holders of the parent	3,767	3,154	4,033
Adjusted net income	1,498	2,218	2,614

Vivendi considers adjusted net income, a non-GAAP measure, as a relevant indicator of the group's operating and financial performance. Vivendi Management uses adjusted net income because it provides a

better illustration of the performance of continuing operations excluding most non-recurring and non-operating items.

## ADJUSTED NET INCOME PER SHARE AND DIVIDEND PER SHARE

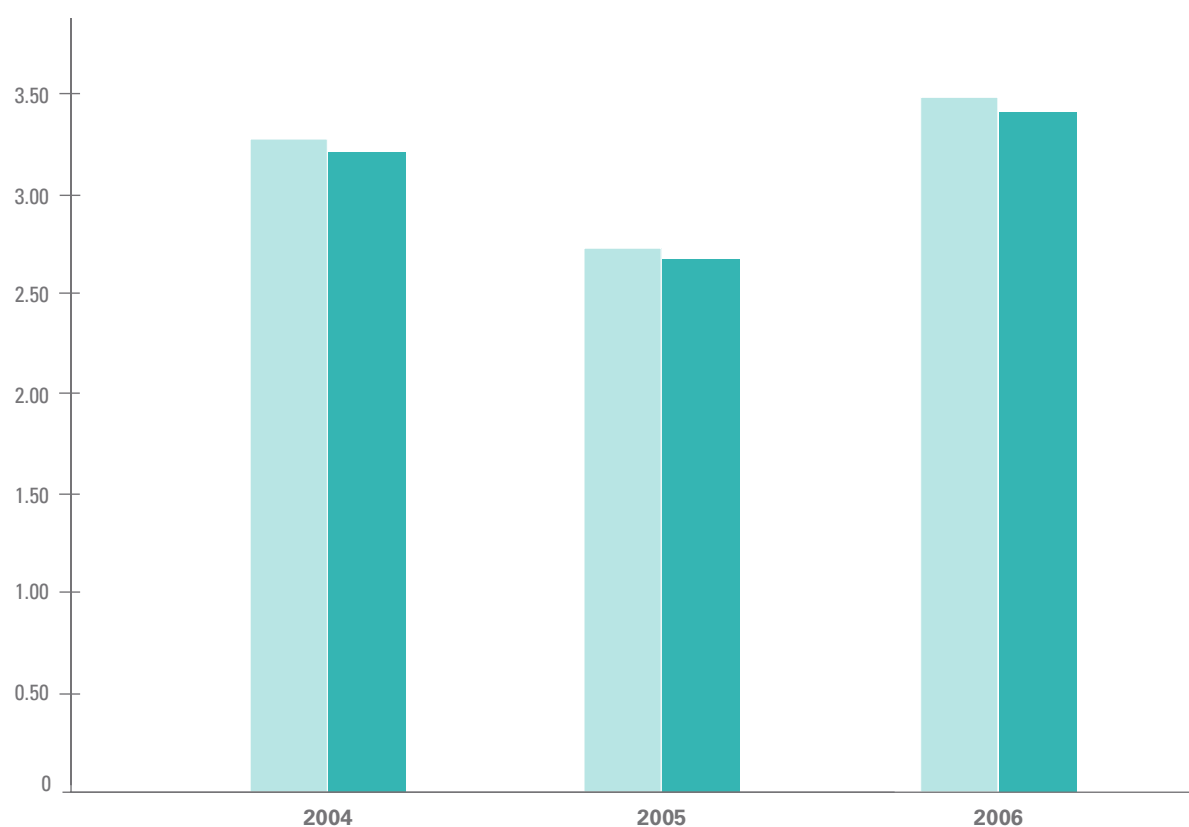
December 31 - in €



	2004	2005	2006
Adjusted net income per share	1.31	1.93	2.27
Dividend per share	0.60	1.00	1.20

## EARNINGS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT PER SHARE - BASIC AND DILUTED

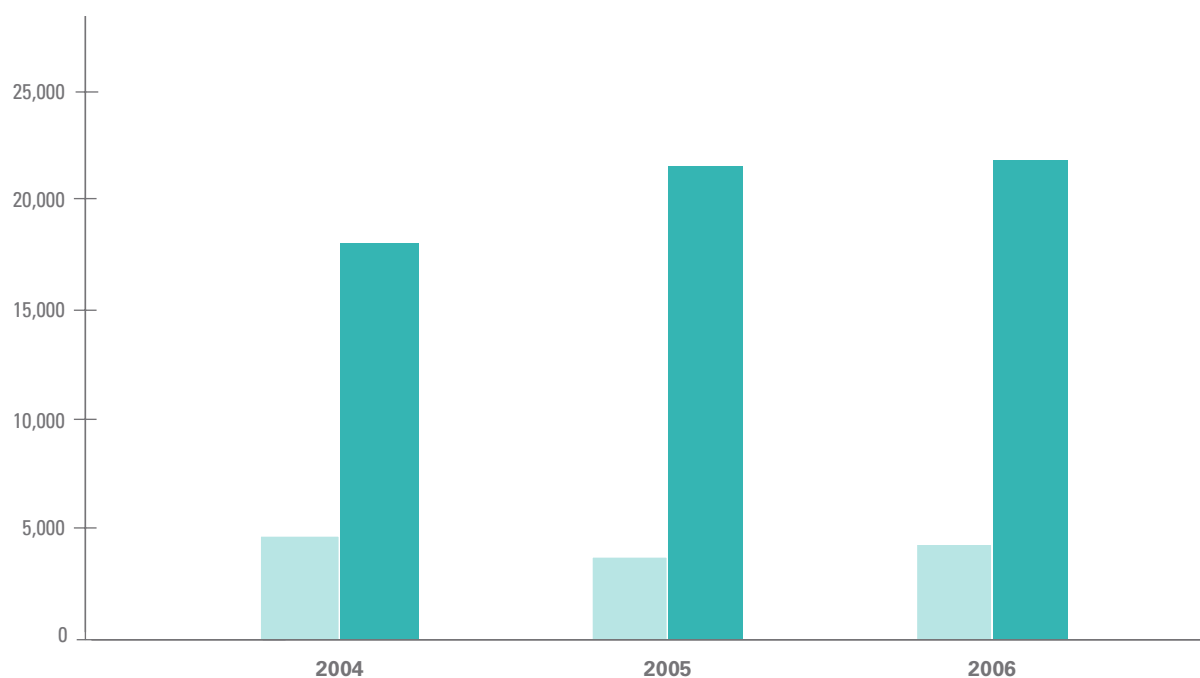
December 31 - in €



	2004	2005	2006
Earnings, attributable to equity holders of the parent per share, basic	3.29	2.74	3.50
Earnings, attributable to equity holders of the parent per share, diluted	3.27	2.72	3.47

## FINANCIAL NET DEBT AND EQUITY

December 31 - in € million



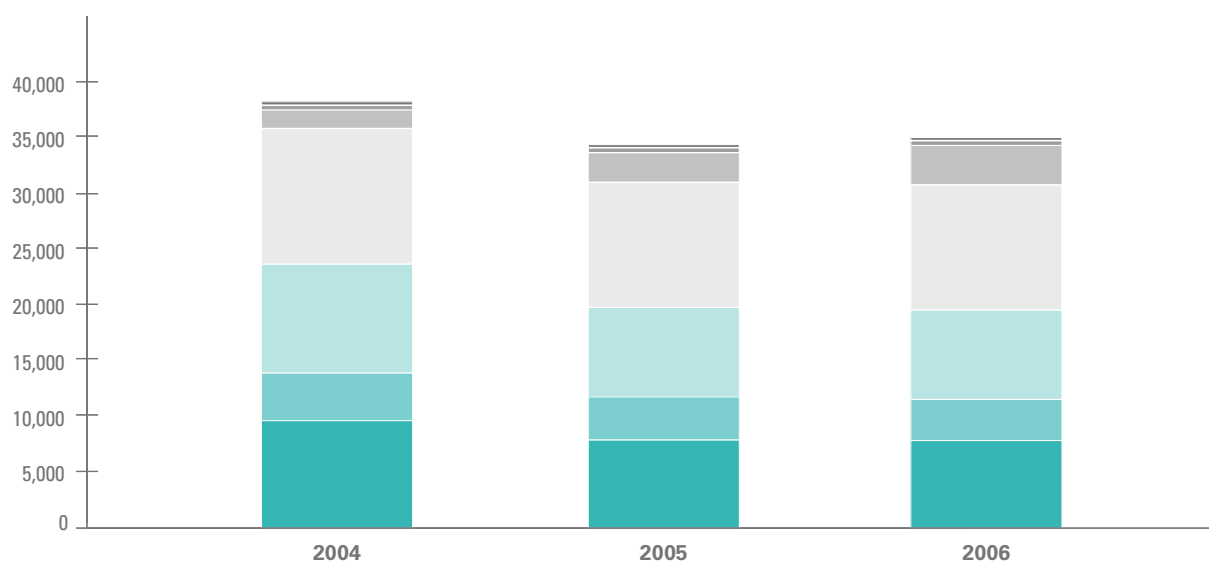
	2004	2005	2006
Financial Net Debt	4,724	3,768	4,344
Equity	18,092	21,608	21,864

Vivendi considers Financial Net Debt, a non-GAAP measure, to be an important indicator measuring Vivendi's indebtedness. Financial Net Debt is calculated as the sum of long-term and short-term borrowings and other long-term and short-term financial liabilities as reported on the Consolidated Statement of Financial Position, less cash and cash equivalents as reported on the Consolidated Statement of Financial Position as well as derivative financial instruments in assets and cash

deposits backing borrowings (included in the Consolidated Statement of Financial Position under "financial assets"). Financial Net Debt should be considered in addition to, not as a substitute for, Vivendi's borrowings and other financial liabilities and cash and cash equivalents reported on the Consolidated Statement of Financial Position, as well as other measures of indebtedness reported in accordance with GAAP.

## HEADCOUNT BY BUSINESS SEGMENT

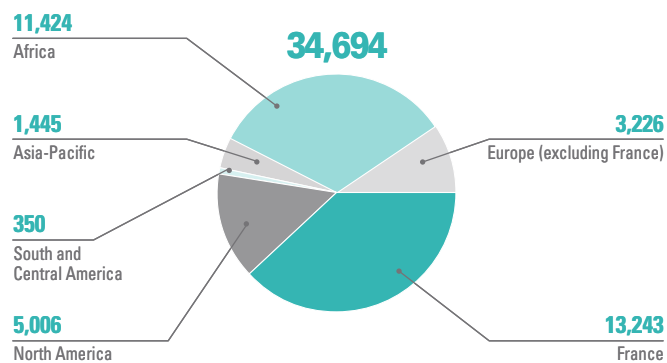
at December 31



	2004	2005	2006
Universal Music Group	9,661	7,915	7,869
Canal+ Group	4,275	3,880	3,699
SFR	9,781	8,033	8,014
Maroc Telecom	12,204	11,251	11,259
Vivendi Games	1,654	2,657	3,567
Corporate	285	278	271
Other	46	17	15
<b>Total</b>	<b>37,906</b>	<b>34,031</b>	<b>34,694</b>

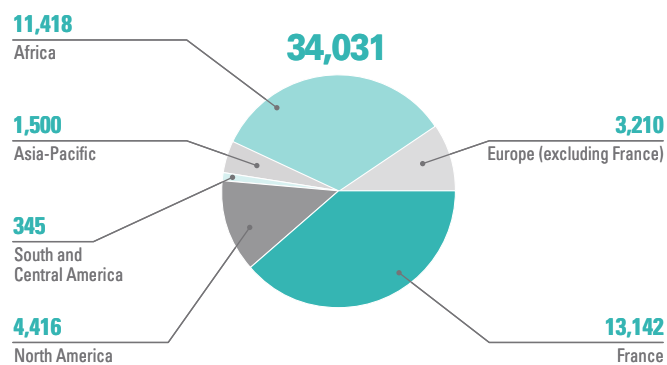
## 2006 HEADCOUNT BY GEOGRAPHICAL ZONE

at December 31



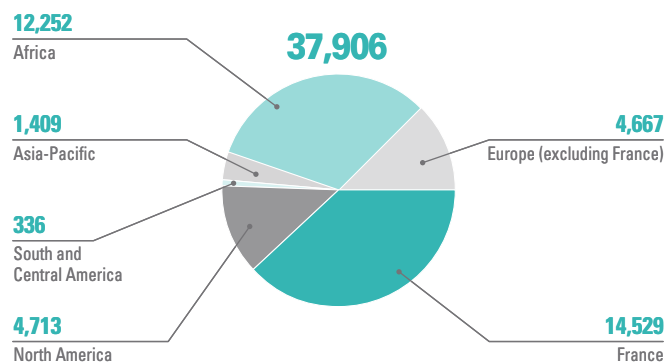
## 2005 HEADCOUNT BY GEOGRAPHICAL ZONE

at December 31



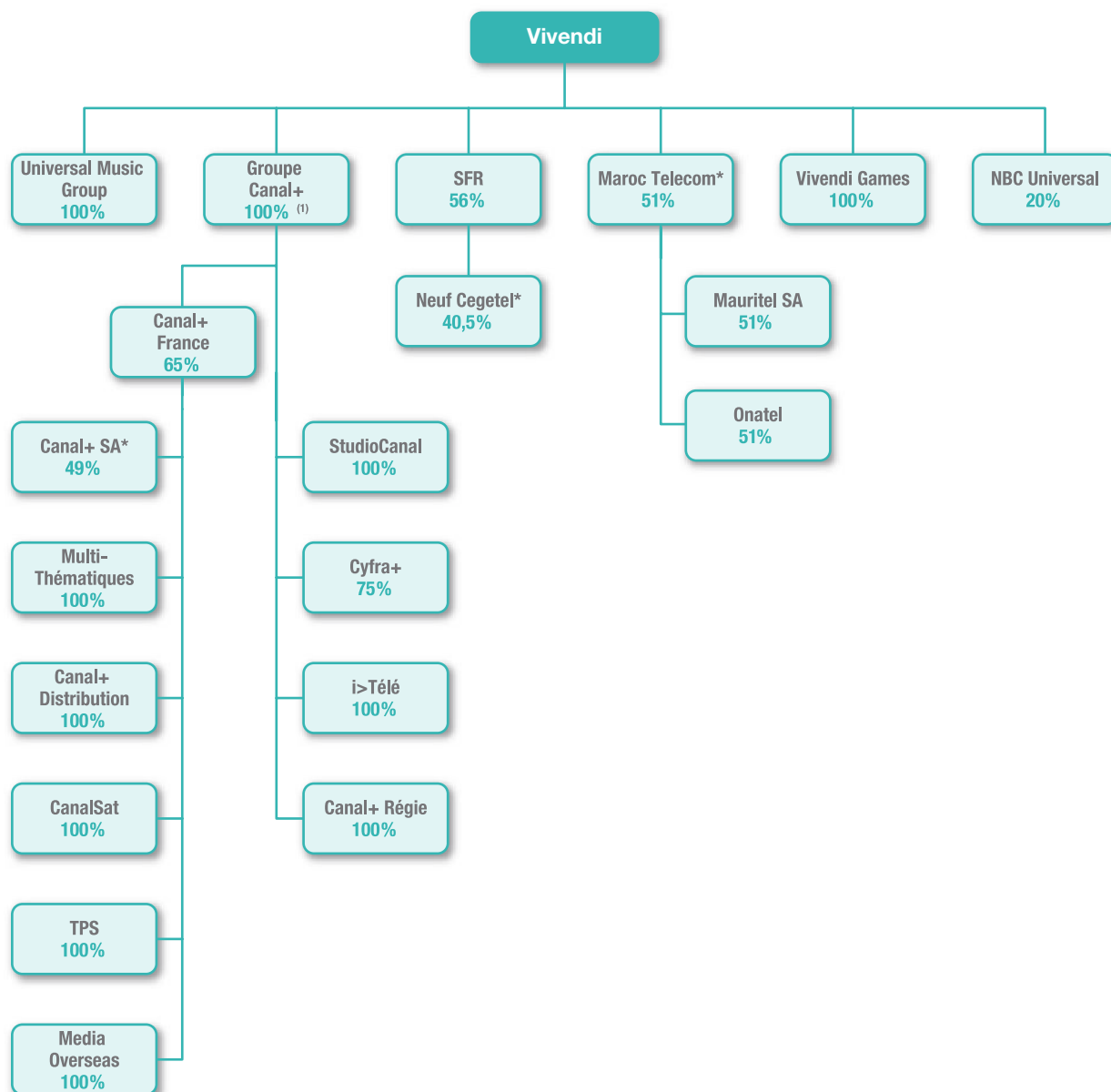
## 2004 HEADCOUNT BY GEOGRAPHICAL ZONE

at December 31



## SIMPLIFIED ORGANIZATION CHART

at January 4, 2007



\* Listed company.

(1) On December 31, 2006, Vivendi owned 100% of the Canal+ Group, which in turn owned 49% of Canal+ SA and 66% of CanalSat. The simplified organization chart above is as of January 4, 2007, after the merger of the pay-television businesses of the Canal+ Group and TPS. For further information on this transaction, see section 1.1.1. "Combination of the pay-TV activities of the Canal+ Group and TPS in France" of the Annual Financial Report, Chapter 4.



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# 1 Description of the Group

Vivendi is a major player in entertainment with business activities in music, television, cinema, mobile, Internet and games. The group's companies are all leaders in their respective fields:

- Universal Music Group: the world's No. 1 music content company, selling more than one out of every four albums worldwide, also holds significant positions in the digital music market,
- Canal+ Group: the French leader in premium and theme channel distribution and programming with over 10 million subscriptions to its pay-TV offerings (after the combination of the pay-TV activities of Canal+ Group and TPS); also a major player in the financing, acquisition and distribution of motion pictures in France and in Europe,

- SFR: France's No. 2 mobile telecommunications operator, with 17.9 million clients, also owns 40.5% of Neuf Cegetel, France's No. 2 fixed-line telecommunications operator,
- Maroc Telecom: Morocco's leading mobile, fixed-line and Internet access operator with 10.7 million mobile customers and 1.3 million fixed lines,
- Vivendi Games: the world's No. 1 player in the massively multiplayer online role-playing games category with more than 8.5 million players worldwide (as at March 2007).

Vivendi owns 20% of NBC Universal, one of the world's leading media companies, which is engaged in a variety of businesses, including live and recorded television program production, motion picture production and distribution, and theme park operations.

## 1.1. STRATEGY

Vivendi is a world leader in entertainment with content creation and distribution at the heart of its businesses. The entertainment industry is a fast-growing sector driven by the development of leisure time (changing lifestyles, increased life expectancy, development of leisure activities, etc.), an increased desire for unique experiences, and by new technologies which provide quality digital content any time, anywhere at decreasing prices. Leisure activities are considered to be "very important" by 35% of the world's population (from 14% in China to 55% in Sweden, 45% in the United Kingdom, 43% in the United States and 31% in France<sup>(1)</sup>). Entertainment has become a key component of everyday life to which consumers allocate an ever-increasing budget. Vivendi's businesses – music, television, cinema, mobile, Internet and games – all meet this growing demand and are positioned to make the most of this profitable and important source of growth.

Vivendi's strategy is to expand its business activities in content creation and distribution and its digital services. In 2006, the group invested over €5 billion to expand its businesses and strengthen their leadership in their respective markets. Vivendi is well placed to facilitate the largest investments made by its subsidiaries such as the recent Canal+/

TPS merger, the acquisition of exclusive broadcasting rights for the French League 1 soccer championship, the development of the *World of Warcraft* game, the launch of 3G services, the acquisition of game development studios and the proposed acquisition of BMG Music Publishing.

Vivendi's businesses share many common denominators: they directly target consumers via strong brands (Universal Music, Canal+, SFR, Maroc Telecom, Vivendi Games, etc.), and they offer creative content based on subscriptions and digital technology models. These denominators provide Vivendi with a strong competitive advantage: through the exchange of know-how, they allow the group to develop substantial expertise in subscriber management, brands, distribution platforms, creation, copyrights and digital technologies. The digitization of content, combined with the growing adoption of broadband distribution technologies, is creating major challenges and opportunities. Vivendi's strength lies in anticipating consumer needs and meeting them, identifying future growth drivers for the group and reinforcing its businesses.

(1) *Human Beliefs and Values: a cross-cultural sourcebook*, Inglehart, Basanez and Moreno (The University of Michigan Press).

## 1.2. HIGHLIGHTS

At the Shareholders' Meeting held on April 20, 2006, Vivendi Universal's shareholders approved the change of the company's name to Vivendi.

### 1.2.1. 2006 Highlights

#### January

- Vivendi, TF1 and M6 sign an industrial agreement to combine the French pay television operations of Canal+ Group and TPS into an entity controlled by Vivendi.
- The Canal+ Group sells its approximate 20% interest in the cable operator Ypso to the Cinven-Altice consortium.
- SFR crosses the bar of the first million exclusively 3G customers. The operator, which was the first to launch 3G in France in November 2004, had already reached 500,000 3G customers at the end of October 2005, two months ahead of its year-end target.
- *World of Warcraft*, the massively multiplayer online role-playing game (MMORPG) from Blizzard Entertainment, a Vivendi Games studio, exceeds the 5.5 million user mark. In slightly over one year, *World of Warcraft* has become the leading MMORPG in the world.
- *50 Cent: Bulletproof*, the popular game launched by Vivendi Games in November 2005, posts sales of over one million units.

#### February

- Vivendi acquires, for a total amount of \$1.15 billion, the 7.66% stake held by Matsushita Electric Industrial Co, Ltd (MEI) in Universal Studios Holding I Corp. (USHI). Pursuant to this transaction, Vivendi holds 100% of Universal Music Group and 20% of NBC Universal.
- Vivendi, Canal+ Group and Lagardère announce a draft agreement under the terms of which Lagardère, already a partner of the Canal+ Group through CanalSat, would join Canal+ Group, TF1 and M6 in Canal+ France (the entity that would hold all the French pay-TV assets of Canal+ and TPS).
- The first mobile television experiments conducted by the Canal+ Group (in partnership with Nokia, SFR and Towercast) confirm the interest in mobile TV: 73% of the testers say they are satisfied with the service and over 80% are satisfied with the content selection offered (a package of TV and radio channels broadcast using the DVB-H standard).
- Vivendi and Universal Music Group (UMG) maintain their equity interest in Amp'd at 19.9%. Amp'd is a collector and creator of multimedia mobile content, through a platform adapted to the user interface, as well as a virtual mobile operator that offers 3G mobile telephony services in the United States.
- The 48<sup>th</sup> Grammy Awards ceremony honors UMG artists, who win 40 awards. U2 (Interscope Records) dominates the ceremony with five Grammys, including Album of the year for "How To Dismantle An

Atomic Bomb" and Song of the year for "Sometimes You Can't Make It On Your Own." Mariah Carey (Island Records) and Kanye West (Roc-A-Fella) each win three Grammys.

#### March

- The French "Victoires de la musique" recognize eight artists recording on UMG's French labels: Juliette (Female singer of the Year), Zazie (Show of the Year), Louise Attaque (Pop Rock Album of the Year), Noir Désir (Music DVD), Souad Massi (World Music album), Arthur H et M (Music Video of the Year), Disiz La Peste (Rap Album) and Émilie Simon (Original Film Soundtrack).
- Vivendi Games creates Vivendi Mobile Games, a division specializing in games for mobile phones. Vivendi Mobile Games offers mobile games through 70 operators in 40 countries.

#### April

- The Canal+ Group launches the first high definition satellite channels. CanalSat offers Canal+ HD, which comprises all the Canal+ programs in high definition. Subscribers can access all the exclusive content of their favorite channels with an unparalleled image quality and Dolby Digital 5.1 sound.
- SFR and CanalSat launch i>Télé Flash, the first news channel specifically designed for mobile phones. Adapted for small screen viewing, i>Télé Flash offers a 7-10 minute continuous news loop broadcast and updated regularly.

#### May

- StudioCanal wins five prizes at the 59<sup>th</sup> Cannes Film Festival for three of its co-productions or acquisitions. The winners include: *Babel* by Alejandro González Iñárritu for Best Director; *Days of Glory (Indigènes)*, by Rachid Bouchareb for Best Male Actor (awarded to the entire male cast), and *Meurtrières*, by Patrick Grandperret, which was awarded the «*Un Certain Regard*» prize of the Jury President.
- Exercising its preemptive rights, SFR raises its interest in Neuf Cegetel from 28.2% to 34.9%, purchasing a portion of Telecom Italia's interest and the stake held by a financial investor.
- SFR offers the first 3G+ commercial offers in France using HSDPA (High Speed Downlink Packet Access) on its 3G network in Lyons, Rennes, Nantes, Saint-Nazaire and Dijon.
- SFR and the Canal+ Group launch Canal+ Mobile, a mobile video-on-demand offer based on Canal+ content. Customers equipped with a 3G mobile phone have access to different content offered in the form of videos specifically designed for mobile phones and multimedia content (photos, ringtones, etc.) as well as channel programs, in almost real time.

## June

- Vivendi sells the 16.4 million DuPont shares it has held since its merger with Seagram on the US market.
- The Canal+ Group finalizes the sale of the Paris Saint-Germain soccer club under terms and conditions signed in April with Colony Capital, Butler Capital Partners and Morgan Stanley.
- StudioCanal acquires the British company Optimum Releasing which specializes in theatrical and video film distribution. Optimum Releasing, one of the most dynamic independent companies in the United Kingdom, distributed Michael Moore's *Fahrenheit 9/11*, *Elephant* by Gus Van Sant and *Spirited Away* by Hayao Miyazaki. It has a library of 250 films on DVD.
- Maroc Telecom becomes the first operator in Morocco and Africa to launch television via ADSL. ADSL TV allows viewers to watch their favorite programs legally, without needing a satellite dish. With three channel packages to choose from, Maroc Telecom satisfies all customer tastes and budgets.

## July

- Vivendi announces the disposal of its remaining interest in Veolia Environnement; as a result of this transaction Vivendi no longer holds any Veolia Environnement shares.
- The French Telecommunications Regulatory Authority (ARCEP) assigns WiMAX radio local loop frequencies to the SHD consortium (Société du Haut Débit) comprised of SFR, Neuf Cegetel and the Canal+ Group, for the two regions of Île-de-France and Provence-Alpes-Côte d'Azur. WiMAX (worldwide interoperability for microwave access) is a wireless data transmission technology, with an access radius larger than WiFi. This technology provides broadband access to large areas that have little or no coverage from fixed telephony ADSL operators.
- Maroc Telecom secures a 3G mobile telecommunications license following an international call for tenders.

## August

- Vivendi delists its shares from the New York Stock Exchange (NYSE) at its own initiative and terminates its American Depositary Receipts (ADR) program. This management decision was made with a view on cost reduction, considering the very low trading volume of shares on the NYSE and because most investors residing in the United States own shares acquired on the Paris stock exchange.
- The hit "Ridin'" by Chamillonaire, the Universal Motown Records artist (a UMG label) with several platinum records, crosses the three million threshold for ringtones downloaded on mobile phones in the United States. "Ridin'" becomes the most downloaded ringtone in the country.
- The Canal+ Group receives authorization of the French Minister of the Economy, Finance and Industry for the merger of the pay-TV activities of the Canal+ Group and TPS within Canal+ France.
- SFR launches SFR "Jeunes Talents" (SFR Young Talents, [www.sfrjeunestalents.fr](http://www.sfrjeunestalents.fr)), the first mobile and Internet portal for introducing

new musical artists. In the first three months, over 6,000 artists registered and uploaded 10,000 music titles on the site.

## September

- Vivendi and UMG enter into an agreement with Bertelsmann for the purchase, for a total amount of €1.63 billion in enterprise value, of BMG Music Publishing.
- UMG announces the acquisition of Arsenal Music, the most successful independent label in Brazil. This acquisition further strengthens UMG's position in Brazil, particularly in the pop-rock music sector.
- SFR increases its interest in Neuf Cegetel from 34.9% to 40.7%, by purchasing the 5.8% owned by Belgacom. As a result, SFR becomes the leading shareholder of Neuf Cegetel before its initial public offering.
- Vivendi Games strengthens its development with the acquisition of three studios: Secret Lair Studios (United States), Studio Ch'in (China), each holding strong positions in online game development, and Centerscore, one of the most experienced and best known mobile game developers in the United States.
- Phony, the new fixed telephony plan from Maroc Telecom launches a new fixed-line telephony offer with unlimited calls to local and national fixed lines in Morocco.

## October

- UMG buys the Spanish independent label Vale Music. The popular label's many artists include David Bisbal, Bustamante, Rosa and Chenoa.
- UMG and YouTube, the leader in online sharing of original videos, with over 100 million different visitors a day, signs an agreement giving YouTube and its users access to the thousands of UMG artist videos of all genres. YouTube and UMG have designed a process to provide copyright protection for UMG artists through filters that prevent the downloading of pirated content.
- StudioCanal, a pioneer in high definition and home to one of the largest movie libraries, is the first French publisher to offer titles in HD DVD and high-definition VOD.
- The 2006 survey conducted by ARCEP on the quality of mobile telephony networks in France ranks SFR first, for the third consecutive year, in quality of service for voice communications and multimedia data (Wap, SMS and MMS services). SFR ranks first or equal first in 28 out of the 32 functional areas surveyed by ARCEP.
- For the first time in French mobile telephony, SFR launches a plan for unlimited calls to fixed-line telephone numbers in France (excluding French overseas territories) for all calls initiated by users from their mobile phones, 24/7. This innovative plan, launched in Bouches-du-Rhône and Haute-Garonne in the first phase, meets the need for continuity and convenience for clients who want to be able to use their mobile phones for all calls, both at home and away from home. The "Happy Zone" offer uses the mobile network and is available from the client's existing handset.

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- SFR announces the signature of an agreement with the Tele2 AB Group for the acquisition of the fixed telephony and ADSL business of Tele2 France. The transaction is subject to regulatory approval.

### November

- Vivendi launches a corporate advertising campaign in France based on the theme "Entertainment. It's vital". The campaign is presented in print press, TV and on certain internet sites.
- UMG and Microsoft Corporation enter into an agreement for the sale of digital music. In addition to the standard royalties paid to UMG for the sale of its digital music, Microsoft will pay UMG a portion of its Zune digital portable media player sales.
- SFR cuts the prices of its legal music downloading services by half in order to satisfy more clients. The price of a download is reduced from €1.99 to €0.99 per title (excluding connection costs to Vodafone live!).
- *Scarface: The World is Yours*, Vivendi Games' popular game adapted from the cult film, released in October, sells over one million units. The Xbox, PS2 and PSP versions are the top-selling games in the US in October.

### December

- Vivendi informs General Electric (GE) of its decision not to exercise its exit rights on NBC Universal in January 2007. Vivendi remains a 20% shareholder of NBC Universal. The agreements between Vivendi and GE are modified at the same time.
- SFR confirms its position as the French leader of mobile broadband services with 2.7 million 3G customers at the end of 2006.
- With over 4 million titles downloaded throughout the year (compared to 655,000 in 2005), SFR Music becomes the leading mobile music platform in France. The number of SFR Music platform users increased fourfold over the year to reach 630,000 in 2006 (compared to 150,000 in 2005).
- SHD, the joint venture of SFR and Neuf Cegetel with the partnership of the Canal+ Group, announces the opening of the first 10 sites of its WiMAX network in Île-de-France. Deployment will be gradual, reaching 443 sites in two regions within six years, with 306 sites in the Île-de-France region and 137 sites in the Provence-Alpes-Côte d'Azur region.
- Maroc Telecom launches Mobisud in France, a MVNO backed by SFR's network. Mobisud's offer is aimed at customers living in France who have ties to the Maghreb (Morocco, Algeria and Tunisia). This plan makes communication with friends and family easier, whether in France or in Northern Africa.
- Maroc Telecom acquires 51% of Onatel, the historic telecommunications operator in Burkina Faso. At the end of December 2006, Onatel has a mobile customer base of over 400,000 customers, representing a 40% market share and over 100,000 fixed telephony customers (Onatel estimates at year-end 2006).

- Less than one year after its emergence as an international publisher of mobile games, Vivendi Games Mobile wins the prize for Best Wireless Game (Spike TV) with *SWAT Force*, the action game for mobiles adapted from the famous PC game.
- Vivendi Games acquires Wanako Games, one of Latin America's leading games development studios.

## 1.2.2. 2007 Highlights

### January

- Vivendi and the Canal+ Group announce the creation of Canal+ France pursuant to the merger of the pay-TV assets of the Canal+ Group and TPS. TF1 and M6 contribute TPS to Canal+ France in exchange for 15% (9.9% and 5.1%, respectively) of this new entity. At the same time, Lagardère contributes its 34% interest in CanalSat and acquires 20% of Canal+ France for cash consideration. Canal+ France, controlled exclusively by Vivendi through the Canal+ Group, is a leading French player in the audiovisual market comparable in size to the largest European media companies and is well positioned to effectively compete in a market characterized by the rapid development of new offerings and services. Canal+ France will take an active part in developing and boosting the French television market by offering consumers enhanced and more diverse and attractive television packages.
- CanalPlay, Canal+ Group's video download site, launches a definitive downloading service. After having downloaded a selected video (from over 2,000 videos available on CanalPlay, including almost 1,300 films), the user can save it on a PC for an indefinite period, watch it as many times as he/she wishes and, for the first time in Europe, burn a protected copy on a DVD which can be read on any DVD player.
- UMG launches [www.classicsandjazz.co.uk](http://www.classicsandjazz.co.uk), the largest Internet site dedicated to classical music and jazz, offering over 125,000 pieces for paid download, in particular recordings that are difficult, even impossible to find on CD.
- After the launch of the first real time TV channel package on mobile in June 2005, CanalSat Mobile and SFR strengthen their partnership by offering the first unlimited TV package on Vodafone live! This plan provides customers with unlimited access to over 40 live channels offered by CanalSat Mobile on SFR mobile phones.
- Blizzard (a Vivendi Games studio) releases *World of Warcraft: The Burning Crusade*, the first expansion set of its *World of Warcraft* game. Almost 2.4 million copies of *The Burning Crusade* were sold in just 24 hours and, at the end of the first day of sales, over 1.7 million players logged on to play the new game version online. *World of Warcraft* passed the 8 million-player mark worldwide and established new regional records, with over 2 million players in North America, over 1.5 million players in Europe and over 3.5 million players in China.

## February

- Alejandro González Iñárritu's *Babel* wins the award for Best Original Score at the 79<sup>th</sup> Academy Awards. The film, for which StudioCanal holds the rights for France as well as a number of French-speaking territories, also won a Golden Globe for Best Motion Picture in the Drama category in January.
- The Césars, the French film awards, single out three StudioCanal films: *Je Vais Bien, Ne T'en Fais Pas* (Most Promising Actress and Best Supporting Actor), *Days of Glory* (Best Original Screenplay) and *Orchestra Seats* (Best Supporting Actress).
- Maroc Telecom is the successful bidder for the acquisition of 51% of Gabon Telecom, Gabon's incumbent telecommunications operator. Gabon Telecom has approximately 250,000 mobile phone customers and a market share of around 30%. It also has more than 30,000 fixed-line subscribers (Gabon Telecom estimates at year-end 2006).

## March

- The 2006 "Victoires de la Musique" (the French music awards) marks the triumph of UMG's young French artists: Olivia Ruiz, Best Female Artist and Best Tour; Grand Corps Malade, Best New Artist and Best Debut Album; Superbus, Pop/Rock Album of the Year and Emilie Simon, Electronic Music Album of the Year. In addition, Juliette Gréco and Michel Polnareff each receive honorary awards, while the musical comedy *Le Soldat Rose* (Variety Album of the Year) and

*Gibraltar* by Abd Al Malik (Urban Music Award) garner one award each.

- CanalSat launches its new offering with nearly 300 channels and services, 55 of which are broadcast exclusively via satellite and ADSL. CanalSat subscribers benefit from an enhanced film offering and have access to twelve new channels.
- The Canal+ Group obtains exclusive broadcasting rights for the Top 14 rugby matches for the next four seasons.
- SFR launches its "Happy Zone" and "Happy Zone + ADSL" offers. These two new offers provide SFR customers with unlimited voice calls to fixed-lines via their mobile phones while at or around the home, and an ADSL service (including voice over IP and a television offering) while benefiting from continuity of service between their mobile phone and their PC.
- Maroc Telecom signs an agreement to launch its Mobisud offering in Belgium. Thanks to Maroc Telecom's MVNO offering (which is backed by Belgacom's network) communication with friends and family between Belgium and Morocco will be made easier. The Mobisud offering is available in France since December 2006 and in Morocco since March 2007.
- *World of Warcraft: The Burning Crusade* sells over 3.5 million units in less than a month and a half, setting a new record for sales of PC games. *World of Warcraft*, the No.1 MMORPG, passes the 8.5 million user mark.

## 1.3. FINANCIAL COMMUNICATIONS POLICY AND VALUE CREATION

### 1.3.1. Investment Policy

Value creation for shareholders involves increased profitability of the group's businesses and investments which enable them to develop and improve their positions in their respective markets. It also involves a level of indebtedness allowing Vivendi to maintain an Investment Grade rating (at least equal to a BBB- equivalent).

Investment projects are selected on a multi-criteria basis:

- their impact on the growth of adjusted net income per share and the group's ability to generate cash,
- the return on capital employed versus the weighted average cost of capital, as well as the medium and long-term return on investment,
- an in-depth risk assessment,
- their impact on the development of the group's businesses and the strengthening of their leadership positions in entertainment content and distribution.

Formalized investment procedures were established in 2002 and have been reinforced since 2003 (see Chapter 3 "Corporate Governance").

### 1.3.2. Financial Communications Policy

Financial communications aims to provide all shareholders with accurate, precise and sincere information on the group's strategy, position, results and financial development. It complies with the procedures introduced in connection with the application French standards (Financial Security Act).

The following documents, in French and English, are made available to shareholders or provided upon request: annual report, quarterly statements, half-year statements, press releases, presentation brochures and sustainable development reports.

Shareholders can also visit Vivendi's website ([www.vivendi.com](http://www.vivendi.com)). A hotline is available to shareholders and charged at local rates from a fixed-line in France.

Vivendi's communication to institutional investors is conducted through meetings organized in the main financial markets around the world and through the participation of its executives at investor conferences.

An Investor Relations department, in Paris and New York, maintains relations with analysts at brokerage firms and investment fund managers and analysts. The department provides information on a

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regular basis to give financial markets a clear understanding of the various events affecting the group's current and future performance. This team also manages the investor relations section (business, financial and market information; news and current events) of the group's website ([www.vivendi.com](http://www.vivendi.com)) which is updated regularly. This section is primarily intended for institutional investors.

In 2006, 73 road shows were organized to comment on the group's position and outlook. Vivendi executives participated in 58 days of road shows, SFR in 4 and Universal Music Group in 4. A total of 487 institutions attended these events. Maroc Telecom organized 12 road shows. These events are followed up by meetings with analysts and investors throughout the year.

The executive officers of Vivendi and its subsidiaries participated in 29 investor conferences.

At the end of 2005, Vivendi initiated a series of regional meetings in France with its individual shareholders. Meetings with Jean-Bernard Lévy, Vivendi's Chief Executive Officer and Chairman of the Management Board, were organized in 2006 in Lyons, Marseilles, Nice and Paris.

On January 17, 2006, Vivendi announced its decision to end its American Depositary Receipt Program and withdraw its American Depositary Shares (ADSs) from the New York Stock Exchange (NYSE). This sound management decision was made with a view to reduce costs, considering the very low trading volume of shares on the NYSE (less than 5% of the total volume of shares traded in 2004 and 2005) and because most investors residing in the United States own shares acquired on the Paris stock exchange.

Vivendi's ADRs were delisted from the NYSE on August 3, 2006 and the cancellation period with the Bank of New York closed on August 28, 2006.

On October 31, 2006, Vivendi filed a Form 15 with the Securities and Exchange Commission (SEC) to terminate its obligations under the Securities Exchange Act of 1934. American investors represent a significant portion of the company's shareholders; Vivendi continues to maintain a close relationship with the US market.

### 1.3.3. Value Creation in 2006

In 2006, the group continued to focus on its results, the development of the performance of its businesses and to invest in reinforcing their leadership positions.

From January 1<sup>st</sup> to December 31, 2006, the return on a financial investment in a Vivendi share amounted to 15.7%, including the capital gain and the dividend pay-out.

Several significant events occurred throughout the year:

- the industrial agreement, announced at the end of 2005 between Vivendi, TF1 and M6, to merge the pay-TV activities of the Canal+ Group and TPS in France into an entity controlled by Vivendi,

was approved on August 31, 2006, by the French Ministry of Economy, Finance and Industry. The merger was completed on January 4, 2007. TF1 and M6 contributed TPS in exchange for 15% (9.9% and 5.1%, respectively) of Canal+ France. At the same time, Lagardère contributed its 34% interest in CanalSat and made a cash payment for 20% of Canal+ France. This new entity, controlled exclusively by Vivendi, through Canal+ Group, is a leading French player in the audiovisual market comparable in size to the largest European media companies and is in a position to face the new competitive context and drive the television market in the best interests of consumers,

- the purchase of certain minority interests held by Matsushita Electric Industrial (MEI) in order to own 100% of Universal Music Group and 20% of NBC Universal; this transaction allowed the simplification of the group's holding structure in North America,
- the increase of SFR's interest in Neuf Cegetel from 28.2% to 40.5% (at December 31, 2006),
- the announcement of the acquisition of the ADSL and fixed-line telecommunications businesses of Tele2 France. This transaction is subject to approval by regulatory authorities,
- the strengthening of Universal Music Group's position in Spain via the acquisition of Vale Music,
- the announcement of the acquisition of Bertelsmann's music publishing business, BMG Music Publishing. This transaction, which has been approved by the US authorities, is subject to review by European regulatory authorities,
- the acquisition by Maroc Telecom of 51% of Onatel, the incumbent telecommunications operator in Burkina Faso,
- the ongoing efforts to increase Vivendi Games' development capacities through the acquisition of Centerscore, Secret Lair Studios and Ch'in Studio,
- the decision to maintain the group's stake in NBC Universal to create value and the restructuring of the liquidity agreements with General Electric.

In 2006, the group continued to invest in its businesses to develop their product and service offering. Capital expenditure (net) amounted to €1.6 billion in 2006.

As of December 31, 2006, the group's financial net debt stood at €4.34 billion. Vivendi's financial position should allow a total dividend pay-out of approximately 50% of adjusted net income and a continuing investment in the group's businesses that should contribute to growth in earnings per share, cash flows and the value of the group as a whole.

### Share Price

The Vivendi share is listed on the Compartment A of Eurolist by Euronext™ (ISIN code FR0000127771). On December 29, 2006, the share closed at €29.61 (+11.3% since January 2, 2006).

## Dividend per Share

A dividend of €1.00 per share was distributed in 2006 for fiscal year 2005. The payment of a dividend of €1.20 per share in 2007 for fiscal 2006 (a 20% increase against the prior year), representing a total payment of

€1.39 billion (compared with €1.15 billion for 2005), will be submitted to the approval of the Shareholders' Meeting to be held on April 19, 2007. The dividend will be payable on Thursday April 26, 2007.

## 1.4. SUSTAINABLE DEVELOPMENT POLICY

Vivendi's commitment to sustainable development is based on two requirements: to cover all aspects of its corporate responsibility and to define its specific challenges in its operations to produce and distribute content.

This approach implies that Vivendi report on its values and its responsibilities to all its stakeholders: employees, shareholders, customers, suppliers, authorities and civil society.

Vivendi is included in FTSE4 Good Global index, the international sustainable development index, established by the FTSE, as well as in ASPI Eurozone index, established by the Vigeo ratings agency and the Ethibel Sustainability Index (ESI) established by Ethibel.

### 1.4.1. Corporate Responsibility

Vivendi's process is based on formal commitments, as set forth in the Compliance Program, the group Charters (Values Charter, Safety at Work Charter, Fundamental Social Rights Charter, Supplier Relations Charter, Environmental Charter and Internet Confidence Charter), and the Environmental, Health and Occupational Safety Compliance Program.

Pooling risks through the mobilization of different teams within the group, evaluating the impact on society of new communications tools and usages that stem from the convergence of communication networks and improving the manner in which the group describes the environmental challenges it faces are some of the guidelines of Vivendi's sustainable development approach.

### 1.4.2. Specific Challenges

In 2003, as Vivendi refocused on its strategic businesses, sustainable development issues specific to the group were defined: protection of minors, cultural diversity, information sharing and, more generally, the new usages stimulated by rapid technological changes (broadband and wireless).

Protecting minors is a major social issue. Mobile phones, the Internet, games and movies can all carry sensitive content or generate consumption methods that are inappropriate for a young audience. The response to this issue at the group level is reflected in a cooperative effort between the business units and Vivendi's Sustainable Development department.

Vivendi has chosen to promote cultural diversity, sharing the vision of Unesco which, in its Convention on the Protection and Promotion of the Diversity of Cultural Expressions (Paris, October 2005) states that cultural diversity is a "mainspring for sustainable development for communities, peoples and nations." To allow present and future generations to satisfy their curiosity, to encourage diversity of musical repertoires, to promote diversity in cinematographic expression, to enhance an understanding of our heritage are all concerns shared by the group's various businesses.

Sharing knowledge supports Vivendi's ambition to achieve the following objectives: quality content, to raise public awareness regarding sustainable development challenges and to develop a dialog among different cultures. Vivendi is developing a network of experts within civil society in order to benefit from a vision that is as large as possible.

### 1.4.3. Implementation of the Sustainable Development Policy

The establishment of a Management Board, a collegial management structure, which brings together the senior executives of the group's business, has furthered the sustainable development approach throughout the group.

The Sustainable Development department directs the process and coordinates follow-up within the subsidiaries. In association with the General Counsel, the department contributes to the application of the environmental, health and workplace safety compliance program adopted by the group in 2000. It participates in deploying the Compliance Program within the group.

The Sustainable Development department is supported by a Sustainable Development Committee set up in 2003. The members of this committee are persons dedicated to sustainable development issues in the businesses and representatives of functional corporate departments (legal, finance, human resources, audit, corporate communications and public affairs). The committee meets six times a year.

## 1.5. HUMAN RESOURCES

### 1.5.1. Employee Share Ownership and Employee Savings Schemes

In 2006, the continued growth of employee share ownership within the Vivendi group was encouraged by favorable trends in the financial markets and the Vivendi share price, as well as by increased amounts paid by group companies under the various profit sharing systems. In this context, the renewed confidence of employee shareholders already observed in 2005 continued. This trend can be measured by the significant growth in the results of the 2006 capital increase reserved for employees.

More generally, all employee saving schemes again improved in 2006, within group companies and have become more diversified.

In 2006, the amounts paid by the group's French companies for optional profit sharing (*intéressement*), statutory profit sharing (*participation*) and additional funding to the group's savings scheme (*Plan d'épargne groupe* or PEG) reached €76.5 million. This total represents a 20% increase over 2005.

The total amount of new employee savings amounted to €65.7 million, €55.6 million of which were invested in the various PEG funds, with the remaining €10.1 million being allocated by employees to various funds specific to their companies.

In 2006, employee investments were characterized both by maintenance of the portion invested in diversified savings vehicles (53.5% of the total) and by a net increase in the volume of savings allocated to employee investments in Vivendi shares.

#### Share Capital Increase for the Benefit of Employees

As in previous years, a share capital increase for the benefit of employees was carried out in 2006 and offered to group employees through the PEG. This offering, approved by the Management Board on February 21, 2006, was successfully completed on July 19, 2006. It generated savings of €30.5 million, representing a 13% increase over 2005 and more than double the 2004 amount. This share capital increase resulted in the issuance of 1,471,499 new shares at a preferential price of €20.72 per share (representing a 20% discount) for the benefit of the 5,573 employees who participated in the offering, representing 42% of eligible employees (compared with 36% in 2005).

#### Allocation of Vivendi Shares or Share Equivalents to Employees

The allocation of 15 Vivendi shares (or share equivalents) to group employees worldwide, who at December 31, 2006 had been with the company for a minimum of six months, was approved by the Management Board and implemented on December 12, 2006. With this plan, the Management Board recognizes the success of the group which, after completing its recovery, has entered a stage of rapid

growth. This allocation acknowledges each and every employee's role in Vivendi's turnaround.

Under French law, the allocation plan has a four-year term at the end of which beneficiaries will be able to freely sell their shares. These new shares will be issued at the end of a two-year period on December 13, 2008, and will remain unavailable for two additional years. During the last two-year period, these shares will be entitled to dividends (i.e., relating to fiscal years 2008 and following).

In a certain number of countries, including the United States, in which the French law governing these plans is not very favorable to employees for tax reasons, or where it could not be implemented, a plan to allot "equivalent shares" (or "Restricted Stock Units/RSU") was implemented, which duplicates the features of the French allotment plan, particularly with respect to the value of the allotment and the duration of the plan.

As a result, 32,995 employees of Vivendi and its subsidiaries have benefited from plans which will contribute, together with the PEG, to the development of employee share ownership.

### 1.5.2. Dialog Between Management and Labor

In 2006, the relationship between Management and labor was improved as a result of sustained dialog that went beyond the legal and contractual obligations with respect to information and consultation.

At the group level, the group Works' Council, the European Authority for Dialog between Management and Labor, and the headquarters' Works' Council were informed of the group's strategy, financial position, social policy and main achievements for the fiscal year. Discussions were held throughout the year and included a three-day training seminar for the members of the European Authority for Dialog between Management and Labor and the members of the group Works' Council to keep them apprised of the group's activities.

The Vivendi group signed the French national framework agreement for the recruitment of young employees through job training contracts (*contrats de professionnalisation*). Given the diversity of expertise within the group, each business independently develops its own policy to train and recruit young people within special programs, but all companies make significant use of these employment tools. As in 2005, half of the job training involved interns and half job training contracts. Contracts are generally for a two-year period. Almost all job training contracts led to regular employment contracts (*contrat à durée indéterminée*).

As training is considered to be both a key element in the recruitment of young people and an asset for the company, Vivendi also signed the French national "Training Charter", under which it undertakes to hire apprentices and students at all levels to allow them to acquire the qualifications required for employment, to increase the number of

apprentices within the group, and to observe cultural and ethnic diversity. At the end of 2006, Vivendi employed 188 interns, compared with 117 at the end of 2005. In terms of educational level, 35% of the interns had completed university programs, the majority of the balance had completed intermediate level studies.

In December 2006, Vivendi and the French Ministry of Education entered into a business commitment charter to promote equal opportunity education. A national network of companies, in which Vivendi is an active participant, was created following the signing of this charter.

The training policy implemented by Vivendi consists of encouraging employees to acquire and reinforce the skills they need to achieve their objectives and pursue their professional development. Employee training requests and needs are identified and discussed by Management and employee representatives, as well as during each employee's annual evaluation. The percentage of payroll devoted to training in the group is much higher than French legal requirements.

In 2006, the Vivendi group continued to focus on occupational safety. The work performed by the health, safety and working conditions committees made it possible to significantly reduce the industrial accident frequency rate at 3.21 in 2006 (compared 3.36 in 2005 and 4.46 in 2004). In 2006, 5,818 group employees had received safety training, a two-fold increase over 2005.

The Vivendi group also worked to improve mobility among its different businesses with the help of the "Invivo" application, which is accessible to all employees via the group's intranet and displays internal vacancies for each business unit. In addition, regular meetings of the intra-group mobility network encouraged an ongoing exchange among the various businesses. As a result of improved procedures for advertising vacancies and a clearer definition of the positions available within the group, 995 employees were able to take advantage of transfer measures in 2006, either within their own entity or in another business.

In October 2006, an agreement entitled "Anticipation, skill development and professional growth" was signed at SFR. This agreement organizes the provisional management of jobs and skills within SFR for the three coming years. SFR is making a commitment to contribute to the professional development of its employees, giving them the opportunity to think about their future and providing them with the resources and assistance necessary to achieve their professional goals, whether inside or outside SFR.

At Vivendi Games, after the agreement concerning the organization of team work signed in 2005, the development of *World of Warcraft*, the massively multiplayer online role-playing game, resulted in the recruitment of 700 employees in France.

At the Canal+ Group, a procedural agreement on management/labor dialog, signed as part of the project to consolidate pay television operations in France, was implemented. Two other agreements have also been implemented within the Canal+ Group. One agreement which opens a time savings account for all

employees who have been within the group for at least three months and another agreement which creates a directory of standard jobs as a first step in provisional management planning of jobs and skills.

At Universal Music Group in France, an agreement was signed between management and labor concerning the training days given to persons returning from maternity leave and/or parental leave to facilitate their return to their workplace.

### 1.5.3. Contribution to the Development of Employment

Vivendi has committed to the French government to contribute to job creation in areas particularly affected by unemployment and industrial restructuring. These commitments are divided into two categories.

The first category is the creation of 600 jobs linked to Vivendi's activities. Vivendi's commitment represents the creation of a minimum of 100 jobs by the end of 2005, of 400 jobs by the end of 2006 and 600 jobs by the end of 2007. At December 31, 2006, 449 jobs had been created.

The second category is a contribution to the creation of jobs (€5 million per year over a five-year period for the creation of 1,000 jobs within three years and 1,500 jobs within five years) unrelated to Vivendi's businesses in the form of financial support for viable projects to create or expand businesses. Operations initiated early in 2005 allowed for the certification of 265 jobs in the Sarrebourg Château-Salins employment area, 397 jobs in the Pays d'Arles employment area and 511 jobs in the Oise employment area. In February 2006, three new operations began with the validation of 151 jobs in the employment areas of Arras, Saint-Omer, Calais and Berck Montreuil, 166 jobs in the Chalon-sur-Saône employment area and 142 jobs in the Dreux employment area. At the end of December 2006, there were 1,632 new certified<sup>(1)</sup> jobs and Vivendi had contributed €10 million. The number of jobs created amounted to 806, representing approximately half of the certified jobs

Based on the progress and the projects that are underway, three new employment areas for job creation have been designated, which include the employment areas of Abbeville-Montdidier, Thann-Cernay and Tonnerrois. The first work meetings began at year-end 2006.

### 1.5.4. Equality of Chance

By creating the "Telecom Engineer Passport" (*Passeport Ingénieur Télécoms*), SFR and the public authorities intended to facilitate access to engineering schools for young people in depressed areas and offer the prospect of high-level careers in communication technology businesses. SFR's objective is to create role models of academic and professional success. This program is the first one to include all key players for success: teachers, companies, higher education institutions, local policy-makers and young people.

(1) Certified jobs : jobs created following a valid application approved by the relevant commitment committee.

This program is designed for students who have earned a vocational training certificate (BTS) with an electrical engineering major and who are considering one of the 22 ATS (superior technical training) preparatory classes, which prepare students in one year to enter engineering schools. At the start of the 2005 academic year, 149 students were assisted by 100 SFR tutors: 123 for an ATS prep class, and 26 for an engineering school. Among the 123 students in the prep class, 91 (74%) were accepted at an engineering school in 2006. Eleven others (9%) were accepted at the university.

In 2006, SFR's initiative gained more momentum with the creation of the "Telecom Promotion Passport Circle" association. This association, chaired by the Chairman and Chief Executive Officer of SFR, brings together SFR and five major telecommunications equipment manufacturers in France (Alcatel, Ericsson France, Motorola France, Nokia France and Siemens France). Together, the six companies have made concrete commitments to equal opportunity and professional promotion of young people from depressed areas,

along with the French government represented by five Ministries: the Ministry of Employment, Social Cohesion and Housing, the Ministry of Education, Higher Education and Research, the Department for the Promotion of Equal Opportunity, the Department of Social Cohesion and the Department of Higher Education and Research.

Based on SFR's experience, two new programs for excellence have been created in addition to the "Telecom Engineer Passport," with the opening of a program for the holders of a baccalaureate in a technological program, with a technical or commercial major, in 15 new preparatory classes.

Since the beginning of the 2006 academic year, 400 students have been assisted by 350 volunteer tutors in the Circle from the six partner companies, demonstrating the remarkable mobilization of local players around this program (employees, students and teachers).

## 1.6. INSURANCE

Vivendi has a centralized risk management policy with insurance programs applicable to its majority-controlled business activities.

The insurance programs supplement on-site risk prevention procedures. Moreover, business continuity plans and backups have been implemented in the event of a disaster affecting a critical location for a given business activity as well as environmental protection processes.

Vivendi has subscribed to or renewed the following main insurance programs in 2006.

### Damages and Operating Losses

General insurance programs are in effect for the entire group with a total global coverage of up to €400 million per claim. This coverage insures against damages resulting from fire, flood, natural disasters, terrorism (in accordance with the legislative constraints in each relevant country/state) and consequential operating losses. As a general rule, the applicable retention per claim is €100,000 for industrial sites and €50,000 for other locations.

Maroc Telecom joined the group's program on January 1, 2006.

### General Liability

Policies covering operating and product liability resulting from damages to third parties are in effect for a total amount of €150 million per annum for the entire group. This amount is in excess of the various so-called "first-line" policies directly subscribed to by the subsidiaries (including, Universal Music Group, Canal+ Group, SFR, Maroc Telecom, Vivendi Games) for amounts between \$2 and \$15 million or €2 and €15 million, as the case may be.

### Industrial Accidents

Certain policies are specific to business activities in the US, in particular those covering industrial accidents, which the employer is required by law to provide. Workers compensation policies, which meet the requirements of the various Federal and State laws, are in effect.

## 2 Description of the Businesses

### 2.1. UNIVERSAL MUSIC GROUP

Vivendi's music business is operated through Universal Music Group (UMG). Vivendi holds a 100% interest in UMG since February 7, 2006 (against 92% previously), following the acquisition of the indirect minority interest in UMG held by Matsushita Electric Industrial Co, Ltd (see section 1.1.2. "Simplification of North American Structure" of the Annual Financial Report, Chapter 4). UMG is the largest music content company in the world and is comprised of two businesses: the recorded music business and the music publishing business.

The recorded music business acquires, markets and distributes recorded music through a network of subsidiaries, joint ventures and licensees in 77 countries. UMG sells and distributes music video, DVD products and licenses recordings. UMG participates in and encourages the distribution of music over the Internet and over cellular, cable and satellite networks by making a significant amount of its content available in a digitalized form.

The music publishing business owns and acquires rights to musical compositions (as opposed to recordings) in order to license them for use in recordings and related uses, such as in films, advertisements or live performances. According to management estimates, UMG is the number three global music publishing company with over one million owned or administered titles. On September 6, 2006, Vivendi and UMG entered into an agreement with Bertelsmann for the purchase of BMG Music Publishing Group. The transaction is subject to the regulatory approvals of the competition authorities in the relevant countries. (For more information on this transaction, refer to section 1.1.6. "Agreement for the acquisition by UMG of BMG Music Publishing" of the Annual Financial Report, Chapter 4).

#### 2.1.1. Recorded Music

UMG's recorded music business is the largest in the world with particularly strong positions in the important North American and European markets, which together account for nearly three quarters of global sales.

UMG's major recording labels include popular music labels (Island Def Jam Music Group, Interscope Geffen A&M Records, Lost Highway Records, MCA Nashville, Mercury Nashville, Mercury Records, Polydor and Universal Motown Records Group), classical labels (Decca, Deutsche Grammophon and Philips) and jazz labels (Verve and Impulse! Records).

Best-selling albums in 2006 were new releases from U2, Andrea Bocelli, Snow Patrol, Nelly Furtado and The Killers, in addition to very strong carryover sales from The Pussycat Dolls. Local artists continue to represent a significant part of UMG's recorded music business and regional best-sellers included Australia's Wolfmother, Germany's

Rosenstolz, Indonesia's SamSonS and Spitz and Masaharu Fukuyama from Japan. In a vintage year for UK signed talent, the three best-selling albums of 2006 in that market were from UMG artists Snow Patrol, Take That and Scissor Sisters. Two other UMG artists, Razorlight and James Morrison, are also featured in the top 10.

Sales from prior releases account for a significant and stable part of UMG's recorded music revenues each year. UMG owns the largest catalog of recorded music in the world with performers from the US, the UK and around the world including ABBA, Louis Armstrong, Chuck Berry, James Brown, The Carpenters, Eric Clapton, Patsy Cline, John Coltrane, Count Basie, Def Leppard, Dire Straits, Ella Fitzgerald, The Four Tops, Marvin Gaye, Johnny Hallyday, Jimi Hendrix, Billie Holiday, Buddy Holly, The Jackson Five, The Jam, Elton John, Herbert von Karajan, Kiss, Andrew Lloyd Webber, Lynyrd Skynyrd, The Mamas & The Papas, Bob Marley, Van Morrison, Nirvana, Luciano Pavarotti, Tom Petty, Edith Piaf, The Police, Smokey Robinson, The Rolling Stones, Diana Ross & The Supremes, Michel Sardou, Cat Stevens, Rod Stewart, Caetano Veloso, Muddy Waters, Barry White, Hank Williams and The Who.

UMG markets its recordings and artists through advertising and exposure in magazines, on radio and TV, via the Internet and through other media and point-of-sale material. Public appearances and performances are also important elements in the marketing process.

TV marketing of both specially compiled products and new albums is increasingly important. Marketing is carried out on a country-by-country basis, although global priorities and strategies for certain artists are determined centrally.

Following the sale of UMG's manufacturing and distribution facilities in the US and Germany to Glenayre Technologies in May 2005, the parent company of Entertainment Distribution Corporation (EDC), UMG has outsourced the bulk of such facilities to third parties or joint ventures with other record companies. UMG retains distribution facilities in the UK and France and the properties housing the manufacturing and distribution facilities in Germany sold to EDC.

#### 2.1.2. Music Publishing

Music publishing involves the acquisition of the rights to and the licensing of musical compositions (as opposed to recordings). UMG enters into agreements with composers and authors of musical compositions for the purpose of acquiring an interest in the underlying copyright so that the compositions may be licensed for use in sound recordings, films, videos, commercials and by way of live performances and broadcasting. UMG also licenses compositions for use in printed sheet music and song folios. UMG generally seeks to acquire rights,

## DESCRIPTION OF THE GROUP AND ITS BUSINESSES LITIGATION - RISK FACTORS

### Description of the Businesses

but also administers musical compositions on behalf of third-party owners such as other music publishers and authors who have retained or re-acquired rights.

UMG's publishing catalog includes more than one million titles that are owned or administered, including some of the world's most popular songs, such as "R.E.S.P.E.C.T.", "American Pie", "Strangers in the Night", "Born to be Wild", "Good Vibrations", "I Want to Hold Your Hand", "Your Song", "I Will Survive", "Smoke Gets in your Eyes" and "(Sitting on) the Dock of the Bay", among many others. Some of the significant artists/songwriters whose works are represented include ABBA, The Mamas & the Papas, 50 Cent, The Beach Boys, Mary J. Blige, Jon Bon Jovi, The Corrs, Gloria Estefan, No Doubt, Prince, André Rieu, Andrew Lloyd Webber and U2. Legendary composers whose works are represented include Leonard Bernstein, Paul Simon, Elton John and Bernie Taupin and Henry Mancini, among others. During 2006, UMG signed a number of new deals, including Juanes, Babyface, Dashboard Confessional, Sacha Skarbek (James Blunt), Hoobastank, Eminem, Red Jumpsuit Apparatus, Mika, Antonio Carmona, Beatstaz, and Carol Bayer Sager, among many others.

In September 2006, UMG agreed to acquire BMG Music Publishing (refer to section 1.1.6. "Agreement for the acquisition by UMG of BMG Music Publishing" of the Annual Financial Report, Chapter 4 for further information). The acquisition has received clearance from the US Department of Justice and the Australian Competition and Consumer Division, although it is still being reviewed by the European competition authorities.

### 2.1.3. Legal Digital Distribution of Music

Legal digital distribution of music continued its expansion in 2006, as existing products such as digital downloads and mastertones maintained healthy growth rates, and new products and sales channels emerged to further diversify what has become a significant revenue stream. Revenue growth was driven by several factors, including:

- growth of download offerings in the US, Europe and Japan;
- OTA (over-the-air) downloads purchased via the mobile phone in the US, the UK and Japan;
- adoption of mobile personalization products, particularly in the US and Asia ; and
- the monetization of music videos *via* downloads and ad-supported on-line streaming.

Using the Internet to buy a song or an album took another step into the mainstream in 2006. In the US, downloads of UMG digital tracks (single tracks plus album tracks) surpassed the 300 million mark during the year, close to two-thirds higher than the 2005 total. Growth in downloads was driven by Apple's iTunes music store and, especially later in the year, OTA downloads, which were introduced into the market towards the end of 2005. Industry-wide, SoundScan reported that online sales of digital single tracks were up by 65% in 2006, while digital album sales doubled. Further growth is anticipated in parallel with increasing

penetration of portable digital music players and broadband Internet service. OTA downloads began to generate considerable volume during the year, as mobile carriers stepped up marketing efforts behind this new product. Mobile downloads should continue to gain traction with increasing numbers of compatible handsets in the hands of consumers and the rollout of mobile broadband networks in the US.

Outside the US, digital download revenue advanced substantially. Growth came primarily from the UK, Japan, Germany and France, with a notable contribution from Australia, where iTunes opened for business in late 2005.

Revenue from music subscription services in the US such as Rhapsody and Napster was steady, although several of the services experienced a slight decline in their customer base. A bright spot for these companies is the ongoing growth in higher-margin portable subscriptions, which allow for the transfer of songs to a portable digital music player with an active account. Revenue from this category as a whole grew in 2006 due to portable subscribers making up a higher percentage of the subscriber base. As improved portable music players compatible with and optimized for these services reach the market, additional subscriber and revenue growth is expected.

US mobile revenues continued to strengthen in 2006. UMG sold over 100 million ringtones, with the vast majority of sales coming from mastertones. Ringback tones, which were introduced in 2005 but not heavily promoted by the carriers until 2006, emerged as a new and fast-growing revenue stream, one that is anticipated to flourish in 2007. Mobile revenue outside the US, where mastertones still make up the majority of sales, continued to grow briskly. Ringback tones were the fastest growing product in 2006, with particularly strong uptake of the product in China and other parts of Asia.

In 2005, UMG began to generate revenue from the online exploitation of its music video assets through ad-supported video streams within portals such as Yahoo!, AOL and MSN, and through permanent downloads sales at iTunes. Total video revenue in the US from these two sources more than tripled in 2006, rising with the wave of advertising dollars flowing online, and due in part to the full year of availability of UMG videos in the iTunes store. Outside the US, revenue streams from video also gained steam, primarily boosted by the sale of video downloads which were introduced in late 2005. Video downloads to the mobile phone, a product just beginning to emerge in the US, already make up a sizeable revenue stream in Japan, France, Germany, Italy and Sweden. As new and existing ways to exploit music videos continue to develop worldwide, the revenue generated from these assets will more than offset the cost of video production, historically a promotional expense.

In another example of turning a cost of promotion into a source of revenue, UMG has been instrumental in transitioning highly popular social networking and user-generated content websites into legitimate partners through filtering requirements and licensing agreements. In late 2006, UMG cemented a deal with YouTube to share in the advertising revenue generated around UMG content. This precedent will lead to more deals in 2007 with similar sites. Additionally, 2006 witnessed the

emergence of ad-supported and free-to-consumer audio services. Napster has already gone to market with such a service, and several more companies will launch in 2007 with comparable offerings. UMG has been careful to utilize these new business models to segment the market, avoiding the cannibalization of other revenue streams while positioning the company to benefit from the surge in Internet advertising spending which may exceed \$20 billion in the US in 2007.

In 2006, UMG maintained its leadership position in digital distribution by offering the largest digital distribution catalog, delivering new content to digital retailers upon release through UMG's proprietary digital distribution infrastructure and collaborating with digital retailers to promote its products. UMG continues to innovate by improving

download offerings with more flexible pricing and valued additional content such as CD booklets and alternate-version tracks. New products such as OTA video downloads, video ringtones and mobile video streams are entering the marketplace to keep up with the growing demand for mobile music entertainment products. Across all product categories, UMG will seek to maximize revenue and customer wallet-share by introducing new digital product configurations to serve the super fan, the casual listener and everyone in-between. Other growth opportunities in the coming year include device, mobile and broadband service bundles, and territory-specific business models in Asia and other emerging markets.

## 2.2. CANAL+ GROUP

### 2.2.1. French Pay-TV

The Canal+ Group is a major player in the programming and production of premium and specialized channels, the broadcasting of pay-TV services and a pioneer in the development of new television services. The Canal+ Group has over 10 million subscriptions to its different offerings (including TPS).

On August 31, 2006, the French Minister of Economy, Finance and Industry authorized the merger of the French pay-TV operations of the Canal+ Group and TPS under the new entity, Canal+ France. The merger transaction closed on January 4, 2007. This new entity, which includes Canal+ (49%), CanalSat, Canal+ Distribution, MultiThématiques, TPS, Media Overseas and GIE Numérique, is 65%-owned by Canal+ Group, 20%-owned by Lagardère, 9.9%-owned by TF1 and 5.1%-owned by M6. The merger of CanalSat and TPS into Canal+ France marks the beginning of a major French audiovisual player which is comparable in size to the largest European media companies and which is well positioned to effectively compete in a market marked by the rapid development of new offerings and services. It will contribute to the acceleration of the group's development by offering consumers enhanced, more diverse and attractive television packages.

#### 2.2.1.1. Programming Activities

##### The Premium Channel Canal+

Canal+ has been a pioneer in the field of pay-TV since 1984. It is available on all distribution platforms: analog broadcast and terrestrial digital television (DTT), satellite (including TPS since November 7, 2006), cable, and ADSL. Since March 5, 2005, the digital subscribers of Canal+ have been receiving Canal+ Le Bouquet, which offers premium content channels built around Canal+ (Canal+ Cinéma, Canal+ Sport, Canal+ Décalé, each with their own identity and programs and Canal+ Hi-Tech). Canal+ is the first premium multi-channel service in France.

Canal+ is a premium general-interest channel. It offers a unique style of programming, with recent and exclusive films, sports, news,

documentaries, French and foreign drama and original entertainment programs.

Canal+, the movie channel, airs 430 films each year, 300 of which are new and exclusive releases. Canal+ offers subscribers all types of films, as well as exclusive coverage of the major Seventh Art events (including Cannes, Césars and Oscars). In 2006, Canal+ devoted more than €145 million to the acquisition of original French-language films. Canal+ holds exclusive rights to broadcast new releases for several major motion picture studios including 20th Century Fox, NBC Universal, Sony/Columbia and DreamWorks. Furthermore, Canal+ holds the rights to broadcast new feature films from the Walt Disney and Pixar animated film studios.

On May 16, 2004, Canal+ and all the French professional film organizations signed an agreement guaranteeing a stronger partnership with the film industry and an expanded film offer for Canal+ subscribers. This five-year agreement became effective on January 1, 2005 (see section "Regulatory Environment" in this chapter).

Canal+ has developed recognized expertise in sports coverage, characterized in particular by exclusive programs, the absence of commercial breaks, sufficient airtime to offer pre-match, half-time and post-match items, accurate and relevant commentary with prestigious commentators and excellent production with original camera positions and technical innovations.

On December 10, 2004, the French Football League granted the Canal+ Group exclusive coverage rights to all League 1 matches for the 2005-2008 seasons. This agreement took effect in July 2005.

On December 31, 2006, the Canal+ channel had 5.14 million subscribers (collective and individual, in France and within French overseas departments and territories), a net increase of more than 76,000 subscriptions over 2005. During 2006, there were 646,000 gross new subscriptions to the channel, more than in 2005, when the channel recorded its best sales since 1987. At 11.95%, the Canal+ churn rate continues to be one of the lowest in Europe.

## DESCRIPTION OF THE GROUP AND ITS BUSINESSES LITIGATION - RISK FACTORS

### Description of the Businesses

Since January 4, 2007, the effective date of the merger with TPS, TPS Star completes the Canal+ premium offer. An exclusive, first-release channel, TPS Star primarily offers film (French and American) and sports events (football, boxing and basketball).

#### Theme Channels

The Canal+ Group programs twenty channels that cover leading themes, which include films (CinéCinéma channels), sports (Sport+), news (i>Télé), documentaries (Planète channels), entertainment (Comédie!), lifestyle (Cuisine TV, Seasons), and series (Jimmy). Since January 4, 2007, TPS channels have been added, particularly in film, sports (InfoSport), and children's programming (Piwi, Télétoon).

#### 2.2.1.2. Distribution Activities

##### CanalSat

The Canal+ Group operates the CanalSat satellite platform, the leading digital package of theme channels in France. As the leading digital service provider, it had almost 3.46 million subscriptions by the end of 2006, a net increase of almost 272,000 subscriptions over the end of 2005. Over the year, CanalSat gained over 510,000 new subscribers (+6%, compared to 2005), while maintaining its churn rate at around 10.6%.

CanalSat offers a selection of over 280 channels and services, 55 of which are satellite exclusives. Since December 19, 2006, CanalSat subscribers can access the digital versions of TF1 and M6. CanalSat has a multi-platform strategy: in addition to satellite and ADSL services, CanalSat has offered, since November 2005, a "Minipack" on pay DTT services. A package of channels specially designed for 3G telephones has been available on SFR's 3G network since June 2005 and on Bouygues Telecom's mobile broadband "i-Mode" portal since March 2006.

On April 4, 2006, the Canal+ Group began offering its high definition television (HDTV) services on CanalSat. The Canal+ channel, with all programs available in HD, TF1 and M6, as well as the National Geographic HD Channel are exclusively available via satellite.

##### Media Overseas

Media Overseas, a wholly-owned subsidiary of Canal+ France, is the operator of Canal+ and CanalSat branded programs offered in the French overseas departments and territories. Media Overseas is the only French overseas network that directly operates four satellite platforms (Africa, Caribbean, Indian Ocean and Pacific), in which it is the majority shareholder, covering 500 million people in the world and two-thirds of all French-speaking countries. Media Overseas, via its subsidiary Multi TV Afrique, also publishes Canal+ Horizons.

Media Overseas also manages Cyfra+, the Polish satellite platform, and the development of the Canal+ Group abroad. By developing packages of French-language channels for direct satellite reception, Media Overseas continues to fulfill its mission to promote French culture and language abroad.

At the end of 2006, Media Overseas had a total of 765,000 active individual subscribers in French overseas departments and territories and in Africa.

##### Cyfra+ (Poland)

The Canal+ Group is the leading satellite player in Poland through its subsidiary Cyfra+, in which it holds 75%. Cyfra+ programs and broadcasts the Canal+ package, which includes the Premium Canal+ channel, Canal+ Film and Canal+ Sport. The Polish subsidiary programs five theme channels, which include Ale Kino, Zigzap, Minimini, Planete and Kuchnia TV.

Cyfra+ offers subscribers 80 television and radio channels, 63 of which are in Polish, as well as approximately one hundred additional channels available free-to-air via satellite. At end 2006, it had over 910,000 subscribers with net growth of 100,000 subscribers over the year.

##### ADSL TV

The Canal+ Group began television broadcasting via ADSL in the first quarter of 2004, to reach new households, especially in large cities. The Group's Canal+ Le Bouquet and CanalSat packages (100 channels and services) are available via Neuf Cegetel, Orange, Free and Darty Box.

##### Digital Terrestrial Television (DTT)

Since November 2005, Canal+ Group's DTT offer has included two pay-TV packages. The first package, consisting of Canal+, Canal+ Cinéma and Canal+ Sport, is the only premium multi-channel package immediately accessible via plug-and-play. The second package, which includes Planète, Canal J, Eurosport and Paris Première, is a supplemental low-cost theme channel offering. Along with these pay packages, the Canal+ Group broadcasts its general news channel, i>Télé, free-to-air on a continuous basis.

In March 2007, the Canal+ Group announced that it would launch "TNTSat" – a DTT channel offering via satellite. Thanks to free satellite access, 100% of the French population will receive the 18 free-to-air DTT channels, as well as the France Ô channel, in particular in zones not covered by DTT service. Beginning June 15, 2007, channel offering including all of the free-to-air DTT channels will be available via satellite.

##### Television via Mobiles and Mobile Television

The Canal+ Group offers two mobile television services.

The first, marketed under the CanalSat Mobile brand, is a package of over 30 channels accessible live, covering the main themes of pay-TV (film, sports, children's programming, documentaries, etc.). This package, which also includes the free-to-air programs of the Canal+ channel, is available on SFR's and Bouygues Telecom's networks.

The second package Canal+ Mobile is a VOD multimedia package primarily based on the content of the Canal+ channel: film, sports, comedy, news, and adult content. For each theme, this service offers phone-adapted videos. It is available from all three French mobile

phone operators (Orange, SFR and Bouygues Telecom). In September 2005, the Canal+ Group, leading a consortium that included Nokia, SFR and Towercast, launched an experimental mobile TV project in the Paris metropolitan area using the DVB-H standard with 500 subscribers (including 250 Canal+ subscribers). The objective of this experiment, authorized by the French Broadcasting Authority (*Conseil Supérieur de l'Audiovisuel*, CSA) on September 13, 2005, was to validate technical solutions and to determine consumer habits.

### Legal Downloading of Video and Video-On-Demand

CanalPlay is the legal video downloading service of the Canal+ Group. Accessible from a PC ([www.canalplay.com](http://www.canalplay.com)), CanalPlay offers a variety of over 2,000 titles, including more than 1,000 films. CanalPlay is also available on the ADSL television offer from Free.

In 2006, nearly 2.4 million videos were purchased on CanalPlay (over the Internet and using ADSL TV).

In January 2007, CanalPlay launched a definitive downloading service. After having downloaded a selected video, the user can save it on to a PC for an indefinite period, watch it as many times as he/she wishes and, for the first time in Europe, burn a protected copy on a DVD which can be read on any DVD player.

Video on demand was covered by an inter-industry agreement on December 20, 2005 (see section "Regulatory Environment" in this chapter).

### TPS

Launched in December 1996, TPS is a pay-TV service which offers both premium and theme channels as part of the same package. At the end of 2006, TPS was available on all distribution networks, including satellite, ADSL (since December 2003) and DTT (since February 2006). At the end of December 2006, TPS had 1.44 million subscriptions (individual and collective). TPS' churn rate stood at 17.8% at the end of 2006, compared to 16.9% at the end of 2005.

TPS' mobile television offering is available via SFR's 3G services and Bouygues Telecom's i-Mode.

## 2.3. SFR

SFR was formed in 1987 and is the second largest mobile telecommunications operator in France with 17.9 million customers as at December 31, 2006. SFR is a 56% subsidiary of Vivendi (Vodafone owns 44%).

SFR offers mobile telephony services on a subscription basis (post-paid) and via phone cards (pre-paid), with or without a handset, as well as mobile multimedia services (broadcasting of sound and pictures) and data transmission for consumers, professionals and companies in France, as well as in Réunion and Mayotte through its wholly-owned subsidiary Société Réunionnaise du Radiotéléphone (SRR).

### 2.2.2. Film

StudioCanal, a wholly-owned subsidiary of the Canal+ Group, is a major player in France and Europe in the financing, acquisition and distribution of motion pictures. Alongside Canal+, StudioCanal is one of the leading partners of the French film industry through its financial involvement in co-productions and guaranteed minimums for film distribution. StudioCanal has an extensive film library with over 5,000 French, English and American titles, including *Basic Instinct*, *Les Bronzés*, *The Pianist* and *Podium*. Certain rights are held by StudioCanal for the whole world, others are limited to Europe or France.

In 2006, StudioCanal was ranked top French distributor in box-office sales (third in France after Gaumont Columbia TriStar Films and 20th Century Fox) thanks to the success of *Prête-Moi Ta Main* and *Days of Glory*.

In June 2006, StudioCanal announced the acquisition of the British company Optimum Releasing, which specializes in theatrical and video film distribution. Optimum Releasing, one of the most dynamic independent companies in the United Kingdom, distributed Michael Moore's *Fahrenheit 9/11*, *Elephant* by Gus Van Sant and *Spirited Away* by Hayao Miyazaki. It has a library of 250 films on DVD.

StudioCanal was the first French film production company to bring its HD DVD offer to market in October 2006.

### 2.2.3. Other Activities

On January 31, 2006, the Canal+ Group finalized the sale of its approximately 20% stake in the cable operator Ypso to the Cinven-Altice consortium.

On June 20, 2006, the Canal+ Group finalized the sale of the Paris Saint-Germain soccer club to three institutional investors: Colony Capital, Butler Capital Partners and Morgan Stanley.

SFR is also active in the fixed-line telecommunications sector (voice, data transmission and broadband Internet access) through its interest in Neuf Cegetel. In 2006, this interest was increased to 40.5%. Neuf Cegetel is the second largest fixed-line telecommunications operator in France, and is the leading alternative operator in the consumer, professional, corporate and operator markets under its two brands Neuf Telecom and Cegetel. At the end of 2006, Neuf Cegetel had 2.2 million customers for its ADSL Internet services.

In 2006, SFR signed an agreement with Tele2 AB to purchase the fixed-line and ADSL operations of Tele2 France. This transaction is subject to regulatory approval.

### 2.3.1. Performance

According to the ARCEP (*Autorité de Régulation des Communications Électroniques et des Postes*, the French telecommunications regulatory authority), the mobile telephony market continued to grow in France in 2006, with a customer base that rose by 3.6 million (a net annual growth of 7.6%). The number of mobile customers in France totaled 51.7 million as at December 31, 2006. The market penetration rate was 81.8% at the end of 2006, up from 76.1% at the end of 2005.

In 2006, the French market was marked by strong regulatory pressure and intense competition:

- the cut, imposed by the regulator, in mobile voice and SMS termination tariffs and the implementation of a 1% fee calculated on revenues generated by the 2G network,
- the continued development of MVNOs (Mobile Virtual Network Operator) in the French market, with the arrival of the retail players (Auchan and Carrefour). MVNOs represented 31% of net market sales in France (excluding French overseas territories) in 2006,
- the expansion of bundled offers (voice and data) and the strong growth in third generation telephony offers (3G/3G+), which contributed significantly to the growth in mobile phone usages,
- the appearance of fixed/mobile convergent offers launched by ISPs (Internet service providers) and Orange/Wanadoo.

In this context, SFR took advantage of the dynamic market and expansion of mobile telephony usages:

- with 685,000 new clients over the year (19% of net market sales), SFR increased its customer base to 17.9 million, an increase of 4.0% over 2005. SFR accepts 728,000 customers on its network for VNOs (Virtual Network Operator), representing nearly 50% of all VNO clients on the market. Finally, SFR recorded an excellent performance in the corporate segment, with a 16% growth in the number of lines. SFR's share of the mobile telephony market in France, excluding MVNOs, was 34.6% in 2006, compared with 35.8% in 2005,
- SFR exceeded its objectives for 3G customers, with close to 2.7 million customers,
- data and voice usages continued to grow in 2006, with an increase average usage per user (AUPU) of 327 minutes per month in 2006, compared to 296 minutes per month in 2005, and a sharp increase in data services, primarily in content (music, games and TV-Video) and interpersonal services (text and multimedia messages). However, average revenue per SFR customer fell to €455 at year-end 2006 from €485 at the end of 2005: the growth in usages was more than offset by rate offers that generated a reduction in the price per minute of more than 10%, and by the decline in regulated rates (a 24% cut in call terminations to a mobile network early in 2006 and a 19% reduction in SMS termination early in 2006, then by an additional 30% in mid-September 2006). The tariff cuts imposed by the regulator weighed heavily on the growth of the sector in France.

This performance substantiates SFR's "mobile centric" strategy, which, through the substitution of fixed-lines by mobiles (at home and at the office) and the availability of SFR services on different platforms (PC and Internet), offers customers a personalized and continuous service.

In this context, there are four key elements:

- SFR's strategy of investing in its own telecommunication networks, particularly in its UMTS (Universal Mobile Telecommunication Service or 3G) network, and the introduction of the HSDPA function (High Speed Downlink Packet Access or 3G+). HSDPA allows SFR to meet the growth in customer usage by significantly increasing available voice capacity and data transfer speeds. In 2006, SFR was the first operator to launch 3G+ offers in France and, at the end of 2006, had the largest HSDPA network in Europe,
- the launch of the "Happy Zone" option, in March 2007, which offers unlimited usage from mobiles to fixed lines,
- the launch, in March 2007, of the ADSL option for SFR customers,
- commercial coverage throughout France with 7,000 points of sale, including 750 "espace SFR" boutiques.

### 2.3.2. Network

SFR's mobile phone services operate either on the GSM (Global System for Mobile Communications)/GPRS (Global Packet Radio Service) network, the international standard for mobile communications systems and the dominant digital standard in Europe, or on the UMTS network.

At the end of 2006, the SFR network covered more than 98% of the French population and more than 87% of French territory via GSM/GPRS. The UMTS (3G/3G+) network covered 65% of the population in 2006, up from 60% in 2005. Moreover, SFR introduced the HSDPA (3G+) function on its 3G network, which covered its entire 3G network at the end of 2006. With this technology, the theoretical transfer rate was 1.8 Mbit/sec at the end of 2006. The first offers were launched for businesses in May 2006 and for consumers in June 2006.

In addition, SFR decided to improve its GSM/GPRS coverage by introducing the EDGE (Enhanced Data for Global Evolution), standard in areas not covered by the UMTS network, in order to offer its business customers higher communication speeds than those provided by the GSM/GPRS network. At the end of 2006, the EDGE network covered 16% of the French territory.

The priority given to quality customer service is reflected in the quality and customer satisfaction surveys conducted by the ARCEP: SFR was ranked first or equal first 28 times, based on the 32 criteria considered by ARCEP in its 2005/2006 annual audit on the quality of mobile telecommunications networks in France, making SFR the only operator to have achieved this ranking for three consecutive years.

Under the terms of renewal of its GSM license, which expired on March 25, 2006, SFR pays, as of that date and for a term of 15 years, an

annual fee that includes a fixed portion of €25 million and a variable portion of 1% of the related revenues.

SFR was granted a UMTS license in 2001 by the French government for a period of 20 years (2001-2021), in return for the payment of €619 million, paid in a single payment in September 2001, and an annual fee equal to 1% of the future revenues generated by this third generation network.

In 2006, the WiFi technology was available to SFR customers through 10,000 hotspots (point or terminal allowing for wireless communication) worldwide, and over 30,000 hotspots in France because of national and international agreements signed by SFR. In June 2006, SFR obtained two WiMax licenses, in Île-de-France and in Provence-Alpes-Côte d'Azur (PACA), through SHD (Société du Haut Débit), a joint venture of SFR and Neuf Cegetel. Deployment will be gradual, reaching 443 sites in two regions by 2008, with 306 sites in the Île-de-France region and 137 sites in the PACA region. In December 2006, SHD opened the first 10 sites of its network in the Île-de-France region.

Moreover, SFR initiated the transition of its network towards the convergence of access and services on IP (Internet Protocol), so that the network core will be all-IP by 2009. IP is the data transfer protocol of the future, providing flexibility, upgradeability and security at the lowest cost.

### 2.3.3. Services

In voice services, SFR offers the following services, in particular since 2006:

- rate offers, including unlimited calls to three other SFR clients, which are helping to significantly drive down the per-minute rate paid by customers,
- the "Happy Zone" option, successfully launched in October 2006 in Bouches-du-Rhône and Haute-Garonne, to continue the development of mobile phone use at home with unlimited calls to fixed telephone lines in France (excluding overseas territories). The launch of the "Happy Zone" offer throughout France took place in March 2007.

In "non-voice" services, 2006 was marked by:

- a strong increase in the number of 3G/3G+ customers and related key services such as music downloads, video and TV access, games and videophony:
  - there were nearly 2.7 million exclusively 3G SFR customers at the end of 2006,
  - the number of SFR customers using Vodafone *live!* mobile phones reached 6.5 million at the end of 2006, up from 4.8 million at the end of 2005,
  - SFR Music ranks among the top three legal downloading platforms in France due to strategic agreements signed with the major recording companies that allow SFR to offer a music catalog of 600,000 titles and a 50% reduction in its download rates in

November 2006. At the end of 2006, SFR had recorded almost 4 million downloads, compared with only 655,000 in 2005,

- SFR's mobile TV-Video offer includes 80 channels (including the 38 channels of the CanalSat package, which had almost 40,000 clients at the end of December 2006, the 11 channels of the TPS package and the 31 channels of the SFR package) and over 60 video programs. A total of over 14 million videos were downloaded in 2006, including more than 2 million during the soccer World Cup,
- over 4 million video games were downloaded in 2006, with more than 600 games available for downloading,
- the use of videophony increased, with a usage rate of one out of five 3G customers;
- transmission of text and multimedia messages continues to grow with 6.3 billion SMS (Short Messaging Services) and 168 million MMS (Multimedia Messaging Services) at the end of 2006, up from 5.4 billion and 98 million in 2005, respectively;
- finally, SFR expanded its Internet presence with new customer services providing continuity for its mobile Internet services and making the mobile environment accessible on the PC and with the launch of community sites, such as "SFR Jeunes Talents" (SFR Young Talents), the first mobile and Internet portal for introducing young musicians, which recorded 6,000 artist accounts in 2006.

In corporate services, 2006 was marked by a very strong sales performance which has continued over several years and by significant strategic innovations. The development of mobile offers for corporate customers, particularly in partnership with IT builders, is an indication of SFR's strategy to promote a global approach for corporate customers:

- the number of corporate lines rose 16% over 2005, and
- 2006 was marked by very strong growth in data services, with a 69% increase in one year in the number of PC Mobile Connect Cards and 86% in BlackBerry® mobile message offers. The machine-to-machine base (which allows a central server to exchange data with a remote group of fixed or mobile machines) increased by 52% in one year.

SFR signed GSM or GPRS roaming agreements with more than 215 countries or destinations and UMTS roaming agreements with 57 countries and, in 2005, launched the Vodafone Passport option that offers calls from abroad at national rates in return for payment of a connection charge.

## 2.4. MAROC TELECOM

Maroc Telecom was created in 1998, following its spin-off from the *Office National des Postes et Télécommunications*, the Moroccan national postal and telecommunications office. Maroc Telecom is Morocco's historic and leading telecommunications operator in both the fixed-line and the fast-growing mobile and Internet businesses. Maroc Telecom controls 51% of Mauritel, the national telecommunications operator in Mauritania, together with a group of local investors. On December 29, 2006, Maroc Telecom acquired a 51% stake in Onatel, the incumbent operator in Burkina Faso. On December 1, 2006, Maroc Telecom launched a Mobile Virtual Network Operator (MVNO) in France, Mobisud. In February 2007, Maroc Telecom acquired a 51% stake in Gabon Telecom, the historic telecommunications operator in Gabon.

Vivendi became the Kingdom of Morocco's strategic partner in Maroc Telecom after acquiring a 35% equity interest in Maroc Telecom in 2001, following an auction process organized by the Moroccan government. By virtue of a shareholders' agreement entered into at the time of the acquisition of 35% of Maroc Telecom's share capital, Vivendi held a controlling interest in the company. On November 18, 2004, the Kingdom of Morocco and Vivendi announced that they had reached an agreement regarding the sale of a 16% stake in Maroc Telecom to Vivendi. As a result of this transaction, which closed on January 4, 2005, Vivendi holds 51% of Maroc Telecom's share capital.

The Moroccan government continued the privatization of Maroc Telecom by conducting an equity offering of 14.9% of Maroc Telecom's share capital. The equity offering was successful and led to the simultaneous listing of Maroc Telecom on the Casablanca and Paris stock exchanges on December 13, 2004. During 2006, the government sold 0.1% of Maroc Telecom's share capital on the market.

As a result of this transaction, Vivendi holds 51% of Maroc Telecom's share capital, the remaining 34.0% and 15.0% are held by the Kingdom of Morocco and the public, respectively.

### 2.4.1. Mobile Telephony

The Moroccan mobile telecommunications market grew significantly as a result of the introduction of prepaid offers in 1999 and the liberalization of the sector in 2000.

At the end of December 2006, the market penetration rate of mobile telephony in Morocco was 53.54% and Maroc Telecom held a 66.9% market share, a 0.4% increase over 2005 (source: *Agence Nationale de Réglementation des Télécommunications* - the Moroccan National Telecommunications Regulation Agency (ANRT)). In 2006, Maroc Telecom's mobile customer base increased by 2.47 million, up 30%, to reach 10.7 million customers, 96% of which were prepaid customers. The prepayment system meets the needs of customers, allowing them to better control their communication costs and remain within their contract packages.

Maroc Telecom continued to improve its commercial offer and introduce new services in order to retain existing customers and attract new ones.

In 2006, for the prepaid segment, Maroc Telecom launched a new tariff of 30 dirhams including tax (approximately €2.5) and a new phone card ("10+20") and continued to dematerialize methods for recharging phone cards with the launch of a new express system. Maroc Telecom continues its promotions policy in order to develop cell phone usage by means of unlimited voice and data communication offers during specific periods and promotions on phone cards.

For the post-paid segment, Maroc Telecom extended its unlimited calls option to all plans, allowed post-paid customers to recharge either their own cards or those of a prepaid customer. A leader in innovative services, Maroc Telecom, introduced mobile Internet e-mail ("Mobimail") and push-to-talk ("Mobitalkie") services.

Furthermore, in order to equip all its customers with the latest technologies, Maroc Telecom expanded its range of handsets and reduced its rates with packages costing as little as 249 dirhams including tax (approximately €23).

As a result of the growth of the customer base and the decrease of access fees, the average churn rate stood at 20.3% at the end of 2006 (12.2% at the end of 2005). Average revenue per user (ARPU) in 2006 amounted to 111 dirhams (approximately €10), down 9% compared to 2005.

Maroc Telecom remains the benchmark for short messaging services (SMS) and multimedia messaging services (MMS) in Morocco and offers MMS roaming to all its customers and GPRS roaming to post-paid customers. In 2006, the total number of outgoing SMS messages on Maroc Telecom's network reached close to 1.4 billion, up 23% compared to 2005.

In 2006, the voice mail service was enhanced with new options, such as the notification of missed calls and voice mail personalization.

In July 2006, Maroc Telecom secured one of the 3G mobile telecommunications licenses following an international tender offer.

### 2.4.2. Fixed-line Telephony, Data and Internet

At year-end 2006, Maroc Telecom was the sole provider of fixed-line telecommunications services and the main provider of Internet and data services in the Moroccan market. The market was opened to competition in 2005, with the granting of fixed-line licenses to two new operators. As at December 31, 2006, those licenses were not operational.

The principal fixed-line telecommunications services provided by Maroc Telecom are:

- telephony services,
- interconnection services with national and international operators,
- data transmission services for professional customers and Internet service providers, as well as for other telecoms operators,
- Internet services which include Internet access services and related services such as hosting,
- television via ADSL.

The number of fixed lines was 1.266 million as of December 31, 2006, down 5.6% compared to the prior year.

The residential customer base represents 813,000 lines at the end of 2006, a decrease of 8.1%, from 2005. The new line of products dedicated to this segment, marketed under the El Manzil brand, includes calling plans, packages and capped-fee plans with recharge options. To build customer loyalty and attract new clients, Maroc Telecom launched new fixed telephony offers which allow customers to make unlimited local and national calls to Maroc Telecom fixed-line numbers.

The number of professional and corporate users reached nearly 296,000 at the end of 2006, representing a 1.4% increase over 2005.

Public telephony is comprised of a network of telephone booths and an extensive network of phone shops. This activity has shown significant growth since October 2004, primarily as a result of the termination of the "chaining" requirement, which imposed a minimum distance of 200 meters between each phone shop, allowing the creation of a denser network. At the end of 2006, the number of lines reached 157,000, a decrease of 4.3% from 2005.

Phone shops are managed by private individuals who lease an average of four lines per shop. Phone shops generate revenue equal to the difference between the retail price and the rate they are charged by Maroc Telecom. Due to pricing adjustments implemented during the last quarter of 2005, average revenues of this segment grew significantly in 2006.

Data transmission services provided by Maroc Telecom to corporate customers include X25, frame relay, digital and analog lease lines, and IP VPN links.

Maroc Telecom offers Internet access packages to residential and corporate customers under the Menara brand. Since the launch of ADSL services in October 2003, Maroc Telecom's Internet customer base has increased considerably. At year-end 2006, as a result of both the rate decreases, which were introduced in March 2005 and May 2006 and regular promotions, Maroc Telecom had nearly 391,000 subscribers to its Internet access services, more than 98% of whom were ADSL subscribers. In 2006, Maroc Telecom launched television via ADSL, a first in Morocco and Africa, offering its customers four different

network packages and more than 60 national and international channels.

### 2.4.3. Distribution

Maroc Telecom has an extensive, direct and indirect, distribution network comprising more than 41,000 points-of-sale (approved by Maroc Telecom) which are subject to distribution agreements with local resellers or with national retailers.

As at December 31, 2006, the various distribution channels were as follows:

- the direct network, composed of 287 sales agencies,
- the local indirect network, comprised of independent resellers which are subject to exclusive agreements and which are managed by the closest Maroc Telecom commercial agency. A significant part of these resellers also operate phone shops approved by Maroc Telecom,
- an independent local network, formed by national and regional retailers. In 2006, besides GSM Al Maghrib, Maroc Telecom has concluded agreements with three new retailers,
- retailers with nationwide networks whose main business is not telecommunications (supermarkets, newspaper and magazine retailers, tobacco shops or Moroccan post offices).

### 2.4.4. Network

Maroc Telecom's fixed-line telephony and data transmission network has a switching capacity of more than 1.85 million lines and provides national coverage due to the company's focus on servicing newly created urban residential areas.

Maroc Telecom manages a fully digitized network, as well as a fiber optic interurban transmission infrastructure capable of carrying data at high speed. To meet customers' needs, the international Internet bandwidth increased eight-fold from 1.4 Gbits/s at year-end 2004 to 12.1 Gbits/s by year-end 2006. To cater to the increasing need for international bandwidth for off shoring activities and Internet broadband in Morocco, Maroc Telecom launched the construction of a sub-marine cable, Atlas Offshore, between Asilah and Marseilles.

In mobile telephony, Maroc Telecom has focused on enhancing both population and geographic coverage. At year-end 2006, Maroc Telecom had more than 4,600 GSM sites (compared to 4,180 in 2005) covering over 97% of the Moroccan population. As at December 31, 2006, Maroc Telecom had entered into a total of 414 roaming agreements with operators in 212 countries for its post-paid customers. In addition, Maroc Telecom also offers roaming to its pre-paid customers through 76 operators in 48 countries, and MMS and GPRS roaming through 91 operators in 62 countries.

### 2.4.5. Mauritel Group

Maroc Telecom acquired a 54% stake in Mauritania's historic telecommunications operator on April 12, 2001 and transferred its stake to a holding company Compagnie Mauritanienne de Communications (CMC). Maroc Telecom disposed of 20% of its stake to a group of Mauritanian investors and, in 2003, assigned 3% of the shares in Mauritel SA to the employees.

Maroc Telecom currently holds 80% of the share capital of CMC, which in turn holds 51.5% of the share capital in the Mauritel Group.

The Mauritel Group is comprised of Mauritel SA and Mauritel Mobiles its wholly-owned subsidiary.

Mauritel SA is the only fixed-line telecommunications operator in Mauritania. It provides both fixed-line telecommunications (voice and data) and Internet access services. As at December 31, 2006, the customer base for fixed-lines reached close to 37,500 lines, representing a 1.3% penetration rate.

By year-end 2005, Mauritel SA had completed all of the commitments made to the Mauritanian government by Maroc Telecom when it entered the Mauritel Group in 2001. In 2006, the Mauritanian telecom regulator (ARE) granted a fixed licence to a new telecommunications operator.

Mauritel Mobiles is focused on mobile telecommunications. Mauritel Mobiles' customer base increased from less than 7,200 customers at year-end 2000, to more than 601,000 customers as at December 31, 2006, up 29.2% compared to 2005. The penetration rate for mobiles in Mauritania is estimated at close to 30%.

Mauritel Mobiles is the leading mobile telecommunications operator in Mauritania with an estimated market share of 70% (estimate by Mauritel Mobiles) ahead of its competitor, Mauritano-Tunisienne de Télécommunications (Mattel), which is part-owned by the Tunisian historic telecommunications operator. In 2006, ARE granted a 3G license to Mauritel Mobiles and 2G and 3G licenses to a new operator.

## 2.5. VIVENDI GAMES

Vivendi Games is a global developer, publisher and distributor of multi-platform interactive entertainment. The company is the leader in the subscription-based massively multiplayer online role-playing games (MMORPG) category, is improving its position in the PC, console and handheld markets and has entered the high-growth casual online and mobile gaming segments. Vivendi Games has a global footprint, a history of franchise success, development teams around the world and a pipeline of its own original and copyrighted material. The company maintains strong relationships with strategic partners such as NBC Universal, Universal Music Group and 20th Century Fox. Headquartered in Los Angeles, CA, Vivendi Games is structured around four creative divisions positioned to make the most of the industry's most fruitful opportunities: Blizzard Entertainment, Sierra Entertainment, Sierra Online and Vivendi Games Mobile. All of Vivendi Games' divisions are supported by global retail sales and operations to leverage scale economies.

Blizzard Entertainment® is a world-renowned development studio and publisher best known as the creator of *World of Warcraft*®, *Diablo*®, *StarCraft*® and *Warcraft*®. *World of Warcraft* is the world's most popular game in the MMORPG category and had more than eight million subscribers at the end of 2006 (more than 8.5 million in March 2007). *World of Warcraft* is available in six languages and Blizzard Entertainment has set up in-game support services for players in multiple regions. Blizzard Entertainment plans to continue expanding its customer base in the subscription-based MMORPG market with the release of its expansion pack, *World of Warcraft: The Burning Crusade* (January 2007) and additional content patches bringing

attractive new features throughout the year. Blizzard Entertainment's track record includes nine top-selling games and multiple "Game of the Year" awards.

Sierra Entertainment creates and publishes innovative, high-quality console, PC and handheld games. By virtue of its original intellectual property, creative in-house talent and popular entertainment licensing, Sierra Entertainment is well-positioned for continued growth across all platforms and for product development catering to next generation consoles from Microsoft, Nintendo and Sony. Sierra Entertainment features four integrated internal studios providing development capabilities across numerous genres for gamers worldwide: High Moon Studios (San Diego, CA), specialist in the development of third person shooter (TPS) titles; Massive Entertainment (Malmö, Sweden), a top developer in the real time strategy (RTS) genre and creator of the upcoming *World in Conflict* PC title; Radical Entertainment (Vancouver, B.C.), an expert in the creation of open world games, including *Scarface: The World is Yours*; and Swordfish Studios (Birmingham, England), which focuses on developing first person shooter (FPS) titles. Sierra Entertainment has developed a number of franchises and hit products. *Scarface: The World is Yours*, which was launched in October 2006, was the top-selling video game in the United States in its first month on retail shelves. The studio also extended its *Crash Bandicoot*, *Spyro the Dragon* and *F.E.A.R.* franchises in 2006 and released *Ice Age 2* for all platforms. Sierra Entertainment released its first titles for next generation consoles, with *F.E.A.R.* available for Xbox 360 and *Ice Age 2*, the division's first game for Nintendo's Wii.

Sierra Online, a division created in 2006, focuses on developing and publishing high quality short-session and mid-session casual online games for PC, Xbox Live Arcade and all other viable platforms. Sierra

Online runs a global business which includes regional studios in Santiago, Chile; Seattle, Washington (US) and Shanghai, China. In December 2006, Sierra Online launched *Assault Heroes*, its first title for Microsoft's Xbox Live Arcade, which was awarded Xbox Live Arcade Game of the Year by IGN.com, the number one videogame information website.

Vivendi Games Mobile creates and publishes games for the worldwide mobile market. The division has a global presence, with its headquarters, operations and an internal development team in Paris and a US-based team in Los Angeles. With its acquisition of Centerscore in September 2006, Vivendi Games Mobile also has an internal development studio in San Mateo, CA. The company publishes a wide

range of action, strategy, casual and arcade games based on its own original intellectual property, entertainment licenses and classic Sierra games titles, all of which are distributed by more than 90 operators and dozens of web portals in 60 countries around the world. Key titles include: *Black Hawk Down*, *Crash Racing*, *Empire Earth*, *Eragon*, *Leisure Suit Larry*, *Spyro the Dragon*, *Surviving High School* and *SWAT Force*. *SWAT Force* was named "Best Wireless Game of the Year" by Spike TV in December 2006.

In the US, Vivendi Games operates an assembly and distribution facility in Fresno, CA. All property and equipment in the building are owned by Vivendi Games. In Europe and Australia, Vivendi Games uses external partners for manufacturing and distribution.

## 2.6. NBC UNIVERSAL

In May 2004, Vivendi completed the combination of the businesses of NBC with those of Vivendi Universal Entertainment and certain related assets to create NBC Universal (NBCU), one of the world's leading media companies. As of February 7, 2006, Vivendi holds 20% of NBCU.

NBCU is engaged in a variety of media and entertainment businesses, including: the production of live and recorded television programs; the production and distribution of motion pictures; the operation, under licenses from the Federal Communications Commission (FCC), of television broadcasting stations; the furnishing of US network television services to affiliated stations, the ownership of several cable/satellite networks around the world; the operation of theme parks and investment and programming activities in multimedia and the Internet. The NBC television network is one of four major US commercial broadcast television networks and serves 230 affiliated stations in the US. NBC owns and operates Telemundo, a leading US Spanish-language commercial broadcast television network.

As of December 31, 2006, NBC owned and/or operated 26 VHF and UHF full-power television stations including those located in the following television markets: Los Angeles, San Francisco, San Diego, Hartford, Miami, Chicago, New York, Philadelphia, Dallas and Washington, DC. Broadcasting operations of the NBC Television Network, the Telemundo Network, other broadcast programming and the company's owned stations are subject to FCC regulation.

NBCU operations also include investment and programming activities in cable television, principally through USA Network, Bravo, CNBC, SCI FI Channel, MSNBC, CNBC Europe, CNBC Asia, and entertainment channels across Europe and Latin America. NBCU has equity investments in Arts and Entertainment, The History Channel, the Sundance Channel, ValueVision Media, Inc. and a non-voting interest in ION Media Networks. NBCU has secured exclusive US television rights to the Olympic Games through 2012.

## 3

## Seasonality

### 3.1. UNIVERSAL MUSIC GROUP

Music sales are weighted towards the last quarter of the calendar year when approximately one-third of annual revenues are generated. Growth in digital activity, which is generally accounted one to three

months after the retail sale, has resulted in a modest shift in activity to the first quarter of the calendar year. Growth of the digital sector is likely to see this trend accelerate.

### 3.2. CANAL+ GROUP

The pay-TV business of the Canal+ Group is based on subscription contracts. Considering the duration of these contracts, monthly income is regular and revenues are therefore predictable. Regarding new

subscriptions, these follow a cyclical pattern over the year with over 50% of new subscriptions taken in the last four months of the year.

### 3.3. SFR

SFR's sales (gross acquisition of customers) are characterized by significant seasonal variations at year-end.

### 3.4. MAROC TELECOM

Maroc Telecom's revenues in mobile and public telephony traditionally increase in July and August, with the return of Moroccans residing abroad, and in the two-week period preceding Aïd El Adha (which was

on January 12, 2006), while the month of Ramadan (from September 24th to October 24, 2006) is a low point in consumption for both fixed-line and mobile telephony.

### 3.5. VIVENDI GAMES

PC and console software sales are historically higher in the fourth quarter. The subscription-based MMORPG business provides a more consistent revenue stream throughout the year as consumers are required to pay a monthly subscription fee or purchase hourly time cards in order to play.

The more continuous revenue flow from *World of Warcraft* has helped reduce the seasonal effect of Vivendi Games' revenues. For mobile games, there is a slight increase in sales at the end of the year due to the acquisition of cellular phones during the holidays.

## 4 Regulatory Environment

### 4.1. UNIVERSAL MUSIC GROUP

UMG is not dependent on any particular artist or music trend reflecting its diverse array of labels in the major markets and local representation across the globe that complement each other through their focus on different genres and music segments, thereby mitigating the effect of changes in consumer tastes.

UMG's businesses are subject to laws and regulations in each jurisdiction in which they operate. In the US, certain UMG companies entered into a Consent Decree in 2000 with the Federal Trade Commission (FTC) under which they agreed for seven years not to make the receipt of any co-operative advertising funds for their pre-recorded music products contingent on the price or price level at which such product is advertised or promoted. Also in the US, a UMG company entered into a Consent Decree with the FTC in 2004, under which it agreed to comply with the provisions of the Children's Online Privacy Protection Act and to maintain records demonstrating compliance. In 2003, following a lawsuit filed by the FTC, the FTC issued an order

that generally prohibits UMG from entering into agreements with unaffiliated entities (i) to fix, raise or stabilize prices or price levels for sales of audio or video products in the United States and (ii) to prohibit, restrict, regulate or otherwise limit truthful, non-deceptive advertising for audio or video products in the United States.

In 2006, a UMG company entered into an agreement with the New York State Attorney General regarding business dealings of with radio stations as well as its use of independent radio promoters. As part of its agreement, the UMG company agreed to a series of business reforms related to radio promotion practices, as well as a payment in the amount of \$12.1 million.

In Canada, in connection with Vivendi's purchase of Seagram, UMG is required to continue its investments in Canada's domestic music industry as part of an undertaking given to the Canadian Department of Heritage.

## 4.2. CANAL+ GROUP

The audiovisual communications industry in Europe is subject to national laws and regulations which are enforced by regulatory authorities such as the French broadcasting authority (*Conseil Supérieur de l'Audiovisuel*, CSA) in France. In general, these authorities grant broadcasting licenses for specific periods. In France, Canal+ has a license to broadcast the Canal+ channel via terrestrial networks and networks that do not use frequencies assigned by the CSA, such as satellite, cable and ADSL. This license was renewed in December 2000 for a five-year period, then extended for another five years following a decision by the CSA on November 22, 2005 (published in the "*Journal officiel*", the French official gazette of December 4, 2005), since the launch of the DTT channel.

The European Union regularly issues directives governing the activities of the Canal+ Group, in particular with respect to competition. The European Union also adopted a series of directives that affect the communications industry, in particular the "Television without Frontiers" directive, and directives concerning intellectual property, e-commerce, data protection and telecommunications.

Under French law, the Canal+ Group may not hold more than 49% in the programming activities of the Canal+ channel. The Canal+ Group, through its subsidiary Canal+ France, holds a controlling interest in Canal+ SA, a company listed for trading on compartment B of Euronext<sup>TM</sup>, which holds the authorization to broadcast the Canal+ channel. Furthermore, a non-EU shareholder may not hold more than 20% of the company that holds the broadcast license.

Under its broadcast license in France, Canal+ SA is subject to the following obligations, which include: 60% of the audiovisual works and films broadcast by the channel must be European works and 40% of them must be original French-language films.

Canal+ must invest 4.5% of its revenue in audiovisual works (television fiction, documentaries, series, etc.) which contribute to the development of both European and original French-language audiovisual works (two-thirds of this percentage must be devoted to the development of independent production).

On May 16, 2004, Canal+ and all the film industry organizations entered into an agreement guaranteeing a stronger partnership with the film industry and an expanded film offer for Canal+ subscribers. This five-year agreement, effective as of January 1, 2005, provides for:

- new broadcasting slots on Canal+ to expand film exposure; the channel can now offer feature films to its subscribers every weekday evening (on Friday evenings without restriction tied to box-office sales, on Saturday evenings with the broadcast of films with box-office sales of less than 1.5 million) and on Wednesday afternoons,
- an enhanced digital offering from the encrypted channel: one-third of the programs from the digital versions of Canal+ may now be different from the premium channel programs,

- a more ambitious diversity policy: Canal+ now devotes 17% of its obligation to acquire original French-language films to films with a budget less than or equal to €4 million.

The channel also ensures that it contributes to the financing of a broad variety of films and that its contribution is equally distributed over all budget segments of the market.

Canal+ renewed its financial commitment to the film industry and must devote at least 12% of its revenues to the acquisition of European films, 9% of which must be original French-language films. This investment may reach 12.5% as a result of the development of the success bonus system. Under this agreement, Canal+ agreed to maintain its pre-purchase policy by continuing to devote 80% of its French film obligations to the pre-purchase of films before the first day of filming. This agreement, dated May 16, 2004, was ratified by changes to the regulations applicable to film channels and by the signature on January 6, 2005, of an amendment to the agreement signed by Canal+ and the CSA.

French law 86-1067 of September 30, 1986, relating to the freedom of communications was again amended by Law 2004-669 of July 9, 2004, governing electronic communications and audiovisual communications services, primarily on two points that could have an impact on the activities of the Canal+ Group:

- confirmation and standardization of the must-carry system, which is the obligation for distributors of services on networks that do not use terrestrial frequencies allocated by the CSA (in particular: cable, satellite, ADSL):
  - to make available free of charge to their subscribers the services of the channels belonging to the France Télévisions Group (France 2, France 3 and France 5), Arte and TV5, as well as the services specifically intended for viewers within France (excluding overseas territories) programmed by RFO, unless these programmers believe that the offer of services is clearly incompatible with their public service missions; transmission and broadcast costs are paid by the service distributors,
  - to make available free of charge to their subscribers in French overseas territories the RFO services that are broadcast via the terrestrial network in the community, unless RFO believes that the service offer is clearly incompatible with its public service missions; the transmission and broadcast costs are paid by the service distributors,
  - to broadcast the programs and interactive services of La Chaîne Parlementaire (the parliamentary channel) free-to-air and at their own expense, using broadcast technologies equivalent to those employed by the French national television companies, unless this is opposed by the governing bodies of the television companies which produce La Chaîne Parlementaire,

- to make the services for the deaf and hearing-impaired associated with the television services offered freely available to the general public; the required technical measures are at their expense,
- finally, any service distributor via a network which does not use frequencies allocated by the CSA and is not a satellite network must make available to its subscribers the local public initiative services intended to provide local information, subject to certain limitations and conditions which are set forth in Decree 2005-1355 of October 31, 2005, regarding the declaration rules for distributors of audiovisual communication services,
- increase in the number of licenses: the number of licenses that one person may hold either directly or indirectly for a national television service broadcast via the digital terrestrial network was increased from five to seven.

Regarding DTT, pursuant to an order dated October 20, 2004, the French Council of State cancelled the licenses granted by the CSA on June 10, 2003, for DTT broadcasting of the Sport+, i>Télé, CinéCinéma, Planète, CanalJ and MCM channels. The license for the Canal+ channel was not affected by this decision. Prior to this order, the law had been amended, to increase the maximum number of licenses from five to seven (see above). On July 19, 2005, following a new call for applications, the CSA awarded four new licenses to the Canal+ Group, in addition to the license

already held for the Canal+ channel. The Canal+ Group now holds five licenses, which include four for pay channels (Canal+, Canal+ Cinéma, Canal+ Sport and Planète) and one for the free channel (i>Télé).

The “Television of the Future” law – which sets the termination date of analog broadcast services and their replacement by digital broadcast as at November 30, 2011 and prepares for the adoption of high definition television – was adopted by the French parliament on February 22, 2007 and published in the “*Journal Officiel*” on March 8, 2007.

The French government has selected MPEG2 as the standard for free DTT services and MPEG4 for pay services.

Regarding Canal+ Active’s video-on-demand business, the inter-industry agreement signed on December 20, 2005, is now expired. This agreement, entered into for a 12-month period, integrated the new video-on-demand method of film distribution in the media chronology. New discussions are currently in progress among the interested parties.

Vivendi and the Canal+ Group made 59 significant commitments to ensure that the merger will not have anti-competitive effects on any of the markets concerned. These commitments are described in the “Competition” section of this chapter.

### 4.3. SFR

As a service operator, SFR does not directly operate any industrial process. The different elements of the network infrastructure as well as the terminals and the SIM cards that it sells to its customers are purchased from a variety of different suppliers to avoid any dependency in this respect.

SFR has developed a number of industrial and service agreements required for its activities, which fall into two separate categories:

- agreements signed with the manufacturers of telecommunications network infrastructures, service platforms and mobile terminals, and agreements for the integration or development of software solutions (network software and management software): these agreements include provisions under which the relevant SFR entity concerned is either granted a license to use the supplier’s intellectual property rights, or a transfer of ownership of the software and the enhancements and studies completed to the relevant entity,
- agreements for marketing services developed by third parties: these agreements authorize the SFR entity to include the services developed by third parties in its own service offer; the scope and terms of the rights granted by the third party are then dependent on the usage for which the agreement has been signed.

Main regulatory developments in 2006 included the renewal of SFR’s GSM license for a 15-year term, for the 900 and 1800 MHz bandwidths (ARCEP decision of January 31, 2006). The new license is a continuation

of the license in effect until that time. The main new provisions deal primarily with increased coverage obligations, raising the portion of the population covered at the end of 2007 to 99%, taking into account dead zones coverage and SFR’s ability to apply for reuse of the frequency bandwidth of 900 to 1800 MHz to operate its third generation radio-electrical network.

2006 was also the closing year for the market analyses conducted by ARCEP concerning Market 16 (voice call termination) and the SMS call termination market (new within the European Union). In two successive decisions, and following favorable opinions from the Competition Council and the European Commission, the ARCEP confirmed its intent to regulate these two markets *ex-ante*. In decision No. 06-0593 of July 27, 2006, it set the maximum rate for SMS call termination in France at €3 cents per SMS (against 4.3 previously) for SFR and Orange France (€3.5 cents for Bouygues Télécom); the ARCEP will review these price ceilings in the autumn of 2007. In decision No. 06-0779 of September 14, 2006, it set the level of call termination for SFR and Orange France at €7.5 cents per minute (against €9.5 cents previously), €9.24 cents for Bouygues Télécom, applicable from January 1, 2007 to December 8, 2007, pending a review of the cost and revenue differences among the operators. The ARCEP thus announced that it will use additional tools, in the form of cost modeling for incremental long-term costs (CMILT) and launched an ambitious work program to prepare these cost models (public consultation on the structure of an economic and technical model for mobile operators in France (excluding overseas territories)

launched on February 9, 2007). On February 9, 2007, the ARCEP also launched a public consultation and notified the European Commission of a draft decision on the specification of accounting obligations for mobile operators in France (excluding overseas territories).

As part of its analysis of relevant markets, the ARCEP initiated (as announced above) on March 14, 2007 a second cycle of analyses relating to the wholesale voice call termination market on mobile networks. The analysis, which is up for public consultation, relates to a three-year period (2008 – 2010): in line with the regulation which is currently in place, the ARCEP deems necessary to maintain existing obligations (access, non discrimination, transparency and tariff control). At the end of this first public consultation by market players and the French competition council, the ARCEP will transmit its draft decision to the European Commission and the national regulatory authorities of each European state. This second consultation should take place in the summer of 2007; the ARCEP should, concurrently, submit detailed proposed requirements, in particular those regarding the framework and the control of the wholesale tariffs.

In the access and call origination market (Market 15), following a public inquiry to identify the interest of operators in a fourth UMTS license for the 2.1 GHz bands which is still available, and the possible "animation" of this market with the arrival of a new player, the ARCEP decided to postpone the analysis again. As a result, it is monitoring this market. On March 8, 2007, the French Minister Delegate for Industry published, in the "Journal Officiel", the technical and financial terms of the bid tender for the attribution of a fourth 3G mobile telecommunications license in France (excluding overseas territories). The financial terms are identical to those under which the three 3G licenses currently in operation were granted (a fixed amount of €619 million and a variable amount of 1% per annum of the total revenues generated by the 3G service). As a result, the fourth 3G license could, unless the process is suspended, be attributed at the end of 2007 or early 2008.

In the international roaming market in a preliminary decision (Market 17), the ARCEP concluded that the mobile operators did not hold a dominant individual position in the retail market and that they did not hold any dominant joint position in the wholesale market. In February 2006, the European Commissioner for the Information Society considered proposing a European regulation designed to limit international roaming charges, which were deemed too high. The member States have now accepted the principle of a double regulatory intervention in wholesale and retail prices, but the practical conditions are still being debated. The members of the European Parliament will have to vote on a first version of the law in May 2007. If a consensus is reached by the European Parliament and the Council of the European Union by June 2007, it is possible that the regulation will be effective in the summer of 2007 and its enforcement will take place in the following months.

The implementing decree on portability was published on January 27, 2006, and implementation by the operators is planned for April 2007. SFR made a unilateral decision to offer its customers an initial one-month period for portability, as of April 12, 2006.

In addition, bills introduced by the government in 2006, are expected to be passed in 2007, whether in the audiovisual sector (particularly the adaptation of the legal framework, allowing for the distribution of television services on mobile phones) or in consumer protection.

#### 4.3.1. Dead Zones

In line with its deployment objective, at the end of 2006, SFR covered almost 500 small communities concerned, located primarily in rural areas as part of its dead zone program.

Over 330 sites are now in service, about 100 of which are in the second phase of the program. This second phase is being completely paid for by the operators, whereas the first phase was financed jointly by the French government, the communities concerned and the mobile telephony operators. The entire program represents a cost of about €150 million for SFR.

The dead zone coverage program, a remarkable example of public-private partnership, will expand mobile telephony to 99% of the population over the entire French territory.

#### 4.3.2. Health and the Environment

The rapid development of mobile telephony in recent years has opened up an international debate on the potential risks of electromagnetic fields on human health. Thus, at the end of 2000, SFR set up a department supported by a scientific board comprised of an epidemiologist, an environmental specialist and a sociologist. Its objectives: to monitor the research in these areas, improve understanding of the expectations of the various stakeholders and recommend, where necessary, appropriate measures to be validated by a health steering committee chaired by the Chairman and Chief Executive Officer of SFR.

Comprehensive analysis of the scientific data available on the effects of electromagnetic fields does not currently indicate any harmful effects on human health below the limits established at the international level. In Ottawa, during July 2005, the World Health Organization (WHO) confirmed its position adopted in June 2000, i.e.: "None of the studies recently undertaken make it possible to conclude that exposure to radiofrequency fields emitted by mobile phones or base stations has any harmful effect whatsoever on human health." This finding is reiterated in various expert reports throughout the world, particularly in the report of the French Agency for Environmental and Occupational Health Safety (AFSSET), published in June 2005. SFR carefully monitors international expert studies, which all concur that base station antennas are not harmful. Thus, the WHO concludes in its memorandum No. 304 of May 2006 on *Base stations and wireless technologies*: "given the very low levels of exposure and the results of research studies obtained to date, there is no supporting scientific element confirming any harmful effects of base stations and wireless networks on human health."

Unlike studies on base station antennas, which benefit from studies carried out on other radiofrequency transmitters such as radio and television antennas, studies on the health effects of the use of mobile

phones are more recent. Moreover, some results require a more in-depth review, particularly regarding the long term effects of the use of radiofrequencies. For these reasons, research in this area is continuing. The International Agency for Research on Cancer (IARC) was authorized by the WHO to conduct a large-scale epidemiological study involving thirteen countries. It is due to publish all its conclusions in 2007.

Pending these results, expert groups recommend certain precautions for use, such as favoring areas where reception is good or using a pedestrian kit (provided free of charge in all SFR packages, since September 2002). If a pedestrian kit is used, the Ministry Decree of October 8, 2003 recommends that pregnant women keep the telephone away from the abdomen and that adolescents keep it away from the lower abdomen, but specifies that *"this advice is given as a precaution, since no hazard related to the use of a mobile phone has been found to date."* SFR has also indicated the exposure levels provided by the manufacturers of the telephones that it sells on its website and in its sales brochures since mid-2002 and on shelf displays at its outlets since early 2003.

In connection with its active attempts to promote scientific research on the effects of radiofrequencies on human health, with the support of the ministry responsible for research and in partnership with other manufacturers, SFR made every effort during 2004 to set up a "Health and Radiofrequencies Foundation." The mission of this foundation, officially recognized as beneficial to the general public in January 2005, is to define, promote and finance research programs on the effects of human exposure to the electromagnetic fields used in particular for electronic communications and to publish the knowledge acquired in these fields among professionals and the general public. Finally, to organize a study on society's expectations with respect to research and information and the answers to be provided, the foundation has set up an advisory body open to all stakeholders.

In addition to complying with the regulations established in France by Decree of May 3, 2002, governing the limits for the public's exposure to electromagnetic fields, SFR has continually worked to inform the public, local authorities and its lessors of the current state of knowledge and the regulations in this sector. In particular, SFR has relied on the

support of the French Association of Mobile Phone Operators (*Association française des opérateurs mobiles* – AFOM), set up in February 2002, to further its efforts to establish dialogue and transparency, which have been stepped up over the past three years.

In particular, a Good Practice Guide was approved in April 2004, by the AFOM and the French Mayors' Association to extend throughout France the cooperative approach already initiated by the operators, to achieve more cooperation, greater transparency and coordination in the installation of base station antennas. These commitments have intensified the mobilization of SFR's regional technical teams with expanded campaigns to measure electromagnetic fields carried out by independent testing organizations accredited by the French Accreditation Committee, in accordance with the official procedure of the French Frequency Agency (ANFR). To further improve the transparency that has always characterized its electromagnetic field measurements, SFR also proposed to the mayors that they be the only ones informed of the date, time and place of those measurements.

Regarding the environment, SFR is implementing an Environmental Management System (EMS) with the objective of obtaining ISO 14001 certification for some of its activities by the beginning of 2008. ISO 14001 certification has already been obtained for three pilot stations:

- the technical sites of Champlan (Île-de-France) and Vitrolles (the Mediterranean),
- the tertiary site in Rennes (western France).

It should also be noted that the Séquoia site (Île-de-France) has been certified for its EMS coordination activities. The certification (certificate No. ENV/2006/27942) issued by AFAQ AFNOR Certification guarantees both the efficiency of SFR's processes and of its EMS. This certification is the first step before the planned 2007 deployment of the EMS to all network activities and to two additional tertiary sites.

In 2006, SFR's two historic environmental projects entered a mature stage: 94% of the new base station antennas installed during the year were adapted to the surrounding landscape, and more than 120,000 used mobile phones were collected.

#### 4.4. MAROC TELECOM

The *Agence Nationale de Réglementation des Télécommunications* (ANRT) is in charge of the application of the regulatory framework.

In 2004, the ANRT published a policy paper for the liberalization of the sector for the 2004-2008 period.

The aim of the paper was to set out the framework for the future liberalization process and specifically stated (i) the specific measures to be taken with respect to the regulation, and (ii) the long-term aim of the liberalization strategy to establish competition between three operators (including those already established) in all segments of the fixed and mobile markets.

In 2005, acts related to interconnection, and general conditions for the operation of a telecommunications network were modified and supplemented, respectively, by Decrees No. 2-05-770 and No. 2-05-771, as of July 13, 2005. These two decrees and an additional Decree No. 2-05-772, dated July 13, 2005, which relate to ANRT court submissions, were published in the official Moroccan Gazette (*Bulletin Officiel*) No. 5336, dated July 21, 2005.

The ANRT also made the following decisions during its board meeting held on December 23, 2005:

- the launch, of an invitation to tender for 3G mobile licenses, on May 2, 2006,
- the implementation of regulatory controls according to the following timetable:
  - pre-selection of the carrier on July 8, 2006,
  - partial unbundling of the local loop on January 8, 2007,
  - total unbundling of the local loop on January 8, 2008.

In 2006, the ANRT announced the timetable for the implementation of number portability:

- mobile number portability at the latest on January 1, 2007 (postponed to February 1, 2007),
- fixed-line number portability at the latest on March 31, 2007.

Finally, the legal framework is completed by a number of decisions, both general and individual, made by the ANRT to both regulate the sector and sort out litigation between operators. Maroc Telecom fulfils its obligations as a fixed-line and mobile operator by providing universal service. Universal service obligations in Morocco cover telecommunications services including: a telephone service of a specified quality at affordable prices; value-added services, the contents and performance standards of which are set in the contract specifications of operators of public telephony networks (including services allowing Internet access); the routing of emergency calls, and the provision of an enquiry service and a telephone directory, in printed or electronic form.

## 4.5. VIVENDI GAMES

Vivendi Games voluntarily participates in self-regulatory ratings systems established by various industry organizations around the world. In Europe and the United States for example, Vivendi Games adheres to the principles adopted by the Entertainment Software Rating Board (ESRB). It also adheres to the Pan European Game Information (PEGI) rating system pursuant to which Vivendi Games displays on its product packaging and advertising the age group for which a particular product is intended, respects advertising guidelines and online privacy principles and provides a brief description of the product's content on its packaging.

In 2005, Vivendi Games became the leader of the MMORPG market with the success of *World of Warcraft*. A massively multiplayer online role-playing game is a video game played only online via a broadband Internet connection simultaneously with thousands of other players who are also connected. The player, after having purchased a copy of the game and installed it on a computer, takes out a subscription for a period of his or her choice, allowing access to the game universe, whose principal characteristic is constancy. As a result of this principle,

customer assistance needs to be on hand 24/7. This service is provided by "game masters" who step in at any time to help players overcome their difficulties, whether technical incidents or problems related to illicit behaviour by other players. Managers of communities of players take notes of ideas, comments and complaints from subscribers who express themselves in discussion forums.

In 2005, Vivendi Games implemented parental control for parents whose children share the adventures that are part of the story of the multiplayer online role-playing game *World of Warcraft*. The system allows parents, who are the holders of the account, to ensure that their children's gaming time stays within reasonable limits. By enabling the parental control system, parents can define the days and times during which their children may play (weekends exclusively, one or several predetermined weekdays between certain hours) and the frequency of breaks (every thirty minutes or once an hour). Anyone attempting to log on to the game outside the authorized times is not allowed to connect to the game.

## 5 Piracy

### 5.1. UNIVERSAL MUSIC GROUP

The recorded music business continues to be adversely affected by pressed disc and CD-R piracy, home CD burning and illegal downloading from the Internet. According to the IFPI, the recording industry trade association, the worldwide music market decreased by 4% in value in the first half of 2006, despite digital sales more than doubling, due to a

10% drop in physical music sales. Sales of pirated music amounted to \$4.5 billion in 2005, at pirate prices (most recent IFPI data available), virtually unchanged in the past three years, although there has been a move from industrial scale manufacturing plants to CD-Rs copied in small commercial labs. The IFPI estimates that 37% of all CD purchases

worldwide are pirate copies and in 30 countries of the world, illegal recordings outsell the legitimate alternative. It also estimates that nearly 20 billion songs were illegally downloaded.

Online music services continue to be developed to offer consumers a viable, legal and copy-protected online source of music. The industry

and UMG are increasing their anti-piracy activities with a multi-pronged approach focusing on legal action, including participation in industry legislative efforts, public relations and education, and technical countermeasures while offering consumers new products and services.

## 5.2. CANAL+ GROUP

The Canal+ Group actively combats piracy of its programs in order to protect its own commercial interests, as well as those of its beneficiaries.

The Canal+ Group has taken the necessary steps to act effectively against the various forms of audiovisual piracy by creating CK2 Security, a subsidiary dedicated to technology watch and research, which

employs about fifteen people. At the legal level, the Canal+ Group is continuing criminal prosecution of pirates.

Moreover, the agreement entered into with Nagra+ in 2003, which renewed the provision by Nagra+ of the conditional access system used for analog broadcasting of the Canal+ premium channel in France, allowed the Canal+ Group to change all analog keys in February 2005 to improve the security of the system.

## 5.3. SFR

SFR conducts an active anti-piracy policy for its music download services. The protection of music titles and the traceability of the corresponding rights are priorities for SFR. Standard DRM (Digital Rights Management) solutions have already been developed within the Open Mobile Alliance (OMA), a standardization body that includes the entire chain of mobile communication players (operators,

publishers, handset manufacturers, etc.). SFR is a member of the OMA. SFR is currently using DRM solutions to the OMA 1.0 standard. SFR continues to work with partner music publishers to install the necessary upgrades to the rights protection solutions (DRM 2.0 or other solutions) within the current French legal framework.

## 5.4. VIVENDI GAMES

Piracy is a serious concern for games publishers, and one that Vivendi Games' anti-piracy department combats directly and in collaboration with third parties such as publishers and trade associations. Vivendi Games has pursued emerging business models, such as MMORPG games by Blizzard Entertainment, which embrace the Internet while at the same time using technology to prevent piracy. Another

international enforcement challenge comes in the form of unauthorized server systems, which facilitate game-playing through the use of pirated software. Vivendi Games is pursuing aggressive investigations to address these threats and intends to launch legal proceedings against high-priority targets.

## 6 Competition

### 6.1. UNIVERSAL MUSIC GROUP

The profitability of a recorded music business depends on its ability to attract, develop and promote recording artists, the public acceptance of those artists and the recordings released in a particular period. UMG competes for creative talent both for new artists and those artists who have already established themselves through another label with the following major record companies: EMI, Sony BMG Entertainment and Warner Music Group. UMG also faces competition from independent labels that are frequently distributed by other major record companies. Although independent labels have a significant combined market share, no label on its own has influence over the market. Changes in market share are essentially a function of a company's artist roster and release schedules.

The music industry competes for consumer discretionary spending with other entertainment products such as video games and motion pictures. UMG is facing intensified competition for shelf space in recent years due to the success of DVD videos and further consolidation in the retail sector in the US and in Europe.

Finally, the recorded music business continues to be adversely affected by pressed disc and CD-R piracy, home CD burning and illegal downloading from the Internet (see section "Piracy" of this chapter).

### 6.2. CANAL+ GROUP

On January 4, 2006, the pay-TV activities of the Canal+ Group and TPS in France were combined within Canal+ France, a new company in which the Canal+ Group holds 65%, Lagardère holds 20%, TF1 9.9% and M6 5.1%.

Pursuant to the analyses and recommendations of the French Competition Council and the DGCCRF, Vivendi and the Canal+ Group made 59 significant commitments to ensure that the merger will not have anti-competitive effects on any of the markets concerned. Without calling into question the pay-TV business model or the industrial logic of the merger and the resulting benefits to the consumer, these commitments are specifically designed to meet the following objectives<sup>(1)</sup>:

- facilitate TV and VoD operators to access rights of attractive audiovisual content, in particular French and American films and sports events. In the context of competitive bidding, the Canal+ Group agreed to retrocede free-to-air distribution rights for popular American television series and sports events which the new company may hold and not use,
- make available to pay-TV distributors (except DTT and cable operators) on a non-exclusive basis, several quality channels to allow for the development of attractive offers, and
- allow so-called "independent" pay-TV channels to be included in the satellite packages of the new entity. The current proportion of these channels in existing offers will be maintained in the basic offer.

All of these commitments were made for a maximum of six years, with the exception of the commitments made with regard to channel availability and VoD, which cannot exceed five years.

Today, in the French pay-TV sector, the main competitors of the Canal+ Group in channel distribution are the cable operator Noos-Numéricâble (resulting from the 2006 merger of UPC-Noos and NC Numéricâble) and ADSL operators.

The increase in the number of digital broadcast channels driven by technological developments such as broadband (digital terrestrial television and mobile broadcast standards), encourages the entry of newcomers in the pay-TV sector.

As a result, multi-service competition is growing. Since 2004, telecommunications operators have developed multi-service offers, known as triple play, which combine telephone, Internet and television access.

Digitization of content on physical media (DVD) or electronic media, encouraged by the emergence of high-tech equipment such as home cinema equipment and the new generations of personal multimedia players, also represent a real competitive element for a premium channel like Canal+.

Similarly, the very rapid growth of VoD has generated increasingly strong competitive pressures on traditional film pay-TV services. For ADSL operators, VoD is a significant area of development.

(1) Only the text of the undertakings as approved by the French Minister of the Economy have legal and enforceable value.

In the world of theme channels, competition is more international than it is for standard pay-TV. The industry is witnessing an international brand expansion initiated by the communications companies and the American film studios, such as Discovery, MTV, Fox Kids and the Disney Channel.

In the film sector, StudioCanal competes with American, European and French film production companies.

### 6.3. SFR

SFR faces very strong competition in the French mobile telephony market, which remained dynamic in 2006, with a penetration rate up 5.7 points, rising from 76.1% at the end of 2005, to 81.8% at the end of 2006.

SFR's mobile telephony competitors are network operators Orange France and Bouygues Telecom, and MVNOs such as Auchan, Carrefour, Neuf Cegetel<sup>(1)</sup>, Debitel, Tele 2, MobiSud, NRJ Mobile and ISPs that offer convergent solutions.

At the end of 2006, there were 11 MVNOs, six of which were on the SFR network. The market share held by its competitors was 45.0% for

Orange, 16.9% for Bouygues Telecom and 3.5% for the MVNOs and other operators in France (excluding overseas territories) at year-end 2006, compared to 34.6% for SFR.

The SFR network market share, including the MVNOs on its network was approximately 36% at the end of 2006 (stable against the prior year). In late 2006, the arrival of the MVNOs Auchan and Carrefour in the French market (on the SFR and Orange networks respectively) continued to intensify competition in the mobile telephony market, bringing diversity and complementary features to the existing offers.

### 6.4. MAROC TELECOM

Eighteen telecommunications operator licenses have been allocated in Morocco, including three public fixed telecommunications network operator licenses (Maroc Telecom, Médi Telecom and Wana, ex-Maroc Connect), two GSM operator licenses (Maroc Telecom and Médi Télécom (Méditel)), three UMTS licenses (Maroc Telecom, Médi Telecom and Wana), five licenses for GMPGS-type satellite telecommunications networks, three licenses for operators of VSAT type satellite-based telecommunications networks and two licenses for operators of shared resources radio electric networks.

In 2005, the fixed-line market was opened up to further competition and two fixed-line telephony licenses were granted:

- in July 2005, Méditel was granted a fixed-line license including local loop (without mobility restriction) for national and international traffic,
- in September 2005, Maroc Connect was granted a fixed-line license including local loop (with mobility restriction) for national and international traffic.

In 2006, three third generation mobile licenses (UMTS) were granted to Maroc Telecom, Wana and Méditel. After the granting of these licenses, the ANRT stated that the finalization of this process constituted the last stage of the Moroccan telecommunications sector's liberalization as defined by the Prime Minister's policy paper for the 2004-2008 period.

#### 6.4.1. Fixed-line Telephony

As at December 31, 2006, the two operators holding the new fixed-line licenses had not launched their services. Such services are expected to start operating in 2007.

However, there was already competition in the public telephony market sector and the professional sector before these new license grants.

In the public telephony market, competition started in 2004 with two new entrants to the market. In the spring of 2004, Méditel opened phone shops using GSM technology and Globalstar opened phone shops using satellite technology. At year-end 2006, Maroc Telecom's market share in the public telephony market was estimated at approximately 90% of the number of lines.

Méditel, through the installation of GSM gateways, known as "Link Optimization Boxes" (LO Boxes), entered the professional fixed-line market. The installation of this equipment for outgoing PABX lines facilitates the transformation of fixed-to-mobile traffic into mobile-to-mobile traffic, without using Maroc Telecom's fixed-line network.

Competition in data transmission services is relatively limited. Maroc Telecom's main competitors include ISPs, satellite operators and Equant, an international operator.

(1) At December 31, 2006, SFR owned 40.5% of Neuf Cegetel.

### 6.4.2. Mobile

Maroc Telecom's competitor in this sector is Méditel, a mobile license holder since August 1999. The majority shareholders of Méditel are Telefonica and Portugal Telecom, each with 32.18% of the share capital and a group of Moroccan investors led by Banque Marocaine du Commerce Extérieur.

As of December 31, 2006, Maroc Telecom held 66.9% of the mobile market against 66.5% in 2005 (source: ANRT).

### 6.4.3. Internet

Maroc Telecom holds more than 97% of the Internet market (source: ANRT). Its main competitors include Wana with an estimated market share of less than 3%, as well as other ISPs.

Maroc Telecom has a very strong position in the high-growth ADSL market with a market share of more than 98% (source: ANRT).

## 6.5. VIVENDI GAMES

Vivendi Games holds the number one position in the subscription-based MMORPG games market with Blizzard's *World of Warcraft*. *World of Warcraft* is the only MMORPG that plays in all key markets and the game is available in six languages. Competitors in the MMORPG category include NC Soft and Sony Online Entertainment.

Competitors in console and PC games include EA, Activision, Take 2, THQ and Ubisoft. Competitors in the casual PC Online space include Atari, Buena Vista Games, EA and PopCap Games. Publishers that compete in the mobile gaming industry include Digital Chocolate, EA Mobile, Gameloft, Glu Mobile, Hands-On Mobile and Namco Bandai.

## 7 Raw Materials

The principal raw materials used by Vivendi's businesses are polycarbonate for CD and DVD production and paper for product packaging. There have been no price variations for these raw materials that might have a significant impact on Vivendi.

Vivendi's operations have no dependence on raw materials suppliers. See section "Regulatory Environment" in this chapter.

## 8 Research and Development

### 8.1. UNIVERSAL MUSIC GROUP

UMG aims to pursue digital distribution opportunities and to protect its copyrights and the rights of its contracted artists from unauthorized digital or physical distribution. UMG has established eLabs, a business strategy and technology division, which supervises UMG's digitization and online distribution of content and negotiates agreements for selling that content through third parties. eLabs is actively engaged in various

projects intended to open new distribution channels and improve existing ones. In addition, eLabs reviews and considers emerging technologies for application in UMG businesses, such as technological defences against piracy and new physical formats. Research and development costs incurred by UMG are immaterial.

## 8.2. CANAL+ GROUP

As in 2004 and 2005, the Canal+ Group did not incur significant research and development expenses in 2006.

## 8.3. SFR

In 2006, SFR's investments in research and development were primarily focused on three areas:

- the quality of customer service (including "real-time tax collection" work),
- service platforms,
- the exploration of new telecommunications technologies in radio (video-broadcast, HSxPA, WiMax), core network (IMS/SIP, IPV6) or terminals, through studies and/or experiments conducted on pilot platforms.

Based on its structure and size, SFR has adopted a network research strategy (academic and industrial) through collaborative projects. This helps to optimize investments and to ensure that project results are effectively shared. The results of these multi-party projects have generated new patents, particularly in the fields of networks, security and multimedia services.

SFR's research and development expenses totaled €64 million in 2006, compared with €43 million in 2005 and €37 million in 2004.

## 8.4. MAROC TELECOM

Maroc Telecom's research and development activities focus on the introduction of new Maroc Telecom products and/or services and development or improvement of existing products. These research activities cannot, however, be considered as inventions or patentable processes.

Maroc Telecom's research and development expenses were immaterial in 2006, 2005 and 2004.

## 8.5. VIVENDI GAMES

Research and development costs include internal development expenses as well as capitalized advances to external developers and license owners. Research and development costs were €255 million in 2006 (excluding the impact of write-downs and reserves on cancelled

titles and excluding the effect of net amortization of capitalized software development costs), compared with €186 million in 2005 and €158 million in 2004.

## 9

# Litigation

Vivendi is subject to various litigations, arbitrations or administrative proceedings in the normal course of its business.

To the company's knowledge, there are no legal or arbitration proceedings or any facts of an exceptional nature which may have or

have had in the recent past a significant effect on the company and on its group's financial position, profit, business and property.

### COB/AMF Investigation Opened in July 2002

On September 12, 2003, following the investigation which was opened by *Autorité des Marchés Financiers* (AMF) (formerly the *Commission des Opérations de Bourse* (COB)) on July 4, 2002, the AMF notified Vivendi of facts which, in its view, could result in an administrative penalty for non-compliance with sections 1, 2, 3 and 4 of COB Regulation 98-07.

The charges complained of took place prior to the changes made in the management of Vivendi in July 2002. First, they related to the financial information derived from the methods of consolidation of Cegetel, Maroc Telecom and Elektrim Telekomunikacija in accordance with French accounting standards, and second, to other items of financial information.

Vivendi challenged these allegations, taking the view, shared by its auditors, that the method of consolidation of these companies, which had been applied over the period subject to the COB's investigation, were in accordance with the applicable accounting regulations.

Pursuant to a decision of the AMF Sanctions Commission (*Commission des Sanctions*), notified to Vivendi on December 7, 2004, Vivendi was ordered to pay a financial penalty of €1 million. On February 4, 2005, Vivendi's appealed the decision of the AMF Sanctions Commission before the Paris Court of Appeal. On June 28, 2005, the Paris Court of Appeal partially overturned the decision of the AMF's Sanctions Commission, validated Vivendi's accounting treatment and reduced the amount of Vivendi's penalty from €1 million to €300,000.

On August 25, 2005, the AMF appealed against this decision before the French Supreme Court (*Cour de Cassation*).

On December 19, 2006, the Commercial Chamber of the French Supreme Court (*Cour de Cassation*) partially reversed the Paris Court of Appeal's decision. In its decision, the Commercial Chamber of the French Supreme Court ruled that the statements made orally by Jean-Marie Messier regarding Vivendi's financial condition at the Company's 2002 Annual Shareholders Meeting were binding on Vivendi, regardless of whether such statements were accurate or complete, due to the fact that he made the statements while performing his duties as the Company's chief executive officer.

However, the French Supreme Court confirmed the accuracy and appropriateness of the method applied by Vivendi for the consolidation of Elektrim Telekomunikacija. The case has been remanded to the Paris Court of Appeal in a different composition.

### AMF Investigation of the Company's Share Repurchases Opened in May 2002

On May 4, 2004, the AMF commenced an investigation into Vivendi's purchase of its own shares between September 1, 2001 and December 31, 2001. The AMF's investigation report has not been submitted to the *Commission des Sanctions*. However, on June 6, 2005, the AMF submitted this report to the *Parquet de Paris* (the public prosecutor's office) which led to additional prosecution's charges

joined to the investigation already underway by the financial department of the *Parquet de Paris* (see below).

### AMF Investigation in Connection with the Issuance of Mandatorily Redeemable Notes (ORA) in November 2002

On January 18, 2005, Vivendi was served with a notice of complaint issued by the AMF following the inquiry made into observed movements in the Vivendi share price at the time of the issuance of notes mandatorily redeemable for new shares of Vivendi in November 2002.

Vivendi challenged the allegations before the Sanctions Commission of the AMF (*Commission des Sanctions*).

### Investigation by the Financial Department of the Parquet de Paris

The investigation initiated in July 2002 by the financial department of the *Parquet de Paris* for the publication of false or misleading information regarding the financial situation or forecasts of Vivendi, as well as the publication of untrue or inaccurate financial statements (for financial years 2000 and 2001) is ongoing. The application for Vivendi to be joined as a civil party was definitively granted by an order of the Paris Court of Appeal, dated June 25, 2003.

### PSG Transfers

An investigation entrusted to a Judge has been opened in connection with the terms of transfer of PSG soccer players and the remuneration of intermediaries between 1998 and 2002.

### DuPont Tax Litigation

At the beginning of June 2006, Vivendi reached an agreement with the United States Internal Revenue Service (IRS) ending their dispute concerning the amount of tax due on the redemption of DuPont shares from Seagram in April 1995. The agreement reached with the IRS provided for Vivendi to pay a total of approximately \$671 million (€521 million), including tax of \$284 million and interest of \$387 million, to settle this dispute.

Subsequently, at the end of June 2006, in accordance with the agreement with the IRS, Vivendi sold all of the 16.4 million freely transferable DuPont shares that it had held since its merger with Seagram for a total amount of \$671 million (€534 million).

### Securities Class Action in the United States

Since July 18, 2002, sixteen claims have been filed against Vivendi, Messrs. Jean-Marie Messier and Guillaume Hannezo in the United States District Court for the Southern District of New York and in the United States District Court for the Central District of California. On September 30, 2002, the New York court decided to consolidate these claims in a single action under its jurisdiction entitled *In re Vivendi Universal S.A. Securities Litigation*. The plaintiffs allege that, between October 30, 2000 and August 14, 2002, the defendants violated certain provisions of the US Securities Act of 1933 and US Securities Exchange

## DESCRIPTION OF THE GROUP AND ITS BUSINESSES LITIGATION - RISK FACTORS

### Litigation

Act of 1934. On January 7, 2003, they filed a consolidated class action suit that may benefit potential groups of shareholders. Damages of unspecified amount are claimed. Vivendi contests these allegations.

The proceedings are currently in the stage of discovery in which the plaintiffs have to prove a violation that caused a loss to the shareholders.

In parallel with these proceedings, the Court, on March 22, 2007, has decided, concerning the procedure for certification of the potential claimants as a class ("class certification"), that the persons from the United States, France, England and the Netherlands who purchased or acquired shares or ADS of Vivendi (formerly Vivendi Universal SA) between October 30, 2000 and August 14, 2002, could be included in the class.

Vivendi is currently reviewing the appropriate legal actions against this decision.

### Elektrim Telekomunikacja

Since the purchase on December 12, 2005 of 2% of the companies Elektrim Telekomunikacja Sp. z o.o. (Telco) and Carcom Warszawa (Carcom) held by Ymer, Vivendi is a 51% shareholder in each of Telco and Carcom, companies organized and existing under the laws of Poland which own, either directly or indirectly, 51% of the capital of Polska Telefonia Cyfrowa Sp. z o.o. (PTC), one of the primary mobile telephone operators in Poland. These shareholdings are the subject of several litigation proceedings the most important of which are described below.

### Arbitral Award Rendered in Vienna, on 26 November, 2004 (the "Vienna Award")

In December 2000, Deutsche Telekom (DT) initiated arbitration proceedings in Vienna against Elektrim S.A. ("Elektrim") and Telco in order to challenge the validity of the contribution of 48% of the capital of PTC made in 1999 by Elektrim to Telco.

In the Vienna Award, notified to the parties on December 13, 2004, it was held that:

- the Telco transfer is ineffective and the PTC shares which were the subject of this transfer remained Elektrim's property at all material times;
- the transfer of the PTC shares to Telco by Elektrim does not as such qualify as a Material Breach under Article 16.1 of the Shareholders Agreement, but it would do so if Elektrim did not recover the shares from Telco within two months from the notification of the award;
- DT's Economic Impairment Claim is dismissed;
- the arbitral tribunal has no jurisdiction over Telco and DT's claims against Telco cannot be entertained in this Arbitration.

On August 3, 2005, the Vienna arbitral tribunal rendered its final award with respect to costs, thereby concluding these proceedings. Telco was not submitted to any costs and was granted reimbursement of its costs.

Since the arbitral tribunal held that it had no jurisdiction over Telco, Vivendi considers that the Vienna Award is not enforceable against Telco.

### Exequatur Proceedings of the Vienna Award before Polish Courts

On February 2, 2005, Elektrim and DT obtained from the Warsaw Court (Regional Court-Civil Division) a partial *exequatur* of the first three points of the Vienna Award's provisions, excluding the point on the lack of jurisdiction of the arbitral tribunal over Telco. Telco appealed this partial *exequatur* decision for having violated the terms of the New York Convention of June 10, 1958, on the recognition and execution of foreign arbitral awards and its right to a fair hearing. On March 29, 2006, the Warsaw Court of Appeal confirmed the partial *exequatur* obtained on February 2, 2005, ruling that the Vienna Award was enforceable against Telco. On January 18, 2007, following the appeal filed by Telco, the Polish Supreme Court overturned the Warsaw Court of Appeal's decision for procedural reasons without examining the merits of the case and ordered that the case be reheard by the court of first instance.

### Declaratory Proceedings before the Polish Courts

In December 2004, following the Vienna Award, Telco initiated proceedings on the merits with the intention of obtaining a declaratory judgment confirming that it is the rightful owner of the PTC shares.

### Proceedings before the Trade and Companies Registry of Warsaw

Following the decision of March 29, 2006 of the Warsaw Court of Appeal (see above), the Warsaw court responsible for the Trade and Companies Registry (KRS) re-registered Elektrim as shareholder of PTC on July 13, 2006. Following the decision of January 18, 2007 of the Polish Supreme Court, Telco has filed with the KRS a motion to be re-registered as shareholder of PTC.

### Proceedings for the Annulment of the Vienna Award before the Austrian Courts

On December 20, 2005, the Vienna Commercial Court at Telco's request annulled the first sub-paragraph of the Vienna Award which deemed that the contribution of the PTC shares made by Elektrim to Telco in 1999 had been ineffective and that the PTC shares which are the subject of the said transfer had never left Elektrim's ownership. All the other rulings of the Vienna Award were left unchanged, including the ruling which referred to the absence of jurisdiction of the arbitral tribunal with respect to Telco. The Vienna Commercial Court, in particular, considered that the arbitral tribunal, after having declared non-jurisdiction with respect to Telco, had contradicted itself by rendering a decision which was likely to affect Telco's rights.

On October 10, 2006, the Vienna Court of Appeal overturned the December 20, 2005 decision on the basis that Telco had no legal right to request the annulment of the Vienna Award since such award could not have any binding effect on Telco. This decision confirms Vivendi's interpretation of the Vienna Award.

On December 18, 2006, the Austrian Supreme Court confirmed that Telco was not a party to the arbitration held in Vienna between DT and Elektrim and that the Vienna Award could therefore have no effect on Telco's rights regarding the PTC shares.

### DT's Call Option

On June 6, 2006 and October 2, 2006, an arbitral tribunal in Vienna rendered two partial awards deciding that DT had exercised a call option over the shares that Elektrim owns in PTC. Neither Vivendi nor Telco are parties to this arbitration proceeding which is between Elektrim and DT. In its decisions, the arbitral tribunal further ruled that the price of the call option would be the current book value of the PTC shares plus an additional amount to be determined by the tribunal at a later date. The tribunal has nonetheless recognized that uncertainty continues to exist as to the number of PTC shares owned by Elektrim.

### Arbitration Proceedings before the London Court of International Arbitration (LCIA)

On August 22, 2003, Vivendi and Vivendi Telecom International (VTI) lodged an arbitration claim with an arbitration court under the auspices of the London Court of International Arbitration (LCIA) against Elektrim, Telco and Carcom. This request for arbitration relates to the Third Amended and Restated Investment Agreement of September 3, 2001, entered into by and among Elektrim, Telco, Carcom, Vivendi and VTI (the "TIA"). The purpose of the TIA, amongst other things, is to govern relations between Vivendi and Elektrim within Telco. The subject matter of the dispute mainly relates to the validity of the TIA (contested by Elektrim) and alleged breaches of the TIA by Vivendi and Elektrim.

On May 22, 2006, the LCIA Arbitral Tribunal, in a partial award, confirmed the validity of the TIA.

### Vivendi's Case against the Polish State

On August 10, 2006, Vivendi and VTI served the Republic of Poland with a request for arbitration on the basis of the treaty signed on February 14, 1989, between France and Poland relating to the reciprocal encouragement and protection of investments. In its request, Vivendi claimed that the Republic of Poland failed to comply with its obligations to protect and fairly treat foreign investors under such treaty.

### Proceedings against DT before the Paris Commercial Court

In April 2005, Vivendi summoned DT before the Paris Commercial Court for wrongful termination of negotiations. In September 2004, DT ended, without prior notice and without legitimate justification, tri-party negotiations with Elektrim and Vivendi which had begun one year earlier in relation to the transfer of 51% of PTC to DT. Vivendi considers that this abrupt withdrawal was motivated by DT's wish to appropriate the PTC shareholding at a lower cost by maneuvers which Vivendi considers to be illegal. Vivendi is claiming compensation

from DT, corresponding to the harm suffered as a result of DT's acts.

### Arbitral Proceedings in Geneva under the aegis of the International Chamber of Commerce

Intensive discussions took place in February and March 2006, between Vivendi, Elektrim and DT, as a result of which the parties agreed to settle all pending litigation on the ownership of the PTC shares and to put in place a new joint-venture between Vivendi and DT concerning PTC. This agreement could not be implemented because DT, following the announcement of the decision of the Warsaw Court of Appeal of March 29, 2006, abruptly decided not to sign the relevant documents. Vivendi believes that the agreement, which is subject to Swiss law, had been validly concluded by the parties and, therefore, on April 13, 2006, it initiated arbitration proceedings in Geneva under the aegis of the International Chamber of Commerce against DT and Elektrim to enforce its rights thereunder. The next hearings will take place in September 2008.

### Proceedings against DT before the Federal Court in the State of Washington (USA)

On October 23, 2006, Vivendi filed a civil Racketeer Influenced and Corrupt Organizations Act (RICO) complaint in federal court in the State of Washington, claiming that T-Mobile had illegally appropriated Vivendi's investment in PTC through a pattern of fraud and racketeering. Named in the complaint are T-Mobile USA, Inc., T-Mobile Deutschland GmbH Deutsche Telekom AG and Mr Zygmunt Solorz-Zak, Elektrim's main shareholder.

### Tort Claim against Vivendi before the Warsaw District Court

Elektrim started a tort action against Vivendi before the Warsaw District Court on October 4, 2006, claiming that Vivendi prevented Elektrim from recovering the PTC shares following the Vienna Award. Elektrim claims compensation for approximately €2.2 billion corresponding to the difference between the fair market value of 48% of PTC and the price paid by DT to Elektrim as a result of the exercise of its call option.

### Vienna Arbitration between DT and Elektrim Autoinvest

On January 10, 2007, DT lodged an arbitration claim against Elektrim Autoinvest, a 51% indirect subsidiary of Vivendi which owns 1.1% of the share capital of PTC. DT alleges that it has a call option on Elektrim Autoinvest's stake in PTC, which call option results from the breach of the PTC shareholders agreement by Elektrim Autoinvest.

### French Competition Council – Mobile Telephone Market

On December 1, 2005, the French Competition Council issued an order against French mobile telephone operators in respect of the operation of the mobile telephone market, principally during the period 2000-2002. The resulting fine paid by SFR amounted to €220 million was entered in SFR's accounts as an expense and was paid during the 2005 fiscal year. On February 9, 2006, SFR appealed this order. The hearings before

the Court of Appeal were held on September 12, 2006. On December 12, 2006, the Paris Court of Appeal confirmed the French Competition Council's order and dismissed the claim brought by UFC-QUE CHOISIR association to have the case submitted to the Public Prosecutor. On January 11, 2007, SFR, as well as Bouygues Telecom and Orange, appealed this decision before the French Supreme Court (*Cour de Cassation*).

SFR is involved in contentious proceedings connected with this order brought by customers and consumer associations before the Commercial Court of Paris. Since SFR is challenging the merits of these proceedings, it is not in a position to determine the potential impact of their outcome.

Furthermore, SFR is involved in other contentious proceedings commenced in connection with competition law, proceedings which are often common with other telephone operators. The management of SFR is not in a position to determine the potential impact of the outcome of these proceedings and, consequently, has made no provision in its accounts in this respect.

## Universal Music Group

### Investigations into Prices in the Online Music Distribution Market

In December 2005, the New York State Attorney General opened an investigation into matters concerning the pricing of digital downloads. In February 2006, the United States Justice Department commenced a similar investigation. In connection with those inquiries, both the New York State Attorney General and the Department of Justice served subpoenas on the four major record companies. UMG is currently in the process of responding to those subpoenas.

### Brazilian Tax Dispute

The State of São Paulo, Tax Authority (Brazil) filed an action disputing certain deductions taken by a UMG company in Brazil for sales tax payments on account of copyright and neighboring rights payments for domestic Brazilian repertoire.

## 10 Risk Factors

Vivendi is party to various lawsuits and is the subject of various investigations that could have a material adverse effect. For further information on this matter, see section "Litigation" of this Chapter 2.

Vivendi has a number of contingent liabilities described in Note 29 of the Notes to the Consolidated Financial Statements, for the fiscal year ended December 31, 2006. If Vivendi were compelled to make payment in respect of one or more of these contingent liabilities, this could have an adverse effect on its financial position.

Regarding the risk of exposure to interest rates, currency risk and equity market risk, see Note 26 of the Notes to the Consolidated Financial Statements.

### Certain of Vivendi's Business Operations in Some Countries are Subject to Additional Risks

Vivendi conducts its business in various markets around the world. The main risks associated with conducting its business internationally are:

- fluctuations in currency exchange rates (particularly the US dollar-euro exchange rate) and currency devaluations,
- restrictions on the repatriation of capital,
- unexpected changes made to the regulatory framework,
- the various tax systems that may have an adverse effect on the results of Vivendi's activities or on its cash flows, including

regulations relating to setting transfer costs and withholding tax on repatriation of funds and other payments made by joint ventures and subsidiaries,

- tariff barriers, customs duty, export controls and other trade barriers,
- insufficient coverage for pension liabilities.

Vivendi may not be able to protect itself against these risks or pay for them and may not be able to guarantee its compliance with all applicable regulations without incurring additional costs.

### Unfavorable Exchange Rate Fluctuations Could Adversely Affect the Results of Vivendi's Business Operations

A portion of Vivendi's assets and liabilities, as well as part of its sales and costs, are denominated in foreign currencies. To prepare and close its consolidated financial statements, Vivendi must translate them into euros at then-applicable exchange rates. Consequently, increases and decreases in the value of the euro versus other currencies will affect the amount of these items in its consolidated financial statements, even if their value has not changed in their original currency. These translations could result in significant changes to the results of operations of the company.

Furthermore, since Vivendi incurs expenses that are not always denominated in the same currency as that of the corresponding income, these expenses may represent a higher percentage of the

sales figure as a result of exchange rate fluctuations, thus affecting its profitability and cash flows.

### Risks Linked to Obtaining or Renewing Public Operating Licenses or to Specific Regulations

Certain of Vivendi's activities are dependent on obtaining or renewing licenses issued by the regulatory authorities. The process for obtaining or renewing these licenses or approvals is often lengthy, complex and costly. If Vivendi is unable to retain or obtain in a timely manner the licenses required to conduct, continue or expand its activities, in particular licenses to provide telecommunications services and broadcasting licenses, its ability to achieve its strategic objectives could be impaired.

Furthermore, Vivendi operates in an evolving regulatory environment and changes in the regulatory environment may result in costs for Vivendi and in usage restrictions for consumers which could affect Vivendi's revenues.

### Risks Linked to Increased Commercial and Technical Competition

The industries in which Vivendi operates are highly competitive. It may lose business if it is unable to match its competitors' prices, or if it does not manage to develop new technologies and to launch new products and services.

In addition, these industries are subject to rapid and significant changes in technology and new products and services are frequently introduced. Substantial investments may be required to further these technological advances. Vivendi may be too slow in identifying new opportunities.

Further, technological advances may render its products and services obsolete and force Vivendi to write off previous investments and incur new ones.

### If the Production and Distribution of Audio Recordings, Films and Interactive Games is Less Commercially Successful than Anticipated, this May Have a Negative Impact on Growth Prospects for These Operations

Content is of crucial importance for Vivendi's music, television, film and interactive game businesses and determines their success and distribution.

A large proportion of Vivendi's income comes from the production and distribution of films, audiovisual works and music, as well as from the production of interactive games. The commercial success of these content products is dependent upon the response of the public which cannot always be predicted.

The commercial success of a particular content product among a wide audience depends on the existence of other leisure activities, as well as on the general economic situation and a number of other factors. In addition, these businesses are based on third-party content. Given the increasingly competitive nature of the markets for these activities,

there can be no certainty that third-parties will continue to transfer their rights under conditions that are commercially viable or that the cost of obtaining these rights will not increase.

### Vivendi May have Difficulty Enforcing its Intellectual Property Rights

The decreasing cost of electronic and computer equipment and related technology has made it easier to create unauthorized copies of works produced by Vivendi, such as compact discs, videotapes and DVDs. Similarly, advances in Internet technology have increasingly made it possible for computer users to share works without the permission of the copyright owners and without paying the corresponding royalties. The results and financial position of Vivendi may suffer if it is unable to protect its intellectual property rights effectively. Many of Vivendi's activities are heavily dependent on intellectual property rights that it owns or for which it holds a license.

### There Has Been a Decline in the Audio Recording Market that Could Have Further Repercussions for UMG

The decline in the market for audio recordings is due to the combined effect of piracy, counterfeiting (both industrial and domestic, using recordable CD-ROMs or the illegal downloading of music from the Internet made easier by the availability of works in digital formats) and increased competition for consumer spending on leisure. According to the International Federation of the Phonographic Industry, IFPI, the worldwide music market decreased by 4% in value in the first half of 2006, despite digital sales more than doubling, due to a 10% drop in physical music sales. If this decline continues, it will have a negative impact on UMG's sales and results.

Sales of pirated music amounted to \$4.5 billion in 2005 at pirate prices (most recent IFPI data available), against \$4.6 billion in 2004 and \$4.5 billion in 2003. This amount is virtually unchanged in the past three years, although there has been a move from industrial scale manufacturing plants to CD-Rs copied in small commercial labs. The IFPI estimates that 37% of all CD purchases worldwide are pirate copies and in 30 countries of the world, illegal recordings outsell the legitimate alternative. It also estimates that nearly 20 billion songs were illegally downloaded. Vivendi believes that these amounts and percentages could continue to increase. Piracy has resulted in a drop in the volume and price of lawful sales which has had a negative impact on UMG and which may continue in coming years.

### Piracy and Counterfeiting May Cause a Drop in Sales for Vivendi's Film Operations

The availability of films in digital formats, together with the expansion of broadband Internet coverage has made it easier to create, transmit and share unauthorized copies of films. The continued difficulty in passing and applying suitable laws and in enforcing court rulings in certain parts of the world where piracy is endemic represents a threat for the film industry that is likely to have an adverse effect on Vivendi's film operations.



# 3

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# 1 General Information Concerning the Company

## 1.1. CORPORATE AND COMMERCIAL NAME

Pursuant to Article 1 of the by-laws, the corporate name of the company is Vivendi.

## 1.2. PLACE OF REGISTRATION AND REGISTRATION NUMBER

The company is registered with the *Registre du Commerce et des Sociétés de Paris* (Paris Commercial and Corporate Registry) under the reference 343 134 763.

Its Siret number is 343 134 763 00048 and its APE code is 741J.

## 1.3. DATE OF INCORPORATION AND TERM

As set forth in Article 1 of the by-laws, the company's term is 99 years from the date of December 18, 1987. The company's term shall expire

on December 17, 2086, except in the event of an extension or an early dissolution.

## 1.4. REGISTERED OFFICE, LEGAL FORM AND LEGISLATION APPLICABLE TO THE BUSINESS OF VIVENDI

Pursuant to the provisions of Article 3 of the by-laws, the registered office of the company is located at 42, avenue de Friedland – 75380 Paris Cedex 08 – France.

Pursuant to the provisions of Article 1 of the by-laws, Vivendi is a limited liability company (*société anonyme*) with a Management Board

(*Directoire*) and a Supervisory Board (*Conseil de surveillance*). The company is governed by the French legislative and regulatory provisions on corporations and, in particular, by the provisions of the French Commercial Code (*Code de Commerce*).

## 1.5. FISCAL YEAR

Pursuant to the provisions of Article 18 of the by-laws, the company's fiscal year shall commence on January 1<sup>st</sup> and end on December 31<sup>st</sup>.

## 1.6. ACCESS TO LEGAL DOCUMENTS AND REGULATED INFORMATION

The legal documents concerning the company may be examined at the company's registered office. Permanent or temporary

regulated information may be found on the company's website [www.vivendi.com](http://www.vivendi.com), under "Regulated Information".

## 2 Additional Information Concerning the Company

### 2.1. MEMORANDUM AND BY-LAWS

#### 2.1.1. Corporate Purpose

Pursuant to the provisions of Article 2 of the by-laws, the company has the following main purposes, directly or indirectly, in France and in all countries:

- to provide any direct or indirect telecommunications, including media and entertainment activities, and any interactive services, to individual, business or public-sector customers;
- to market any products and services related to the foregoing;
- to engage in any commercial, industrial, financial, stock, share and real-estate transactions, directly or indirectly, related to the aforementioned purpose or to any other similar or related purpose, or contributing to the fulfillment of such purposes;

and, more generally, the management and acquisition, either by subscription, purchase, contribution, exchange or through any other means, of shares, bonds and any other securities of companies already in existence or yet to be formed, as well as the right to sell such securities.

#### 2.1.2. Description of Rights, Preferences and Restrictions Attached, if Applicable, to the Shares and to Each Class of Existing Shares

Pursuant to the provisions of Articles 4 and 5 of the by-laws, the shares are all of the same class and take the form of registered shares or bearer shares, subject to applicable laws and regulations.

Pursuant to the provisions of Article 6 of the by-laws, each share carries a right of ownership of the company's assets and liquidation surplus, in a proportion equal to the fraction of the share capital it represents. Whenever the accumulation of several shares is necessary in order to exercise any rights, shareholders may only exercise such rights in the event they combine the necessary shares. The subscription right attached to shares belongs to the usufruct holder ("*usufruitier*").

#### 2.1.3. Description of Action Necessary to Change the Rights of Shareholders

In connection with any changes in share capital or rights attached to shares, the company's by-laws do not contain any provisions more stringent than is required by law.

#### 2.1.4. Shareholders' Meetings

Pursuant to the provisions of Article 16 of the by-laws (an update to which is proposed for the Combined Shareholders' Meeting to be held on April 19, 2007 – fourteenth resolution), Shareholders' Meetings are convened and held in accordance with applicable law.

Shareholders' Meetings are held at the company's registered office, or at any other place indicated in the meeting notice. When convening the meetings, the Management Board may decide to publicly broadcast the Shareholders' Meeting in full, via videoconference or tele-transmission. If applicable, this decision shall be published in the meeting notice.

Two members of the Workers' Committee, appointed by said Committee, may also attend the Shareholders' Meetings. The Chairman of the Management Board or any other authorized person provides notice, by any means, to the Workers' Committee of the date and location of Shareholders' Meetings.

Each shareholder, without regard to the number of shares held, is entitled, upon proof of his/her identity and capacity, to take part in Shareholders' Meetings, subject to a list of holders of record as at 0:00 am (Paris time) three working days prior to the Shareholders' Meeting, whereby:

- registered shareholders shall constitute those identified in the nominative shares register on file with the company;
- bearer shareholders shall constitute those identified as holders of record in the bearer shares register on file with the authorized intermediary;

and, if necessary, to provide the company with any documents required to prove such shareholders' identity, in accordance with applicable law.

The registration or census of holders of record in the bearer shares register on file with the authorized intermediary is authenticated by a certificate furnished by the financial intermediary in accordance with legal and statutory provisions.

Pursuant to the provisions of Article 17 of the by-laws (a modification of which is proposed for the Combined Shareholders' Meeting to be held on April 19, 2007 – sixteenth resolution), voting rights attached to shares belong to usufruct holders ("*usufruitiers*") in Ordinary Shareholders' Meetings and to legal owners of title ("*nu-propriétaires*") in Extraordinary Shareholders' Meetings, unless otherwise agreed

between both parties, provided that the company is notified of such agreement.

Subject to applicable laws and regulations, shareholders may send their proxy and voting forms for any Shareholders' Meeting by mail, either in paper form or, where approved by the Management Board and published in the notice of meeting, by tele-transmission. Proxy forms and votes thus transmitted can be received by the company up until 3:00 pm (Paris time) on the day preceding the Shareholders' Meeting.

The proxy voting form may, if necessary, contain shareholders' electronic signatures, authenticated via a reliable security process, in order to identify the shareholder and his or her vote.

The Management Board may decide that shareholders may participate and vote in any Shareholders' Meetings by videoconference and/or tele-transmission, subject to applicable laws and regulations. In such a case, shareholders participating in the Shareholders' Meeting by videoconference or by any other means of telecommunication, in accordance with applicable laws and regulations, shall be deemed to be present at the meeting for the purposes of calculating quorum and majority requirements.

Shareholders' Meetings are chaired by the Chairman of the Supervisory Board.

Each shareholder is entitled a number of votes equal to the number of shares he/she owns or represents.

### 2.1.5. Fixation, Allocation and Distribution of Net Earnings

Pursuant to the provisions of Article 19 of the by-laws, the statement of income summarizes income and expenses for the fiscal year, showing statutory net income for the fiscal year as the difference between the two, after deduction of amortization, depreciation and provisions.

At least 5% of the fiscal year's earnings, reduced where applicable by deferred losses, shall be withheld for allocation to the statutory reserve fund. This withholding ceases to be mandatory when the statutory reserve fund reaches an amount equal to 10% of share capital. Such deductions shall be resumed if, for any reason, the legal reserve falls below one-tenth of share capital.

The Shareholders' Meeting may set aside such amounts as the Management Board shall see fit, for transfer to contingency funds, to ordinary or extraordinary revenue reserves, to retained earnings or for distribution.

Distributable earnings are equal to the net income for the fiscal year, less losses carried-forward and amounts allocated to reserves created, pursuant to applicable law or the company's by-laws, plus earnings carried-forward.

Dividends are paid out of earnings from the respective fiscal year.

Except in the event of a reduction in capital, no dividends shall be distributed to shareholders when shareholders' equity is, or would become, as a result of such distribution, less than the amount of the capital plus reserves for which a distribution is not permitted by applicable law or by the company's by-laws.

Revaluation surpluses may not be distributed, but may be wholly or partially capitalized.

The Shareholders' Meeting may resolve to distribute sums from available reserves by specifically identifying the reserve line items from which the proceeds shall be distributed.

The terms of dividend payments are determined by the Shareholders' Meeting, or upon failing to make such determination, by the Management Board. Dividends must be paid out in no event later than nine months following the end of the fiscal year, unless the period is extended by court order.

The Shareholders' Meeting has the right to grant each shareholder the option, with respect to all or part of the dividend or interim dividends distributed, to choose between the payment of dividends in cash, in shares or payment in kind.

Dividends remaining unclaimed for a period of five years after the declaration date are no longer distributable under applicable statutes of limitation.

### 2.1.6. Description of Provisions Having an Effect of Delaying, Deferring or Preventing a Change in Control

The by-laws do not contain any provision that would have the effect of delaying, deferring or preventing a change in control of the company.

### 2.1.7. Provision Governing the Ownership Threshold Above Which Shareholder Ownership Must be Disclosed

Pursuant to the provisions of Article 5 of the by-laws, the company at any time, in accordance with applicable laws and regulations, may request the relevant central depository for financial instruments to provide information relating to shares of the company conferring a voting right (immediate or future right) at Shareholders' Meetings.

Failure by shareholders or intermediaries to comply with the above requirements may lead to the suspension or suppression of dividends and/or voting rights, as permitted by law.

Any person, acting alone or in concert, who directly or indirectly becomes the holder of a fraction of the capital, voting rights or securities giving access to the share capital of the company, equivalent to or in excess of 0.5% or a multiple thereof, shall send a notice to the company, by registered letter with acknowledgment of receipt, within five exchange days (subject to the approval of the modification of this

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period, currently fifteen calendar days, as proposed for the Combined Shareholders' Meeting to be held on April 19, 2007 – fifteenth resolution) of crossing any of these thresholds specifying the total number of shares, voting rights or securities giving access to the share capital of the company, which such person directly or indirectly holds, whether alone or in concert.

Failure to comply with this notification requirement is subject to penalties in accordance with applicable law, upon the request, as recorded in the minutes of the Shareholders' Meeting, of one or more shareholders holding at least 0.5% of the company's share capital.

Any person, acting alone or in concert, shall inform the company, within five exchange days, if the percentage of share capital or voting rights which it holds falls below any of the above-mentioned thresholds.

### 2.1.8. Description of the Conditions Governing Changes in Share Capital, Where Such Conditions are More Stringent Than Required by Law

None.

## 2.2. SHARE CAPITAL

### 2.2.1. Amount of Issued Capital

As at December 31, 2006, the company's share capital amounted to €6,363,685,548, divided into 1,157,033,736 shares, with a nominal value of €5.50 per share.

All shares may be held in registered or bearer form and are freely negotiable. The shares are traded on the compartment A of Eurolist, Euronext Paris SA (ISIN Code: FR0000127771).

### 2.2.2. Shares not Representing Capital

None.

### 2.2.3. Amount of Non-issued Capital

List of Delegated Powers and Authorizations Approved by the Combined Shareholders' Meetings held on April 28, 2005, and April 20, 2006, and Proposed to the Combined Shareholders' Meeting to be held on April 19, 2007:

#### Issues with Preferential Subscription Rights

Transaction	Source (Resolution number)	Duration of the authorization and expiration date	Maximum amount of issue based on a share price of €26.50 in 2005 and €32 in 2007	Maximum nominal amount of capital increase
Capital increase (any marketable securities giving access to the share capital)	7 <sup>th</sup> -2005	26 months (June 2007)	4.818 bn	(a) 1 billion i.e. 15.73% of the current share capital
	7 <sup>th</sup> -2007	26 months (June 2009)	5.818 bn	(a)(c) 1 billion i.e. 15.71% of the current share capital
Capital increase by incorporation of reserves	10 <sup>th</sup> -2005	26 months (June 2007)	2.409 bn	(b) 500 million
	9 <sup>th</sup> -2007	26 months (June 2009)	2.909 bn	(b) 500 million i.e. 7.8% of the current share capital

#### Issues without Preferential Subscription Rights

Transaction	Source (Resolution number)	Duration of the authorization and expiration date	Maximum amount of issue	Maximum nominal amount of capital increase
Capital increase (any marketable securities giving access to the share capital)	8 <sup>th</sup> -2005	26 months (June 2007)	2.181 bn	(c) 500 million
	8 <sup>th</sup> -2007	26 months (June 2009)	2.909 bn	(b) (c) 500 million i.e. 7.8% of the current share capital

## Issues Reserved for Employees of Vivendi

Transaction	Source (Resolution number)	Duration of the authorization and expiration date	Characteristics
Increase in the share capital by means of the group's Savings Plan (PEG)	(d) 11 <sup>th</sup> -2005 10 <sup>th</sup> -2007	26 months (June 2007) 26 months (June 2009)	(b) Maximum of 1.5% of the share capital on the date of the Management Board's decision
Stock options (subscription options only) Exercise price fixed without discount	(e) 12 <sup>th</sup> -2005	36 months (April 2008)	(b) Maximum of 2.5% of the share capital on the date of the Management Board's decision
Free allocation of existing or future shares	(f) 13 <sup>th</sup> -2005	36 months (April 2008)	Maximum of 0.5% of the share capital on the date of grant

## Share Repurchase Program

Transaction	Source (Resolution number)	Duration of the authorization and expiration date	Characteristics
Repurchases of shares	(g) 10 <sup>th</sup> -2006	18 months (October 2007)	Legal limit: 10% Maximum purchase price: €35
	6 <sup>th</sup> - 2007	18 months (October 2008)	Legal limit: 10% Maximum purchase price: €45
Cancellation of shares	(h) 11 <sup>th</sup> -2006	24 months (April 2008)	10% of the share capital
	11 <sup>th</sup> - 2007	26 months (June 2009)	10% of the share capital over a 24-month period

(a) Global amount for capital increases, all transactions included.

(b) This amount shall be charged against the maximum aggregate nominal amount of €1 billion set forth in the seventh resolution of the Combined General Meeting of 2007.

(c) Amount that could be increased up to the maximum limit of 15%, in the event that the issuance is oversubscribed (seventh and eighth resolutions - 2007).

(d) Authorization used in July 2006, in the amount of 1,471,499 new shares, i.e. 0.13% of the share capital.

(e) Authorization used in 2005 and 2006, in the amount of 5,602,920 options, i.e. 0.48% of the share capital.

(f) Authorization used in 2006, in the amount of 817,260 shares, i.e. 0.07% of the share capital.

(g) No direct Vivendi share repurchases were carried out in 2006.

(h) Authorization used in March 2007, in the amount of 1,300,389 shares, i.e. 0.11% of the share capital.

## 2.2.4. Shares Held by the Company

### 2.2.4.1. Summary of the Previous Share Repurchase Program

A share repurchase program was implemented on December 21, 2005, pursuant to a delegation of the Management Board, dated October 5, 2005, by virtue of the thirtieth resolution of the Combined Shareholders' Meeting dated April 28, 2005.

The Combined Shareholders' Meeting held on April 28, 2005, authorized the company to purchase its own shares in an amount of up to 10% of its share capital, with a maximum repurchase price per share of €40. On October 5, 2005, the Management Board resolved to reduce this percentage to 0.14%, representing 1.6 million shares, for direct repurchases (excluding repurchases in connection with the liquidity agreement) and to reduce the maximum repurchase price per share to €32.

The purposes of this share purchase program were, in order of importance: the retention and delivery of shares for payment or exchange in connection with external growth transactions, the hedging

of stock option plans and the market making of the shares in the secondary market pursuant to a liquidity agreement established in conformity with the professional code of ethics of the AFEL, the French Association of Investment Firms. The duration of this program was 18 months from the Combined Shareholders' Meeting of April 28, 2005, and expired on October 27, 2006.

As at December 20, 2005, Vivendi held 2,000,941 of its own shares, of which 1,983,500 were for hedging stock option plans, 2,441 shares were recorded as other investment securities and the remaining 15,000 shares were recorded in the liquidity account for the liquidity agreement.

Between December 21<sup>st</sup> and December 23, 2005, Vivendi repurchased 1,200,000 of its own shares on the open market at an average price per share of €26.38. These shares were repurchased for use in subsequent delivery related to external growth transactions. No other direct purchases have been made on the stock market since December 23, 2005.

On December 28, 2005, Vivendi transferred 903,499 of its own shares to its subsidiary VUG Acquisition Corp. by means of an investment

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service agreement entered into with BNP Paribas for a share price of €26.70, equal to the closing price of December 27, 2005. This sale was made in connection with the acquisition by VUG Acquisition Corp. of a 100% stake in RPO Acquisition Co., which owns High Moon, a studio developing video games.

The company has not cancelled any shares acquired under this repurchase program.

#### 2.2.4.2. Cumulative Total of Purchases and Sales/Transfers of Shares from January 1, 2006 to December 31, 2006 (excluding the liquidity agreement)

	Purchases	Transfers/Sales
Number of securities	None	(1) 902,939
Average price per share (in euros)	NA	17.84
Total value (in euros)	NA	16,105,239

(1) Number corresponding to stock purchase options exercised by the group's employees. Transfers made until May 2006.

#### 2.2.4.3. Current Share Repurchase Program

Upon delegation of authority of the Management Board dated October 18, 2006, a share repurchase program was implemented in connection with the authorization granted under the tenth and eleventh resolutions of the Combined Shareholders' Meeting held on April 20, 2006.

The maximum repurchase percentage authorized is 10% of the share capital, with a maximum price of €35 per share, in accordance with the maximum amount set forth by the Combined Shareholders' Meeting held on April 20, 2006, and within the limit of available funds in the liquidity agreement, the balance of which amounted to €84 million as at September 30, 2006.

The purposes of this program are as follows:

- the market making of shares through a financial intermediary pursuant to the liquidity agreement entered into with Rothschild in January 2005, established in conformity with the professional code of ethics of the AFEI; and
- the cancellation of treasury shares.

The company has not directly acquired or transferred any of its treasury shares under this repurchase program.

#### 2.2.4.4. Treasury Shares (excluding the liquidity agreement)

##### Position as at December 31, 2006

As at December 31, 2006, Vivendi held 1,379,503 of its own shares, each having a nominal value of €5.50, representing 0.12% of the share capital of the company, including 79,114 shares for the hedging of stock purchase plans and 1,300,389 shares for the hedging of stock purchase plans for ADR granted to American employees, of nil effect since the delisting of the company from the NYSE, and which were recorded as

other investment securities standing for cancellation. As at December 31, 2006, the book value of shares held by the company amounted to €33.4 million, representing a market value of €40.8 million.

#### 2.2.4.5. Liquidity Agreement

On January 3, 2005, Vivendi entered into a liquidity agreement with Rothschild & Cie Banque, established in conformity with the professional code of ethics of the AFEI. The term of this agreement is one year, renewable by tacit agreement. Vivendi allocated €76 million to implement this agreement.

In 2006, 12,189,263 shares were repurchased for a value of €333.7 million and a total number of 12,389,263 shares were sold for an accounting value of €339 million pursuant to the implementation of this liquidity agreement.

In connection with this liquidity agreement, as at December 31, 2006, the following resources were held in the liquidity account of the company: 0 shares and €85.606 million. In 2006, the company recognized capital gains in the amount of €4.553 million pursuant to this liquidity agreement.

For the year 2006, the management fee for the liquidity agreement amounted to €650,000 excluding tax.

From January 1<sup>st</sup> to March 22, 2007, 2,281,000 shares were repurchased for a value of €70.6 million and a total number of 401,000 shares were sold for a value of €12.7 million. As at March 22, 2007, the balance of the shares being held in the liquidity account amounted to 1,880,000 shares.

#### 2.2.4.6. Cross-shareholding

As at December 31, 2006, the subsidiaries of Vivendi held 450 shares of the company.

**2.2.4.7. Open Positions on Derivative Financial Instruments (as at December 31, 2006)**

The following table is a summary of the call options purchased by the company in order to hedge the stock option plans allocated to employees of the group. These options have characteristics identical to those of these plans.

Transaction date	Name of the intermediary	Number of options	Expiry date	Exercise price	Premium
06/28/2001	BNP Paribas	926,853	05/23/2008	€111.44	€2.00
06/28/2001	BNP Paribas	926,853	05/23/2008	€111.44	€2.00
06/28/2001	BNP Paribas	926,854	05/23/2008	€111.44	€4.69
06/28/2001	BNP Paribas	1,038,000	11/23/2008	€83.74	€7.40
06/28/2001	BNP Paribas	1,038,000	11/23/2008	€83.74	€7.40
06/28/2001	BNP Paribas	1,038,000	11/23/2008	€83.74	€11.49
06/28/2001	BNP Paribas	1,834,867	12/11/2008	€78.64	€9.00
06/28/2001	BNP Paribas	1,834,867	12/11/2008	€78.64	€9.00
06/28/2001	BNP Paribas	1,834,867	12/11/2008	€78.64	€13.17
06/28/2001	BNP Paribas	3,700,000	12/11/2008	€78.64	€13.17
06/28/2001	BNP Paribas	1,791,659	12/11/2008	US\$67.85	€9.96
06/28/2001	BNP Paribas	1,791,659	12/11/2008	US\$67.85	€9.96
06/28/2001	BNP Paribas	1,791,660	12/11/2008	US\$67.85	€14.76
06/28/2001	BNP Paribas	1,500,000	12/11/2008	US\$67.85	€14.76
12/18/2002	Société Générale	43,881	01/22/2007	€59.64	€2.33
12/18/2002	Société Générale	3,317,639	04/08/2007	€63.21	€2.23
12/18/2002	Société Générale	15,424	09/10/2007	€60.10	€2.83
12/18/2002	Société Générale	2,274,293	11/25/2007	€60.88	€3.08
12/18/2002	Société Générale	3,426	03/10/2008	€103.42	€1.94
12/18/2002	Société Générale	13,710	11/23/2008	€81.43	€9.35

**2.2.5. Convertible, Exchangeable Securities or Securities with Warrants****2.2.5.1. Convertible Bonds into New Shares or Exchangeable into Existing Shares (OCEANE)**

There are no outstanding OCEANE.

**2.2.5.2. Bonds Mandatorily Redeemable in Shares (ORA)**

There are no outstanding ORA.

**2.2.5.3. Warrants (BSA)**

There are no outstanding BSA.

**2.2.6. Stock Option Plans****2.2.6.1. Granting Criteria**

The granting of purchase and subscription options depends on three factors, including the degree of responsibility, performance and the identification of executives with great potential or who have made significant contributions.

**Stock Subscription Plans**

Each of the plans granted in 2002 and January 2003 have an eight-year term. Each of the plans granted in May 2003, December 2003, May 2004, April 2005, June 2005 and April 2006 have a ten-year term.

Since its creation in December 2000, Vivendi has set up eight stock option plans (subscription or ADS options) in 2002, 2003, 2004, 2005 and 2006, under which a total of 41,546,820 options have been granted since 2000, representing 3.59% of Vivendi share capital as at December 31, 2006 (refer to the appendix to the present section).

As at December 31, 2006, under all the stock option plans adopted since 2002, a total of 32,174,851 options were outstanding (after deduction of the number of stock options exercised or cancelled pursuant to the expiration of certain plans and the termination of certain beneficiaries), representing a maximum nominal increase in the share capital of €176,961,680.50, representing 2.78% of the current share capital.

As a result of the termination of Vivendi's ADR program and of its delisting from the NYSE, stock options exercisable into ADRs granted to directors and certain employees of the group residing in the United States were converted into SAR, instruments which settle in cash and which do not themselves represent stock and therefore do not increase share capital. The trading value is the average of the high and low prices of the Vivendi's ordinary shares as quoted on Eurolist by Euronext

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Paris for that trading day, and are converted from Euros to US dollars based on the daily Euro/US \$ exchange rate as published by the European Central Bank on the respective SAR exercise date.

### Stock Purchase Plans

Since its incorporation in December 2000, Vivendi has set up three stock purchase plans, each having an eight-year term (refer to the appendix to the present section).

#### 2.2.6.2. Plan Characteristics

Except for the SO 10 and SO 100 plans, each dated November 25, 1999, and for plans assumed in connection with the combined transactions (refer to the appendix to the present section), the main characteristics of the option plans are as follows:

#### Standard Option Plans

The options shall vest annually in one-thirds over three-year periods. The options are exercisable, in one or more occasions up to two-thirds of the total grant, two years after the date of the grant and up to 100% three years after the date of the grant. Shares obtained upon exercise of the options can be freely traded upon the expiration of the beneficial holding period applicable to beneficiaries who are French tax residents (currently a four-year period).

#### SO III (over-performance options)

The options granted under SO III vest and become exercisable after a five-year period beginning May 11, 1999, and remain exercisable until the expiration of the eight-year term of the plan. The number of options that can be exercised will be determined upon the performance of Vivendi's stock price vis-à-vis a benchmark price index composed of a basket of indexes, which includes 55% Media, 35% Telecoms and 10% Utilities.

#### SO IV (over-performance options)

The options granted under SO IV vest and become exercisable after a six-year period following the date of grant (December 11, 2000) and remain exercisable until the expiration of the eight-year term of the plan provided, however, that the vesting of such options will be

accelerated based on the performance of Vivendi's stock price vis-à-vis the movement of the combined index, comprised of 60% MSCI and 40% Stoxx Media, as follows:

- if, after a three-year period, the performance of Vivendi's stock price exceeds the combined index performance by 9% or more;
- if, after a four-year period, the performance of Vivendi's stock price exceeds the combined index performance by 12% or more; or
- if, after a five-year period, the performance of Vivendi's stock price exceeds the combined index performance by 15% or more.

In addition, following each of the third, fourth and fifth anniversaries of the date of grant, the vesting of such options will be accelerated after each quarter if the performance of Vivendi's stock price exceeds the combined index performance by the percentage required for the period examined, increased by 0.75% per quarter ( $x\% + 0.75\%$  per quarter).

In the event of a tender offer, the options will vest and become immediately exercisable. In addition, the underlying shares will be freely transferable.

#### 2.2.7. Restricted Stock

Please refer to section 3.3.2. and to appendix 1 of the present section below.

#### 2.2.8. Acquisition Rights or Obligations Over Authorized but Non-issued Capital

None.

#### 2.2.9. Conditional or Unconditional Options or Agreements on any Member of the Group

None.

## 2.2.10. Change in Share Capital over the Last Five Years

Transaction	Amount				Successive amounts of share capital	
	Date	Nominal value of shares	Share premium per share	Number of shares issued	Total number of shares	in euros
Merger of Vivendi-Seagram-Canal+	12/08/2000	€5.50	(a) €30.50	1,029,666,247	1,080,025,747	5,940,141,608.50
ORAs redemption, warrants conversion, stock option exercises	12/31/2000	€5.50		782,696	1,080,808,443	5,944,446,436.50
Group Savings Plan 3 <sup>rd</sup> tranche 2000	01/18/2001	€5.50		343,127	1,081,151,570	5,946,333,635.00
ORAs redemption, warrants conversion, stock option exercises	04/24/2001	€5.50		25,026,898	1,106,178,468	6,083,981,574.00
Group savings Plan 1 <sup>st</sup> tranche 2001	04/26/2001	€5.50	€61.82	350,392	1,106,528,860	6,085,908,730.00
ORAs redemption, warrants conversion, stock options exercises	06/28/2001	€5.50		11,448,920	1,117,977,780	6,148,877,790.00
Cancellation – reallocation	06/28/2001	€5.50		(10,301,924)	1,107,675,856	6,092,217,208.00
Cancellation – Treasury shares	06/28/2001	€5.50		(22,000,000)	1,085,675,856	5,971,217,208.00
Group Savings Plan 2 <sup>nd</sup> tranche 2001	07/25/2001	€5.50	€53.79	917,745	1,086,593,601	5,976,264,805.50
ORAs redemption, stock option exercises	09/25/2001	€5.50		3,221,230	1,089,814,831	5,993,981,570.50
Cancellation – reallocation	09/25/2001	€5.50		(3,153,175)	1,086,661,656	5,976,639,108.00
ORAs redemption, stock option exercises	11/14/2001	€5.50		3,304,178	1,089,965,834	5,994,812,087.00
Cancellation – reallocation	11/14/2001	€5.50		(3,183,881)	1,086,781,953	5,977,300,741.50
Cancellation – treasury shares	11/14/2001	€5.50		(1,484,560)	1,085,297,393	5,969,135,661.50
ORAs redemption, stock option exercises	12/31/2001	€5.50		530,126	1,085,827,519	5,972,051,354.50
Group Savings Plan 3 <sup>rd</sup> tranche 2001	01/17/2002	€5.50	€35.56	1,337,609	1,087,165,128	5,979,408,204.00
ORAs redemption, stock option exercises	01/24/2002	€5.50		737,593	1,087,902,721	5,983,464,965.50
Cancellation – reallocation	01/24/2002	€5.50		(203,560)	1,087,699,161	5,982,345,385.50
ORAs redemption, stock option exercises	04/24/2002	€5.50		961,530	1,088,660,691	5,987,633,800.50
Cancellation – reallocation	04/24/2002	€5.50		(351,988)	1,088,308,703	5,985,697,866.50
ORAs redemption, stock option exercises	06/25/2002	€5.50		3,455,065	1,091,763,768	6,004,700,724.00
Cancellation – reallocation	06/25/2002	€5.50		(3,450,553)	1,088,313,215	5,985,722,682.50
ORAs redemption, stock option exercises	08/13/2002	€5.50		7,195,874	1,095,509,089	6,025,299,989.50
Cancellation – reallocation	08/13/2002	€5.50		(6,890,538)	1,088,618,551	5,987,402,030.50
Cancellation – treasury shares	12/20/2002	€5.50		(20,469,967)	1,068,148,584	5,874,817,212.00
Group Savings Plan 2002	01/15/2003	€5.50	€4.96	2,402,142	1,070,550,726	5,888,028,993.00
ORAs redemption	01/29/2003	€5.50		455,510	1,071,006,236	5,890,534,298.00
Cancellation – reallocation	01/29/2003	€5.50		(451,562)	1,070,554,674	5,888,050,707.00
ORAs redemption	07/01/2003	€5.50		209,557	1,070,764,231	5,889,203,270.50
Cancellation – reallocation	07/01/2003	€5.50		(213,505)	1,070,550,726	5,888,028,993.00
Group Savings Plan 2003	07/24/2003	€5.50	€6.73	955,864	1,071,506,590	5,893,286,245.00
ORAs redemption	12/09/2003	€5.50		1,787,700	1,073,294,290	5,903,118,595.00
Redemption of 8.25% ORAs	12/09/2003	€5.50		1,920	1,073,296,210	5,903,129,155.00
Cancellation – reallocation	12/09/2003	€5.50		(1,787,700)	1,071,508,510	5,893,296,805.00
ORAs redemption	02/03/2004	€5.50		111,300	1,071,619,810	5,893,908,955.00
Redemption of 8.25% ORAs	02/03/2004	€5.50		181	1,071,619,991	5,893,909,950.50
Cancellation – reallocation	02/03/2004	€5.50		(111,300)	1,071,508,691	5,893,297,800.50
Redemption of 8.25% ORAs	02/29/2004	€5.50		135	1,071,508,826	5,893,298,543.00
ORAs redemption	02/29/2004	€5.50		1,500	1,071,510,326	5,893,306,793.00
ORAs redemption	03/31/2004	€5.50		228,800	1,071,739,126	5,894,565,193.00
ORAs redemption	04/30/2004	€5.50		76,800	1,071,815,926	5,894,987,593.00
ORAs redemption	05/31/2004	€5.50		275,140	1,072,091,066	5,896,500,863.00
Redemption of 8.25% ORAs	06/26/2004	€5.50		2,422	1,072,093,488	5,896,514,184.00
ORAs redemption	06/29/2004	€5.50		20,800	1,072,114,288	5,896,628,584.00

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Transaction	Amount				Successive amounts of share capital	
	Date	Nominal value of shares	Share premium per share	Number of shares issued	Total number of shares	in euros
Cancellation – reallocation	06/29/2004	€5.50		(603,040)	1,071,511,248	5,893,311,864.00
Group Savings Plan 2004	07/27/2004	€5.50	€12.70	831,171	1,072,342,419	5,897,883,304.50
ORAs redemption	07/30/2004	€5.50		216,740	1,072,559,159	5,899,075,374.50
Redemption of 8.25% ORAs	09/30/2004	€5.50		180	1,072,559,339	5,899,076,364.50
Stock option exercises	10/30/2004	€5.50	€6.29	225,764	1,072,785,103	5,900,318,066.50
ORAs redemption	10/30/2004	€5.50		25,560	1,072,810,663	5,900,458,646.50
ORAs redemption	11/30/2004	€5.50		61,100	1,072,871,763	5,900,794,696.50
Stock option exercises	12/30/2004	€5.50	€6.29	56,000	1,072,927,763	5,901,102,696.50
ORAs redemption	12/30/2004	€5.50		139,898	1,073,067,661	5,901,872,135.50
Cancellation – reallocation	12/31/2004	€5.50		(443,298)	1,072,624,363	5,899,433,966.50
ORAs redemption – stock option exercises	04/28/2005	€5.50		462,582	1,073,086,945	5,901,978,197.50
Cancellation – reallocation	04/28/2005	€5.50		(367,812)	1,072,719,133	5,899,955,231.50
Group Savings Plan	07/26/2005	€5.50	€13.96	1,399,097	1,074,214,762	5,908,181,191.00
Redemption of 8.25% ORAs	11/29/2005	€5.50		78,669,500	1,153,256,733	6,342,912,031.50
ORAs redemption – stock option exercises	12/05/2005	€5.50		553,252	1,153,340,982	6,343,375,401.00
Cancellation – reallocation	12/05/2005	€5.50		(116,520)	1,153,224,462	6,342,734,541.00
ORAs redemption – stock option exercises	12/31/2005	€5.50		253,099	1,153,477,561	6,344,126,585.50
Cancellation – reallocation	12/31/2005	€5.50		(240)	1,153,477,321	6,344,125,265.50
Stock option exercises	01/31/2006	€5.50	(b) €8.90	116,465	1,153,593,786	6,344,765,823.00
Stock option exercises	02/28/2006	€5.50	(b) €9.64	19,532	1,153,613,318	6,344,873,249.00
ORAs redemption	02/28/2006	€5.50		4,340	1,153,617,658	6,344,897,119.00
Stock option exercises	03/31/2006	€5.50	(b) €10.90	152,440	1,153,770,098	6,345,735,539.00
ORAs redemption	03/31/2006	€5.50		224,003	1,153,994,101	6,346,967,555.50
Stock option exercises	04/30/2006	€5.50	(b) €9.45	94,680	1,154,088,781	6,347,488,295.50
ORAs redemption	04/30/2006	€5.50		40	1,154,088,821	6,347,488,515.50
Stock option exercises	05/31/2006	€5.50	(b) €8.90	40,500	1,154,129,321	6,347,711,265.50
ORAs redemption	05/31/2006	€5.50		1,600	1,154,130,921	6,347,720,065.50
Stock option exercises	06/30/2006	€5.50	(b) €11.22	258,180	1,154,389,101	6,349,140,055.50
Cancellation – reallocation	06/30/2006	€5.50		(229,983)	1,154,159,118	6,347,875,149.00
Group Savings Plan	07/19/2006	€5.50	€15.22	1,471,499	1,155,630,617	6,355,968,393.50
Stock option exercises	07/30/2006	€5.50	(b) €9.03	76,650	1,155,707,267	6,356,389,968.50
Stock option exercises	08/30/2006	€5.50	(b) €8.90	13,333	1,155,720,600	6,356,463,300.00
ORAs redemption	09/30/2006	€5.50		214,560	1,155,935,160	6,357,643,380.00
Stock option exercises	10/30/2006	€5.50	(b) €8.52	765,666	1,156,700,826	6,361,854,543.00
Stock option exercises	11/30/2006	€5.50	(b) €7.43	327,470	1,157,028,296	6,363,655,628.00
ORAs redemption	11/30/2006	€5.50		4,316,085	1,161,344,381	6,387,394,095.50
Cancellation – reallocation	11/30/2006	€5.50		(4,530,645)	1,156,813,736	6,362,475,548.00
Stock option exercises	12/31/2006	€5.50	(b) €7.02	220,000	1,157,033,736	6,363,685,548.00

(a) Average bonus including the contribution and merger premiums and the number of shares issued.

(b) Weighted-average bonus in euros.

On December 31, 2006, taking into account:

- 32,174,851 outstanding stock options, which could result in the issuance of 32,174,851 shares;
- the 805,560 shares of the restricted stock granted in 2006; the potential share capital was €6,545,077,808.50 divided into 1,190,014,147 shares.

## 2.2.11. Market Information

### 2.2.11.1. Places of Listing – Stock Exchange Quotation

Source: Euronext Paris SA.

#### Stock Exchange Quotation of Ordinary Shares of Vivendi

Compartment A – Eurolist, Euronext Paris SA (code: FR0000127771) since December 11, 2000 (In euros)	Average quotation	High	Low	Number of securities traded	Transaction (In euros)
<b>2005</b>					
September	26.20	27.56	25.12	124,174,649	3,249,618,152
October	26.20	27.50	25.04	126,363,148	3,313,969,031
November	25.58	26.77	24.39	163,284,705	4,160,249,477
December	26.01	26.90	24.71	141,987,662	3,675,242,684
<b>2006</b>					
January	26.10	26.88	25.00	170,604,128	4,438,770,472
February	25.63	26.61	24.74	171,299,931	4,388,792,475
March	27.63	29.35	25.00	269,057,166	7,373,488,690
April	28.47	29.13	27.36	150,409,523	4,278,720,958
May	28.01	29.60	26.95	351,534,814	9,911,875,236
June	27.42	28.79	26.08	215,514,326	5,908,267,577
July	26.34	27.55	25.25	121,748,285	3,196,339,455
August	26.56	27.18	25.71	96,283,235	2,555,489,829
September	27.52	28.65	26.73	131,317,848	3,612,292,636
October	28.88	30.39	28.03	132,313,345	3,830,862,869
November	29.63	30.63	28.61	148,263,051	4,394,752,873
December	29.39	29.94	28.62	107,095,993	3,130,593,430
<b>2007</b>					
January	31.42	32.55	29.80	147,503,510	4,632,215,707
February	31.01	32.08	29.61	143,947,874	4 452 776 103

## GENERAL INFORMATION CONCERNING THE COMPANY

Additional Information Concerning the Company

## Stock Exchange Quotation of Vivendi Bonds (Euronext Paris SA)

Bond 6.70% 1996 (a) value code FR0000197956 nominal value : €762.25	Average quotation (% nominal value)	High (% nominal value)	Low (% nominal value)	Number of securities traded	Transaction (in euros)
<b>2005</b>					
September	102.92	103.10	102.78	43	34,282
October	102.49	102.77	101.62	67	53,436
November	101.34	102.11	100.15	50	39,691
December	101.48	101.92	100.90	92	73,487
<b>2006</b>					
January	100.23	101.55	99.17	57	45,056
February	99.40	99.61	99.23	67	53,008
March	99.37	100.68	98.67	204	161,613
April	100.28	100.63	99.76	194	156,557
May	100.07	100.42	99.50	154	124,765
June	99.49	100.00	99.07	52	42,154

(a) Cancelled on June 21, 2006.

Obligation 6,50 % 1997 value code (FR0000207581) nominal value : €762,25	Average quotation (% nominal value)	High (% nominal value)	Low (% nominal value)	Number of securities traded	Transaction (in euros)
<b>2005</b>					
September	110.92	111.32	110.12	25	21,863
October	109.27	110.42	108.30	38	33,149
November	108.09	109.00	107.02	137	118,488
December	108.60	109.12	108.07	7	6,099
<b>2006</b>					
January	107.79	108.40	107.17	59	48,978
February	107.93	108.95	107.06	123	101,463
March	107.02	107.15	106.92	35	28,783
Avril	106.36	106.66	105.51	70	57,411
May	105.19	106.20	103.22	143	116,773
June	102.40	103.01	101.18	40	31,928
July	103.56	104.04	103.07	25	20,352
August	105.15	106.19	104.10	16	13,359
September	104.36	105.28	104.36	6	4,994
October	103.62	104.20	103.30	106	87,682
November	105.03	106.40	103.32	28	23,500
December	103.23	104.29	102.17	99	82,138
<b>2007</b>					
January	103.31	104.78	102.10	83	66,848
February	103.55	103.61	103.45	49	38,791

Bond 0% 1998 (a) Value code: FR0000208985 nominal value: €181.87	Average quotation	High	Low	Number of securities traded	Transaction (in euros)
<b>2005</b>					
September	207.60	207.60	205.60	2	413
October	205.62	205.62	205.62	20	4,112
November	0.00	0.00	0.00	0	0
December	206.51	207.05	205.00	176	36,163
<b>2006</b>					
January	205.03	205.03	205.03	20	4,101
February	207.05	207.05	207.05	49	10,145
March	206.51	211.01	203.01	53	10,846
April	211.00	211.00	211.00	20	4,220

(a) Cancelled on April 13, 2006.

#### Stock Exchange Quotation of Bonds Mandatorily Redeemable for Shares (ORA) – Euronext Paris SA

ORA 8.25% 2005 (a) Value code: FR0000188831	Average quotation	High	Low	Number of securities traded	Transaction (in euros)
<b>2005</b>					
September	25.97	27.00	21.50	1,718	44,539
October	25.69	26.20	22.95	2,066	51,544
November	25.25	26.00	24.00	6,160	157,606

(a) Cancelled on November 22, 2005.

### 2.2.12. Financial Securities Intermediary

BNP Paribas

Securities Services

Immeuble Tolbiac

75450 Paris Cedex 09 – France

## 2.3. MAJOR SHAREHOLDERS

### 2.3.1. Share Ownership and Voting Rights

As at December 31, 2006, the company's share capital amounted to €6,363,685,548 comprised of 1,157,033,736 shares. The corresponding

number of voting rights, considering that there are no voting rights for treasury shares, amounted to 1,155,653,783.

To the Management Board's knowledge, as at December 31, 2006, the principal shareholders holding shares in registered form or having sent a notice to the company were as follows:

Shareholders	% of capital	% of voting rights	Number of shares	Number of voting rights
CDC - Caisse des Dépôts et Consignations	3.51	3.51	40,551,350	40,551,350
Natixis	2.43	2.43	28,102,800	28,102,800
UBS	1.94	1.94	22,440,051	22,440,051
Sebastian Holdings Inc.	1.18	1.19	13,702,926	13,702,926
BNP - Paribas	1.01	1.01	11,646,798	11,646,798
Group Savings Plan - Vivendi	0.96	0.96	11,109,743	11,109,743
Société Générale	0.73	0.73	8,411,757	8,411,757
Rothschild - Asset Management	0.54	0.54	6,270,887	6,270,887
Crédit Suisse Securities (Europe) Limited	0.51	0.51	5,867,826	5,867,826
Pension Reserve Fund (Fonds de réserve pour les retraités)	0.47	0.48	5,489,679	5,489,679
Groupama Asset Management	0.47	0.47	5,420,967	5,420,967
Group Savings Plan - Veolia Environnement	0.30	0.30	3,497,000	3,497,000
Vivendi treasury shares and controlled entities	0.12	0.00	1,379,953	0
Other shareholders	85.83	85.93	993,141,999	993,141,999
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>1,157,033,736</b>	<b>1,155,653,783</b>

### 2.3.2. Pledge of Company Shares

As at December 31, 2006, pledge on shares of the company amounted to 18,302 shares, representing 0.002% of the share capital of the company, held in registered form by individual shareholders.

### 2.3.3. Control of the Company - Shareholders' Agreements

To the company's knowledge, there is no shareholder holding as at December 31, 2006, more than 5% of the company's share capital or voting rights and there is no shareholders' agreement, declared or not, covering Vivendi's securities.

**2.3.4. Changes in Share Ownership and Voting Rights over the Last Three Years  
(as at December 31)**

	2006			2005			2004		
	Number of shares	% of share capital	% of voting rights	Number of shares	% of share capital	% of voting rights	Number of shares	% of share capital	% of voting rights (a)
CDC – Caisse des Dépôts et Consignations	40,551,350	3.51	3.51	26,842,479	2.33	2.33	21,598,674	2.01	2.01
Natixis	28,102,800	2.43	2.43	4,766,562	0.41	0.41	-	-	-
UBS	22,440,051	1.94	1.94	19,388,470	1.68	1.68	16,009,405	1.49	1.49
Sebastian Holdings Inc.	13,702,926	1.18	1.19						
BNP Paribas	11,646,798	1.01	1.01	11,036,918	0.96	0.96	12,347,537	1.15	1.15
Group Savings Plan - Vivendi	11,109,743	0.96	0.96	12,085,981	1.05	1.05	12,121,968	1.13	1.13
Société Générale	8,411,757	0.73	0.73	14,838,428	1.29	1.29	14,399,477	1.34	1.34
Rothschild – Asset Management	6,270,887	0.54	0.54						
Crédit Suisse First Boston	5,867,826	0.51	0.51	5,430,352	0.47	0.47	-	-	-
Groupama Asset Management	5,420,967	0.47	0.47	5,420,967	0.47	0.47	-	-	-
Pension Reserve Fund (Fonds de réserve pour les retraités)	5,489,679	0.47	0.48	5,851,585	0.51	0.51	-	-	-
Group Savings Plan – Veolia Environnement	3,497,000	0.30	0.30	4,323,490	0.37	0.37	4,868,200	0.45	0.45
Canal+ Group	450	ns*	0	8,130	ns*	0	8,130	ns*	0
Citigroup Inc.				0	0	0	18,115,936	1.69	1.69
Bronfman family				0	0	0	5,027,166	0.47	0.47
Vivendi treasury shares and shares held by controlled entities	1,379,503	0.12	0.00	2,482,442	0.22	0.00	561,968	0.05	0.00
Other shareholders	993,141,999	85.83	85.93	1,040,993,141	90.24	90.46	967,565,902	90.22	90.27
<b>TOTAL</b>	<b>1,157,033,736</b>	<b>100.00</b>	<b>100.00</b>	<b>1,153,477,321</b>	<b>100.00</b>	<b>100.00</b>	<b>1,072,624,363</b>	<b>100.00</b>	<b>100.00</b>

(a) Excluding the application of the adjustment rule of voting rights in general meetings for the percentage exceeding 2% (cancelled at the conclusion of the Combined Ordinary and Extraordinary Shareholders' Meeting held on April 28, 2005).

\* ns : none significant.

## GENERAL INFORMATION CONCERNING THE COMPANY

Additional Information Concerning the Company

## Detail of the Stock Purchase and Stock Subscription Options and Restricted Stock Plans (Appendix 1)

## Stock Purchase Plans (in euros)

	Date of the Shareholders' Meeting	Date of the Board of directors meeting	Grant date	Number of options granted				Vesting date for options exercise	Expiration date	Adjusted exercise price (in euros) (a)	Number of options		
				Total number		Of which number granted to members of governing bodies					Exercised in 2006 (adjusted number) (a)	Cancelled in 2006 (adjusted number) (a)	Outstanding as at 12/31/2006 (adjusted number) (a)
				Of beneficiaries	Of options	Number of beneficiaries	Number of options						
	05/15/98	07/03/98	07/03/98	648	2,192,760	13	598,857	07/04/00	07/03/06	49.13		2,158,111	0
	05/15/98	01/22/99	01/22/99	13	42,672			01/23/01	01/22/07	59.64			43,887
	05/15/98	04/08/99	04/08/99	818	3,302,569	11	1,068,015	04/09/01	04/08/07	63.21			3,296,676
SO III	05/15/98	05/11/99	05/11/99	53	5,729,237	10	2,392,259	05/12/04	05/11/07	71.00			5,734,782
	05/15/98	09/10/99	09/10/99	2	15,000			09/11/01	09/10/07	60.10			15,425
	05/15/98	11/25/99	11/25/99	3	9,000			11/26/01	11/25/07	60.88			9,256
SO 10 - 100	05/15/98	11/25/99	11/25/99	189,207	1,919,520	10	1,100	11/26/02	11/25/07	60.88			2,108,963
	05/15/98	03/10/00	03/10/00	2	5,000			03/11/02	03/10/08	103.42			5,142
	05/15/98	05/23/00	05/23/00	1,047	2,783,560	12	914,000	05/24/02	05/23/08	108.37			2,624,142
	09/21/00	11/23/00	11/23/00	1	20,000			11/24/02	11/23/08	81.43			20,568
	09/21/00	11/23/00	11/23/00	511	3,114,000			11/24/02	11/23/08	81.43			2,726,474
	09/21/00	12/11/00	12/11/00	1,988	5,508,201	12	1,489,771	12/12/02	12/11/08	76.47		1,442	4,455,105
SO IV	09/21/00	12/11/00	12/11/00	65	3,700,000	12	1,925,000	12/12/06	12/11/08	76.47			2,416,713
	09/21/00	03/09/01	03/09/01	1	2,000			03/10/03	03/09/09	67.83			1,368
	09/21/00	04/24/01	04/24/01	2	11,000			04/25/03	04/24/09	73.42			11,312
	09/21/00	09/25/01	10/10/01	1,545	6,999,322	14	1,553,157	10/11/03	10/10/09	46.87		2,178	6,018,439
	11/13/00	09/25/01	10/10/01	41	304,959	3	62,254	10/10/03	10/10/09	46.87			295,061
	04/17/00	09/25/01	10/10/01	361	917,995	2	32,080	10/11/03	10/10/09	46.87			694,605
	04/17/00	09/25/01	10/10/01	33	586,950	2	54,180	10/11/03	10/10/09	57.18			485,947
	09/21/00	01/24/02	01/24/02	46	56,392			01/25/04	01/24/10	53.38			36,424
	09/21/00	01/24/02	01/24/02	1	200,000			01/01/07	01/24/10	53.38			205,668
	09/21/00	01/24/02	01/24/02	2	404,000			04/25/03	04/24/10	37.83			4,114
	09/21/00	05/29/02	05/29/02	1	75,000			05/30/04	05/29/10	33.75			75,000
TOTAL												2,161,731	31,285,071

(a) Adjustment subsequent to the payment of the 2001 fiscal year dividend taken from available reserves.

## SAR and ex ADS PLANS converted into SAR

	Date of the Shareholders' Meeting	Date of the Board of directors , Supervisory Board or Management Board meetings	Grant date	Number of SAR granted				Vesting date for SAR	Expiration date	Adjusted exercise price (in US \$) (a)	Number of SAR		
				Total number		Of which number granted to members of governing bodies					Exercised in 2006 (adjusted number) (a)	Cancelled in 2006 (adjusted number) (a)	Outstanding as at 12/31/2006 (adjusted number) (a)
				Of benefici-aries	of SAR	Number of beneficia-ries	Number of SAR						
SO 10	05/15/98	11/25/99	11/25/99	28,362	283,620			26.11.02	25.11.07	61.83			311,982
	09/21/00	12/11/00	12/11/00	1,693	5,378,697	2	1,605,400	12.12.02	11.12.08	65.74			4,584,544
SO IV	09/21/00	12/11/00	12/11/00	26	1,500,000	3	700,000	12.12.06	11.12.08	65.74			1,264,329
	09/21/00	03/09/01	03/09/01	2	127,500			10.03.03	09.03.09	63.75			7,740
	09/21/00	09/25/01	10/10/01	1,271	6,334,305	6	1,653,265	11.10.03	10.10.09	42.88		568	4,600,984
	04/17/00	09/25/01	10/10/01	15	75,712			11.10.03	10.10.09	42.88			58,576
	04/17/00	09/25/01	10/10/01	4	78,260			11.10.03	10.10.09	52.31			59,029
	09/21/00	01/24/02	01/24/02	4	1,200,000	1	150,000	25.01.03	24.01.10	45.64			1,238,389
	09/21/00	03/05/02	03/20/02	1	200,000			21.03.04	20.03.10	37.98			206,424
	09/21/00	04/24/02	04/24/02	2	200,000			25.04.04	24.04.10	33.26			206,435
	09/21/00	05/29/02	05/29/02	1	20,000			30.05.04	29.05.10	31.62			20,000
	09/21/00	09/25/02	10/10/02	38	1,168,300	1	100,000	11.10.04	10.10.10	11.79	316,999		358,202
	09/21/00	01/29/03	01/29/03	1	50,000	1	50,000	30.01.05	29.01.11	16.85	50,000		0
	04/29/03	05/28/03	05/28/03	75	752,000	1	180,000	29.05.05	28.05.13	16.44	201,933	2,834	457,233
	04/29/03	12/09/03	12/09/03	51	705,000	0	0	10.12.05	09.12.13	22.59	88,898	1,667	352,568
	04/29/03	05/06/04	05/21/04	138	1,012,400	0	0	22.05.06	21.05.14	24.61	57,562	34,935	742,934
	04/29/03	03/09/05	04/26/05	184	1,786,400	1	125,000	27.04.07	26.04.15	30.63		73,202	1,655,198
	04/28/05	06/28/05	06/28/05	4	39,000	0	0	29.06.07	28.06.15	30.63		10,000	29,000
	04/28/05	02/28/06	04/13/06	2	192,000	1	112,000	14.04.08	13.04.16	34.58			192,000
	04/28/05	03/21/06	04/13/06	154	1,058,320	0	0	14.04.08	13.04.16	34.58		16,000	1,042,320
	04/28/05	09/22/06	09/22/06	1	24,000	0	0	23.09.08	22.09.16	34.58			24,000
TOTAL											715,392	139,206	17,411,887

(a) Adjustment subsequent to the payment of the 2001 fiscal year dividend taken from available reserves.

## GENERAL INFORMATION CONCERNING THE COMPANY

Additional Information Concerning the Company

## Stock Subscription Plans

Date of Shareholders' Meeting	Date of the Board of directors, Supervisory Board or Management Board meeting	Grant date	Number of options granted				Vesting date for options	Expiration date	Exercise price (in euros) (a)	Number of options		
			Total numbers		of which number granted to members of governing bodies					Exercised in 2006	Cancelled in 2006 (a)	Outstanding as at 12/31/2006
Of beneficiaries	Of options	Number of beneficiaries	Number of options									
04/28/98	12/10/98	12/10/98	45	285,840			12/11/00	12/10/06	36.37		289,610	0
09/21/00	09/25/02	10/10/02	13	2,451,000	6	1,800,000	10/11/04	10/10/10	12.10	620,000		1,682,000
09/21/00	01/29/03	01/29/03	34	1,610,000	8	1,175,000	01/30/05	01/29/11	15.90	5,000		1,578,333
04/29/03	05/28/03	05/28/03	414	10,547,000	9	3,000,000	05/29/05	05/28/13	14.40	1,043,835	19,672	8,750,152
04/29/03	12/09/03	12/09/03	29	310,000	0	0	12/10/05	12/09/13	19.07	46,491	26,670	183,505
04/29/03	05/06/04	05/21/04	425	8,267,200	8	2,320,000	05/22/06	05/21/14	20.67	125,644	109,181	7,616,334
04/29/03	03/09/05	04/26/05	472	7,284,600	11	2,595,000	04/27/07	04/26/15	23.64		259,173	6,908,927
04/28/05	02/28/06	04/13/06	11	2,008,000	10	1,880,000	04/14/08	04/13/16	28.54			2,008,000
04/28/05	03/21/06	04/13/06	495	3,473,520	0	0	04/14/08	04/13/16	28.54		108,320	3,365,200
04/28/05	09/22/06	09/22/06	33	58,400	0	0	09/23/08	09/22/16	28.54			58,400
04/28/05	12/12/06	12/12/06	3	24,000	0	0	12/13/08	12/12/16	29.41			24,000
									TOTAL	1,840,970	812,626	32,174,851

(a) Adjustment subsequent to the payment of the 2001 fiscal year dividend taken from available reserves.

## SAR Plans (ex. ADS Seagram)

Plan opening date	Number of SAR granted				Vesting date for SAR	Expiration date	Adjusted exercise price (in US\$) (a)	Number of SAR		
	Total number		Of which number granted to members of governing bodies					Exercised in 2006 (adjusted number) (a)	Cancelled in 2006 (adjusted number) (a)	Outstanding as at 12/31/2006 (adjusted number) (a)
	Of beneficiaries	Number of beneficiaries	Number of beneficiaries	Number of SAR						
02/14/96	4	632,000	1	600,000	02/15/97	02/14/2006	44.59		644,013	0
02/14/96	1	200,000	1	200,000	02/15/97	02/14/2006	59.30		206,408	0
03/04/96	1	12,000			03/05/97	03/04/2006	42.31		12,386	0
03/14/96	134	537,712	2	104,000	03/15/97	03/14/2006	40.42		473,242	0
09/10/96	89	138,604			09/11/97	09/10/2006	41.34		76,863	0
05/05/97	32	112,040			05/06/98	05/05/2007	47.85		689	46,278
02/09/98	5	52,747			02/10/99	02/09/2008	45.23			54,440
03/14/96	423	1,038,746			03/15/97	03/14/2006	40.42		972,220	0
05/05/97	756	2,611,606	3	144,000	05/06/98	05/05/2007	47.85		23,009	2,143,965
06/25/97	3	13,333			06/26/98	06/25/2007	48.84			8,258
08/18/97	20	12,106			08/19/98	08/18/2007	42.28			6,263
01/19/98	18	53,195			01/20/99	01/19/2008	37.28			640
02/09/98	1	1,860			02/10/99	02/09/2008	37.28			1,920
02/09/98	850	3,748,655	3	224,000	02/10/99	02/09/2008	45.23		34,985	2,388,853
07/01/98	2	80,000			07/02/99	07/01/2008	49.62			41,282
08/12/98	1	16,000			08/13/99	08/12/2008	40.50			8,257
10/01/98	1	80,000			10/02/99	10/01/2008	33.84			82,553
11/09/98	3	2,200,000	2	2,000,000	11/10/99	11/09/2008	43.45			2,229,099
11/16/98	1	80,000			11/17/99	11/16/2008	41.75			82,568
12/07/98	1	2,000			12/08/99	12/07/2008	44.10			826
02/17/99	819	3,520,994	2	124,000	02/18/00	02/17/2009	58.02		39,680	2,677,101
04/05/99	1	56,000			04/06/00	04/05/2009	63.70			57,794
05/11/99	421	1,441,553	1	80,000	05/12/00	05/11/2009	71.88		18,294	909,669
06/18/99	2	72,000			06/19/00	06/18/2009	61.01			33,030
11/03/99	1	428,000			11/04/00	11/03/2009	57.04			28,899
01/04/00	1	120,000			01/05/01	01/04/2010	54.88			123,849
02/15/00	1	1,600			02/16/01	02/15/2010	67.45			1,652
02/15/00	1 490	5,979,780	3	780,000	02/16/01	02/15/2010	74.41		92,701	4,711,471
03/27/00	1	6,400			03/28/01	23/27/2010	74.04			6,605
04/03/00	1	8,000			04/04/01	04/03/2010	72.29			8,257
04/05/00	1	48,000			04/06/01	04/05/2010	68.54			49,541
05/02/00	1	225,200			05/03/01	05/02/2010	65.03			146,956
06/22/00	2	380,000			06/23/01	06/22/2010	71.92			61,919
08/16/00	12	491,360			08/17/01	08/16/2010	68.66			505,044
							TOTAL		2,594,490	16,416,989

(a) Adjustment subsequent to the payment of the 2001 fiscal year dividend taken from available reserves.

## GENERAL INFORMATION CONCERNING THE COMPANY

Additional Information Concerning the Company

## SAR Plans (ex. ADS ex. MP3)

Plan opening date and date of the board of directors meeting	Number of SAR granted		Vesting date for SAR	Expiration date	Adjusted exercise price (in US \$) (a)	Number of SAR		
	Total number					Exercised in 2006 (adjusted number) (a)	Cancelled in 2006 (adjusted number) (a)	Outstanding as at 12/31/2006 (adjusted number) (a)
	Of beneficiaries	Of SAR						
07/20/99	23	22,021	07/20/00	07/20/09	150.06			5,598
10/18/99	33	958	10/18/00	10/18/09	426.05			14
12/20/99	75	25,383	12/20/00	12/20/09	338.30		1,094	1,182
12/20/99	28	47,526	12/20/00	12/20/09	338.30		1,238	1,150
07/03/00	200	32,229	07/03/01	07/03/10	145.37		266	0
07/03/00	54	95,432	07/03/01	07/03/10	145.37			700
07/30/00	1	1,550	07/30/01	07/30/10	145.37		1,600	0
08/07/00	5	5,915	08/07/01	08/07/10	95.80			2,799
09/25/00	3	367	09/25/01	09/25/10	42.21			147
10/30/00	309	363,562	10/30/01	10/30/10	37.85		4,198	7,765
11/13/00	3	1,762	11/13/01	11/13/10	37.52			93
01/09/01	2	3,267	01/09/02	01/09/11	36.17			3,373
01/09/01	2	5,771	01/09/02	01/09/11	36.17			5,957
05/01/00	221	50,900	05/01/01	05/01/10	75.03		467	467
09/11/00	1	1,808	09/11/01	09/11/10	60.63			1,866
10/30/00	1	1,356	10/30/01	10/30/10	37.52			1,400
					TOTAL		8,863	32,511

(a) Adjustment subsequent to the payment of the 2001 fiscal year dividend taken from available reserves.

## SAR Plans (ex. ADS USA Networks)

Opening date and date of the Board of directors meeting	Total number of beneficiaries	Vesting date for SAR	Expiration date	Adjusted exercise price (in US \$) (a)	Exercised in 2006 (adjusted number) (a)	Cancelled in 2006 (adjusted number) (a)	Outstanding as at 12/31/2006 (adjusted number) (a)
18/12/2000	62	18/12/2001	18/12/2010	13,7960	3,714	676	17,552
18/12/2000	175	18/12/2001	18/12/2010	19,0205	220,693	18,362	81,542
12/03/2001	3	12/03/2002	12/03/2011	23,8713		55,081	0
30/05/2001	1	30/05/2002	30/05/2011	25,7248	24,481		0
16/07/2001	1	16/07/2002	16/07/2011	19,0460			10,000
06/08/2001	1	06/08/2002	06/08/2011	27,5732		19,585	0
24/09/2001	1	24/09/2002	24/09/2011	18,8928			14,689
25/01/2002	1	25/01/2003	25/01/2012	19,6293	1		0
25/01/2002	1	25/01/2003	25/01/2012	27,0626	275,403		214,202
12/03/2002	1	12/03/2003	12/03/2012	31,5969		97,921	0
15/12/1998	17	15/12/1999	15/12/2008	9,0589	32,082		20,008
15/12/1998	98	15/12/1999	15/12/2008	12,7654	43,866	490	21,670
12/02/1998	7	12/02/1999	12/02/2008	9,3534	42,375		0
27/07/1999	23	27/07/2000	27/07/2009	21,9884	11,751		1,469
20/12/1999	243	20/12/2000	20/12/2009	20,6710	88,692	4,590	37,926
20/12/1999	291	20/12/2000	20/12/2009	28,4988	105,773	39,971	94,700
29/03/2000	1	29/03/2001	29/03/2010	17,0830	10,125		0
29/03/2000	2	29/03/2001	29/03/2010	23,5521			7,345
10/05/2000	5	10/05/2001	10/05/2010	22,1479	22,034		0
18/05/2000	2	18/05/2001	18/05/2010	21,9565	47,738		0
28/08/2000	1	28/08/2001	28/08/2010	24,5734		11,017	0
12/03/2001	1	12/03/2002	12/03/2011	23,8713	3,673		0
25/04/2001	165	25/04/2002	25/04/2011	16,7033	82,292	8,648	31,548
25/04/2001	170	25/04/2002	25/04/2011	23,0288	50,936	6,246	49,018
				<b>TOTAL</b>	<b>1,065,629</b>	<b>262,587</b>	<b>601,669</b>

(a) Adjustment subsequent to the payment of the 2001 fiscal year dividend taken from available reserves.

## GENERAL INFORMATION CONCERNING THE COMPANY

Additional Information Concerning the Company

## Restricted stock (AGA) and Restricted Stock Units (RSU)

## AGA Plans

Date of the Shareholders' Meeting	Date of the Supervisory Board or the Management Board meetings	Grant date	Number of AGA granted				Acquisition date*	Date of disposal	Number of AGA	
			Total number		Of which number granted to members of governing bodies				Cancelled in 2006	Outstanding as at 12/31/2006
			Of beneficiaries	Of AGA	Number of beneficiaries	Numbers of AGA				
04/28/05	02/28/06	04/13/06	11	167,338	10	156,671	04/14/08	04/14/10		167,338
04/28/05	03/21/06	04/13.06	495	289,630	0	0	04/14/08	04/14/10	11,700	277,930
04/28/05	09/22/06	09/22/06	33	4,861	0	0	09/23/08	09/23/10		4,861
04/28/05	12/12/06	12/12/06	3	2,001	0	0	12/15/08	12/15/10		2,001
04/28/05	12/12/06	12/12/06	23,562	353,430	4	60	12/15/08	12/15/10		353,430
TOTAL									11,700	805,560

\* First day of quotation after the expiration of a 2-year period.

## RSU plans

Date of the Shareholders' Meeting	Date of the Supervisory Board or the Management Board meetings	Grant date	Number of RSU granted				Acquisition date*	Date of disposal	Number of RSU	
			Total number		Of which number granted to members of governing bodies				Cancelled in 2006	Outstanding as at December 31, 2006
			Of beneficiaries	Of RSU	Number of beneficiaries	Number of RSU				
04/28/05	02/28/06	04/13/06	2	16,001	1	9,334	04/14/08	04/14/10		16,001
04/28/05	03/21/06	04/13/06	154	88,249	0	0	04/14/08	04/14/10	1,334	86,915
04/28/05	09/22/06	09/22/06	1	2,000	0	0	09/23/08	09/23/10		2,000
04/28/05	12/12/06	12/12/06	9,433	141,495	0	0	12/15/08	12/15/10		141,495
TOTAL									1,334	246,411

\* First day of quotation after the expiration of a 2-year period.

## 3 Corporate Governance

The company endeavors to assure that the highest international standards of corporate governance apply to its corporate bodies. A Financial Reporting and Procedures Committee, comprised of executives of the company, has been set up to ensure the implementation of regulations and procedures imposed by current legislation and regulatory developments within France and Europe.

In 2006, the Supervisory Board and the Management Board pursued the implementation of the following rules:

- strengthening internal control procedures as described in the report of the Chairman of the Supervisory Board, prepared in accordance with Article L. 225-68 of the French Commercial Code, which is included at the end of this chapter;
- amending the internal regulations setting forth the governance rules of the Management Board and the Supervisory Board (see below);
- creation of a Risks Committee (see below).

### 3.1. DIRECTORS, SENIOR MANAGEMENT AND SUPERVISORY BODIES

#### 3.1.1. The Supervisory Board

##### 3.1.1.1. General provisions

In accordance with the provisions of the company's by-laws (Articles 7 and 8), the Supervisory Board is comprised of a maximum of eighteen members. Each member of the Supervisory Board serves for a term of four years.

The mandatory retirement age for members of the Supervisory Board is 70 years of age. At the end of each annual Shareholders' Meeting approving the financial statements for the prior fiscal year, the number of members of the Supervisory Board over the age of 70, as at the closing date of the prior fiscal year, must not exceed one-third of the acting members in office. In the event that this limit is exceeded, the oldest members are deemed to have resigned at the end of said Shareholders' Meeting.

Each member of the Supervisory Board must hold at least 1,000 shares during his or her term of office (Article 7-2 of the by-laws).

The Supervisory Board is comprised of a majority of independent members. A member is deemed independent when he/she has no direct or indirect relationship, other than a non-substantial shareholding of the company, of any kind, with the company, its group or its management which could compromise the exercise of his/her independent judgment (as such term is defined in the report of the AFEP – MEDEF working group chaired by Mr. Daniel Bouton (the "Bouton Report")).

Each member of the Supervisory Board undertakes to regularly attend Supervisory Board meetings and annual shareholders' meetings. Pursuant to the company's by-laws (Article 10), each member of the Supervisory Board may attend meetings by videoconference or by any other means of telecommunication, in compliance with applicable law.

##### 3.1.1.2. Composition of the Supervisory Board

The Supervisory Board is currently comprised of eleven members<sup>(1)</sup>, nine of them are independent Directors, as such term is defined in the Bouton Report. Four of its members are of a nationality other than French. These four members include three citizens of European Union member states (excluding France) and one American citizen.

Individual information for members of the Supervisory Board is included in the "Main Activities of Current Members of the Supervisory Board" section.

In 2006, the Supervisory Board met eleven times. The average attendance rate for the eleven members of the Supervisory Board was 91%.

(1) Mr. Paul Fribourg resigned his mandate on June 7, 2006, for personal reasons. Mr. Patrick Kron resigned his mandate on December 13, 2006, at his own request.

## GENERAL INFORMATION CONCERNING THE COMPANY

Corporate Governance

## Supervisory Board Members Information, including Position, Date of Appointment and Number of Shares Held

Full Name	Position	Age	Date of initial appointment within the Company	Date of appointment or renewal to the Supervisory Board	Committee member	Term of office	Number of shares held as at 12/31/2006
Jean-René Fourtou	Chairman of the Supervisory Board	67	(BD) 07/03/2002	04/28/2005	-	AM 2008	500,000*
Henri Lachmann	(a) Vice-Chairman and Member of the Supervisory Board	68	12/05/2000	04/28/2005	B	AM 2008	4,000
Claude Bébéar	Member of the Supervisory Board	71	(BD) 07/03/2002	04/28/2005	A and D	AM 2008	2,000
Gérard Brémont	(a) Member of the Supervisory Board	69	(BD) 01/29/2003	04/28/2005	A and C	AM 2008	1,000
Mehdi Dazi (c)	(a) Member of the Supervisory Board	40	(SB) 03/06/2007	03/06/2007	A	AM 2008	1,000
Fernando Falcó y Fernández de Córdova	(a, b) Member of the Supervisory Board	67	(BD) 09/25/2002	04/20/2006	C and D	AM 2010	1,500
Sarah Frank	(a, b) Member of the Supervisory Board	60	04/28/2005	04/28/2005	A and C	AM 2009	1,000
Gabriel Hawawini	(a) Member of the Supervisory Board	59	(BD) 05/28/2003	04/20/2006	B and D	AM 2010	1,250
Andrzej Olechowski	(a, b) Member of the Supervisory Board	59	04/28/2005	04/28/2005	A and D	AM 2009	1,000
Pierre Rodocanachi	(a) Member of the Supervisory Board	68	05/06/2004	04/28/2005	B and C	AM 2008	2,933
Karel Van Miert	(a, b) Member of the Supervisory Board	65	05/06/2004	04/28/2005	A and B	AM 2008	1,000
						<b>Total</b>	<b>516,683**</b>

(a) Independent member.

(b) Non-French citizen.

(c) Appointed by the Supervisory Board at its meeting held on March 6, 2007. The ratification of his appointment is proposed for the Combined Shareholders' Meeting of April 19, 2007.

A: Strategy Committee; B: Audit Committee; C: Human Resources Committee; D: Corporate Governance Committee.

\* Of which 128,622 are held in usufruct.

\*\* Representing 0.04% of the share capital.

## Main Activities of Current Members of the Supervisory Board

## Jean-René Fourtou, Chairman of the Supervisory Board

67, French nationality.

## Business address

Vivendi – 42 avenue de Friedland, 75008 Paris, France.

## Expertise and experience

Mr. Jean-René Fourtou was born in Libourne on June 20, 1939 and is a graduate of the *Ecole Polytechnique*. In 1963, he joined Bossard & Michel as a consultant. In 1972, he became Chief Operating Officer of Bossard Consultants and Chairman and Chief Executive Officer of the Bossard Group in 1977. In 1986, he was appointed Chairman and Chief Executive Officer of the Rhône-Poulenc Group. From December 1999 to May 2002, he served as Vice Chairman and Chief Operating Officer of Aventis. He is the Honorary Chairman of the International Chamber of Commerce. Mr. Fourtou co-chairs the Franco-Moroccan Economic Impetus Group created in September 2005, the objective of which is to propose measures for the improvement of economic relations between the two countries.

## Positions currently held

## Vivendi Group

Canal+ Group, Chairman of the Supervisory Board  
Maroc Telecom, Member of the Supervisory Board

## Axa Group

Axa, Vice-Chairman of the Supervisory Board  
Axa Millésimes SAS, Member of the Executive Committee

## Other

NBC Universal (United States), Director  
Cap Gemini, Director  
Sanofi Aventis, Director  
Nestlé (Switzerland), Director  
Franco-Moroccan impetus group, Co-chairman  
ICC, International Chamber of Commerce, Honorary Chairman

## Directorships held expired during the last five years

Vivendi Universal, Chairman and Chief Executive Officer  
Veolia Environnement, Chairman of the Supervisory Board

USI Entertainment Inc. (United States), *Chief Operating Officer*  
 Axa Assurances IARD Mutuelle, *Vice-Chairman of the Board of Directors* and Axa's *Permanent representative on the Board*  
 EADS (Netherlands), *Director*  
 Aventis, *Vice-Chairman of the Management Board*  
 Finaxa, *Permanent Representative of Axa Assurances IARD Mutuelle*  
 Rhône-Poulenc Pharma, *Director*  
 Rhône-Poulenc AGCO Ltd, *Director*  
 Schneider Electric SA, *Director*  
 Pernod Ricard, *Director*  
 La Poste, *Director*

**Henri Lachmann, Vice-Chairman and Member of the Supervisory Board**

68, French nationality.

*Business address*

Schneider Electric – 43-45, bd Franklin Roosevelt, 92500 Rueil-Malmaison, France.

*Expertise and experience*

Mr. Henri Lachmann was born on September 13, 1938 and is a graduate of the *Ecole des Hautes Etudes Commerciales* and holds an accounting degree. In 1963, he joined Arthur Andersen, the international auditing firm, where he served successively as Auditor, then, as manager of the Accounting Review Department. In 1970, he joined the Strafor Facom Group where he held various management positions until June 1981, when he was appointed Group Chairman. Director of Schneider Electric since 1996, Mr. Henri Lachmann became Chairman and Chief Executive Officer of the Group in 1999. Since 2006, he is Chairman of the Supervisory Board of the Group.

*Positions currently held*

Schneider Electric SA, *Chairman of the Supervisory Board*

*Axa Group*

Axa, *Member of the Supervisory Board*  
 Axa Assurances Vie Mutuelle, *Director*  
 Axa Assurances IARD Mutuelle, *Director*  
 Axa ONA (Morocco), *Director*

*Other*

Norbert Dentressangle group, *Member of the Supervisory Board*  
 Fimalac, *Censor (non-voting Board Director)*  
 Tajan, *Censor (non-voting Board Director)*  
 ANSA, *Director*  
 Marie Lannelongue Surgical Center, *Chairman of the Board of Directors*  
 Foundation for the continental law, *President*  
 Conseil des Prélèvements Obligatoires, *Member*  
 Orientation Committee of the Institut de l'entreprise, *Member*

*Directorships held expired during the last five years*

Schneider Electric SA, *Chairman and Chief Executive Officer*  
 Vivendi Universal, *Director*  
 Finaxa, *Director*  
 Axa Courtage Assurance Mutuelle, *Director*

CNRS, *Director*  
 Etablissements De Dietrich et Cie, *Director*  
 Fimalac Investissements, *Director*  
 Daimler Benz, *Member of the International Committee*

**Claude Bébéar, Member of the Supervisory Board**

71, French nationality.

*Business address*

Axa, 25, avenue Matignon - 75008 Paris, France.

*Expertise and experience*

Mr. Claude Bébéar was born on July 29, 1935 and is a graduate of the *Ecole Polytechnique*. Since 1958, Mr. Bébéar has spent his entire career in the insurance sector. From 1975 to 2000, he headed a group of insurance companies which became Axa in 1984. Currently, Mr. Bébéar is Chairman of the Supervisory Board of the Axa Group and Chairman and Chief Executive Officer of Finaxa.

Mr. Bébéar established and chairs the *Institut du mécénat de solidarité*, a humanitarian and social welfare organization, as well as the *Institut Montaigne*, an independent political think tank.

*Positions currently held*

*Axa Group*

Axa, *Chairman of the Supervisory Board*  
 Axa Assurances IARD Mutuelle, *Director*  
 Axa Assurances Vie Mutuelle, *Director*

*Other*

BNP Paribas, *Director*  
 Schneider Electric SA, *Censor (non-voting Board Director)*  
 Institut du mécénat de solidarité, *Chairman*  
 Institut Montaigne, *Chairman*

*Directorships held expired during the last five years*

Vivendi Universal, *Director*  
 Finaxa, *Chairman and Chief Executive Officer*  
 Axa Group, *Director of various Axa companies*  
 Axa Courtage Assurance Mutuelle, *Director*  
 Schneider Electric SA, *Director*

**Gérard Brémond, Member of the Supervisory Board**

69, French nationality.

*Business address*

Pierre et Vacances – L'Artois Pont de Flandre, 11 rue de Cambrai, 75947 Paris cedex 19, France.

*Expertise and experience*

Mr. Gérard Brémond was born on September 22, 1937 and is an economic sciences graduate and holder of a diploma from the *Institution d'administration des entreprises*. At the age of 24, he joined a family construction business which builds homes, offices and warehouses. An architecture enthusiast, his meeting with Jean Vuarnet, the Olympic ski champion, led to the creation and development of the mountain resort of Avoriaz. Mr. Brémond developed other resorts, both in the mountains and on the coast and created the Pierre

## GENERAL INFORMATION CONCERNING THE COMPANY

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et Vacances Group. By successively acquiring Orion, Gran Dorado, Center Parcs and Maeva, the Pierre et Vacances Group has become one of leading tourism operators in Europe. Mr. Brémond also founded two communications companies (television and film production).

*Positions currently held**Pierre et Vacances Group*

Pierre et Vacances SA, *Chairman and Chief Executive Officer*

SA Pierre et Vacances Maeva Tourisme, *Chairman*

SA Pierre et Vacances Tourisme Europe, *Chairman*

SA Pierre et Vacances Conseil Immobilier, *Chairman*

SA Pierre et Vacances Promotion Immobilière, *Chairman*

SA Pierre et Vacances Développement France International, *Chairman*

*Maeva Group*

Groupe Maeva SAS, *Director*

*SA Société d'Investissement Touristique et Immobilier*

SA Société d'Investissement Touristique et Immobilier – SITI, *Chairman and Chief Executive Officer*

Peterhof, SERL, Lepeudry et Grimard and CFICA companies, *Permanent Representative for SA Société d'Investissement Touristique et Immobilier – SITI*

*GB Développement SA*

GB Développement SA, *Chairman and Chief Executive Officer*

*Other*

Center Parcs Europe NV (Netherlands), *Member of the Supervisory Board*

*Directorships held expired during the last five years*

Vivendi Universal, *Director*

SITI Participation and SITI Participation 2, *Permanent Representative for SA Société d'Investissement Touristique et Immobilier – SITI*  
Holding Green BV (Netherlands), *Director*

Ciné B, *Permanent Representative for GB Développement SA*

Marathon and Marathon International, *Permanent Representative for OG Communication*

SAS Maeva, *Chairman*

SA Orion Vacances, *Chairman of the Board of Directors*

Med Pierre et Vacances SL, *Director*

*Mehdi Dazi, Member of the Supervisory Board*

40, French and Algerian nationalities.

*Business address*

E.I.I.C. – Po box 2301, Abu Dhabi, United Arab Emirates.

*Expertise and experience*

Mr. Mehdi Dazi was born on May 5, 1966, and is a graduate of the *Institut d'Etudes Politiques de Paris* and of the Columbia University in New York.

In 1992, he joined the United Nations Development Program, in New York, where he served as a consultant. The same year, he joined Deutsche Morgan Grenfell where he served successively as a

Research analyst and a Portfolio Manager. In 1995, he held the position of Senior Manager at Scudder Kemper Investments. In 2001, he was appointed Chief Executive Officer of Founoon Holdings, in Egypt. In 2002, he was appointed Director of Estithmaar Ventures. In 2004, he joined the Emerging Market Partnership where he currently holds the position of Co-Chief Executive Officer. Since 2005, he has been Chief Executive Director of Emirates International Investment Company, an investment company in the United Arab Emirates and Chairman of Paris International Investment.

*Positions currently held*

Emirates International Investment Company, *Chief Executive Officer*  
EMP Mena Fund (Emerging Market Partnership), *Co-Chief Executive Officer*

Paris International Investment, *Chairman*

Global Alumina (Canada), *Director*

*Directorships held expired during the last five years*

Estithmaar Ventures, *Director*

JV Deutsche Bank and TIO, *Director*

Orascom Telecom (Algeria), *Director*

*Fernando Falcó y Fernández de Córdova, Member of the Supervisory Board*

67, Spanish nationality.

*Business address*

FCC – Torre Picasso, Plaza Pablo Ruiz Picasso, 28020 Madrid, Spain.

*Expertise and experience*

Mr. Fernando Falcó y Fernández de Córdova was born in Seville on May 11, 1939. After his legal studies at the University of Deste, he obtained his masters degree from the University of Valladolid. Mr. Fernando Falcó served as Chairman of the Organization and Union of Riesgos del Tiétar and of Réal Automóvil Club de España for 27 years, Chairman of the Group Vins René Barbier, Conde de Caralt et Segura Viudas, Vice Chairman de Banco de Extremadura and served as a member of the Board of Directors of various companies. Mr. Falcó has established and managed various agricultural businesses, as well as family businesses involved in export of agricultural products. He contributed to the creation of services and safety measures for motorists with the implementation of technical assistance and travel assistance services in Spain, Europe and throughout the world. In this capacity, he represented Spain on the FIA (Internal Automobile Federation), as well as on the AIT (International Tourism Alliance). Mr. Falcó is a member of the Spanish Higher Council for Traffic and Road Safety (Ministry of the Interior) and is part of the Group for Urban Mobility (Madrid). Until 2002, he was Vice Chairman of the World Council for Tourism and Motoring of the FIA, which is headquartered in Paris. In June 1998, he was appointed Chairman of the AIT based in Geneva, a position he held until 2001. He is a member of the Regional Council of the ASEPEYO of Madrid.

*Positions currently held*

Cementos Portland Valderrivas (Spain), *Director and Member of the Executive Committee*

Fomento de Construcciones y Contratas (FCC) (Spain), *Director*

FCC Construcción, *Director*

Realia, *Director*

Vinexco (Groupe Falcó) (Spain), *Director*

*Directorships held expired during the last five years*

Sogecable (Spain), *Director and Vice-Chairman*

Digital+, *Vice-Chairman*

Vivendi Universal, *Director*

Comité Organizador del Salón Internacional del Automóvil de Madrid, *Chairman*

**Sarah Frank, Member of the Supervisory Board**

60, American nationality.

*Business address*

1 Lincoln Plaza, Second Floor, New York, NY 10023, USA.

*Expertise and experience*

Ms. Sarah Frank was born on June 25, 1946, and has been active in business for over thirty years in the international and US television sectors, but especially in the production and distribution of high-quality entertainment and educational programming. From 1990 to 1997, Ms. Frank was President and Chief Executive Officer of BBC Worldwide Americas, a subsidiary of the British Broadcasting Corporation, for North and South America. In 1993, the American newspaper USA Today named her one of the 25 most influential people in American television. In 1994, she received the Matrix Award from *New York Women in Communications*. Ms. Frank was Vice President and Director of Education at Thirteen/WNET/New York, the flagship public television channel in New York City where she directed the station's educational programs. In addition, she created a television series aimed at helping teenagers understand the consequences of the events of September 11, 2001, as well as a website for parents and teachers called *Dealing with Tragedy*. Ms. Frank managed the expansion of the National Teacher Training Institute, the channel's national program to promote the integration of new technology into classroom curricula. Most recently, she was executive producer of, *They Made America*, a documentary series based on the book by Sir Harold Evans, with WGBH Boston.

*Positions currently held*

Foundation of the New York Chapter of the National Academy of Television, Arts and Sciences, *Director*

Leadership Committee of the UROP program at the University of Michigan, *Member*

New York Women's Forum, *Member*

CQCM – Coalition for Quality Children's Media, *Honorary Director*

*Directorships held expired during the last five years*

Eugene Lang College, The New School for Liberal Arts, New York City, *Director*

Branded Media Corporation, Inc., *Director*

**Gabriel Hawawini, Member of the Supervisory Board**

59, French nationality.

*Business address*

56 Alyce Lane – Centennial Mill – Voorhees – New Jersey 08043 – USA.

*Expertise and experience*

Mr. Gabriel Hawawini was born in Alexandria, Egypt on August 29, 1947. After obtaining a degree in Chemical Engineering from the University of Toulouse, he obtained his doctorate in Economics and Finance at New York University in 1977. He taught at New York and Columbia Universities from 1974 to 1982. Mr. Hawawini was Vice-Chairman of the French Finance Association from 1984 to 1986 and served on editorial Committees for several university publications. Mr. Hawawini is the author of twelve books, and over seventy research publications about management based on value creation, risk appraisal, asset valuation, portfolio management and the structure of financial markets. Most notably, he is the author of *Mergers and Acquisitions in the US Banking Industry*, published by North Holland in 1991 and *Finance for Executives: Managing for Value Creation* (South Western Publishing, 2006), which is in its third edition. He has advised many private companies on the implementation of management systems based on value creation. Since 1982, he has organized, directed and participated in several programs to improve management methods worldwide.

Former Dean of the INSEAD, he is currently Professor of Investment Banking and since September 25, 2006, Professor of Finance at the Wharton School of the University of Pennsylvania.

*Positions currently held*

Professor of Investment Banking at INSEAD and Professor of Finance at the Wharton School of the University of Pennsylvania.

Rémy Cointreau, *Director*

*Directorships held expired during the last five years*

Dean at INSEAD.

Vivendi Universal, *Director*

**Andrzej Olechowski, Member of the Supervisory Board**

59, Polish nationality.

*Business address*

Ul. Traugutta 7/9, 00-067 Warsaw, Poland.

*Expertise and experience*

Mr. Andrzej Olechowski was born in Krakow on September 9, 1947, and holds a doctorate in economy from the Warsaw Business School. From 1989 to 1991, Mr. Olechowski was Deputy Governor of the National Bank of Poland. He held various functions in the Polish government. In 1991, he was appointed Secretary of State to the Trade Ministry, and in 1992, he became Minister of Finance, and from 1993 to 1995, he became the Minister of Foreign Affairs, a period during which he served as economic advisor to President Lech Walesa. From 1994 to 1998, Mr. Olechowski served as Chairman of the City Council of Wilanow. In 2000, he was a candidate in the Presidential elections in Poland.

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In 2001, he was one of the creators of the Civic Platform (a Polish centrist political party). From May 1998 to June 2000, Mr. Olechowski was Chairman of Bank Handlowy w Warszawie, of which he is currently a Member of the Supervisory Board. He sits on the boards of several public, charitable and educational organizations. Since 1995, Mr. Olechowski has served as a consultant for the Central Europe Trust Polska. He is a lecturer at the Jagiellonian University in Krakow and the Collegium Civitas in Warsaw. Mr. Olechowski is the author of a number of publications on international trade and foreign policy.

*Positions currently held*

Central Europe Trust Polska, *Advisor*

Euronet (United States), *Director*

Bank Handlowy w Warszawie (Poland), *Vice-Chairman of the Supervisory Board*

Textron (United States), *Member of the International Advisory Board*

Citigroup (United Kingdom), *Member of the European Advisory Board*

Conseil DG (Poland), *Director*

Macquarie European Infrastructure Fund II, *Member of the Advisory Board*

*Directorships held expired during the last five years*

Europejski Fundusz Hipoteczny (Poland), *Chairman of the Supervisory Board*

PKN Orlen (Poland), *Vice-Chairman of the Supervisory Board*

**Pierre Rodocanachi, Member of the Supervisory Board**

68, French nationality.

*Business address*

MP Conseil – 40, rue La Pérouse, 75116 Paris, France.

*Expertise and experience*

Mr. Pierre Rodocanachi was born on October 2, 1938 and is a physics graduate of the University of Paris, science faculty. He is a Director of several not-for-profit organizations, including the American Chamber of Commerce in France, which he chaired from 1997 to 2000, and of humanitarian and social welfare organizations, including the Institut du mécénat de solidarité, where he serves as Treasurer and was one of the founders and Special Olympics France.

Mr. Rodocanachi is Chairman of the Strategic Committee at Booz Allen Hamilton, an international strategy and management consultancy firm. He joined Booz Allen Hamilton in 1973 and became Chief Executive Officer of its French subsidiary in 1979. In 1987, Mr. Rodocanachi was appointed Senior Vice Chairman and became a member of the Strategic Committee and of the Operations Committee of Booz Allen Hamilton Inc. and manager of all its activities for Southern Europe. Prior to joining Booz Allen Hamilton, Mr. Rodocanachi began his career as a researcher in a solids physics laboratory at the *Centre national de la recherche scientifique* (CNRS). Then, for a period of five years, he managed the planning department of the French General Delegation for Scientific and Technical Research (DGRST). Between 1969 and 1971, he served as Technical Consultant on Scientific Matters for the French Minister

of Industry and, from 1971 to 1973, was the Deputy Director of the National Agency for Research Valuation (ANVAR).

Mr. Rodocanachi is a Chevalier of the *Légion d'honneur*, a recipient of the National Order of Merit and is a member of the French Olympic Medalists Association.

*Positions currently held*

Management Patrimonial Conseil, *Chief Operating Officer*

DMC (Dollfus Mieg & Cie), *Director, member of the Executives/ Compensation commission*

Prologis European Properties, *Director*

*Directorships held expired during the last five years*

Vivendi Universal, *Director*

Carrefour, *Director and Chairman of the Audit Committee*

OBC (Odier-Bungener-Courvoisier) Bank, *Director and Chairman of the Audit Committee*

La revue d'économie politique Commentaire, *Director*

**Karel Van Miert, Member of the Supervisory Board**

65, Belgian nationality.

*Business address*

Putte Straat 10, 1650 Beersel, Belgium.

*Expertise and experience*

Mr. Karel Van Miert was born in Oud-Turnhout, Belgium on January 17, 1942. He is a former Vice-President of the European Commission and a former President of Nyenrode University. He graduated in diplomatic relations from the University of Ghent, prior to obtaining a doctorate at the Center for European Studies in Nancy. Between 1968 and 1970, he worked for the National Scientific Research Fund and then for several European Commissioners, including Sicco Mansholt in 1968, and as a member of the Private Office of Henri Simonet in 1973, as Vice President of the European Commission at that time. After starting his political career with the Belgian Socialist Party as International Secretary in 1976, Mr. Van Miert became Head of the Private Office of Willy Claes, Minister of Economic Affairs in 1977. He chaired the Socialist Party from 1978 to 1988 and became Vice Chairman of the Confederation of European Social Democratic Parties in 1978. From 1986 to 1992, Mr. Van Miert was Vice President of the International Socialist Party. He was a member of the European Parliament from 1979 to 1985 and then took a seat in the Belgian Chamber of Representatives. In 1989, Mr. Van Miert was appointed as a member of the European Commission responsible for transport, credit, investment and consumer policy. For six years, he served under President Jacques Delors. As Vice President of the European Commission, Mr. Van Miert was responsible for competition policy from 1993 to 1999. From April 2000 to March 2003, Mr. Van Miert chaired the University of Nyenrode in the Netherlands. He continues to lecture on European competition policy.

He is the author of several publications on European integration. In 2003, Mr. Van Miert chaired the European Union high level group on trans-European transport networks.

*Positions currently held*

Agfa-Gevaert NV (Mortsel), *Director*  
 Anglo American plc (London), *Director*  
 De Persgroep (Asse), *Director*  
 Royal Philips Electronics NV (Amsterdam), *Director*  
 Solvay SA (Brussels), *Director*  
 Münchener Rück (Munich), *Director*  
 RWE AG (Essen), *Director*  
 Sibelco NV (Antwerp), *Director*

*Directorships held expired during the last five years*

Vivendi Universal, *Director*  
 Fraport AG (Frankfurt), *Director*  
 Wolters Kluwer NV, *Director*  
 DHV Holding, *Director*

**3.1.1.3. Family Relationship**

There are no family relationships among members of the Supervisory Board.

**3.1.1.4. Absence of Conflicts of Interest**

To our knowledge, there are no actual or potential conflicts of interest between Vivendi and the members of the Supervisory Board with regard to their personal interests or other responsibilities.

**3.1.1.5. Absence of any Sentence for Fraud, Association with a Business Failure or Public Incrimination and/or Sanction**

To the knowledge of the company, over the last five years:

- no member of the Supervisory Board has been convicted for any fraudulent-related matter;
- no member of the Supervisory Board has been associated with a bankruptcy, receivership or liquidation while serving on an administrative, management or supervisory body; and
- no official public incrimination and/or sanction has been delivered against any member of the Supervisory Board.

**3.1.1.6. Agreement between the Company and a Member of the Supervisory Board – Services Contract**

On June 7, 2005, in accordance with Article L. 225-86 of the French Commercial Code, the Supervisory Board authorized a one-year renewable services contract with Conseil DG, a company chaired by Mr. Andrzej Olechowski, a member of the Supervisory Board. This services contract relates to the defense and durability of Vivendi's economic interests in the telecommunications and television businesses in Poland.

Under the terms of this contract, the following fees have been agreed to: a total fixed fee of €60,000 (excluding tax), payable in monthly installments of €5,000 (excluding tax) and a lump-sum result fee of

€1,000,000, in the event of a definitive settlement of the lawsuits currently in progress in Poland during the term of the contract. Amounts paid during the contract as a fixed fee will be deducted from the result fee. A description of this contract is included in the Statutory Auditors' special report which was approved by the Combined Shareholders' Meeting held on April 20, 2006 (third resolution).

At its meeting held on June 7, 2006, the Supervisory Board, upon recommendation of the Corporate Governance Committee, decided to renew this contract and agreed that it will be renewed by tacit agreement. The other terms and conditions of this contract remain unchanged.

For the year 2006, Vivendi paid €60,000, excluding tax (refer to the Statutory Auditors' special report on regulated related-party agreements and commitments) under this contract.

**3.1.1.7. Loans and Guarantees Granted to Members of the Supervisory Board**

The company has not granted any loans or issued any guarantees to any member of the Supervisory Board.

**3.1.1.8. Internal Regulations and Jurisdiction of the Supervisory Board****Role and Powers of the Supervisory Board under Applicable Law and Company By-laws**

The Supervisory Board shall continuously monitor the management of the company by the Management Board, as required by law. It may proceed with any verification or control that it deems appropriate and shall be provided with all documents it deems useful to the fulfillment of its mission.

**Internal Regulations**

The Internal Regulations of the Supervisory Board are an internal document, intended to supplement the company's by-laws, by setting forth the Supervisory Board's operational procedures and the rights and duties of its members. The internal regulations are not enforceable against third parties who are not entitled to rely on them against members of the Supervisory Board.

Pursuant to the legal and regulatory developments and practices implemented by the company since the adoption of the corporate structure with a Management Board and a Supervisory Board, the Supervisory Board decided to amend its Internal Regulations, as well as those of the Committees and of the Management Board, at its meeting held on March 6, 2007.

### Role and Powers of the Supervisory Board under the Internal Regulations

The following transactions are subject to the approval of the Supervisory Board, prior to their implementation:

- disposal of real properties, sale of all or part of investments in companies, whenever any one transaction exceeds an amount of €300 million;
- issues of securities giving direct or indirect access to the share capital of the company and issues of convertible bonds in excess of €100 million;
- issues of non convertible bonds in excess of €500 million, with the exception of any transactions to renew debentures under more favorable terms than those granted to the company;
- proposal of share repurchase programs for the approval of the Ordinary Shareholders' Meeting;
- financing transactions which are significant or likely to substantially alter the financial structure of the company;
- acquisition transactions in whatever form in excess of €300 million;
- granting of securities, including endorsements and guarantees, by the Management Board, in favor of third parties subject to the dual limitation of an amount of €100 million per obligation and of €1 billion, in respect of all obligations. This authorization given to the Management Board for 12 months is re-examined every year;
- substantial internal restructuring transactions, transactions falling outside the publicly-disclosed strategy of the company and strategic partnership agreements;
- setting up stock option plans or restricted stock plans or any other mechanisms with similar purpose or effect; and
- grant of stock options or restricted stock or any other mechanisms with similar purpose or effect to the members of the Management Board; and determination of the terms and conditions applicable to each member of the Management Board with respect to shares remitted upon the exercise of stock options during their terms of office;
- proposals to the Shareholders' Meeting to amend the company's by-laws, allocation of profits and fixation of the dividend.

#### 3.1.1.9. Information Provided to the Supervisory Board

Members of the Supervisory Board shall be provided with all the information necessary for the fulfillment of their mission. Prior to any meeting, they may request all the documents they consider useful. The right of members of the Supervisory Board to obtain information is subject to the practical terms and conditions set out below.

### Information Provided Prior to Meetings of the Supervisory Board

The Chairman of the Supervisory Board, assisted by the Secretary of the Board, shall send the appropriate information to the other members of the Board, depending on circumstances and the matters on the agenda.

### Information Provided to the Supervisory Board on a Regular Basis

Members of the Supervisory Board are kept informed by the Management Board or its Chairman on a regular basis and by all means of the financial situation, cash flows and obligations of the company, as well as of any significant events and transactions relating to the company. The Management Board shall present a quarterly report to the Supervisory Board on its activities and the group's operations.

Requests for information from members of the Supervisory Board relating to specific matters are sent to the Chairman and to the Secretary of the Board, who, in liaison with the Chairman of the Management Board, is responsible for responding to such requests as soon as reasonably practicable.

In order to supplement the information provided to them, members of the Supervisory Board are entitled to meet Board Members and the principal managers of the company without, as the case may be, the presence of any of the members of the Management Board, after proper notice is given to the Chairman of the Supervisory Board.

### Collective Nature of the Deliberations of the Supervisory Board and Confidentiality of Information

The Supervisory Board works and deliberates collectively; its decisions bind all of its members. The members of the Supervisory Board and any person attending meetings of the Supervisory Board are bound by confidentiality obligations with respect to the deliberations of the Board and of its Committees and relating to information of a confidential nature or identified as such by the Chairman of the Supervisory Board or of the Management Board.

If the Supervisory Board is aware of confidential information of a precise nature which, if published, could have even an immaterial effect on the share price of the company or of the companies under its control, as such term is defined by Article L. 233-3 of the French Commercial Code, the members of the Board must refrain from both disclosing such information to any third party and from dealing with company's securities, until such information has been made public.

#### 3.1.1.10. Activities of the Supervisory Board in 2006

In 2006, the Supervisory Board met eleven times. In particular, the following matters were addressed:

- the review of the statutory financial statements for fiscal year 2005, of the 2006 budget, of the quarterly and half-year 2006 consolidated financial statements prepared by the Management Board and of the 2007 preliminary budget;

- the review of the quarterly reports prepared by the Management Board;
- the change of the company's corporate name;
- the growth prospects of the group, principal strategic initiatives and opportunities and the 5-year strategic plan;
- the position of the group's main business units;
- public declarations of certain shareholders and communication on the group strategy;
- the consultation on and approval of merger, transfer or acquisition transactions in progress (agreement between Canal+ Group and TPS and creation of Canal+ France, acquisition of BMG Publishing, acquisition of the minority interests of the U.S. entertainment entities including UMG, acquisition of Télé2 France by SFR, amendments of the agreements between Vivendi and General Electric (GE), disposal of the stake held in DuPont, disposal of the remaining shares held in Veolia Environnement);
- the oversight of the delisting from the New York Stock Exchange and of the SEC deregistration;
- the monitoring of the telecommunications position in Poland;
- the assessment of the Management Board and its Chairman functions; and
- the monitoring of current litigation and legal proceedings.

### 3.1.1.11. Evaluation of the Performance of the Supervisory Board

On a regular basis, and at least every three years, the Supervisory Board performs a formal assessment of its performance under the direction of the Corporate Governance Committee.

In accordance with its internal regulations, the Supervisory Board discussed its own performance during its meeting held on March 6, 2007.

### 3.1.1.12. Supervisory Board Committees

#### Organization and Operating Procedures of the Committees

The Supervisory Board has set up four specialized Committees and has defined their composition and the powers conferred to them: the Strategy Committee, the Audit Committee, the Human Resources Committee and the Corporate Governance Committee.

The missions of each Committee can have for effect neither the delegation to a Committee of powers granted to the Supervisory Board by law or by the company's by-laws, nor the reduction or limitation of the powers of the Management Board. Within its area of competence, each Committee issues proposals, recommendations and/or advice.

The Supervisory Board has appointed a Chairman for each Committee. The four Committees of the Supervisory Board are comprised of Board Members, appointed by the Supervisory Board. These members are appointed on a personal basis and cannot be represented. Each Committee determines the frequency of its meetings. These are held at the registered office of the company and in any other place decided by the Chairman of the Committee. The meetings of such Committees may be held by telephone conference or videoconference.

The Chairman of each Committee sets the agenda for the meetings, after consultation with the Chairman of the Supervisory Board. The minutes of each Committee meeting are drawn up by the Secretary of the Board, under the authority of the Chairman of the relevant Committee, and are transmitted to the members of said Committee. The minutes are included in the papers of the Supervisory Board meetings during which the Committees' activities are presented. Information about the work of the Committees is included in this chapter.

Each Committee may request from the Management Board any document it deems useful for the fulfillment of its missions. The Committee may carry out or commission research to provide information for the Supervisory Board's discussions and may request external consulting expertise as required.

The Chairman of each Committee may decide to invite all members of the Supervisory Board to attend a meeting of his Committee. Only the members of the Committee can take part in its deliberations. Each Committee may decide to invite any person of its choice to its meetings, as and when required.

In addition to the permanent Committees, the Supervisory Board may decide to establish ad hoc committees composed of all or some of its members, each for a limited term, for purposes relating to certain transactions or assignments which are exceptional by virtue of their importance or nature.

#### Strategy Committee

##### Composition

The Strategy Committee is currently comprised of six members, five of whom are independent. Its members are: Claude Bébéar (Chairman), Gérard Brémond, Mehdi Dazi, Sarah Frank, Andrzej Olechowski and Karel Van Miert.

##### Missions and activities

The Strategy Committee intervenes in any of the following matters:

- strategic direction of the company;
- strategic joint-venture agreements;
- major acquisitions or disposals;
- granting of securities, including endorsement and guarantees in favor of third parties, the amount of which exceeds the power delegated to the Management Board;
- substantial internal restructuring transactions;

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- transactions outside the scope of the announced strategy; and
- major financing transactions or transactions that are likely to significantly affect the financial structure of the company.

During 2006, the Strategy Committee met three times. The attendance rate was 100%. Its activities primarily focused on the following issues:

- the group's growth prospects, the principal strategic initiatives and opportunities and the 5-year strategic plan;
- composition of the company's shareholding structure;
- developments in telecommunications, games and the Internet;
- challenges associated with digital terrestrial television and developments in the pay-TV sector in France;
- change of the company's corporate name;
- maintaining the company's stake in NBC Universal and modification to the terms of the liquidity rights agreement with General Electric; and
- following-up the telephony situation in Poland.

**Audit Committee***Composition*

The Audit Committee is comprised of four members, all of whom are independent and have finance or accounting expertise. Its members are Henri Lachmann (Chairman), Gabriel Hawawini, Pierre Rodocanachi and Karel Van Miert.

*Missions and activities*

The Audit Committee intervenes in any of the following matters:

- review of the annual, half-year and quarterly consolidated financial statements, as well as the statutory financial statements prepared by the Management Board, prior to their presentation to the Supervisory Board;
- review of the cash position of the company and potential alerts;
- review of the financial information to be published;
- review of the tax aspects or risks and their accounting impact;
- review of the assessment of the operating and financial risks of the company, their coverage, review of the insurance program;
- internal control methods and standards;
- consistency and effectiveness of the company's internal control procedures and review of the Chairman of the Supervisory Board's report to the Shareholders' Meeting on the conditions governing the preparation and organization of the Supervisory Board's procedures and the internal control procedures implemented by the company;

- procedure for appointing Statutory Auditors, issuance of an opinion for fees paid for the performance of their legal audit functions, certain specific missions and monitoring of the rules ensuring their independence;
- monitoring of the work programs of the external and internal Auditors and review of their work conclusions;
- accounting methods and principles, the scope of the company's consolidation and the risks and off-balance sheet commitments of the company;
- review of the annual assessment of the company's Compliance Program, proposals in order to improve the efficiency of such program and, if necessary, issuance of an opinion; review of the rules of conduct in competition and ethics areas; and
- any matter it considers likely to create or constitute a risk on or to the company; review of any potential procedural failure or corruption cases.

During 2006, the Audit Committee met six times. The attendance rate was 100%. Its activities primarily concerned the review of:

- the financial statements for the fiscal year 2005 and their reconciliation with US GAAP, half-year and quarterly financial statements for 2006 and the Statutory Auditors' reports;
- the new IFRS accounting standards and analysis of their implementation;
- consolidated income statement and business units information modification;
- the consequences of the delisting from the New York Stock Exchange and the deregistration with the SEC;
- the internal audit and internal control procedures within the group;
- the amendment of its Internal Regulations;
- the renewal of the Statutory Auditors' mandates, approved by the Combined Shareholders' Meeting held on April 20, 2006; and
- control of the implementation and follow-up of compliance procedures in force within each business unit.

At the time of their appointment, members of the Committee receive information on accounting, financial and operational standards in force within the company and the group.

**Human Resources Committee***Composition*

The Human Resources Committee has four members, all of whom are independent. Its members are Pierre Rodocanachi (Chairman), Gérard Brémont, Fernando Falcó y Fernández de Córdova and Sarah Frank.

*Missions and activities*

The Human Resources Committee intervenes in the following matters:

- the compensation, representation and travel expenses of the Directors and principal officers;
- the adoption of stock option plans and free grants of shares, or any other mechanisms with similar purpose or effect.

During 2006, the Human Resources Committee met twice. The attendance rate was 88%. Its activities primarily concerned:

- fixed and variable compensation, representation and travel expenses of the directors;
- stock option and restricted stock plans for executive officers and employees of the group;
- the review of succession plans at the company's headquarters and at the business unit level;
- the company's insurance policy covering directors' liability and additional pension plans adopted by the company.

**Corporate Governance Committee***Composition*

The Corporate Governance Committee has four members, three of whom are independent. Its members are Claude Bébéar (Chairman), Gabriel Hawawini, Fernando Falcó y Fernández de Córdova and Andrzej Olechowski.

*Missions and activities*

The Corporate Governance Committee intervenes in the following matters:

- appointment of members of the Supervisory Board, of the Supervisory Board's Committees and of the Management Board;
- determination and review of independence criteria for members of the Supervisory Board;
- terms of payment and distribution of the directors' fees granted to the Members of the Supervisory Board and its Committees;
- succession plans for certain members of the Management Board; and
- assessment of the organization and performance of the Supervisory Board.

During 2006, the Corporate Governance Committee met three times. The attendance rate was 87%. Its activities primarily concerned:

- the review of internal regulations of the Supervisory Board and Management Board;

- the composition of the Supervisory Board and Chairmanship of the Human Resources Committee;
- the assessment of the performance of the Management Board and its Chairman;
- the review of the terms of holding of exercised stock options by the corporate officers;
- the review of the renewal of the services contract entered into between Vivendi and Conseil DG, a company chaired by Mr. Andrzej Olechowski; and
- the terms of payment and distribution of directors' fees.

**3.1.2. The Management Board****3.1.2.1. General Provisions**

In accordance with the provisions of the company's by-laws (Article 12), the Management Board shall consist of a minimum of two members and a maximum of seven members.

Members of the Management Board are appointed by the Supervisory Board to serve for four-year terms.

The mandatory retirement age for members of the Management Board is 68 years of age. However, when a member of the Management Board reaches the age of 68, the Supervisory Board may prolong his or her term, on one or more occasion, for a period which may not exceed two years in total (Article 12 of the by-laws).

**3.1.2.2. Composition of the Management Board**

The Management Board is currently comprised of seven members, including four French citizens, one German citizen, one American citizen and one Moroccan citizen. During its meeting held on April 28, 2005, the Supervisory Board appointed the members of the Management Board and its Chairman to serve four-year terms, which expire on April 27, 2009.

In 2006, the Management Board met a total of twenty times. The attendance rate at Management Board meetings was 98%. In accordance with Article 14 of the company's by-laws, each member of the Management Board may attend meetings by videoconference, teleconference or by other means in accordance with applicable legislation.

Information about individual members of the Management Board is included in the "Main activities of current members of the Management Board" section.

## GENERAL INFORMATION CONCERNING THE COMPANY

Corporate Governance

## List of Current Members of the Management Board

Full Name	Position	Number of shares held directly and via the PEG *
Jean-Bernard Lévy	Chairman	(a) 56,074
Abdeslam Ahizoune	Member and Chairman of the Management Board of Maroc Telecom	10,000
Jacques Espinasse	Member and Chief Financial Officer of Vivendi	(b) 94,668
Frank Esser	Member and Chief Executive Officer of SFR	36,610
Bertrand Meheut	Member and Chairman of the Management Board of Canal+ Group	(c) 20,966
Doug Morris (d)	Member and Chief Executive Officer of Universal Music Group	10,000
René Pénisson	Member, Chairman of Vivendi Games and Senior Executive Vice President, Human Resources of Vivendi	48,421

\* Shares held in the Group Saving's Plan (PEG) have been valued on the basis of the Vivendi share price at close of business on December 29, 2006, i.e. €29.61 per share.

(a) His spouse holds 1,000 company shares. Each of his four children holds 35,197 company shares.

(b) Each of his two children holds 75,000 company shares.

(c) His spouse holds 248 company shares. Each of his three children holds 30,000 company shares.

(d) In accordance with Article 12 of the company's by-laws, Mr. Doug Morris' mandate was prolonged for a two-year period (Supervisory Board meeting of March 6, 2007).

## Main Activities of Current Members of the Management Board

**Jean-Bernard Lévy, Chairman of the Management Board**

52, French nationality.

*Business address*

Vivendi – 42 avenue de Friedland, 75008 Paris, France

*Expertise and experience*

Mr. Jean-Bernard Lévy was born on March 18, 1955 and is a graduate of the *Ecole Polytechnique* and the *Ecole nationale supérieure des télécommunications*. Mr. Lévy was appointed Chairman of the Management Board of Vivendi on April 28, 2005. Previously, he served as Chief Operating Officer of Vivendi from August 2002.

From 1998 to 2002, Mr. Lévy was Managing Partner, Corporate Finance, at Oddo Pinatton. He was also Chairman and Chief Executive Officer of Matra Communication from 1995 to 1998. From 1993 to 1994, Mr. Lévy was Chief of Staff to Mr. Gérard Longuet, the French Minister for Industry, Postal Services, Telecommunications and Foreign Trade. From 1988 to 1993, he was General Manager, Communication Satellites, of Matra Marconi Space. From 1986 to 1988, Mr. Lévy acted as Technical Adviser to Mr. Gérard Longuet, the French Minister for Postal and Telecommunications Services and from 1978 to 1986, he was an engineer with France Télécom.

*Positions currently held*

Canal+ France, *Chairman of the Supervisory Board*

Canal+ Group, *Member of the Supervisory Board*

Maroc Telecom, *Vice-Chairman of the Supervisory Board*

SFR, *Director*

Vivendi Games, Inc. (United States), *Director*

NBC Universal Inc. (United States), *Director*

*Other*

Vinci, *Director*

*Directorships held expired during the last five years*

VU Net, *Chairman and Chief Executive Officer*

VTI, *Chairman and Chief Executive Officer*

UGC, *Director*

Cegetel, *Member of the Supervisory Board*

Oddo Pinatton Group, *Managing Partner*

HCA, *Director*

**Abdeslam Ahizoune, Member of the Management Board**

51, Moroccan nationality.

*Business address*

Maroc Telecom – Avenue Annakhil, Hay Riad, Rabat, Morocco

*Expertise and experience*

Mr. Abdeslam Ahizoune was born on April 20, 1955 and holds an engineering degree from the *Ecole Nationale Supérieure des Télécommunications* in Paris, France (1977). He was appointed Chairman of the Management Board of Maroc Telecom in February 2001 and was appointed member of the Management Board of Vivendi on April 28, 2005.

Mr. Ahizoune served as Chairman and Chief Executive Officer of Maroc Telecom from 1998 to 2001. He held the position of Minister of Telecommunications from 1997 to 1998 and Managing Director of the *Office National des Postes et Télécommunications* (ONPT) from February 1995 to August 1997, Minister of Postal and Telecommunications Services and Managing Director of the ONPT from August 1992 to February 1995 and Director of Telecommunications in the Ministry of Post and Telecommunications from 1983 to 1992. Mr. Ahizoune is a member of the Board of Directors of Mauritel SA, historic Mauritanian

telecommunications provider, Mohammed V Solidarity Foundation (Fondation Mohamed V pour la Solidarité), since April 2004; Al Akhawayne University, since November 2003; the Mohammed VI Foundation for the Environment (Fondation Mohamed VI pour l'Environnement), since June 2001. Since 2001, Mr. Ahizoune has been a member of the Support Committee (Comité de Soutien) of the Mohammed V Solidarity Foundation, and a member of the Executive Committee of the International Chamber of Commerce, Paris, France since February 2004. In 2006, he was appointed Chairman of the Board of Directors of Mobisud SA, mobile virtual provider in France and Director of Onatel, historic telecommunications provider in Burkina Faso as well as Chairman of the Royal Moroccan Federation of Athletics. Beginning 2007, he was also appointed Director of Gabon Telecom, historical telecommunications provider of Gabon.

#### *Positions currently held*

Maroc Telecom, *Chairman of the Management Board*  
Mauritel SA (Mauritania), *Permanent representative of Maroc Telecom to the Board of Directors*  
Mobisud SA (France), *Chairman of the Board of Directors*  
Onatel (Burkina Faso), *Director*  
Gabon Telecom (Gabon), *Director*

#### *Other*

Royal Moroccan Federation of Athletics (Morocco), *Chairman*  
Mohammed V Foundation for Solidarity (Morocco), *Director and Member of the Support Committee*  
Mohammed VI Foundation for the Environment, *Director*  
Al Akhawayne University, *Director*  
International Chamber of Commerce, Paris, France, *Member of the Executive Committee*

#### *Directorships held expired during the last five years*

None.

#### **Jacques Espinasse, Member of the Management Board**

63, French nationality.

#### *Business address*

Vivendi – 42 avenue de Friedland, 75008 Paris, France

#### *Expertise and experience*

Mr. Jacques Espinasse was born on May 12, 1943 and holds an MBA from the University of Michigan. In July 2002, Mr. Espinasse was appointed Chief Financial Officer of Vivendi and appointed to the Management Board of Vivendi on April 28, 2005.

He was formerly Chief Operating Officer of TPS, a French satellite television service, beginning 1999. He became a Member of the Board of Directors of TPS in 2001. Previously, Mr. Espinasse held a variety of senior management positions in major French companies, including CEP Communication and Group Larousse Nathan, where he was appointed Senior Executive Vice President in 1984. In 1985, he became Chief Financial Officer of the Havas group. He was appointed Senior Executive Vice President of the group when it was privatized in May 1987 and held this position until 1994. He is a Director of SES Global.

#### *Positions currently held*

SFR, *Director and Chairman of the Audit Committee*  
Canal+ Group, *Member of the Supervisory Board*  
Canal+ France, *Member of the Supervisory Board and Chairman of the Audit Committee*  
Maroc Telecom (Morocco), *Member of the Supervisory Board and Chairman of the Audit Committee*  
Vivendi Games, Inc. (United States), *Director*

#### *Other*

SES Global (Luxembourg), *Member of the Supervisory Board*  
La Banque Postale Asset Management, *Member of the Supervisory Board and of the Audit Committee*

#### *Directorships held expired during the last five years*

Veolia Environnement, *Director*  
VU Net, *Director*  
UGC, *Permanent Representative of Vivendi*  
Sogecable (Spain), *Permanent Representative of Vivendi to the Board of Directors*  
Vivendi Publishing, *Director*  
Cegetel Group, *Director*  
SFR, *Permanent Representative of Saige to the Board of Directors*  
MultiThématiques SA, *Director*  
Light France Acquisition SAS, *Chairman*  
JED, *Chairman and Chief Executive Officer*  
TPS, *Director*

#### **Frank Esser, Member of the Management Board**

48, German nationality.

#### *Business address*

SFR – Tour Séquoia, 1 place Carpeaux, 92915 Paris La Défense cedex, France.

#### *Expertise and experience*

Mr. Frank Esser was born on September 5, 1958 and holds a doctorate in economics from the University of Fribourg. Mr. Esser was appointed Chairman of SFR in December 2002 and has been with the group since September 2000, when he was appointed Chief Executive Officer. He was appointed member of the Management Board of Vivendi on April 28, 2005. Mr. Esser has been a member of the Board of Directors of the GSM Association since February 2003 and became Chairman of its Public Policy Committee in 2004. Prior to joining SFR, Mr. Esser was Executive Vice President at Mannesmann, in charge of international business and business development.

#### *Positions currently held*

SFR, *Chairman and Chief Executive Officer*  
SHD, *Chairman and Chief Executive Officer*  
Neuf Cegetel, *Director*  
Vivendi Telecom International, *Director*  
Vizzavi France, *Chairman of the Board of Directors*  
Maroc Telecom, *Member of the Supervisory Board*

## GENERAL INFORMATION CONCERNING THE COMPANY

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*Other*Vodafone D2, *Member of the Supervisory Board*Faurecia, *Director*GSM Association, *Director*LTB-R, *Permanent Representative of SFR to the Board of Directors**Directorships held expired during the last five years*Cegetel, *Chairman and Chief Executive Officer*Cegetel Group, *Chief Operating Officer*Cegetel Entreprises, *Director*Cofira, *Director***Bertrand Meheut, Member of the Management Board**

55, French nationality.

*Business address*Canal+ Group – 1 place du Spectacle,  
92263 Issy Les Moulineaux cedex 9, France.*Expertise and experience*

Mr. Bertrand Meheut was born on September 22, 1951 and graduated from l'École des Mines in France. He joined Canal+ Group in October 2002, as Vice Chairman and Chief Operating Officer. He was appointed Chairman of the Executive Board of Canal+ Group on February 7, 2003, and Chairman and Chief Executive Officer of Canal+ SA on February 20, 2003. Mr. Meheut was appointed to the Management Board of Vivendi on April 28, 2005.

Mr. Meheut has spent most of his career in various positions in the chemicals industry, primarily in the life sciences sector. He held a number of top posts at Rhône-Poulenc, which became Aventis after merging with Germany's Hoechst. He served as Chairman and Chief Executive Officer of Aventis CropScience, an Aventis and Schering subsidiary, running agrichemicals and biotechnologies operations.

*Positions currently held*Canal+ Group, *Chairman of the Executive Board*Canal+ France, *Chairman of the Management Board*Canal+, *Chairman of the Board of Directors and Director of some of its subsidiaries*SFR, *Director*CanalSat, *Chairman of the Board of Directors*StudioCanal, *Chairman of the Supervisory Board*Kiosque, *Manager and Permanent Representative of Canal+*NPA Production, *Manager and Permanent Representative of Canal+*Media Overseas, *Member of the Executive Board*Sport+ (ex Pathé Sport), *Permanent Representative of Groupe Canal+ on the Board of Directors**Other*Aquarelle, *Director**Directorships held expired during the last five years*Canal+, *Chairman and Chief Executive Officer*Cegetel, *Director*Holding Sports & Événements, *Chairman of the Board of Directors*Paris Saint-Germain FC, *Director*Aventis CropScience, *Chairman and Chief Executive Officer*StudioCanal, *Chairman of the Board of Directors***Doug Morris, Member of the Management Board**

68, US nationality.

*Business address*

Universal Music Group – 1755 Broadway, New York, NY 10019, USA

*Expertise and experience*

Doug Morris was born on November 23, 1938. He has served as Chairman and Chief Executive Officer of Universal Music Group since November 1995 and was appointed to Vivendi's Management Board on April 28, 2005. A graduate of Columbia University, Mr. Morris began his music career as a songwriter for music publisher Robert Mellin, Inc. In 1965, Mr. Morris joined Laurie Records, as a writer and producer and was later promoted to Vice President and General Manager. Following this, Mr. Morris created his own label, Big Tree Records, which was distributed and eventually acquired by Atlantic Records in 1978. At this time, Mr. Morris was appointed President of ATCO Records, beginning his 17-year association with Warner Music. In 1980, Mr. Morris was appointed President of Atlantic Records and, in 1990, assumed the position of Co-Chairman and Co-CEO (with Ahmet Ertegun) of the Atlantic Recording Group. In 1994, Mr. Morris was promoted to President and Chief Operating Officer of Warner Music U.S. and was soon thereafter appointed Chairman. Mr. Morris began his association with the MCA Music Entertainment Group (now Universal Music Group) in July 1995, by forming a joint venture, New York City-based full service record label. Throughout his career, Mr. Morris has worked with some of the most popular and influential artists of the past four decades, including the Rolling Stones, Phil Collins, Pete Townsend, Led Zeppelin, Stevie Nicks, Bette Midler, Tori Amos, INXS, Erykah Badu and Mariah Carey. Mr. Morris serves on the Boards of the Robin Hood Foundation and the Cold Spring Harbor Laboratory. Mr. Morris is a Director of the Rock and Roll Hall of Fame. In 2003, the National Academy of Recording Arts and Sciences (NARAS) awarded Mr. Morris with the President's Merit Award.

*Positions currently held*Universal Music Group, *Chairman and Chief Executive Officer*Universal Music Group, *Director of various subsidiaries**Other*Robin Hood Foundation, *Director*Cold Spring Harbor Laboratory, *Director*Rock and Roll Hall of Fame, *Director**Directorships held expired during the last five years*Universal Music Group, *Director of various subsidiaries*

**René Pénisson, Member of the Management Board**

65, French nationality.

**Business address**

Vivendi – 42 avenue de Friedland, 75008 Paris, France

**Expertise and experience**

Born on February 2, 1942, Mr. René Pénisson graduated from *l'École Supérieure de Chimie* in Lyon with an engineering degree. He holds a doctorate in engineering from the *Université de Lyon* and a degree from the French Management Institute. He was appointed Chairman of Vivendi Games in January 2004 and Senior Executive Vice-President, Human Resources of Vivendi in April 2004. He became a member of the Management Board of Vivendi Universal on April 28, 2005. Prior to these positions, Mr. Pénisson served as adviser to the Chairman and Chief Executive Officer, Social Relations and Organization of Vivendi Universal from September 2002.

From 1999 to 2002, he was a member of the Executive Committee of Aventis, Senior Executive Vice President, Human Resources of Aventis, Chairman of Aventis Animal Nutrition and Chairman of the RP Industrialisation company. From 1997 to 1999, he served as member of the Executive Committee of Rhône Poulenc SA. From 1982 to 1997, Mr. Pénisson was successively Executive Vice President, Basic Chemicals Division of Rhône Poulenc, Chief Operating Officer of Rhône Poulenc Chimie, and Senior Executive Vice President, Human Resources of the Rhône Poulenc Group.

**Positions currently held**

Vivendi Games Inc. (United States), *Chairman*

Vivendi Games Europe, *Director*

Canal+ France, *Member of the Supervisory Board*

**Directorships held expired during the last five years**

Aventis, *Member of the Executive Committee*

Aventis Animal Nutrition, *Chairman*

RP Industrialisation, *Chairman*

**3.1.2.3. Family Relationship**

There are no family relationships among the members of the Management Board.

**3.1.2.4. Absence of Conflicts of Interest**

Management is not aware of any current or potential conflict of interest between Vivendi and the members of the Management Board and their personal interests or other obligations.

**3.1.2.5. Absence of any Conviction for Fraud, Association with a Business Failure or Public Incrimination and/or Sanction**

To the knowledge of the company, over the past five years:

- no member of the Management Board has been convicted for any fraudulent-related matter;

- no member of the Management Board has been associated with a bankruptcy, receivership or liquidation while serving on an administrative, management or supervisory body;

- no official public incrimination and/or sanction has been delivered against any member of the Management Board.

**3.1.2.6. Agreements Entered into Between the Company and One of its Management Board Members – Services Contract**

The members of the Management Board, senior executives and corporate officers benefit from an employment contract with the company, except for Mr. Jean-Bernard Lévy, Chairman of the Management Board, whose employment contract is suspended for the duration of his term of office, and Mr. Doug Morris, who holds an employment contract with Universal Music Group.

No member of the Management Board is covered by a service contract with Vivendi or any of its subsidiaries, nor do they expect that any benefits will be granted under the terms of such a contract.

**3.1.2.7. Loans and Guarantees Granted to Members of the Management Board**

The company has not made any loans or granted any guarantees to any member of the Management Board.

**3.1.2.8. Jurisdiction and Internal Regulations of the Management Board****Role and Powers of the Management Board under Applicable Law and the Company's By-laws**

With respect to third parties, the Management Board is granted the broadest powers to act in any circumstance on behalf of the company, except in those capacities expressly granted to the Supervisory Board and to the Shareholders and subject to the scope of the company's corporate purpose and to matters that require the prior authorization of the Supervisory Board.

**Internal Regulations**

The Internal Regulations of the Management Board is a proprietary document intended to ensure that the company management functions properly and adheres to the most recent rules adopted in furtherance of good corporate governance. Third parties have no recourse against members of the Management Board using these internal regulations.

The Management Board, after having considered recent legal and regulatory developments and the different practices implemented by the company since the adoption of the corporate structure with a Management Board and a Supervisory Board, has amended its Internal Regulations.

### Role and Powers of the Management Board under the Internal Regulations

The Management Board is responsible for the management of the company and for the conduct of its business. It intervenes in any of the following matters:

- review and drafting of the financial statements, forecasts, cash flows, debt obligations and company liabilities;
- the implementation of company strategy in conjunction with the Supervisory Board;
- sale, merger and acquisition transactions not exceeding the thresholds requiring approval of the Supervisory Board;
- human resources policy and industrial relations;
- communications policy;
- compliance activities;
- internal audit and internal control procedures;
- follow-up of risk assessments and duties of the Risks Committee;
- litigation and legal proceedings;
- environmental affairs; and
- insurance.

In accordance with applicable law, the company's by-laws and Internal Regulations of the Supervisory Board, the Management Board must obtain prior approval from the Supervisory Board under certain circumstances (refer to the Internal Regulations of the Supervisory Board above).

### 3.1.2.9. Activities of the Management Board in 2006

The Management Board met twenty times in 2006. Its activities mainly involved the following:

- review and approval of the statutory financial statements for fiscal year 2005, of the 2006 budget, of the quarterly and half-year 2006 consolidated financial statements and of the 2007 preliminary budget;
- preparation of quarterly reports for the Supervisory Board;
- the company's corporate name change;
- growth prospects for the group, principal strategic initiatives and opportunities and the 5-year strategic plan;
- position of the group's main business units;
- public statements of certain shareholders and communication of the group's strategy;
- review and approval of the agreement between Canal+ Group and TPS in the pay-TV sector in France and entry of Lagardère SCA as a shareholder of Canal+ France, the acquisition of BMG Music Publishing, the acquisition by SFR of the shareholding held by Belgacom in Neuf Cegetel, the acquisition of Télé2 France by SFR, the acquisition including UMG of the minority interests in the U.S. entertainment entities, the amendments of the agreements entered into between Vivendi and General Electric (GE), the disposal of the stake held in DuPont and the disposal of the remaining shares held in Veolia Environnement;
- the convening of the Combined Shareholders' Meeting of April 20, 2006;
- the grant of stock options and restricted stock;
- the review of the delisting from the New York Stock Exchange and the deregistration with the SEC;
- the agreement reached with the US Internal Revenue Services (IRS), ending the DuPont tax litigation; and
- the monitoring of current litigation and legal proceedings.

## 3.2. COMPENSATION OF DIRECTORS AND OFFICERS

### 3.2.1. Compensation of the Members of the Supervisory Board and its Chairman

#### 3.2.1.1. Compensation of the Chairman of the Supervisory Board

As presented to the Annual Shareholders' Meeting held on April 20, 2006, the Supervisory Board, at its meeting held on February 28, 2006, upon recommendation of the Human Resources Committee held on

February 27, 2006, decided to retain the annual gross compensation of its Chairman, which remains at €1 million. During 2006, he received no directors' fee from Vivendi or any of its subsidiaries.

In 2006, the Chairman of the Supervisory Board received a gross amount of €1,000,000 for his service and the benefits of a company car and the availability of a chauffeur. His travel expenses and other expenditures incurred in connection with his duties are paid by the company.

#### Compensation of the Chairman of the Supervisory Board (a)

	2006	2005 (prorata temporis)
Fixed	€1,000,000	€666,667

(a) Chairman of the Supervisory Board since April 28, 2005.

#### Compensation as Chairman and Chief Executive Officer (b)

	Paid in 2006 (prorata temporis)	Paid in 2005 (prorata temporis)
Fixed	-	€333,334
2005 bonus paid in 2006	€766,600	-
2004 bonus paid in 2005	-	€2,320,000
Benefits in kind and other	-	€11,182
<b>TOTAL</b>	<b>€766,600</b>	<b>€2,664,516</b>

(b) Chairman and Chief Executive Officer through April 28, 2005.

#### 3.2.1.2. Directors' Fees

Within the limit approved by the Combined Shareholders' Meeting held on April 28, 2005, payment of directors' fees for members of the Supervisory Board and Committees is based on actual attendance at meetings and depends on the number of meetings held by the Supervisory Board and the Committees. The gross figure for directors' fees paid in 2006 was €1,149,200. Details of directors' fees paid on an individual basis are presented below.

For services rendered during the period starting January 1st until June 7, 2006, each member of the Supervisory Board received a directors' fee for one full year of service of €25,000 plus €5,500 per meeting, subject to attendance, €6,000 per meeting for members of the Audit Committee and €4,500 per meeting for members of the other Committees. Fees for Committee members were based on actual attendance at Committee meetings; Committee fees were doubled for Chairmen.

On June 7, 2006, upon recommendation of the Corporate Governance Committee, the Supervisory Board decided to amend the terms for the distribution of directors' fees in order to account for the actual attendance of members of the Supervisory Board at Committee meetings, subject to the limitations of the overall amount approved by the Combined Shareholders' Meeting held on April 28, 2005.

Beginning June 8, 2006, each member of the Supervisory Board receives a directors' fee of €20,000 for a full year of service and a variable amount of €3,500 per meeting, dependent upon actual attendance at meetings. Each member of the Audit Committee receives a directors' fee of €20,000 for a full year of service, this amount is doubled for the Chairman of the Committee, and a variable amount of €3,400 per meeting, dependent upon actual attendance at meetings. Each member of the Strategy Committee receives a directors' fee of €14,000 for a full year of service, this amount is doubled for the Chairman of the Committee, and a variable amount of €2,900 per meeting, dependent upon actual attendance at meetings. Each member of the Human Resources Committee receives a directors' fee of €12,000 for a full year of service, this amount is doubled for the Chairman of the Committee, and a variable amount of €2,900 per meeting, dependent upon actual attendance at meetings. Each member of the Corporate Governance Committee receives a directors' fee of €10,000 for a full year of service, this amount is doubled for the Chairman of the Committee, and a variable amount of €1,900 per meeting, dependent upon actual attendance at meetings.

A directors' fee of €1,500 per meeting is paid to members of the Supervisory Board who attend meetings of committees of which they are not members.

The gross amount of directors' fees of €1,149,200 paid in 2006 was distributed as follows:

Members of the Supervisory Board	(in euros – rounded)
Jean-René Fourtou (a)	-
Claude Bébéar	127,500
Gérard Brémond	91,500
Mehdi Dazi (b)	NA
Fernando Falcó y Fernández de Córdova	95,000
Sarah Frank	96,000
Gabriel Hawawini	123,300
Henri Lachmann	135,300
Andrzej Olechowski	89,000
Pierre Rodocanachi	126,800
Karel Van Miert	118,800
Paul Fribourg (c)	62,000
Patrick Kron (d)	84,000

(a) Mr. Fourtou waived his rights to receive directors' fees, allocated to Board members of the company and its subsidiaries.

(b) Member of the Supervisory Board since March 6, 2007.

(c) Member of the Supervisory Board through June 7, 2006.

(d) Member of the Supervisory Board through December 13, 2006.

### 3.2.2. Compensation of the Members of the Management Board and its Chairman

Compensation of corporate officers and of the company's principal executives is established by the Supervisory Board upon recommendation of the Human Resources Committee. The compensation is composed of a fixed and a variable portion.

The variable portion of compensation for 2006 was set by the Supervisory Board at its meeting held on February 28, 2006, pursuant to a proposal from the Human Resources Committee at its meeting held on February 27, 2006, based upon the following criteria: (1) for corporate officers and senior executives of the headquarters: (a) financial objectives (63%) linked to both adjusted net results attributable to equity holders of the parent (42%) and cash flows from operations (21%) and (b) performance of general management's priority actions (37%), and (2) for corporate officers (including the subsidiaries' chairmen or executives): (a) the group's financial objectives (15%), (b) the financial objectives of their entity (60%) and (c) priority actions for their entity (25%).

The variable portion of compensation for 2007 was set by the Supervisory Board at its meeting held on March 6, 2007, pursuant to a proposal from the Human Resources Committee at its meeting held on March 2, 2007 based upon the following criteria: (1) for corporate officers and senior executives of the headquarters: (a) financial objectives (66%) linked to both adjusted net results attributable to equity holders of the parent (41%) and cash flows from operations (25%) and (b) performance of general management's priority actions (34%), and (2) for corporate officers (including the subsidiaries' chairmen or executives) according to the same criteria as those setting forth for 2006.

#### 3.2.2.1. Compensation of the Chairman of the Management Board

Mr. Jean-Bernard Lévy's employment contract as Deputy Chief Executive Officer of the company, effective from August 12, 2002, was suspended when he was appointed Chairman of the company's Management Board.

The compensation of the Chairman of the Management Board for 2006 was set by the Supervisory Board upon recommendation of the Human Resources Committee as follows: a gross annual fixed salary of €800,000, unchanged since 2005, a target bonus of 120% determined according to the criteria above, up to a maximum of 200%. His travel expenses and other expenditures incurred in connection with his duties are paid by the company. In 2006, the Chairman of the Management Board was granted 360,000 non-discounted stock options with an exercise price of €28.54 and 30,000 restricted stock under performance conditions (refer to section 3.3.2).

The Supervisory Board meeting held on March 6, 2007, upon recommendation of the Human Resources Committee at its meeting held on March 2, 2007, has set forth the following principles for 2007: a gross annual fixed salary of €860,000; target bonus of 120% unchanged and calculated based on the above-mentioned criteria; maximum of 200%.

As approved by the Combined Shareholders' Meeting held on April 20, 2006, the Chairman of the Management Board is eligible to participate in the pension plans adopted by the company (refer to section 3.2.3).

### 3.2.2.2. Compensation of the Members of the Management Board

Employment contracts for members of the Management Board, other than the Chairman, remain in force based on their ongoing functions

within the group; no compensation or allowance is granted to them in relation to their corporate appointment within Vivendi SA.

Details of Management Board members' compensation are presented in the chart below:

	Jean-Bernard Lévy	Abdeslam Ahizoune	Jacques Espinasse	Frank Esser	Bertrand Meheut	Doug Morris	René Pénisson
2006 compensation							
Fixed	800,000	530,379	460,000	650,000	650,000	4,673,060	460,000
Variable portion: 2006 bonus paid in 2007	1,485,000	372,000	854,000	1,150,000	1,248,000	8,714,211	854,000
Benefits in kind and other *	12,781	1,434	22,564	24,758	21,696	112,559	29,922
<b>TOTAL</b>	<b>2,297,781</b>	<b>903,813</b>	<b>1,336,564</b>	<b>1,824,758</b>	<b>1,919,696</b>	<b>13,499,830</b>	<b>1,343,922</b>
2005 compensation							
Fixed	800,000	512,757	460,000	650,000	650,000	4,453,144	460,000
Variable portion: 2005 bonus paid in 2006	(a) 1,472,000	346,958	(a) 846,400	1,150,500	1,189,500	(b) 9,881,733	(a) 846,400
Benefits in kind and other **	195,047 **	-	10,164	13,727	28,014	127,525	22,000
<b>TOTAL</b>	<b>2,467,047</b>	<b>859,715</b>	<b>1,316,564</b>	<b>1,814,227</b>	<b>1,867,514</b>	<b>14,462,402</b>	<b>1,328,400</b>

\* This amount includes employer's pension contributions in excess of the legal tax-deductible threshold and which have been added to the taxable salary, as well as the benefit in kind of a company car, the 2005 profit-sharing paid in 2006 and the valuation of days of holiday transferred from the time saving account (compte épargne temps) to the pension savings plan.

\*\* Includes holiday pay for his previous salaried position (€181,595).

(a) Includes €76,225 paid in December 2005.

(b) Includes the 2006 payment for a deferred long-term bonus under the Universal Music Group contract. The 2005 portion amount is €3,977,800. These figures also include the annual part of the 5-year bonus for 2001-2005 which amounted to €18.6 million for said period.

Pursuant to their employment contracts, each member of the Management Board is entitled to a gross severance payment amount (except in the event of dismissal for serious misconduct), determined as follows:

- Mr. Jean-Bernard Lévy (employment contract, dated August 9, 2002, suspended during his term of office as Chairman of the Management Board): six months fixed and variable salary, regardless of the unexpired term of his notice period;
- Mr. Abdeslam Ahizoune (employment contract with Vivendi Group, dated December 2000, as amended on July 8, 2004): 24 months fixed salary and target bonus paid by Vivendi SA and Maroc Telecom, including the legal amount of indemnity payments;
- Mr. Jacques Espinasse (employment contract, dated July 12, 2002): 12 months fixed salary and target bonus;
- Mr. Frank Esser (employment contract, dated May 22, 2000, as amended on October 4, 2002): 24 months fixed salary and target bonus, in addition to the legal amount of indemnity payments;
- Mr. Bertrand Meheut (employment contract, dated September 20, 2002): €2 million, including the legal amount of indemnity payments;

In case of termination initiated by the employer before the age of 60, Mr. Bertrand Meheut can opt for a payment equivalent to the amount

provided by the complementary pension plan adopted in 1985, with seniority effective beginning September 1, 1992, which would then supersede the current pension plan benefit;

- Mr. Doug Morris (employment contract with Universal Music Group dated February 6, 2001, as amended on August 4, 2005 – effective until termination of his contract as Chairman and Chief Executive Officer of Universal Music Group: December 31, 2008): equal to the fixed salary and target bonus to be paid until the termination of his contract (December 31, 2008) not to be less than one year's salary;
- Mr. René Pénisson (employment contract, dated September 20, 2002): no contractual severance payment.

### 3.2.3. Pension Plans

Members of the Management Board, holding an employment contract with Vivendi, are eligible to participate in the complementary pension plan adopted in December 1985 and in the additional pension plan adopted in December 2005, as described in the Statutory Auditors' special report approved by the Shareholders' Meeting held on April 20, 2006. In 2006, no amendments were made to these pension plans, which are described in the 2005 Annual Report (page 97).

The 2006 pension plan provision for members of the Management Board was €2,542,281.

Mr. Doug Morris, member of the Management Board and Chairman and Chief Executive Officer of Universal Music Group (UMG), who holds an American employment contract, is entitled to the Seagram pension plan for a part of his career within the Group, to which the company has ceased to contribute. He benefits from UMG pension plans covering all UMG employees within the United States, to which UMG makes supplementary contributions, in excess of employee contributions, up to a maximum amount of €17,874 per year.

### 3.2.4. Compensation of Senior Executives of the Group

The global aggregate gross amount of the top ten compensation packages paid by Vivendi SA in 2006 was €13.45 million, including benefits in kind. In addition, in 2006, the global aggregate gross amount of the top ten compensation packages paid to senior executives within

the group (all of whom are Americans) was €65.55 million, including benefits in kind.

In accordance with governance rules existing within the Vivendi group, all senior executives have waived their rights to receive directors' fees in compensation for serving as Board Members or permanent representatives within controlled subsidiaries, in accordance with Article L. 233-16 of the French Commercial Code.

### 3.3. STOCK OPTIONS AND RESTRICTED STOCK

The Management Board, at its meetings held on February 21, 2006 and March 21, 2006, and the Supervisory Board, at its meeting held on

February 28, 2006, decided to grant 5,481,520 stock options and 456,968 restricted shares in 2006 (see below).

#### 3.3.1. Stock Option Grants in 2006

##### Grants of Stock Options and Stock Appreciation Rights (SAR) to Members of the Management Board

	2006 grant	2005 grant
Date of the Shareholders' Meeting authorizing the grant	Annual Meeting of 4/28/2005	Annual Meeting of 4/29/2003
Date of the Supervisory Board meeting	2/28/2006	3/9/2005
Date of grant	4/13/2006	4/26/2005
Maximum number of options authorized to be granted	(a) 28,836,933	(b) 37,541,852
Maximum number of options to be granted during the year after deducting options already granted	(c) 9,534,861	(d) 15,948,252
Total number of options granted in April	5,481,520	9,071,000
Total number of SAR granted in April 2006	1,250,320	NA
Number of options cancelled due to the termination of beneficiaries	108,320	174,500
Number of SAR cancelled due to the termination of beneficiaries	16,000	NA
Number of options that may be granted on December 31	(e) 23,322,923	(f) 6,877,252
Number of options granted to the members of the Management Board *:		
Mr. Jean-Bernard Lévy - Chairman	360,000	400,000
Mr. Abdeslam Ahizoune	112,000	125,000
Mr. Jacques Espinasse	224,000	280,000
Mr. Frank Esser	224,000	250,000
Mr. Bertrand Meheut	224,000	250,000
Mr. Doug Morris	(g) 112,000	125,000
Mr. René Pénisson	224,000	250,000
<b>Total</b>	<b>1,480,000</b>	<b>2,080,000</b>
Unit exercise price	€28.54/\$34.58	€23.64/\$30.63
Expiration date	4/13/2016	4/26/2015

(a) 2.5% of the share capital, as of the date of grant (April 13, 2006).

(b) 3.5% of the share capital, as of the date of grant (April 26, 2005).

(c) 0.83% of the share capital, in accordance with the resolution adopted by the Combined Shareholder's Meeting held on April 28, 2005.

(d) 1.5% of the share capital, in accordance with the resolution adopted by the Combined Shareholders' Meeting held on April 29, 2003.

(e) Based on the share capital amount, as at December 31, 2006, and on effective grants; on September 22, 2006, 58,400 stock options were granted to employees of Maroc Telecom and on December 12, 2006, 24,000 stock options were granted to employees of Group Canal+.

(f) Based on the share capital amount, as at December 31, 2005, and on the grants made but rendered invalid following the expiry of the authorization period.

(g) SAR.

\* For 2006, the unit benefit arising from option grants is valued at €5.38, with an exercise price of €28.54. This valuation is given for information purposes only. It was calculated according to the "binomial" method used when applying the accounting standard IFRS 2 for the valuation of share-based payments. This theoretical valuation does not necessarily correspond with the gain which might be realized when the shares are sold. On exercise, the actual gain will be difference between the share price on the date of exercise of the option, and the share price on the date of sale of the share.

As a result of the termination of the Vivendi's ADR program and of its delisting from the NYSE, stock options on ADR granted to directors and certain employees of the Group residing in the United States were converted into SAR, instruments which settle in cash and which do not themselves represent stock and therefore do not increase share

capital. The trading value is the average of the high and low prices of the Vivendi's ordinary shares as quoted on Eurolist by Euronext Paris for that trading day, and are converted from Euros to US dollars based on the daily Euro/US \$ exchange rate as published by the European Central Bank on the respective SAR exercise date.

### 3.3.2. Restricted Stock Grants

Restricted stock were freely granted on April 13, 2006, September 22, 2006 and December 12, 2006, under conditions approved by the company's Supervisory Board and Management Board based on financial indicators derived from the 2006 budget (adjusted net income and cash flow from group operations). Grantees receive full entitlement to all shares if the weighted sum of the two financial indicators reaches 100% of the target, entitlement to 50% of the shares if the weighted

sum of the two thresholds is reached; grantees receive no entitlement if the weighted sum of the two thresholds is below the target.

The table below details the number of shares definitively granted, the 100% being reached.

Ownership of the restricted stock is obtained upon expiry of the two-year period following the date of their grant, following which they must be retained by beneficiaries for an additional two-year period.

#### Restricted Stock (AGA) and Restricted Stock Units (RSU) Awarded to Members of the Management Board

Date of the Shareholders' Meeting authorizing the grant	Annual Meeting of 4/28/2005
Date of the Supervisory Board meeting	2/28/2006
Date of grant	4/13/2006
Maximum number of AGA authorized to be granted	(a) 5,767,387
Maximum number of AGA to be granted during the year after deducting in those already granted	5,767,387
Total number of AGA granted in April 2006	456,968
Total number of RSU granted in April 2006	104,250
Number of AGA cancelled due to the termination of beneficiaries	11,700
Number of RSU cancelled due to the termination of beneficiaries	1,334
Total number of AGA that may be granted on December 31, 2006	(b) 4,967,909
Number of AGA or RSU granted to members of the Management Board	
Mr. Jean-Bernard Lévy	30,000
Mr. Abdeslam Ahizoune	9,334
Mr. Jacques Espinasse	18,667
Mr. Frank Esser	18,667
Mr. Bertrand Meheut	18,667
Mr. Doug Morris	(c) 9,334
Mr. René Pénisson	18,667
<b>TOTAL</b>	<b>123,336</b>
Acquisition date	4/14/2008
Expiration date	4/14/2010

(a) 0.5% of the share capital as of the date of grant (April 13, 2006).

(b) Based on the share capital amount, as at December 31, 2006, and on effective grants: on September 22, 2006, 4,861 AGA were granted to employees of Maroc Telecom, on December 12, 2006, 2,001 AGA were granted to employees of Group Canal+ and on December 12, 2006, 353,430 shares were granted to all the group's employees under the "15 stocks for all" plan of December 2006.

The acquisition profit will be determined based on the opening trading value of the day of the definitive acquisition in 2008.

(c) RSU.

As a result of the termination of the Vivendi's ADR program and of its delisting from the NYSE, restricted stock granted to directors and certain employees of the Group who reside in the United States, are granted in the form of RSU, instruments which settle in cash and which do not themselves represent stock and therefore do not increase the

share capital. The trading value is the average of the high and low prices of Vivendi's ordinary shares as quoted on Eurolist by Euronext Paris for that trading day, and are converted from Euros to US dollars based on the daily Euro/US \$ exchange rate published by the European Central Bank.

### 3.3.3. Options and SAR Exercised by Members of the Management Board in 2006

#### Mr. Jean-Bernard Lévy

Date of grant	10/10/2002
Exercise price	(a) €14.10
Expiration date	10/10/2010
Number of options exercised	140,000
Total amount of the exercise	€1,974,000
Exercise date	November 22, 2006

#### Mr. Jacques Espinasse

Date of grant	10/10/2002
Exercise price	(a) €14.10
Expiration date	10/10/2010
Number of options exercised	150,000
Total amount of the exercise	€2,115,000
Exercise date	December 8, 2006

(a) €12.10 exercise price plus €2 due to the commitment taken, at the request of the French Minister of the Economy, Finance and Industry, by Messrs. Jean-Bernard Lévy and Jacques Espinasse at the time Vivendi filed its application for the consolidated profit tax system under French law.

#### Mr. Bertrand Meheut

Date of grant	10/10/2002
Exercise price	€12.10
Expiration date	10/10/2010
Number of options exercised	150,000
Total amount of the exercise	€1,815,000
Exercise dates	October 23, 2006 up to 60,000 options November 17, 2006 up to 90,000 options

#### Mr. Doug Morris (SAR)

Date of grant	10/10/2002
Exercise price	\$11.79
Expiration date	10/10/2010
Number of SAR exercised	100,000
Amount of the exercise	\$1,179,000
Exercise date	May 18, 2006

### 3.3.4 Principal Stock Option Grants and Exercises in 2006

The senior executives and employees of the group, excluding corporate officers, who comprised the ten largest stock option recipients of 2006, were granted a total of 1,000,000 stock options, representing 17.97% of the total number of options granted in 2006 and 0.09% of Vivendi's share capital, as at December 31, 2006.

The options granted have an exercise price of €28.54.

A total of 673,164 stock options were exercised in 2006. The stock options were exercised at a weighted average price of €14.56 by the ten senior executives and employees of the group, excluding corporate officers.

### 3.3.5. Terms of Holding Shares Resulting from the Exercise of Stock Options and from Restricted Stock by Board Members

Pursuant to provisions of Articles L. 225-185 and L. 225-197-1 of the French Commercial Code, the Supervisory Board, at its meeting held on March 6, 2007, set forth the following rules related to retention period for shares resulting from the exercise of stock options and restricted stock granted under the 2007 plans.

The members of the Management Board must hold, until the end of their mandates, in a nominative account, a number of shares resulting

from the exercise of stock options and restricted stock granted under the 2007 plans, equal to 20% of the net gain resulting, if applicable, from the exercise of stock options or sale of restricted stock.

In addition, effective from January 1, 2007, the members of the Management Board are requested to allocate, each year, the equivalent of 50% of the net gain resulting from the exercise of their stock options and/or the sale of their restricted stocks, to the creation within 5 years of a portfolio of Vivendi shares, corresponding to 3 years of the gross compensation (fixed compensation and target bonus) for the Chairman of the Management Board and to 2 years of the gross compensation for the other Members of the Management Board.

## 3.4. DEALINGS IN COMPANY SECURITIES

Throughout the periods defined below, members of the Supervisory Board and the Management Board are prohibited from entering into sale and purchase transactions in connection with company securities whether on the open market or in relation to off-market block trades, be it directly, through their spouse or their partner under a civil union agreement (*pacte civil de solidarité*), or through any person with whom they have a close relationship including ascendants, descendants, relatives or any person living at their home for at least one year as of the date of the transaction, as well as through any legal entity, fiduciary, trust or partnership, whose management responsibilities are carried out by members of the Supervisory Board or the Management Board or by any related person, which is controlled directly or indirectly by them or is incorporated for their benefit, or whose economic interests are substantially the same as their own:

- the period from the date on which the members of the Supervisory Board or the Management Board become aware of precise market

information concerning the company's business, progress or prospects which, if made public, would be likely to have a significant effect on the company's share price, up to the date on which this information is made public; and

- the period of 30 calendar days up to and including the day of publication of the company's quarterly, half-yearly and annual consolidated financial statements.

Pursuant to the AFEP/MEDEF joint-recommendation dated January 9, 2007, the Management Board, at its meeting held on January 24, 2007, decided to prohibit the use of derivative financial instruments as a means to hedge transactions of any nature.

### 3.4.1. Dealings in Company's Securities by Directors in 2006

Pursuant to Article 223-26 of the General regulations of the AMF, the dealings in company's securities executed by Directors in 2006, as declared to the company and to the AMF, are detailed in the following table:

Name	Purchase			Sale		
	Date	Number	Unit price	Date	Number	Unit price
Mr. Jacques Espinasse <i>Member of the Management Board</i>	12/04/06	31,000	€28.88	12/04/06	31,000	€ 28.88
Mr. Bertrand Meheut <i>Member of the Management Board</i>	-	-	-	10/23/06	60,000	€ 29.17
Mr. Gabriel Hawawini <i>Member of the Supervisory Board</i>	12/12/06	360	€29.13	11/29/06	500	€ 28.92

## 3.5. COMPLIANCE PROGRAM

The objective of the Compliance Program is to make employees aware of their professional responsibilities and to provide them with a reference guide that can help them to determine the most appropriate conduct.

It establishes rules of conduct based on general principles of international law (OECD, ILO and European law) as well as prevailing legislation in various countries (mainly France and the United States).

It sets forth the general ethical rules applicable within the group. These general rules are applied in each operational business unit and are adapted to both local legislation and business activities as required.

The legal departments and Compliance officers of the business units work to ensure overall consistency under the coordination of Vivendi's General Counsel's office. An annual progress report is prepared and presented to the Audit Committee, which then reports to the Supervisory Board.

At its meeting held on March 16, 2004, the Board of Directors of Vivendi, upon recommendation of its Audit Committee, adopted a Financial Code of Ethics. This code was maintained following the company's change of organizational structure. It applies to the senior executives of Vivendi SA who are responsible for communications and financial and accounting reports.

### 3.5.1. Reasons

The Compliance Program addresses the following main concerns:

- the new national and international standards under which companies must report on how they assume their economic and social responsibility; and
- the emergence of new rating criteria aimed at assessing the policies that companies have set up to assume this responsibility.

### 3.5.2. Issues

The Compliance Program has two major challenges:

- raise awareness of the group's employees and to provide them with a reference tool that sets a benchmark to help them to determine a course of action; and
- reduce the risks of incurring civil and criminal liabilities by the company's employees and by the group's companies.

## 3.6. FINANCIAL INFORMATION AND COMMUNICATION PROCEDURES COMMITTEE

This Committee created in 2002 is responsible for regularly assessing the methods used to draw up and disclose the company's financial information.

### 3.6.1. Composition

The Committee Members are appointed by the Chairman of the Management Board. The Committee shall at least comprise those Vivendi executives holding the following positions:

- the General Counsel (Chairman of the Committee);
- the group's Chief Financial Officer;
- the Executive Vice President, Communications and Public Affairs;
- the Deputy Chief Financial Officers;
- the Senior Vice President, Audit and Special Projects;
- the Executive Vice President, Investor Relations; and
- the Senior Vice President, Head of Legal Department.

The Committee may have additional members who are executives from the aforementioned departments as their substitutes. The Committee is currently comprised of 15 members.

### 3.6.2. Powers

The Committee assists the Chairman of the Management Board and the group's Chief Financial Officer in their mission to ensure that Vivendi fulfills its disclosure requirements with respect to investors, the public and the regulatory and market authorities, in particular the *Autorité des Marchés Financiers* (AMF) and Euronext Paris SA in France.

### 3.6.3. Mission

In carrying out its mission, the Committee ensures that Vivendi has set up adequate controls and procedures so that:

- any information that must be disclosed to investors, the public or to the regulatory authorities is reported within the deadlines stipulated by applicable laws, regulations and notifications;

- all communications are subject to appropriate verifications in accordance with the procedures set up by the Committee;
- all information requiring a release to investors and/or appearing in the documents recorded or filed with any regulatory authority is communicated to the company's senior management beforehand, including the Chairman of the Management Board and the group's Chief Financial Officer, so that decisions concerning the information to be disclosed can be made in a timely manner;
- oversight is provided over regular assessments of Vivendi's procedures for controlling information as well as over internal control procedures, under the supervision of the Chairman of the Management Board and of the group's Chief Financial Officer;
- the Chairman of the Management Board and the group's Chief Financial Officer are advised of any significant procedural problems about which the Committee should be informed and which is likely to affect Vivendi's procedures for controlling information and its internal control procedures. The Committee issues recommendations, as necessary, for changes to be made to these controls and procedures. The Committee supervises the implementation of modifications approved by the Chairman of the Management Board and the group's Chief Financial Officer; and
- more generally, the Chairman of the Management Board and the group's Chief Financial Officer are assured of receiving all information they may request.

### 3.6.4. Deliberations in 2006

The Committee meets at the request of the Chairman of the Management Board, the Chief Financial Officer, and its Chairman or of one of its members. Meetings are held at least once each quarter and at the very least before each Audit Committee meeting and in accordance with the schedule for releasing financial information on the group's results.

The Committee met fourteen times in 2006. Its deliberations primarily concerned the:

- review of the financial information published in the annual, half-year and quarterly results and published in the Annual Report and the Form 20-F;
- review of the annual and half-year certification letters signed by the Chairman and Chief Financial Officer of each of the group's business units;
- review of progress questionnaires for assessing internal controls pursuant to section 404 of the Sarbanes-Oxley Act of 2002; and
- review of the group's procedures.

Deliberations are not limited to matters listed in meeting agendas.

The Committee reports to the Chairman of the Management Board and to the Audit Committee. The Committee Chairman may present his report orally.

## 3.7. RISKS COMMITTEE

The Risks Committee was formed in January 2007. Its task is to make recommendations or issue opinions to the Management Board in the following areas:

- identification and assessment of potential risks that could arise from activities carried out by the Vivendi Group;
- examination of the adequacy of risk coverage and of the level of residual risk;
- formulation of recommendations with a view to improving risk coverage;
- examination of the insurance program.

The Committee is chaired by the Chairman of Vivendi's Management Board. It is composed of at least four members, in addition to its Chairman, including:

- the group's Chief Financial Officer;

- the group's General Counsel; and
- the Director of Internal Audit and Special Projects.

The Committee aims to promote the exchange of best practices within the group in the area of risk prevention and management, and to provide support to subsidiaries in their ongoing efforts to improve risk management. It is dependent on contacts within the business units who are responsible for implementing the risk prevention policy and for monitoring the progress of corrective or preventative action plans.

The Committee's powers cannot be used to delegate the powers conferred to it by law or by company's by-laws to the Management Board, nor can they have the effect of reducing or limiting its powers. The Risks Committee passes on its principal conclusions and recommendations to the Audit Committee of Vivendi's Supervisory Board.

### 3.8. GENERAL MANAGEMENT

Chairman of the Management Board	Jean-Bernard Lévy
Member of the Management Board and Chief Financial Officer	Jacques Espinasse
Member of the Management Board, Chairman of Vivendi Games and Senior Executive Vice President, Human Resources of Vivendi	René Pénisson
Senior Executive Vice President, Strategy and Development	Robert de Metz
Executive Vice President, Communications and Public Affairs	Michel Bourgeois
Executive Vice President	Philippe Capron
Executive Vice President, General Counsel and Secretary of the Management and the Supervisory Boards	Jean-François Dubos
Executive Vice President, Mergers and Acquisitions	Régis Turrini

### 3.9. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees Paid by the Company to its Statutory Auditors and Members of their Firms in 2006

(in millions of euros)	Salustro Reydel (Member of KPMG International)				Ernst & Young et autres				Total	
	Amount		Percentage		Amount		Percentage			
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Statutory audit, certification, consolidated and individual financial statements audit										
- Issuer	0.7	3.0	14%	39%	1.0	2.7	9%	28%	1.7	5.6
- Fully consolidated subsidiaries	2.2	3.4	43%	45%	4.8	6.0	44%	64%	7.0	9.4
Other work and services directly related to the statutory audit										
- Issuer	0.5	0.1	11%	1%	0.7	0.1	6%	1%	1.2	0.2
- Fully consolidated subsidiaries	1.3	1.2	25%	16%	4.4	0.6	40%	6%	5.7	1.8
<i>Sub-total</i>	<i>4.7</i>	<i>7.7</i>	<i>92%</i>	<i>100%</i>	<i>10.9</i>	<i>9.3</i>	<i>99%</i>	<i>99%</i>	<i>15.6</i>	<i>17.0</i>
Other services provided by the network to fully consolidated subsidiaries										
- Legal, tax and social matters	0.2	0.0	4%	0%	0.1	0.1	1%	1%	0.3	0.1
- Other	0.2	0.0	4%	0%	0.0	0.0	0%	0%	0.2	0.0
<i>Sub-total</i>	<i>0.4</i>	<i>0.0</i>	<i>8%</i>	<i>0%</i>	<i>0.1</i>	<i>0.1</i>	<i>1%</i>	<i>1%</i>	<i>0.5</i>	<i>0.1</i>
<b>TOTAL</b>	<b>5.1</b>	<b>7.7</b>	<b>100%</b>	<b>100%</b>	<b>11.0</b>	<b>9.4</b>	<b>100%</b>	<b>100%</b>	<b>16.1</b>	<b>17.1</b>

## GENERAL INFORMATION CONCERNING THE COMPANY

Report of the Chairman of the Supervisory Board of Vivendi on the Preparation and Organization of the Work of the Supervisory Board and on Internal Control Procedures – Fiscal Year 2006

## 4

# Report of the Chairman of the Supervisory Board of Vivendi on the Preparation and Organization of the Work of the Supervisory Board and on Internal Control Procedures – Fiscal Year 2006

Pursuant to Article L. 225-68 of the French Commercial Code, this report will be presented to the Combined General Meeting of Shareholders of Vivendi held on April 19, 2007.

This report was prepared with the assistance of the General Management, the office of the General Counsel and the Internal Audit Department, and was examined by the Audit Committee prior to its presentation to the Supervisory Board on March 6, 2007.

Vivendi operates using a dual board structure including a Management Board and a Supervisory Board pursuant to which the functions of management and control are segregated. Moreover, throughout the year, within the framework of rigorous processes implemented by the management committees, the group's principal business units report to their respective management teams: an analysis of their operational and strategic positioning, target figures established during the preparation and actualization of their budgets, their action plans and topics of significant interest.

## 4.1. CONDITIONS OF PREPARATION AND ORGANIZATION OF THE WORK OF THE SUPERVISORY BOARD – CORPORATE GOVERNANCE

The Supervisory Board currently has eleven members, of whom nine are independent within the meaning of the Bouton Report. Four of its members are foreign nationals including three citizens of the European Union member states and one American citizen.

In addition to the powers conferred to it by law and regulation, the Supervisory Board examines and approves, prior to their implementation: material transactions, the company's strategic orientation, acquisitions and divestitures of holdings and assets in amounts liable to alter the composition of the company's balance sheet and, in all cases, where the amounts concerned are equal to or greater than €300 million as well as where internal restructuring operations could have an impact on the organization of the group's activities. The Supervisory Board reviews and approves standard bond issues in excess of €500 million and the granting of sureties, endorsements and guarantees on behalf of third parties for amounts in excess of €100 million per commitment, subject to an annual ceiling of €1 billion.

Vivendi's Supervisory Board met eleven times during 2006. The average attendance rate at Supervisory Board meetings was 91%.

The Supervisory Board has set up four committees: the Audit Committee (six meetings in 2006), the Strategy Committee (three meetings in 2006), the Human Resources Committee (two meetings in 2006) and the Corporate Governance Committee (three meetings in 2006).

The purpose of the Supervisory Board's internal regulations is to specify the rules governing its composition in order to ensure the independence of its decisions and its duties and powers by supplementing the legal provisions and by-laws as well as those governing its relationship with the Management Board and its Chairman. They serve to supplement the most recent European and national standards of corporate governance. They are not enforceable against third parties.

In order to take into account legislative and regulatory changes and practices implemented by the company since the adoption of the Management Board and Supervisory Board dual structure, the Supervisory Board, in its meeting on December 13, 2006, examined certain alterations to its internal regulations and to those of the Committees and the Management Board which were approved on March 6, 2007.

### 4.1.1. Information Provided to the Supervisory Board

Members of the Supervisory Board receive all appropriate information and necessary documents required for them to accomplish their mission and prepare their deliberations. Prior to any meeting, they may obtain any additional documents that they consider useful.

In accordance with legal provisions, the Management Board presents the Supervisory Board with a quarterly business report on the following

matters: key financial data; business unit activities (financial results, commercial and operational performance and significant events); strategy and development of the group's activities; principal disputes and litigation concerning the group and its business units; human resources; and communication and investor relations.

In addition, the Supervisory Board is kept informed of any significant event or transaction concerning the company by the Management Board and its Chairman on an ongoing basis and by use of any means.

Company press releases are sent to the members of the Supervisory Board.

In order to obtain supplementary information, the members of the Supervisory Board may meet with the members of the Management Board as well as the principal managers of the company, whether in the presence of members of the Management Board or not, after having informed the Chairmen of the Supervisory and Management Boards.

#### 4.1.2. Collective Nature of the Supervisory Board's Deliberations – Confidentiality of Information – Dealings in the Company's Securities

The Supervisory Board is a collective body; its deliberations are binding on all of its members.

Members of the Supervisory Board, and any person attending Supervisory Board meetings, are bound by a strict obligation of confidentiality and discretion concerning any information the company communicates to them, which they receive in the context of the Board and Committee deliberations, and concerning information of a confidential nature or which is presented as such by the Chairman of the Supervisory Board or the Management Board.

If the Supervisory Board becomes aware of any specific, confidential information which is likely, at the time of its publication, to have a significant effect on the company's share price or on those of the companies it controls within the meaning of Article L. 233-3 of the French Commercial Code, members of the Supervisory Board must refrain from communicating this information to any third party and from transacting in the company's securities until such information has been made public.

Throughout the periods defined below, members of the Supervisory Board and the Management Board are prohibited from entering into sale and purchase transactions in connection with company securities whether on the open market or in relation to off-market block trades, be it directly, through their spouse or their partner under a civil union agreement (*pacte civil de solidarité*), or through any person with whom they have a close relationship including ascendants, descendants, relatives or any person living at their home for at least one year as of the date of the transaction, as well as through any legal entity, fiduciary, trust or partnership, whose management responsibilities are carried

out by members of the Supervisory Board or the Management Board or by any related person, which is controlled directly or indirectly by them or is incorporated for their benefit, or whose economic interests are substantially the same as their own:

- the period from the date on which the members of the Supervisory Board or of the Management Board become aware of specific market information concerning the business or its prospects which, if made public, would be likely to have a significant effect on the share price, up to the date on which this information is made public;
- the period of 30 calendar days up to and including the publication date of the quarterly, semi-annual and annual results of the company.

Pursuant to the AFEF/MEDEF joint-recommendation dated January 9, 2007, the Management Board, at its meeting held on January 24, 2007, decided to prohibit the use of derivative financial instruments as a means to hedge transactions of any nature.

#### 4.1.3. Assessment of the Supervisory Board's Performance

Pursuant to its internal regulations, on a periodic basis, and in any event at least every three years, the Supervisory Board carries out a formal assessment of its own performance, under the supervision of the Corporate Governance Committee. This formal assessment was performed in February 2006 (refer to page 103 of the 2005 Annual Report).

At its meeting held on March 6, 2007, the Supervisory Board devoted an item on the agenda to a discussion about its performance.

#### 4.1.4. Determination of Compensation and Benefits Granted to Members of the Management Board

Compensation of Management Board members and of the principal managers of the company is set by the Supervisory Board after receiving input from the Human Resources Committee. In this context, the Committee relies on comparative studies carried out by external and independent advisers and that take into account the compensation of company officers in a range of French, European and international companies which operate in business sectors identical or similar to those in which Vivendi and its subsidiaries operate. The compensation of Management Board members is comprised of a fixed and a variable component.

For 2006, the Supervisory Board, at its meeting on February 28, 2006, upon recommendation of the Human Resources Committee of February 27, 2006, set the fixed component of Management Board Members' compensation.

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As for the variable component, this was determined based on the following criteria: (1) for company officers and managers at the head office: (a) financial targets (63%) and (b) accomplishment of general management's priority actions (37%), (2) for company officers, Chairmen or managers of subsidiaries: (a) group financial targets (15%), (b) financial targets of their entity (60%) and (c) priority actions for their entity (25%).

For 2007, the variable part was determined by the Supervisory Board on March 6, 2007, pursuant to a proposal from the Human Resources Committee of March 2, 2007, based upon the following criteria: (1) for corporate officers and senior executives of the headquarters: (a) financial objectives (66%) linked to both adjusted net results (41%) and cash flow from operations (25%) and (b) performance of general management's priority actions (34%) and (2) for corporate officers of subsidiaries (including subsidiaries' chairmen or executives) according to the same criteria as those set forth for 2006 (see above).

### 4.1.5. Terms of Holding Shares Resulting from the Exercise of Stock Options and from Restricted Stock by Board Members

Pursuant to provisions of Articles L. 225-185 and L. 225-197-1 of the French Commercial Code, the Supervisory Board, at its meeting held on March 6, 2007, set forth the following rules related to the retention period for the shares resulting from the exercise of stock options and restricted stock granted under the 2007 plans.

The members of the Management Board must hold, until the end of their mandates, in a nominative account, a number of shares resulting from the exercise of stock options and restricted stock granted under the 2007 plans, equal to 20% of the net gain resulting, if applicable, from the exercise of stock options or sale of restricted stock.

In addition, effective from January 1, 2007, the members of the Management Board are requested to allocate, each year, the equivalent of 50% of the net gain resulting from the exercise of their stock options and/or the sale of their restricted stocks, to the creation within 5 years of a portfolio of Vivendi shares, corresponding to 3 years of the gross compensation (fixed compensation and target bonus) for the Chairman of the Management Board and to 2 years of the gross compensation for the other Members of the Management Board.

## 4.2. INTERNAL CONTROL PROCEDURES

Following the delisting of the company from the New York Stock Exchange on August 3, 2006 and upon the termination of its registration with the U.S. Securities and Exchange Commission (SEC) on October 31, 2006, Vivendi has committed itself to maintain the highest standards of internal control and financial disclosure. During its meeting held on November 14, 2006, the Management Board set up a Risks Committee chaired by the Chairman of the Management Board. The mission of the Risks Committee is to reinforce management and risk prevention measures within the group.

### 4.2.1. Definition and Objectives of Internal Control

The company views internal control as a set of procedures defined by Vivendi's Management Board and implemented by its employees in order to ensure that the following objectives are achieved:

- the application of the instructions and strategies established by the Management Board;
- compliance with laws, regulations and the group's values;
- the prevention and the control of operational and financial risks as well as the risks of error or fraud;

- the optimization of internal processes to ensure the effectiveness of operations and the efficient use of resources; and
- the quality and validity of accounting and financial disclosure information as well as management information.

In order to achieve each of these objectives, Vivendi has defined and implemented general principles of internal control based to a large degree on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and on the recommendations on corporate governance and internal control formulated by the AMF in its report published on January 22, 2007.

These principles are based on:

- a policy that contributes to the development of a culture of internal control and principles of integrity;
- the identification and analysis of risk factors that could adversely impact the achievement of the group's objectives;
- organization and procedures to support the implementation of the strategic orientations identified by the Management Board;
- the periodic review of control activities and the continuous search for areas of improvement; and
- the process of distributing information relative to internal control.

However, as with any system of control, these principles, when applied, cannot provide an absolute guarantee that all risks will be fully eliminated or controlled, or that the company's objectives will be achieved.

## 4.2.2. Scope of Internal Control

Vivendi is organized into five business units (Universal Music, Group Canal+, SFR, Maroc Telecom and Vivendi Games). Each business unit implements the strategies identified by the Management Board, including objectives in the field of internal control. Each entity has a set of tailored internal control measures which include both the application of Group procedures and the definition and application of procedures specific to each of the business units according to its organization, culture, its identified risk factors and operational specificities. As the parent company, Vivendi oversees that such internal control measures exist and are adequate, in particular in regard to the accounting and financial procedures applied by the consolidated entities of the Group.

## 4.2.3. Internal Control Components

### 4.2.3.1. The Control Environment

#### Rules of Conduct and Ethics Applicable to all Employees

Vivendi oversees that all aspects of its corporate responsibility are taken into account. Vivendi has therefore adopted a charter of the group's values which includes notably consumer focus, creativity, ethics and social responsibility. It has established a Compliance Program which contains general rules of ethics applicable to all the employees of the group regardless of their seniority and position. These rules of behavior cover employees' rights, integrity and protection of information, the prevention of conflicts of interest, commercial ethics and compliance with competition law, the use of property and resources belonging to the group, financial ethics and respect for the environment. The purpose of the program is to make employees aware of their responsibilities and provide them with a reference tool which gives them guidance in determining appropriate types of behavior. These general rules have been distributed to each business unit in all geographical areas where the group operates so as to incorporate the operational specificities of the subsidiaries as well as the particularities of local legislation. Certain entities have therefore established an additional code of ethics. The implementation of the Compliance Program is monitored by the teams of the office of the General Counsel in conjunction with correspondents within each of the principal business units.

#### Rules of governance and Management bodies

In addition to the legal and statutory provisions (as discussed above), the Supervisory Board and its Committees, and the Management Board's duties and powers are defined in their respective Internal Regulations.

## Responsibilities and Commitments of the General Management of each Business Unit

The Chairman and Chief Financial Officer of each of the five business units prepare a representation letter every six months certifying compliance with internal control procedures relating to the preparation of financial statements and financial, industry-based, operational and competitive information elements.

### Delegation of Powers

The delegation of operational powers, whether on a single occasion or recurring, is one of the responsibilities of the General Management of Vivendi and of the General Management of each of the business units. These delegated powers are updated and formalized on a regular basis according to the evolving role and responsibilities of the persons to whom such powers are granted.

### Resources Dedicated to the Definition of Internal Control Procedures

Vivendi and each of its business units have set up a team in charge of internal control.

### 4.2.3.2. Risk Management and Prevention

The assessment of risk at the group level is based on a qualitative and quantitative approach using materiality thresholds defined by each business unit and taking into account its contribution to the group's principal financial indicators. The materiality thresholds are updated annually by the Internal Audit Department.

The principal risks faced by the company are described in the annual report in Chapter 2, relating to risk factors, and in Chapter 4, note 26 of the financial statements relating to the management of market and financial instrument risks.

Operational risks are primarily managed by the business units and their subsidiaries which have implemented risk management approaches that are adapted to fit their specific activities (e.g., risk associated with infringement of intellectual property rights for the music business; risk associated with piracy and counterfeiting for the film and music businesses).

Financial risk management (liquidity, interest and exchange rates and share price risks) is handled by Vivendi's Finance and Treasury Department through a centralized organization responsible for managing treasury operations.

The policy of covering insurable risks (the risk of damage and loss of earnings following an accident, the risk of civil liability, the risk of work-related accidents) is monitored by the Risk Management Department of Vivendi SA in collaboration with the Finance and Legal Departments. The insurance coverages in place have been described in chapter 2.

At its meeting held on November 14, 2006, the Management Board set up a Risks Committee which is responsible for identifying and preventing risks that are likely to have an impact on the achievement of the group's

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objectives. This Committee, which is chaired by the Chairman of the Management Board, held its first meeting on February 28, 2007.

The Risks Committee is responsible for making recommendations to the Management Board in the following areas:

- the identification and assessment of risks that can arise from the activities carried out within the Vivendi group such as risks relating to tax, employee and environmental matters, risks associated with the compliance with laws and regulations, risks relating to ethics, competition and conflicts of interest, risks associated with the security of information systems and risks relating to the exercise of guarantees given or received.
- the review of the adequacy of risk coverage and the level of residual risk;
- the review of insurable risks and of the insurance program; and
- the list of risk factors and prospective statements as disclosed by the Group in its public documents.

In addition to its Chairman, the Risks Committee is comprised of the group's Chief Financial Officer, its General Counsel and its Director of Internal Audit. The business units are invited to attend meetings depending on the subjects covered in the agenda. The Committee provides the Audit Committee of the Supervisory Board with its principal conclusions and recommendations.

The Committee promotes the exchange of best practice within the group in the areas of risk prevention and management and provides support to the business units in their continuous efforts of improvement in this area.

### 4.2.3.3. Control Activities

The following bodies ensure the monitoring of internal control measures implemented under Vivendi Management Board's responsibility:

#### The Audit Committee

The Audit Committee is comprised of independent members of the Supervisory Board. Within the powers conferred to it, the Audit Committee prepares the decisions of the Supervisory Board and provides recommendations or issues opinions to it on a range of matters, including, in particular:

- the consistency and effectiveness of internal control measures;
- the review of the assessment operational and financial risk, its coverage and the review of the insurance program;
- the annual review of the Compliance Program, the proposal of any measure likely to improve its effectiveness, and, if necessary, the formulation of an opinion on this report;
- the review of compliance with the rules of proper behavior in the areas of competition and ethics;

- the review of serious procedural dysfunctions and, should the need arise, the review of cases of corruption; and
- the selection and remuneration of external Auditors.

The Committee's Chairman systematically submits a report to the Vivendi Supervisory Board.

In addition, Vivendi chairs the Audit Committees of its subsidiaries: SFR, Maroc Telecom and Canal+ France.

Vivendi's Audit Committee met six times in 2006. In particular, it examined the results of the bidding process relating to the renewal of the external Auditors' appointment, internal control procedures, the adaptation of its own internal regulations, the annual Compliance Program report prepared by the office of the General Counsel, the proposal to delist from the New York Stock Exchange and to terminate the registration with the SEC, and the risk analysis and 2007 audit plan.

#### The Internal Audit Department

The Internal Audit Department (with 23 Auditors for financial audit and external resources for IT audit) reports to the General Management and is responsible for assessing, in an independent manner, the quality of internal controls at every level of the organization. Its operations are governed by a Charter approved by the Audit Committee. SFR's Internal Audit Department (7 Auditors) and Maroc Telecom's Financial Audit Department (18 Auditors) currently reinforce these resources dedicated to internal control.

During its daily operations, Vivendi may be confronted with cases of fraudulent behavior, which are systematically brought to the attention of the Audit Committee. In such cases, specific investigations are carried out by the Internal Audit Department and the penalties imposed on the persons involved are monitored.

The Internal Audit Department is responsible for performing an independent assessment of the effectiveness of internal control processes, based on an annual audit plan which is approved by the Finance Department and the office of the General Counsel of the Group and presented to the Audit Committee. This plan is developed from both an independent analysis of the operational, IT and financial risks that exist within each business unit and the consultation of the General Management of each business unit. Reports on the audit work carried out are communicated to Vivendi's General Management, to operational and functional management in the audited subsidiary and to their superiors on a business unit level. A summary of the principal reports is presented at each Audit Committee meeting along with any observations made by the Group's external Auditors.

Follow-up audits are systematically performed in order to ensure that recommended action plans and agreed upon corrective measures have been implemented.

### Self-assessment Questionnaires

Self-assessment questionnaires relating to the methods for documenting and assessing internal controls and to the monitoring of action plans are sent to each business unit on a quarterly basis. In addition, a questionnaire containing approximately 50 questions dealing with the five main components of internal control as defined by the COSO is sent to each business unit annually. The answers to these questionnaires, together with the monitoring of the action plans, are reviewed by Internal Control Monitoring Committee of the group's Financial Information and Communication Procedures Committee. The documentation containing the answers provided and the conclusions is also reviewed by the external Auditors.

### Financial Information and Communication Procedures Committee

This Committee assists the Chairman of the Management Board and the Chief Financial Officer of the group in their task of ensuring that Vivendi SA fulfills its obligations with regard to the disclosure of information to investors, the public, and the regulatory and market authorities in France. It is chaired by the General Counsel and is comprised of representatives from all of the different departments at the head office. Fourteen meetings took place in 2006.

The disclosure of information included within the Committee's area of expertise includes documents containing periodic information distributed to investors and to the financial markets in compliance with French financial market regulations, press releases related to the quarterly results and presentation documents for investors and financial analysts.

#### 4.2.3.4. Information and Communication

The group's values and the content of the Compliance Program are accessible to all employees on Vivendi's intranet site. The content and format of the Program have both been updated in 2006. A meeting to raise awareness was held at the head office in October 2006 and was chaired by the General Counsel.

Group procedures to assist with the preparation of financial and accounting information are updated at least once per year, and are available in French and English on the group's intranet site. These procedures, which must be applied by each of the Group's business units, include: the IFRS accounting principles manual; the principles and procedures applicable to treasury operations (banking relationships, foreign exchange, finance and investment); the procedures applicable to investment transactions, sales of assets, short and long-term financing transactions, the monitoring of disputes; the monitoring of sureties, endorsements and guarantees; and the rules relating to advance approval for non-audit engagements to be carried out by the external Auditors of Vivendi SA.

The IFRS standards published by the IASB and training materials relating to the application of IFRS within the Group are available online and are accessible to all employees.

The documentation of the processes and controls is recorded by each business unit in a dedicated computer application or on a shared network directory. This documentation is updated *at least* annually and is formally approved by each person in charge of the process. Within each business unit, this documentation is accessible to all employees involved with the process.

The General Counsel, as Chairman of the Financial Information and Communication Procedures Committee, and the group's Chief Financial Officer regularly inform the finance Directors and teams in charge of the procedures and internal control about the principal steps of the group's methodology and the objectives expected to be achieved in the area of internal control. Awareness campaigns are also organized by General Management and by the Finance Departments of certain business units.

#### 4.2.3.5. Internal Control Monitoring

One of the responsibilities of Vivendi's Management Board and of the General Management of each of the five business units is to pilot the process of internal control.

The policy of formalizing and assessing internal control is implemented by dedicated teams within each business unit. These teams report on the progress made and the action plans to a steering committee which in turn reports to the General Management of each business unit. The Financial Information and Communication Procedures Committee is kept aware of this progress.

The work carried out by the external Auditors to review and assess internal control is summarized in a detailed presentation to the General Management of the associated business units. A summary of their conclusions is presented to Vivendi's Audit Committee.

### 4.2.4. Key Processes for Financial and Accounting Information

The processes listed below help reinforce internal controls concerning the treatment of financial and accounting information disclosed by Vivendi. Contents of the guide for applying internal control procedures related to financial disclosures contained in internal control reference materials published by the AMF was taken into account during the update of these procedures.

- *Consolidation and financial reports:* the consolidated financial statements of the group and its financial reporting are prepared in accordance with international accounting standards (IFRS) based on accounting data prepared under the responsibility of management for each business unit. The main topics addressed in the financial report are subject to specific procedures. These include, in particular, a regular impairment test of assets held by the company, liquidity, off-balance sheet commitments and the valuation of employee benefits. The parent company's financial statements and the consolidated financial statements are closed by the Management Board and then examined by the Supervisory Board, in reliance on the observations of the Audit Committee. The group's consolidated

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financial statements are published quarterly. They are audited annually and are subject to limited semi-annual reviews as required by law.

- **Plan, budget and management control:** every year, each business unit must present its strategy, a three-year business plan and its annual budget to the group's General Management. After approval by Vivendi's Management Board, a summary is presented to the Supervisory Board. Quantitative and qualitative targets used as a basis to assess performance are then set for each business unit management in the context of the priority actions which are monitored on a monthly basis and evaluated annually. These forecasts are updated three times a year and are subject to a specific reporting process.

- **Investments/divestitures:** all investment and divestiture transactions exceeding €15 million must receive prior authorization from the Investment Committee chaired by the Chairman of the Management Board. This procedure applies to all capital transactions (including the acquisitions of equity stakes and the launch of new businesses) as well as to any other financial commitment (including the purchase of rights and property contracts) that was not provided for in the annual budget. The Investment Committee meets as often as necessary with exploratory analyses and the preparation of documents and reports handled by the group's Strategy and Development Department. The Chairman of the Committee ensures that the coordination with the respective business unit is satisfactory and that the Finance Department is present at each meeting.

In addition, any transaction between €100 million and €300 million must receive prior approval of the Management Board and the Supervisory Board, respectively, pursuant to the provisions set forth in their Internal Regulations.

- **Monitoring of financial commitments:** the business units establish an inventory of the commitments made and received as part of the semi-annual financial reporting process. These commitments are presented by the business units' legal and finance officers at meetings held with the group's Finance Department that take place as part of the annual financial statements' closing process.
- **Sureties, endorsements and guarantees:** pursuant to the provisions of the company's by-laws and the Internal Regulations of the Supervisory Board, the granting of sureties, endorsements and guarantees by Vivendi SA to its subsidiaries is subject to prior approval thresholds in accordance with the following dual limitations:
  - any commitment under €100 million where the cumulative amount of commitments is under €1 billion is subject to the approval of the Management Board, which may delegate such power; and
  - any commitment in excess of €100 million or when the cumulative amount of commitments exceeds €1 billion is subject to the approval of the Supervisory Board.

- **Treasury, financing and liquidity:** the management of cash flows and hedging transactions (foreign exchange, interest rates, etc.) is centralized by Vivendi SA using treasury "hubs". Liquidity positions at the group level and the business unit level and exposure to foreign exchange and interest rate risks are monitored on a bi-monthly basis by a finance committee. Short and long-term financing activities mainly take place at the head office and are subject to the prior approval of the Management Board and Supervisory Board, in accordance with the provisions of their Internal Regulations.

- **Duties and taxes:** the validation of current tax, deferred tax, taxes paid and the calculation of the effective tax rate are carried out by the group's Tax Department, in collaboration with the Consolidation and Financial Reporting departments. To this end, a centralized reporting tool is being introduced progressively in each of the group's business units. In addition, within the framework of the Consolidated Global Tax System («*Bénéfice Mondial Consolidé*» - BMC), a complete collection of statutory accounts has been organized with the assistance of specialist advisers to ensure the proper transition of results under local accounting rules into results that comply with French tax legislation. The calculation and accounting treatment of income obtained under the Consolidated Global Tax System, as established by the Group's Tax Department, is the subject of quarterly monitoring approved by the Consolidation Department and the group's Chief Financial Officer. The Tax Department also acts as an advisor to the subsidiaries and ensures the defense of these entities' interests with respect to local tax authorities.

- **Litigation:** the major disputes are monitored directly or coordinated by the office of the General Counsel and by the Legal Department, and the preparation and monitoring of the litigation reports of Vivendi and its business units are monitored by the office of the General Counsel and the Legal Department of the group in collaboration with the General Counsel and the Legal Directors of the main business units. A summary report is provided to Management Board on a monthly basis. A table of ongoing litigation and disputes is updated for each quarterly closing based on the follow up information provided by each business unit. A summary of this table is included in the quarterly business report of the Management Board to the Supervisory Board. In addition, the Supervisory Board and the Management Board are kept informed on an ongoing basis by the General Counsel of the principal litigation in progress.

### 4.2.5. Actions Taken in 2006 and Objectives for 2007

In 2006, the Vivendi group continued its work to assess internal control and the processes that impact financial disclosures. Procedures for monitoring financial information and disclosures were reviewed by the Financial Information and Communication Procedures Committee and were subject to specific certifications provided by the Chairmen and Finance Directors of the principal business units.

Questionnaires concerning the progress of the project and of action plans identified, based on the work performed, were distributed to

business units on a quarterly basis. An Audit Committee meeting was held in July 2006, in order specifically to assess this work and to examine the reviews carried out by the external Auditors.

Test campaigns were performed and action plans were monitored during the second half of 2006, with a view to certifying, without reservation, the results of the assessment of internal control over financial reporting at the end of the exercise.

On October 31, 2006, Vivendi filed a notice of deregistration (Form 15) with the U.S. Securities and Exchange Commission, which suspended its filing of financial information under the U.S. Securities Exchange Act of 1934, as well as under the provisions of the Sarbanes-Oxley Act.

Vivendi is committed to providing its investors with the same level of financial information and to maintaining the highest European and national standards of corporate governance, as well as to pursuing its policy of continuous improvement of its internal control procedures. This policy was reviewed by the Audit Committee on November 14, 2006 and was confirmed by the Management Board on November 14, 2006. It will be regularly monitored by the Supervisory Board and the Audit Committee.

Paris, March 6, 2007

Jean-René Fourtou

Chairman of the Supervisory Board

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Statutory Auditors' Report Prepared in accordance with Article L. 225-235 of the French Commercial Code (Code de Commerce), on the Report Prepared by the Chairman of the Supervisory Board of Vivendi, on the Internal Control Procedures Relating to the Preparation and Processing of Financial and Accounting Information

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## Statutory Auditors' Report Prepared in accordance with Article L. 225-235 of the French Commercial Code (Code de Commerce), on the Report Prepared by the Chairman of the Supervisory Board of Vivendi, on the Internal Control Procedures Relating to the Preparation and Processing of Financial and Accounting Information

To the Shareholders,

In our capacity as Statutory Auditors of Vivendi and in accordance with Article L. 225-235 of the French Commercial Code (Code de Commerce), we hereby report to you on the report prepared by the Chairman of the Supervisory Board of your company in accordance with Article L. 225-68 of the French Commercial Code (Code de Commerce) for the financial year ended December 31, 2006.

It is for the Chairman of the Supervisory Board to give an account, in his report, notably of the conditions in which the duties of the Supervisory Board are prepared and organized and the internal control procedures in place within the company.

It is our responsibility to report to you our observations on the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures

to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the Chairman's report;
- obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman of the Supervisory Board's report, prepared in accordance with article L. 225-68 of the French Commercial Code (Code de Commerce).

Paris-La Défense, Neuilly-sur-Seine, March 7, 2007

The Statutory Auditors

SALUSTRO REYDEL

Member of KPMG International

Benoît Lebrun  
Partner

Marie Guillemot  
Partner

ERNST & YOUNG et Autres

Dominique Thouvenin  
Partner

# 4

## Financial Report - Consolidated Financial Statements - Statutory Auditors' Report on the Consolidated Financial Statements - 2006 Statutory Financial Statements of Vivendi SA (summarized)

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## Selected Key Consolidated Financial Data for the Last Three Years

	Year Ended December 31,		
	2006	2005	2004
Revenues	20,044	19,484	17,883
EBITA (a)	4,370	3,985	3,504
<b>EBITA / Revenues (%)</b>	<b>21.8%</b>	<b>20.5%</b>	<b>19.6%</b>
Earnings attributable to equity holders of the parent	4,033	3,154	3,767
Adjusted net income, attributable to equity holders of the parent (a)	2,614	2,218	1,498
<b>Adjusted net income, attributable to equity holders of the parent / Revenues (%)</b>	<b>13.0%</b>	<b>11.4%</b>	<b>8.4%</b>
Financial Net Debt (b)	4,344	3,768	4,724
Equity	21,864	21,608	18,092
Of which attributable to equity holders of the Parent	19,912	18,769	15,449
Cash flow from operations before capital expenditures, net (CFFO before capex, net)	6,111	5,448	5,358
Cash flow from operations (CFFO)	4,466	4,157	4,354
Capital expenditures, net (capex, net) (c)	1,645	1,291	1,004
Financial investments	3,881	1,481	394
Financial divestments	(1,801)	(155)	(5,264)
Dividends paid as for previous fiscal year	1,152	689	-
<b>Per share amounts</b>			
Weighted average number of shares outstanding over the period	1,153.4	1,149.6	(d) 1,144.4
<b>Adjusted net income, attributable to equity holders of the parent per share (a)</b>	<b>2.27</b>	<b>1.93</b>	<b>1.31</b>
Number of shares outstanding at the end of the period (excluding treasury shares)	1,155.7	1,151.0	(d) 1,144.9
Equity per share, attributable to equity holders of the parent	17.23	16.31	13.49
<b>Dividends per share paid as for previous fiscal year</b>	<b>1.00</b>	<b>0.60</b>	<b>0.00</b>

In millions of euros, number of shares in millions, data per share in euros.

(a) Beginning June 30, 2006, Vivendi made a number of presentation changes, including changes to the presentation of the operating performances of its business segments and of the group. Vivendi has applied these presentation changes to all periods presented in this document. For a description of such presentation changes, please refer to Paragraph 2 of the 2006 Financial Report and to Note 1 "Accounting policies and valuation method" of the notes to the Consolidated Financial Statements for the Year Ended December 31, 2006.

(b) Vivendi considers Financial Net Debt, a non-GAAP measure, to be an important indicator measuring Vivendi's indebtedness. A description of this measure is presented in Section 5 "Liquidity management and capital resources for 2006 and 2005" of the 2006 Financial Report.

(c) Capex, net consists of capital expenditures, net of proceeds from property, plant and equipment and intangible assets.

(d) Includes notes mandatory redeemable for new Vivendi shares which matured on November 2005.

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## Preliminary Comments

At the Annual Shareholders' Meeting held on April 20, 2006, the shareholders of Vivendi Universal approved the company's name change to "Vivendi".

The Consolidated Financial Statements for the Year Ended December 31, 2006 are audited and certified by the Statutory Auditors with no qualified opinion. The Statutory Auditors' Report on the Consolidated Financial Statements is available as a preamble to the Financial Statements.

Vivendi considers that the non-GAAP measures mentioned below are relevant indicators of the group's operating and financial performance. In addition, beginning June 30, 2006, considering the practice of major European companies in applying IFRS and considering the accounting impact of acquisition transactions, Vivendi has made a number of presentation changes to its consolidated statement of earnings, its consolidated statement of cash flows as well as to the operating performances of its business segments and of the group. For a description of such presentation changes, please refer to Section 2 of this Financial Report and also to Note 1 "Accounting policies and valuation methods" of the notes to the Consolidated Financial Statements for the Year Ended December 31, 2006.

### Non-GAAP measures:

- revenues on a comparable basis;
- EBITA as published and on a comparable basis, as described in Section 2 of this Financial Report;
- adjusted net income, attributable to equity holders of the parent, calculated according to its new definition, please refer to Section 2 of this Financial Report;
- Financial Net Debt; and
- cash flow from operations, as published and on a comparable basis.

Each of the indicators is defined in the appropriate section of this Financial Report or in the notes to the Consolidated Financial Statements for the Year Ended December 31, 2006. These indicators should be considered in addition to, not as a substitute for, other GAAP measures of operating and financial performances as presented in the Consolidated Financial Statements and the related notes, or described in this Financial Report. Moreover it should be emphasized that other companies may define and calculate these indicators differently than Vivendi, thereby affecting comparability.

## Summary of 2006, 2005 and 2004 Main Developments

Over the last three years, Vivendi's main goal was to consolidate its positions in its core businesses. The main developments that occurred over this period are presented below:

### 2006

- On January 6, 2006, Vivendi signed an agreement with TF1 and M6, followed by the signing of an investment agreement between Vivendi, Groupe Canal+ and Lagardère on March 14, 2006. These agreements provide for the combination of the pay-TV businesses of the Canal+ Group and TPS in France to create a new group named Canal+ France. The French antitrust authorities authorized the transaction on August 31, 2006. Certain preliminary transactions required by the agreements closed during the fourth quarter 2006 and the final merger transaction closed on January 4, 2007. (See 2007 Events, below and Paragraph 1.1.1 of this Financial Report, for a full description of these transactions.)
- On February 7, 2006, Vivendi acquired the approximate 7.7% interest held by Matsushita Electric Industrial Co, Ltd in Universal Studios Holding I Corp., the subsidiary that principally held 100% of UMG and 20% of NBC Universal.

- During the second and third quarters SFR increased its stake in Neuf Cegetel to 40%. Neuf Cegetel shares have been trading on the Euronext of Euronext Paris SA since October 24, 2006.
- At the beginning of June 2006, Vivendi signed an agreement with the United States Internal Revenue Service (IRS) to terminate their dispute concerning the amount of tax due on the redemption of DuPont shares from Seagram in April 1995.
- On July 6, 2006, Vivendi sold its residual 5.3% stake in Veolia Environnement.
- On August 3, 2006, Vivendi terminated its deposit agreement with The Bank of New York relating to its American Depositary Receipts (ADRs). At the end of October, Vivendi terminated its reporting obligations under the U.S. Securities Exchange Act of 1934.
- On September 6, 2006, Vivendi entered into a definitive agreement to purchase 100% of BMG Music Publishing Group (BMGP). A deposit amount equal to the purchase price (€1.6 billion) was made on December 15, 2006. The transaction is subject to the regulatory approval of the EU competition authorities. Such regulatory approval has been obtained in the United States.
- On December 14, 2006, Vivendi amended its agreement with General Electric Company regarding certain liquidity rights with respect to Vivendi's stake in NBC Universal.
- On December 29, 2006, Maroc Telecom acquired a 51% stake in Onatel, the national telecommunications operator in Burkina Faso.

## 2005

- On January 4, 2005, Vivendi completed the acquisition of an additional 16% stake in Maroc Telecom to reach 51%, perpetuating the majority control it had acquired following the privatization of Maroc Telecom at the beginning of 2001.
- On June 7, 2005, NBC Universal acquired from InterActiveCorp (IACI) its minority interest held in Vivendi Universal Entertainment (VUE) and an agreement was reached regarding the tax dispute between Vivendi and IACI.
- On August 22, 2005, Cegetel and Neuf Telecom (in which SFR held a 28.2% equity interest at that date) completed their combination creating Neuf Cegetel.

## 2004

- On August 22, 2004, Vivendi was admitted to the French Consolidated Global Profit Tax System to optimize its tax structure.
- On May 11, 2004, Vivendi completed the strategic alliance between VUE and NBC to form NBC Universal, in which Vivendi held 20%.
- Blizzard Entertainment successfully launched *World of Warcraft* with more than 8 million paying customers at December 31, 2006.
- On December 9, 2004, Vivendi divested 15% of its 20.3% stake in Veolia Environnement.
- The Canal+ Group continued to increase its sports program offerings after winning exclusive rights to the French Soccer League 1 in December 2004, for the 2005-2006 to 2007-2008 seasons.

For the last three years, due to the restoration of the group's profitability as well as to the generation of available cash, Vivendi paid a dividend which amounted to €0.60 per share for 2004 (€689 million) and €1 per share for 2005 (€1,152 million), representing more than 50% of adjusted net income, attributable to equity holders of the parent, in accordance with the dividend policy announced by the group. For the same reasons, Vivendi again proposes to pay a dividend of €1.20 per share for 2006, representing approximately €1.4 billion.

## 2007 EVENTS

- On January 4, 2007, TF1 and M6 transferred 100% of the share capital of TPS and Lagardère transferred its 34% equity interest in CanalSat to Canal+ France, which transfers were paid for in Canal+ France shares. Pursuant to an earlier transaction that occurred in December, 2006, Lagardère received newly-issued shares in Canal+ France in consideration of cash. Following these transactions, Vivendi has exclusive control of Canal+ France with a 65% equity interest, whereas Lagardère, TF1 and M6 hold 20%, 9.9% and 5.1%, of Canal+ France, respectively. Canal+ France mainly owns 100% of CanalSat, TPS, Canal+ Distribution, MediaOverseas and Multithématiques and 49% of Canal+ SA. (See Paragraph 1.1.1. of this Financial Report).
- During the year 2007, Vivendi will focus on closing the acquisition of BMGP, a music publishing group, as described in Paragraph 1.1.6 of this Financial Report.

# 1 Main Developments in 2006, 2005 and 2004

## 1.1. MAIN DEVELOPMENTS IN 2006

### 1.1.1. Combination of the Canal+ France and TPS pay-TV Activities in France

On January 6, 2006, Vivendi, TF1 and M6 entered into an agreement (the "TF1-M6 Agreement") setting forth the terms and conditions of the proposed merger of (i) Télévision Par Satellite SNC (TPS) and its direct and indirect subsidiaries and (ii) the pay-TV publishing and service distribution activities of Groupe Canal+ in France (including overseas departments and territories) and other Francophone countries, into Canal+ France. TF1 and M6 would own an aggregate of 15% (9.9% and 5.1%, respectively) of Canal+ France which would be under the exclusive control of Vivendi. The TF1-M6 Agreement stipulated that the merger transactions would be achieved on a cash-free, debt-free basis with a zero "net cash position" (contractual aggregate determined on August 31, 2006).

On March 14, 2006, Lagardère, Vivendi and Groupe Canal+ entered into an investment agreement (the "Lagardère Agreement") mainly providing for the acquisition of TPS by Vivendi and Groupe Canal+. Under the terms of this agreement, Lagardère Active undertook, subject to certain conditions precedent, to acquire a 20% interest in Canal+ France by (i) transferring its 34% ownership interest in CanalSatellite (without dilution of the shareholdings of TF1 and M6) and (ii) acquiring Canal+ France shares from Groupe Canal+ for €525 million in cash, less 34% of CanalSatellite's "net cash position" and 16.7% of the net available cash of GIE Numérique, plus 20% of the "net cash position" of Canal+ France.

The scope of Canal+ France's assets principally includes 100% ownership of CanalSatellite, Canal+ Distribution, MultiThématiques, Media Overseas, GIE Numérique and TPS, and 49% ownership of Canal+ S.A. The assets of Groupe Canal+ held outside Canal+ France are StudioCanal, Cyfra+, Canal+ Régie and i>Télé.

On August 30, 2006, the merger was authorized, pursuant to the merger control regulations, by a decision of the French Minister of the Economy, Finance and Industry, subject to Vivendi and Groupe Canal+ complying with certain undertakings. Without calling into question the pay-TV economic model, or the industrial logic behind the transaction and the benefits to the consumer, these commitments satisfy, more specifically, the following objectives:

- facilitate the access of television and video-on-demand (VOD) operators to rights on attractive audiovisual content and in particular French and US films and sporting events. To this end, the Group Canal+ undertakes, notably, to restrict the term of future framework agreements with major US studios to a maximum of three years, not

to seek exclusive VOD rights, to guarantee non-discriminatory access to the StudioCanal catalogue, to restrict the proportion of films taken from this catalogue in the acquisition of films by the future entity and to cease soliciting combined offers for different categories of cinematographic and sporting rights.

In addition, the Group Canal+ undertakes to retrocede, within the framework of competition requirements, free-to-air audiovisuals rights to TV series and sporting events that the new entity may hold and does not use;

- make available to all pay-TV distributors who so wish several high-quality channels, enabling them to develop attractive products. Third parties will be provided with access to TPS Star, three cinema channels (CinéStar, CinéCulte, CinéToile), Sport+ and the children's channels Piwi and Teletoon. In addition, Canal+ will be available in digital (self distribution) to all operators wishing to include this channel in their product range;
- enable French-language independent licensed channels to be included in the satellite offerings of the new group. The current proportion of theme channels in the group's offerings that are neither controlled by the Group Canal+ or one of the minority shareholders in the new entity (Lagardère, TF1, M6), will be retained at the current level as a minimum, including in the basic offering. This guarantee applies both in terms of the number of channels and revenue.

These commitments are given by Vivendi and the Group Canal+ for a maximum period of six years, with the exception of those commitments relating to the availability of channels and VOD that cannot exceed five years.

This merger was completed on January 4, 2007 following completion of the following preliminary transactions:

- on November 30, 2006, Groupe Canal+ transferred to Canal+ France all of its assets and operating activities of pay-TV publishing and distribution in France (including overseas departments and territories) and other Francophone countries (with the exception principally of MediaOverseas which had been previously sold to Canal+ France). The recapitalizations provided for in the TF1-M6 Agreement to reduce the "net cash position" of TPS and Canal+ France to zero were also carried out on this date by TF1 and M6 on the one hand, and by Groupe Canal+ on the other;
- on December 19, 2006, Groupe Canal+ sold 9.82% of the share capital of Canal+ France (which, at such date, excluded TPS and included 66% of CanalSatellite) to Lagardère Active for a total consideration

of €469 million, subject to the satisfaction by January 15, 2007 of certain conditions precedent, including the completion of the contribution to Canal+ France of 100% of TPS by TF1 and M6 and of 34% of CanalSatellite by Lagardère. Pursuant to the Lagardère Agreement, the amount paid corresponded to the price of €525 million (on a cash-free-debt-free basis), less 34% of the “net cash position” of CanalSatellite and less 16.7% of the available net cash of EIG Numérique, plus 20% of the “net cash position” of Canal+ France. In 2006, this disposal generated a gain of €128 million. In order to guarantee repayment of this sum by Groupe Canal+ to Lagardère if conditions precedent were not satisfied, a stand-alone, first-demand, bank guarantee was set up by a financial institution in favor of Lagardère Active at the request of Vivendi. As part of the arrangements for setting up this guarantee, Vivendi delivered a cash deposit for the same amount and duration to guarantee Vivendi's obligation to repay the financial institution the amount it would pay Lagardère Active in the event that the first-demand were to be called. The guarantee and the cash deposit were terminated on January 4, 2007. As of December 31, 2006, the cash deposit is recognized as short-term financial assets and recorded as a reduction of Financial Net Debt, considering its maturity date (January 4, 2007) (please refer to Section 5 “Liquidity management and capital resources in 2006 and 2005” of this Financial Report).

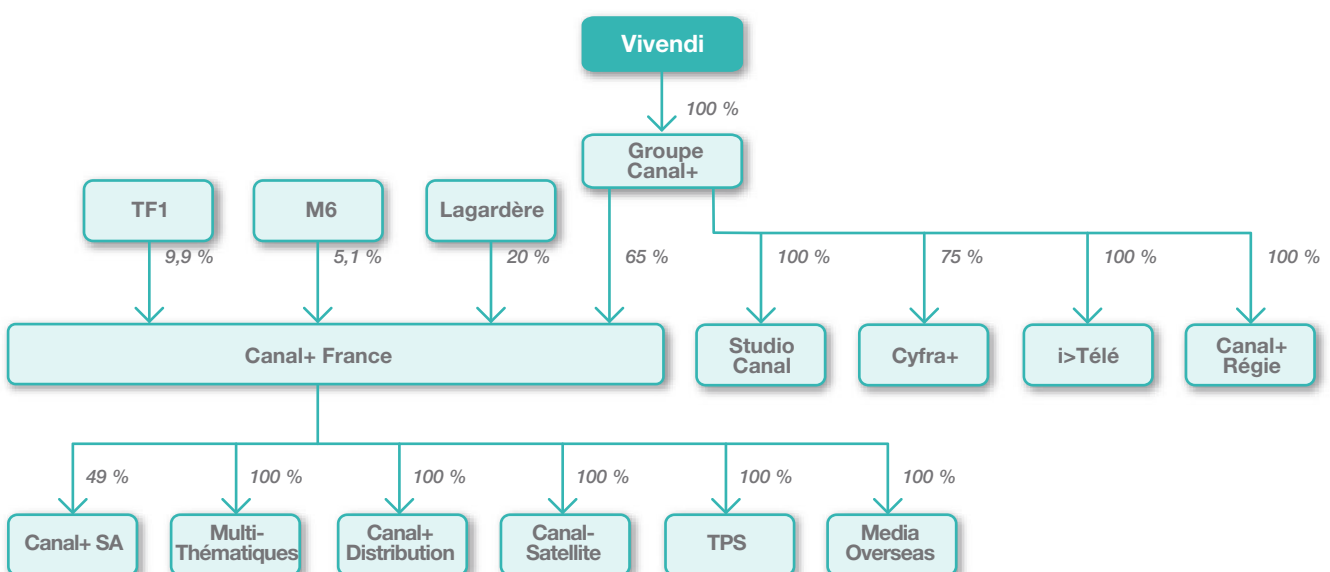
The merger was completed on January 4, 2007 as follows:

- TF1 and M6 transferred to Canal+ France 100% of the share capital of TPS Gestion, a company which wholly-owns TPS. These

contributions of assets were valued at €900 million and were paid for in Canal+ France shares. Upon completion of these asset transfers, TF1 and M6 held a 9.9% and 5.1% interest in Canal+ France, respectively;

- Lagardère Active transferred to Canal+ France its 24% equity interest in CanalSatellite and 100% of its equity interests in Lagardère Television Holdings SA, which owns 10% of CanalSatellite's share capital. These contributions of assets were valued at €891 million and were paid for in Canal+ France shares. Upon completion of these asset transfers and considering the Canal+ France shares acquired on December 19, 2006, Lagardère Active held a 20% interest in the share capital of Canal+ France;
- the €150 million advance made by Vivendi to TF1 and M6 on January 6, 2006 was repaid to Vivendi with interest on January 4, 2007. In terms of accounting, the €150 million advance was accounted for under current financial assets in the balance sheet as of December 31, 2006;
- TPS was included in the scope of consolidation of Canal+ France (fully consolidated) on January 4, 2007, on which date Vivendi became in a position to exercise its shareholders rights that gave it the exclusive control of TPS.

Following these transactions, the organizational chart of the new group is as follows:



## TF1's and M6's Put Options

Each of TF1 and M6 were granted by Vivendi a put option on their stakes in Canal+ France. This option is exercisable in February 2010 at fair market value, to be determined by an expert, with a floor of €1,130 million for 15% of Canal+ France (corresponding to a valuation of €7.5 billion for 100% of Canal+ France).

## Lagardère's Call Option

Pursuant to the Lagardère Agreement, Lagardère was granted a call option by Groupe Canal+ pursuant to which Lagardère may increase to 34% the level of its equity interest in Canal+ France. The option is exercisable in October 2009, at fair market value, to be determined by an expert (which exercise price will be the same as the exercise price of the put options held by TF1 and M6 if one and/or the other is exercised) with a floor of €1,050 million for 14% of Canal+ France (corresponding to a valuation of €7.5 billion for 100% of Canal+ France). If Lagardère decides to exercise such call option, the transaction would take place following the exercise (or failing that, the lapse) of the TF1 and M6 put options.

## Shareholders' Agreement between Vivendi, TF1 and M6

Pursuant to the shareholders' agreement entered into on January 4, 2007, TF1 and M6 were granted a tag-along right in the event of the transfer of the exclusive control of Canal+ France by Vivendi/Groupe Canal+, together with a priority right to sell their stakes on the market in the event of a public offering of Canal+ France's shares. TF1 and M6 are not represented on the Supervisory Board of Canal+ France and do not have rights of any kind in respect of the management of Canal+ France. Vivendi has a pre-emptive right over all the shares owned by TF1 and M6.

## Strategic Agreements between Vivendi, Groupe Canal+, Lagardère and Lagardère Active

The CanalSatellite agreement entered into in 2000 between Lagardère and Groupe Canal+ terminated on January 4, 2007.

Pursuant to the Canal+ France strategic agreements entered into on January 4, 2007, Lagardère was granted rights to preserve its economic interest in Canal+ France, which rights vary according to the level of its ownership in Canal+ France. Under no circumstances will Lagardère have any joint control of Canal+ France including in the event that Lagardère were to exercise its call option. The main provisions of these strategic agreements are as follows:

- the Chairman and all members of the Management Board of Canal+ France will be appointed by Groupe Canal+. Lagardère will be represented by two out of the eleven members of the Supervisory Board. This number will be increased to three in the event of an increase to a level of 34% of Lagardère's ownership in Canal+ France;

- Lagardère has certain veto rights over Canal+ France and, in certain cases, over its major subsidiaries (including in the event of a change in the statutes, a major and lasting change in the business, its transformation into a company in which the partners have unlimited liability, a single investment of over a third of revenues, a public offering of the company's shares, in certain circumstances the entry of a third party as a shareholder, and, so long as Lagardère owns 34% of Canal+ France's capital, borrowings over the thresholds of 50% and 90% of revenues as a function of the margin of earnings from operations (EFO <sup>(1)</sup>), and certain other rights (including a tag-along right, an anti-dilution right, certain bidding rights in the event of the sale of Canal+ France) intended to protect its economic interest. Vivendi has a pre-emptive right in the event of a sale of Lagardère's equity interest;

- between 2008 and 2014, Lagardère will have a liquidity right exercisable between March 15 and April 15 of each calendar year, provided, however, that Lagardère owns at least 10% but no more than 20% of the capital and voting rights of Canal+ France, and provided further that it has waived its right to exercise its call option (if such option has not lapsed) enabling it to own 34% of the capital of Canal+ France. Pursuant to this liquidity right, Lagardère will be able to request the public offering of Canal+ France shares. In this event Vivendi/Groupe Canal+ has the right to acquire all of Lagardère's equity interest;

- the financing of Canal+ France has been structured through a mechanism which includes shareholders' loans and the delivery of guarantees with respect to Canal+ France's obligations. Pursuant to this mechanism, Lagardère has the option to participate in such financing and guarantee arrangements pro-rata its level of ownership in the share capital of the company. With effect from 2011, after the reimbursement of the shareholder loans to which Lagardère has not contributed in proportion to its equity interest and subject to compliance with certain indebtedness ratios, Canal+ France will distribute a dividend equal to its available cash flow not necessary for the financing of its operations provided that Lagardère owns at least 34% of the share capital of Canal+ France.

## Counter Guarantee for TF1 and M6's Commitments

Vivendi has undertaken to assume the commitments and guarantees made by TF1 and M6 in connection with TPS's liabilities, upon completion of the merger. This commitment took the form of a counter guarantee in favour of TF1 and M6, which was given by Vivendi on January 4, 2007.

Vivendi has also guaranteed TF1's commitments and guarantees made in connection with an output arrangement between TF1 and The Weinstein Company. Such arrangement was transferred to TPS on January 4, 2007.

(1) EFO (Earnings From Operations as defined and used by Vivendi until June 30, 2006; please refer to Paragraph 2.1 "Change in presentation" of this Financial Report) consists of gross margin, selling, general and administrative expenses, costs related to employee benefit plan excluding the change in financial component, costs related to share base payments, restructuring costs, the change in currency hedging instruments related to operating activities and gain and loss on the divestments of property, plant and equipment and intangible assets.

These counter guarantees, which represent an amount of €300 million, are intended to remain in place so long as TPS' obligations guaranteed by TF1 and M6 remain outstanding.

### 1.1.2. Simplification of North American Structure

In February 2006, Vivendi acquired from MEI its approximate 7.7% interest in Universal Studios Holding I Corp. (USHI) for a purchase price of \$1,154 million (€964 million). As a result, Vivendi increased its ownership in UMG from 92.3% to 100% and NBCU from 18.5% to 20%. Vivendi was also able to simplify its corporate structure which enabled it to:

- eliminate intermediary holding companies which no longer serve any purpose (Universal Studios Holding I Corp. in particular); and
- reduce the current account advance granted by Vivendi to Vivendi Holding I Corp. (the holding company for the group's US businesses) by approximately \$2.5 billion. Hedging swaps protecting Vivendi against foreign exchange risk related to this current account advance, which are now unnecessary, were fully settled during July 2006 via the purchase of US dollars on the market. At current market conditions, the financial surcharge of the hedging of the current account advance, related to the unfavorable US dollar/euro interest rate difference, has been eliminated.

In addition, as part of Vivendi's process of simplifying the organizational structure of the group in North America, all of the outstanding exchangeable shares of Vivendi Exchangeco Inc. were acquired on November 27, 2006 by another Canadian subsidiary of Vivendi (through the exercise of its overriding call right in accordance with the terms and conditions of the exchangeable shares, which were modified in early November), in exchange for an ordinary share of Vivendi S.A. plus a cash amount of Cdn.\$1.42 per exchangeable share (corresponding to a total cash outlay of Cdn.\$6 million). This exchange had no impact on the share capital of Vivendi due to the concurrent issuance of new Vivendi shares and the cancellation of an equivalent number of outstanding shares. As a result, from such date, no exchangeable shares remain outstanding. The exchangeable shares were delisted from the Toronto Stock Exchange and Vivendi Exchangeco Inc. has ceased to be a reporting issuer under Canadian securities laws.

### 1.1.3. Increase in SFR's Stake in Neuf Cegetel

In 2006, pursuant to the exercise of its pre-emptive rights, SFR increased its stake in Neuf Cegetel from 28.2% to 40.5% for a total investment of €626 million. On October 24, 2006, Neuf Cegetel shares were admitted to trading on the Eurolist of Euronext Paris SA.

- In May 2006, SFR increased its stake in Neuf Cegetel from 28.2% to 34.9%, for a consideration of €276 million.
- In September 2006, SFR further increased its stake in Neuf Cegetel from 34.9% to 40.5% for a consideration of €238 million.

- Prior to the Neuf Cegetel IPO, SFR purchased approximately 5 million Neuf Cegetel shares from the Louis Dreyfus Group in an over-the-counter transaction at the IPO share price, representing a total consideration of €112 million. This enabled SFR to maintain its percentage ownership interest in Neuf Cegetel, after completion of the share capital increases that accompanied the Neuf Cegetel IPO.

- Following these operations, SFR became the predominant shareholder of Neuf Cegetel with a 40.5% ownership interest with four members out of the ten Board members. Louis Dreyfus Group holds a 29.6% ownership interest and is represented by three out of the ten Board members.

- In addition, effective as of the date of the IPO, SFR and the Louis Dreyfus Group entered into, a new shareholders' agreement. This agreement does not affect the governance of Neuf Cegetel that is consolidated using the equity method in SFR. Please refer to Note 29.5 to the Consolidated Financial Statements for the Year Ended December 31, 2006.

In March 2006, Neuf Cegetel redeemed the remaining bonds payable to SFR (€180 million).

### 1.1.4. Vivendi Resolves Dispute Over DuPont Shares and Divests DuPont Shares

At the beginning of June 2006, Vivendi announced that an agreement had been reached with the United States Internal Revenue Service (IRS), ending their dispute concerning the amount of tax due on the redemption of DuPont shares by Seagram in April 1995. The agreement reached with the IRS provided for a payment by Vivendi in the total amount of approximately \$671 million (€521 million), including tax of \$284 million and interest of \$387 million, to settle this dispute. As a result of this settlement, the reversal of the entire deferred tax liability previously accounted for in connection with this matter (\$1,847 million) recorded on the group's Statement of financial position and the inclusion of the tax credit with respect to the interest paid (\$135 million), generated a net gain of \$1,311 million (€1,019 million).

At the end of June 2006, Vivendi sold all of the 16.4 million freely transferable DuPont shares that it has held since its merger with Seagram. This transaction was performed using a unit price of \$40.82, for a total amount of \$671 million (€534 million) and resulted in a capital loss of -\$123 million (-€98 million).

As of December 31, 2006, these transactions had no net impact on Vivendi's cash position and resulted in a net gain of \$1,268 million (€984 million).

Please refer to Note 6.1 of the notes to the Consolidated Financial Statements for the Year Ended December 31, 2006.

### 1.1.5. Stake in PTC

#### Situation at the End of 2006

The legal uncertainty surrounding the ownership of Telco's stake in Polska Telefonica Cyfrowa (PTC), a Polish mobile telecom company, due to the legal disputes involving Elektrim Telekomunikacja (Telco), Vivendi, Deutsche Telekom (DT) and Elektrim SA (Elektrim), prevents Telco from exercising joint control over PTC, as provided in the bylaws of PTC. As a result of this situation, Vivendi has not consolidated its stake in PTC.

In addition, the courts have rendered several decisions that were unfavorable to Telco (notably the decision of the Warsaw Court of Appeal on March 29, 2006, followed by another decision of the Warsaw Court of Appeal on June 21, 2006, which cancelled the registration of Telco as a PTC shareholder on the Trade and Companies Registry, and the decision on July 13, 2006 of the Trade and Companies Registry to re-instate Elektrim as a PTC shareholder). As a result, Vivendi has recognized a loss of €496 million on the PTC shares. Vivendi purchased its stake in Telco/PTC between 1999 and 2005 (see below) for an aggregated amount of €2,011 million (in share capital subscriptions and advances, including capitalized interests). Please refer to Note 15.1 "Changes in available-for-sale securities" to the Consolidated Financial Statement as of December 31, 2006.

Recently, several courts have rendered decisions that were favorable to Telco. In particular, on December 18, 2006, the Austrian Supreme Court rejected the request for annulment of the arbitration award rendered in Vienna on November 26, 2004, on the basis that Telco was not a party to that arbitration and that this arbitration award could not affect Telco's rights with respect to the PTC shares. On January 18, 2007, the Polish Supreme Court overturned the decision of the Warsaw Court of Appeal of March 29, 2006 and ordered that the case be reheard by the court of first instance. Consequently, Vivendi and Telco appealed for the registration of Telco as a shareholder of PTC.

Moreover, Vivendi continues legal proceedings, particularly for compensatory damages, the outcome of which remains uncertain. Please refer to Note 30 "Litigations" of the notes to the Consolidated Financial Statements for the Year Ended December 31, 2006 for a

description of the main legal proceedings involving Telco, Vivendi, DT and Elektrim, especially regarding Telco's ownership stake in PTC, updated on February 27, 2007, the date of the Management Board meeting which approved the financial statements for the Year Ended December 31, 2006.

#### Events Occurring Prior to 2006

##### Initial investment in Telco/PTC between 1999 and 2001

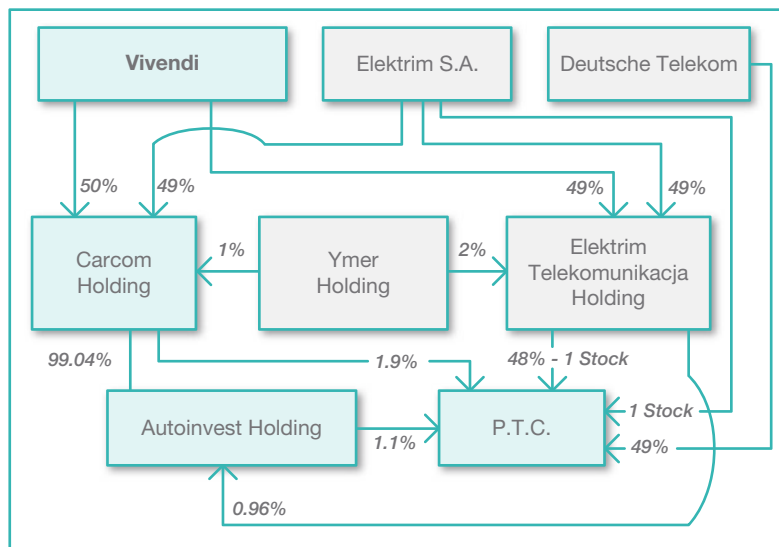
In December 1999, Vivendi purchased a 49% stake in the share capital of Telco, alongside Elektrim which held the remaining 51% interest until September 3, 2001. On September 3, 2001, Vivendi and Elektrim entered into an agreement regarding the shareholding structure and corporate governance of Telco. On that same date, Ymer Finance (Ymer), a company incorporated under Luxembourg law, acquired a 2% stake in Telco from Elektrim. In parallel, Vivendi acquired non-voting shares in LBI Fund, an investment company operating as a mutual fund, which provided Ymer with the financing necessary to purchase its stake in Telco. Via the mechanism used to determine the net asset value of its shares in the LBI Fund, Vivendi bore the economic risk associated with the assets held by Ymer. Vivendi had no obligation to purchase the Telco shares held by Ymer and the latter was neither entitled nor obligated to sell them to Vivendi. The Telco bylaws grant preemptive rights to Vivendi.

##### Acquisition of a supplementary 2% stake in Telco on December 12, 2005

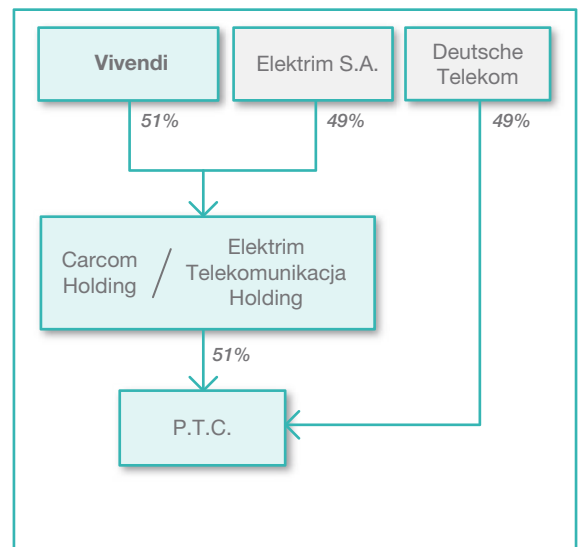
Until December 12, 2005, Telco was held 49% by Vivendi, 49% by Elektrim and 2% by Ymer. Telco's only asset is a 48% investment in PTC, alongside DT (49%) and Carcom (3%). Until this date, Carcom was held 50% by Vivendi, 49% by Elektrim and 1% by Ymer.

On December 12, 2005, after having consulted with EU competition authorities in November 2005, Vivendi acquired from Ymer, the stakes it held in Telco (2%) and in Carcom (1%), for a total cash consideration of €90 million. Since that date, Vivendi has held a 51% equity and voting interest in both Telco and Carcom. As of December 31, 2005, the simplified organization chart of Telco and PTC is as follows:

Organization chart as at December 31, 2004



Simplified organization chart as at December 31, 2005



### 1.1.6. Agreement for the Acquisition by UMG of BMG Music Publishing (BMGP)

On September 6, 2006, Universal Music Group (UMG) entered into an agreement with Bertelsmann AG to purchase 100% of BMG Music Publishing (BMGP). The gross purchase price is €1,639 million. A deposit representing the net amount was paid in cash on December 15, 2006 and included an adjustment for cash generated by BMGP during the period from July 1, 2006 to December 15, 2006 and for interest capitalized over this period. The final price consideration of the transaction will be adjusted for cash generated by BMGP during the period from December 16, 2006 to the closing date of the transaction and for interest capitalized over this period. The transaction is subject to the regulatory approvals of the competition authorities in the relevant countries. Such approval has been obtained in the United States. However, on December 8, 2006, the European Commission announced that the transaction will be subject to a Phase II inquiry.

BMGP is among the world's leading music publishers with a catalog of over 1 million copyrights and a roster of chart topping writers such as Coldplay, Justin Timberlake, Maroon 5, Christina Aguilera, R. Kelly and Juan Gabriel, among others. Its extensive catalog includes compositions by The Scorpions, Barry Manilow and Gilbert Bécaud.

Until the closing date and the consolidation of BMGP by UMG, the cash outlay is recorded as a non current financial asset.

### 1.1.7. Vivendi Modifies the Terms of its Liquidity Rights Agreement with General Electric with Respect to its 20% Stake in NBC Universal

On December 14, 2006, Vivendi informed General Electric Company (GE) of its decision not to exercise its exit rights with respect to NBC Universal (NBCU) in January 2007. Therefore, Vivendi remains a shareholder in NBCU with a 20% stake.

Simultaneously, Vivendi and GE modified the agreement which governs the liquidity of Vivendi's interest in NBCU.

As part of the modified agreement that governs Vivendi's exit from NBCU, Vivendi can sell its stake in NBCU under mechanisms providing for exits at fair market value. Vivendi has the right to notify GE of its intent to sell in the public market between \$1 billion and \$4 billion of its NBCU shares in November of each year between 2007 and 2016, which could lead to the public offering of a portion of Vivendi's stake the following year. GE has the right to pre-empt any of Vivendi's sales to the market. Under certain circumstances, if Vivendi does exercise its right to monetize its equity interest in NBCU and if GE does not exercise its pre-emptive right, Vivendi will be able to exercise a put option to GE. In addition, for the period between May 11, 2011 and May 11, 2017, GE has the right to call either (i) all of Vivendi's NBCU shares or (ii) \$4 billion of Vivendi's NBCU shares, in each case at the greater of their market value at the time the call is exercised and their value as determined at the time of the NBC-Universal transaction (i.e., \$8.3 billion), which value is increased by the US Consumer Price Index annually beginning May 2009. If GE calls \$4 billion, but not all, of Vivendi's NBCU shares, GE must call the remaining NBCU shares held by Vivendi by the end of the 12-month period commencing on the date GE exercises its call option.

### 1.1.8. Risk Management of Retirement Pension Obligations

Vivendi inherited from Seagram significant obligations related to pension plans and post-retirement benefits, mainly in the US and the UK and concerning employees and retired employees of Seagram's Spirits and Wine business which was sold to Diageo and Pernod Ricard at the end of 2001, those of Universal Music Group (UMG) and, to a lesser extent, those of Vivendi Universal Entertainment (VUE) (business sold in the middle of 2004).

As of December 31, 2006, according to the evaluation performed by independent actuaries, these obligations amounted to €1,478 million, covered by financial assets of €911 million (a deficit of €567 million) against which net provisions of €464 million are recorded on the balance sheet. Please refer to Note 20 "Employee benefits" of the notes to the Consolidated Financial Statements for the Year Ended December 31, 2006.

The majority of the plans' deficits result from unfavorable financial market trends. Although starting from a generally balanced position at the end of 2000, Vivendi's pension funds have been widely exposed to the following factors:

- a drop in interest rates that increased the present value of liabilities more than the present value of assets due to the lower maturity of the latter;
- a steep decline in the equity markets in which the plan assets had been heavily invested; and
- a higher forecasted inflation which resulted in increased liability of the partial indexation of plans in certain countries.

Over a year ago, Vivendi established a risk management strategy to meet its retirement pension obligations based on the following three approaches:

- capping financial risks related to the obligations by ceasing further benefit accruals under defined benefit plans and transferring active employees to defined contribution plans;
- reducing financial risks related to the plans through the use of financial derivatives (interest rate, inflation and equity derivatives) to hedge actuarial liabilities and the related plan assets; and
- canceling financial risks by the definitive transfer of the pension plans to insurance companies whenever market conditions are favorable.

The aim is to transform actuarial, risky and volatile liabilities with regards to pension obligations into financial, controlled and hedged liabilities, with no exposure to interest rate changes or changes in the equity markets. In this respect, Vivendi has performed or is preparing to set up the following transactions:

- in May 2006, Vivendi purchased an insurance policy for \$95 million (€78 million) to cover the cost of pension and life insurance benefits

for former Seagram senior executives in the US. As a result of this purchase, Vivendi no longer has any on-going funding obligations with respect to this plan;

- in addition, Vivendi intends to subscribe to an insurance policy to cover its principal US defined benefit plan (approximately 10,000 Seagram Spirits and Wine, UMG and VUE vested members and retirees). As of December 31, 2006, approximately 95% of the plan's deficit was covered through additional fund contributions, for \$92 million (approximately €74 million), completed by a deposit of \$38 million (€30 million), dedicated to the financing of the insurance policy. In addition, its investment policy was amended in order to match the plan's assets to the pension liability of the plan, and in particular to minimize or eliminate fluctuations resulting from interest rate changes. After receiving the appropriate administrative and governmental approvals, expected in the second quarter of 2007, Vivendi plans to transfer this plan to an insurance company, which will become entirely responsible for its complete management and, consequently, Vivendi will no longer have any financial commitment with respect to this plan;
- moreover, Vivendi is currently reviewing terms and conditions in order to set up a similar policy in other countries.

As of December 31, 2006, the actions undertaken mainly in the US and the UK had the following impacts on the Consolidated Financial Statements:

- a positive impact of €56 million on EBITA;
- the payment of -€78 million with respect to insurance policies purchased in the US;
- the reduction in the provision for pensions for an amount of €134 million; and
- an exceptional contribution of approximately -€74 million as well as a deposit amounting to €30 million with a reduction in the pension liability provision of approximately €94 million pursuant to the financing of the deficit in the US defined benefit plan.

As a result, the actions undertaken during fiscal year 2006 as part of the risk management of retirement pension obligations led to a total payment in the amount of -€182 million and a reduction in pension and post-retirement benefits liabilities of €228 million. Consequently, the pension and post-retirement benefits liability was reduced to €567 million, from €770 million as of December 31, 2005. In addition, estimated future payments (discounted over a 10 year period) attributable to beneficiaries of pension and post-retirement benefits were reduced to €488 million, compared to €748 million as of December 31, 2005. For a detailed presentation of employee benefit commitments, please refer to Note 20 of the Consolidated Financial Statements for the Year Ended December 31, 2006.

### 1.1.9. Acquisitions/Divestitures of Other Affiliates

- **Divestiture of the residual 20% stake in Ypso.** Please refer to Paragraph 1.3.4 of this Financial Report.
- **The Canal+ Group sold the Paris Saint-Germain soccer club** in June 2006, for a total consideration of €26 million. Vivendi received one-fourth of the consideration (€7 million) in cash. The balance will be paid each year in quarterly installments at the transaction's anniversary date. This divestiture generated a €10 million decrease in Financial Net Debt and a capital loss of €23 million (including some impacts related to vendor warranties).
- **Acquisition of Optimum Releasing,** a UK film distribution company by StudioCanal in July 2006.
- **Acquisition of Vale,** Spain's number one independent music publishing company, by UMG in October 2006.
- **Disposal of Roadrunner by UMG.** On December 15, 2006, Universal Music Group exercised its put option to sell its 50% stake in, and terminated its distribution agreement with, Roadrunner Records BV.
- **Acquisition of a 51% stake in Onatel, the national telecommunications operator in Burkina Faso** by Maroc Telecom in December 2006, for a cash consideration of €220 million following the completion of a bidding process. As of December 2006, with sales of €103 million in 2005, Onatel and its subsidiary Telmob, provided services to over 100,000 fixed-line customers according to Onatel. The market is promising with a current penetration rate for mobile estimated at 8.0%.
- **Acquisition of iVillage by NBCU.** During the second quarter of 2006, NBCU acquired iVillage, the US women's online media network, for approximately \$600 million paid in cash. Vivendi subscribed to the NBC Universal capital increase to finance this acquisition for an amount of €98 million, representing its pro-rata share.

A detailed description of the transactions that had a significant impact on the consolidation scope of the group in 2006 is presented in Note 2 to the Consolidated Financial Statements for the Year Ended December 31, 2006.

### 1.1.10. Acquisitions/Divestitures of Investments

- **Disposal of the Residual 5.3% Stake in Veolia Environnement's Share Capital.** In July 2006, Vivendi sold its residual stake in Veolia Environnement's share capital (5.3% of Veolia Environnement representing 21,523,527 shares) by means of an Accelerated Book Building for a total amount of €861 million. This divestiture generated a capital gain of €832 million in the third quarter of 2006. From a tax stand point, the capital gain arising from the sale of the shares was offset against current capital losses including capital losses carried forward from prior years resulting in a zero net capital gain.

- **Vivendi and UMG increased their equity interest in Amp'd** to maintain their combined 19.9% interest following Amp'd's share capital increase. As of December 31, 2006, the group's total investment in this company, recognized as a financial asset, amounted to €42 million.

### 1.1.11. Other

- **Dividend paid with respect to fiscal year 2005:** At the Annual Shareholders' Meeting held on April 20, 2006, Vivendi's shareholders approved the Management Board's recommendations relating to the allocation of distributable earnings for fiscal year 2005. As a result, the dividend was set at €1 per share, representing a total distribution of €1,147 million, paid in May 2006. In addition, a dividend was paid to the shareholders of Vivendi Exchangeco (former Seagram shareholders) in the amount of €5 million.
- **Rejection of Shareholder's Dismantling Approach.** In May 2006, Vivendi's Supervisory Board and Management Board studied the cooperation request presented by a shareholder, Sebastian Holdings, aimed at dismantling the group. The Supervisory Board and the Management Board unanimously rejected this alternative which is based on unrealistic economic and legal assumptions. The Supervisory Board and Management Board have decided to pursue the group's current strategy which is the best positioned to create value for Vivendi's shareholders.
- **Early Settlement of Rental Guarantees Related to the Berlin Building Quartier 207.** This transaction, which took place in June 2006 was neutral on earnings and resulted in a payment of €52 million with respect to the liquidation of a residual guarantee and a €240 million reduction in the contractual commitments not recorded in the Statement of Financial Position via the extinguishment of rental guarantees granted by Vivendi to the buyer of this building in 1996.
- **Disposal of the Last Philip Morris Building at La Défense.** The disposal of the Colisée building (26,000 square meters) located at La Défense in the third quarter of 2006 resulted in proceeds of approximately €39 million, a €102 million reduction in Financial Net Debt and a capital gain of €32 million.
- **Maroc Telecom Awarded 3G License.** In July 2006, Maroc Telecom was awarded a 3G mobile license by the ANRT (the Moroccan National Telecommunications Regulatory Agency) for a fixed fee of MAD 300 million (approximately €27 million, excluding tax, paid in the fourth quarter of 2006). In addition, Maroc Telecom has to pay a MAD 72 million fee (excluding tax and payable in several installments) with respect to the reorganization of frequency spectrum.
- On November 4, 2006, Vivendi confirmed having received and reviewed a friendly expression of interest from the investment firm Kohlberg Kravis Roberts & Co (KKR). This expression of interest, which included maintaining the current Vivendi assets within the group in order to create value, did not result in any proposal and has now ended.

- **Vivendi voluntarily delisted from the New York Stock Exchange (NYSE) and terminated its registration with the Securities and Exchange Commission (SEC).** On January 17, 2006, Vivendi announced its intention to terminate its American Depositary Receipt (ADR) program and to voluntarily delist its American Depositary

Shares (ADSs) from the NYSE. On August 3, 2006, Vivendi terminated its deposit agreement with The Bank of New York relating to its ADRs. On October 31, 2006, Vivendi filed a notice of termination of registration on Form 15 with the SEC and terminated its reporting obligations under the U.S. Securities Exchange Act of 1934.

## 1.2. MAIN DEVELOPMENTS SINCE DECEMBER 31, 2006

### 1.2.1. Acquisitions/Divestitures of Consolidated Companies

- **SFR agrees to purchase the fixed telephony and broadband activities of Télé2 France.** On October 2, 2006, SFR signed an agreement with the Télé2 AB Group to acquire the fixed telephony and broadband activities of Télé2 France for a price consideration of €375 million that could be revised following an earn-out clause pursuant to the terms of the agreement. This transaction is subject to the approval of antitrust authorities.
- **Maroc Telecom was announced as the winning bidder for the acquisition of a 51% stake in Gabon Telecom SA,** the largest telecommunications operator of Gabon, for an amount of €61 million. In 2006, Gabon Telecom, together with its mobile subsidiary Libertis, had revenues of €137 million in 2006, according to Gabonese estimates. Gabon Telecom is competing in a liberalized mobile market, with two other operators. Gabon Telecom estimates that it has a customer base of 250,000 mobile customers, i.e. a market share of nearly 30%, and more than 30,000 fixed-line subscribers as at December 31, 2006. At the end of 2006, the penetration rate is estimated at 53% for the mobile market and 2% for the fixed-line market.

### 1.2.2. Other

- **Voluntary redundancy plan at the Canal+ Group level.** In March 2006, management and trade union representatives of UES Canal+ signed

a procedural agreement defining the Works Council information/consultation procedures and setting out a strict timetable. After the UES Canal+ Works Council issued its opinion on October 24, 2006 on the legal aspects of the merger, followed on December 21, 2006, by its opinion on the initial focus of the functional reorganization plan for the new group, management and trade union representatives of UES Canal+ and TPS signed a method agreement on January 12, 2007, framing the Works Council information/consultation procedures for the reorganization of the new group and its employee-related consequences (Books IV and III of the French Employment Code). In mid-January, elected representatives were informed of the management's reorganization plan, which involves the elimination of 364 jobs. Given the existence of a number of vacant positions within Canal+ and TPS, the plan could result in 171 employees leaving the company. Pursuant to the method agreement, the Works Council will issue its opinion no later than April 6, 2007.

- **New satellite capacity contract.** Following a consultation process, the Canal+ Group decided to retain Astra as the future sole operator carrying its television by satellite offer in France. This decision provides the Canal+ Group with long-term access to the satellite capacity it requires, with favorable price conditions, to expand the number of channels on offer and accelerate the roll-out of High Definition by satellite in France. This new contract represents an additional overall commitment of €230 million over 10 years. TPS subscribers will continue to receive their channels via Eutelsat before being invited to migrate to Astra. This transfer will take place progressively commencing in the second half of 2007.

## 1.3. MAIN DEVELOPMENTS IN 2005

In 2005, Vivendi acquired an additional 16% stake in Maroc Telecom and completed the combination of Cegetel and Neuf Telecom to create Neuf Cegetel.

### 1.3.1. Acquisition of an Additional 16% Interest in Maroc Telecom by Vivendi

On November 18, 2004, following a firm purchasing commitment, the Kingdom of Morocco and Vivendi agreed to the acquisition by Vivendi

of an additional 16% interest in Maroc Telecom to increase its stake from 35% to 51%, through Vivendi's wholly-owned subsidiary, SPT. This acquisition, which was completed on January 4, 2005, enabled Vivendi, a strategic partner that has held operating control of Maroc Telecom since the beginning of 2001, to maintain its 51% controlling interest. The price of the transaction was MAD 12.4 billion, or €1.1 billion, and included a premium for continuing control.

### 1.3.2. SFR: Combination of Cegetel and Neuf Telecom to Create Neuf Negetel, the Leading Alternative Fixed-line Telecommunications Operator in France

The combination of Cegetel S.A.S. (Cegetel) and Neuf Telecom was announced on May 11, 2005 and closed on August 22, 2005. After acquiring the 35% stake held by SNCF in Neuf Cegetel, in accordance with the financial conditions of the pre-existing agreements and after re-capitalizing Cegetel, SFR contributed its entire equity interest in Cegetel to Neuf Telecom in exchange for a 28.2% equity interest in Neuf Telecom as well as bonds issued by Neuf Telecom in a total amount of €380 million, €200 million of which were redeemed in cash by Neuf Telecom at the end of November 2005 and the balance in 2006.

On August 22, 2005, SFR and Louis Dreyfus, the reference shareholders of the new company had an equal stake of 28.2% each while the remaining stake of approximately 44% was held by the historical shareholders of Neuf Telecom. SFR's 28.2% stake in Neuf Cegetel (15.8% interest for Vivendi, as it holds 56% in SFR) is equity-accounted.

As of December 31, 2005, this transaction resulted in a capital gain of €121 million (€58 million after SFR's minority interests) recorded in earnings from discontinued operations.

After the reimbursement by Cegetel of the shareholders' loan granted by SFR, all of the cash flows generated during the completion of the transaction had a negative impact of €329 million on SFR's cash position (including the deconsolidation of Cegetel's cash position in the amount of €30 million). Given the recognition of the put option granted by SFR to SNCF as of December 31, 2004 in accordance with IAS 32 (the present value of such commitment being €304 million as of that date), this transaction had a favorable impact of €97 million on the Financial Net Debt (including the deconsolidation of borrowings and other financial liabilities of Cegetel for €122 million).

Please refer to Paragraph 1.1.3 "Increase in SFR's stake in Neuf Cegetel" of this Financial Report and Note 2 to the Consolidated Financial Statements for the Year Ended December 31, 2006.

### 1.3.3. Reinforcement of the Program Offerings and Distribution of the Canal+ Group in 2005 and 2004

In 2005, the Canal+ Group continued to enhance program offerings for subscribers.

In August 2005, after obtaining exclusive rights to broadcast the French Professional Soccer League 1 for three seasons (2005-2008) in December 2004, for an annual cost of €600 million, the Canal+ Group won exclusive rights to broadcast the Champions League on pay-TV until the end of the 2008/2009 season. In addition, after signing in May 2004, several agreements guaranteeing a stronger partnership

with the French film industry (covering the period 2005 through 2009) and after extending an agreement in November 2004 to first broadcast all of 20<sup>th</sup> century Fox film features, the Canal+ Group renewed its exclusive rights agreements with NBC Universal (January 2005), DreamWorks (January 2005), Spyglass (April 2005) and with Sony Pictures Television International (September 2005, including Columbia Pictures, TriStar Pictures and Screen Gems).

In addition, in May 2005, the *Conseil Supérieur de l'Audiovisuel* (the French Broadcasting Authority) allocated four DTT channel authorizations to the Canal+ Group: Canal+Cinéma, Canal+ Sport, i>Télé and Planète. On March 31, 2005, Canal+ began broadcasting unscrambled programs as part of the launch of free DTT services.

### 1.3.4. 2005 Divestitures

#### The Canal+ Group: Unwinding of MultiThématiques/Lagardère cross-shareholdings

In January 2005, the Canal+ Group and Lagardère Group announced a new agreement to end their joint participation in MultiThématiques (which is wholly-owned by the Canal+ Group) and Lagardère Thématiques. This transaction, which closed on February 11, 2005, increased Financial Net Debt by €20 million (corresponding to the acquisition of 30% of MultiThématiques for €71 million and the divestiture of 49% of Lagardère Thématiques for €51 million) and generated a capital gain of €26 million.

#### Canal+ Group: Withdrawal from NC Numéricâble / Ypso

In 2005 and early 2006, Canal+ Group withdrew from NC Numéricâble by divesting, in two stages, its entire stake to a consortium composed of investment fund, Cinven, and cable operator, Altice.

During the first stage, signed in December 2004 and closed on March 31, 2005, the Canal+ Group kept approximately 20% in Ypso, a cable operator created through the merger between NC Numéricâble and France Télécom's cable operations and with certain assets of TDF. The Canal+ Group's proceeds from the divestiture amounted to an enterprise value of €96 million (including adjustments to the number of networks actually transferred). Net of divestiture fees and a €37 million loan granted by the Canal+ Group to the new operator, the positive impact on Financial Net Debt amounted to €52 million. Given the adjustment in value realized in 2004, the capital loss on this divestiture was a loss of approximately -€13 million. In December 2005, the Canal+ Group sold to Ypso its preferred shares without voting rights and Ypso fully reimbursed the company loan granted by the Canal+ Group (capital gain of €29 million and positive impact of €76 million on Financial Net Debt, including €39 million including accrued interest for the loan reimbursement).

In January 2006, the Canal+ Group completed the divestiture of its remaining 20% stake in Ypso to Cinven-Altice for an amount of €36 million (€44 million before guarantee related costs, indemnities as well as costs of disposal). This transaction generated a capital gain of €56 million, given cumulative depreciation already recognized.

As a whole, the withdrawal from NC Numéricable/Ypso had a positive impact of €169 million (excluding disposal costs) on the Financial Net Debt of the Canal+ Group and resulted in a capital gain of €72 million, after taking into consideration depreciation recorded in 2004.

### UMG: Divestiture of CD and DVD manufacturing facilities in the United States and Germany

In May 2005, UMG divested its CD and DVD manufacturing and distribution facilities in the United States and Germany to Entertainment Distribution Company, LLC ("EDC"), a division of Glenayre Technologies, Inc. This transaction had no material impact on Vivendi's earnings from operations as of December 31, 2005, after taking into account the cost of externalizing related pension obligations. This transaction had a negative cash impact in the Year Ended December 31, 2005, reflecting the net selling price, certain post-closing adjustments of the selling price and the cash cost of externalizing the related pension obligations. Under the terms of the supply contracts entered into as part of the transaction, EDC is obligated to give UMG rebates of at least €37 million between 2005 and 2014.

### Divestiture of Vivendi's stake in UGC

In December 2005, following the exercise of its call option by the family shareholders of UGC, Vivendi completed the divestiture of its 37.8% equity interest in UGC S.A. (representing 40% of the voting interests), which was previously equity-accounted for an amount of €89 million (including interest). The price might be adjusted depending on the date of a future sale by UGC family shareholders within various periods of exercise of the call. During 2005, Vivendi received €54 million in cash, the remaining approximately €34 million is due between 2006 (€6 million) and 2008. This transaction generated a capital gain of €10 million.

### 1.3.5. Other

#### IACI exited Vivendi Universal Entertainment (VUE). IACI and Vivendi Universal agreed to end litigation

On June 7, 2005, Vivendi, NBC Universal (NBCU) and InterActiveCorp (IACI) unwound IACI's interests in VUE through the purchase by NBCU of IACI's common and preferred interests in VUE. The unwinding of IACI's interests was funded in part through (i) capital contributions of \$160 million by Vivendi, through its subsidiary Universal Studios Holding I Corp., (ii) the sale of treasuries (negotiable US Government debt obligations, backed by its full faith and credit) applied for the defeasance of the covenants of the VUE Class A preferred interests and (iii) the exchange of 56.6 million shares of IACI stock securing the put/call rights relating to the VUE Class B preferred interests. As a result of this exchange, Vivendi renounced the after tax benefit related to the increase of IACI's stock price above \$40.82 per share in May 2002. Vivendi's obligations to fund the after-tax cost of 94.56% of the 3.6% per annum cash coupon on the VUE Class B preferred interests and

pay up to \$520 million to NBCU in respect of any loss from the disposition of the theme parks were eliminated. The impact of this transaction on Vivendi's statement of earnings was a gain of €194 million for the Year Ended December 31, 2005.

As part of this transaction, Vivendi and IACI agreed to terminate their pending tax dispute.

#### Vivendi proceeded to the early termination of the derivative structure affecting 5% of the share capital of Veolia Environnement

On October 25, 2005, Vivendi agreed with Société Générale to the early termination of the derivative structure (collar option) affecting 5% of the share capital of Veolia Environnement (20,321,100 shares) which was set up in December 2004.

As part of the divestiture of 15% of Veolia Environnement's share capital on December 2004, Vivendi agreed with Société Générale to a derivative transaction on a notional commitment representing 5% of Veolia Environnement's share capital allowing Vivendi to benefit, within a three year period, from an increase in Veolia Environnement's share price above €23.91. This derivative structure was terminated earlier in October 2005. Given the increase of the Veolia Environnement share price by reference to the exercise price of the collar option set in December 2004, the termination of this instrument resulted in financial income of €115 million in 2005, corresponding to the gross proceeds of the transaction (€208 million, net of fees) less the carrying value of the collar option as of January 1, 2005 (€93 million).

This transaction had no impact on the group's adjusted net income.

Upon completion of the transaction, Vivendi retained its remaining stake of 5.3% in the share capital of Veolia Environnement (21,522,776 shares) and committed not to sell those shares for a period of three months (corresponding to January 24, 2006). This investment was fully disposed of in July 2006. Please refer to Paragraph 1.1.10 of this Financial Report.

Vivendi also held 218,255,690 Veolia Environnement warrants at €55 that expired in March 2006, and were not exercised.

#### Partial redemption of bonds exchangeable into Sogecable shares

In November and December 2005, Vivendi opted for the early redemption of €363 million of bonds exchangeable into Sogecable shares with an exchange ratio of 1.0118 share for 1 bond. Vivendi delivered 12,540,403 Sogecable shares to bondholders. As of December 31, 2005, the residual amount of this borrowing amounted to €242 million and Vivendi held 8,340,850 Sogecable shares. This transaction generated a capital gain of €256 million recorded as financial income, and had no impact on the group's cash position.

## 1.4. MAIN DEVELOPMENTS IN 2004

- Authorization to use the Consolidated Global Profit Tax System as of January 1, 2004 (please refer to Note 6.2 to the Consolidated Financial Statement as of December 31, 2006);
- Combination of NBC and VUE to create NBC Universal in May 2004;
- Divestiture of two Philip Morris Towers in June 2004;
- Divestiture of UMG's stake in VIVA Media in August 2004;
- Divestiture of 15% of Veolia Environnement, part of the 20.3% stake held by Vivendi in December 2004;
- Listing of Maroc Telecom on the Casablanca and Paris Stock Exchanges in December 2004; and
- Completion of the assets divestiture plan of the Groupe Canal+ (Sportfive in March 2006, StudioExpand's "Flux-divertissement" in June, Canal+ Benelux in August and Quai André Citroën Headquarters in September) and of the non-core operations (Brazilian publishing operations in February, Kencell in May, Monaco Telecom in June and United Cinema International in October).

For more details about these transactions, please refer to the Management Discussion and Analysis in pages 126 through 129 of the Document de Référence n° D06-0178 filed with the French Autorité des Marchés Financiers (AMF) on March 28, 2006 or pages 126 through 129 of the English translation of the Document de Référence filed on Form 6-K with the SEC on May 31, 2006.

## 2 Change in Presentation, in Accounting Policies / Critical Accounting Estimates

### 2.1. CHANGE IN PRESENTATION

Beginning June 30, 2006, considering the practice of major European companies with respect to the application of IFRS and considering the accounting impact of acquisition transactions, Vivendi has made a number of presentation changes, including to the presentation of its consolidated statement of earnings and its consolidated statement of cash flows as well as the operating performances of its business segments and of the group. Please refer to Note 1 "Accounting policies and valuation methods" of the notes to the Consolidated Financial Statements for the Year Ended December 31, 2006.

#### a) Presentation of the Consolidated Statement of Earnings and the Consolidated Statement of Cash Flows

- Simplification of the consolidated statement of earnings' presentation by eliminating certain subtotals which are not currently used by Vivendi Management and henceforth presenting a subtotal known as "EBIT". EBIT is defined as the difference between charges and income that do not result from financial activities, equity affiliates, discontinued operations and income tax.
- As a result, the presentation of the consolidated statement of cash flows has been modified in accordance with IAS 7. In particular, net cash provided by operating activities is henceforth calculated using the indirect method based on EBIT instead of earnings.

#### b) Presentation of Operating Performance by Business Segment and of the Group

- Replacement of earnings from operations (EFO) with adjusted earnings before interest and income taxes (EBITA) as the key operating performance measure of the business units reported in the segment data. Vivendi Management evaluates the performance

of the business units and allocates necessary resources to them for their development based on certain operating indicators (segment earnings and cash flow from operations). Until June 30, 2006, reported segment earnings were determined based on the earnings from operations of each business. They are now determined on the basis of the EBITA.

- The method for calculating EBITA aims at eliminating the impact of the amortization of intangible assets acquired through business combinations. It enables the measurement of the operating performance of each business segment on a comparable basis, regardless of whether their activity results from the company's internal growth or acquisitions and on a basis which more accurately reflects the cash that they generate by eliminating accounting amortization with no cash impact.
- The difference between EBITA and EBIT is due to the amortization of intangible assets acquired through business combinations and the impairment losses of goodwill and other intangibles acquired through business combinations that are included in EBIT.
- The difference between EBITA and EFO, as previously published, is due to the amortization of intangible assets acquired through business combinations that is excluded from EBITA.
- Accordingly, the definition of adjusted net income has been modified to exclude the amortization of intangible assets acquired through business combinations, as is presently the case for impairment losses of goodwill, or other intangibles acquired through business combinations, which have always been excluded from the definition.

Pursuant to IAS 1, Vivendi has applied these presentation changes to all the periods presented. Please refer to Appendix 2 of the 2006 Financial Report.

## 2.2. CHANGE IN ACCOUNTING POLICIES

Not applicable in 2006. Please refer to Note 1 to the Consolidated Financial Statement for the Year Ended December 31, 2006.

## 2.3. CRITICAL ACCOUNTING ESTIMATES

Some of the accounting methods and policies used in preparing our Consolidated Financial Statements under IFRS require our management's assessments of estimates based on historical results and assumptions deemed realistic and reasonable. Despite periodic reviews of these estimates and assumptions, particularly those based on past performance and forecasts, changes in facts and circumstances could affect these estimates and assumptions which in turn could impact the reported amount of group assets, liabilities, equity or

earnings. These estimates and assumptions notably relate to the measurement of deferred taxes, provisions, employee benefits, share-based compensation and certain financial instruments, revenue recognition and the valuation of goodwill, other intangible assets and property, plant and equipment. Please refer to Note 1 to the Consolidated Financial Statement for the Year Ended December 31, 2006 for more details.

## 3 Statements of Earnings in 2006, 2005 and 2004

### 3.1. CONSOLIDATED EARNINGS AND CONSOLIDATED ADJUSTED NET INCOME IN 2006, 2005 AND 2004

Consolidated statement of earnings				Adjusted statement of earnings			
(in millions of euros, except per share amounts)	Year Ended December 31,			Year Ended December 31,			
	2006	2005	2004	2006	2005	2004	
<b>Revenues</b>	<b>€20,044</b>	<b>€19,484</b>	<b>€17,883</b>	<b>€20,044</b>	<b>€19,484</b>	<b>€17,883</b>	<b>Revenues</b>
Cost of revenues	(10,146)	(9,898)	(9,100)	(10,146)	(9,898)	(9,100)	Cost of revenues
<b>Margin from operations</b>	<b>9,898</b>	<b>9,586</b>	<b>8,783</b>	<b>9,898</b>	<b>9,586</b>	<b>8,783</b>	<b>Margin from operations</b>
Selling, general and administrative expenses excluding amortization of intangible assets acquired through business combinations	(5,533)	(5,568)	(5,193)	(5,533)	(5,568)	(5,193)	Selling, general and administrative expenses excluding amortization of intangible assets acquired through business combinations
Restructuring charges and other operating charges and income	5	(33)	(86)	5	(33)	(86)	Restructuring charges and other operating charges and income
Amortization of intangible assets acquired through business combinations	(223)	(239)	(271)	-	-	-	
Impairment losses of intangible assets acquired through business combinations	-	(170)	(25)	-	-	-	
<b>EBIT</b>	<b>4,147</b>	<b>3,576</b>	<b>3,208</b>	<b>4,370</b>	<b>3,985</b>	<b>3,504</b>	<b>EBITA</b>
				<b>21.8%</b>	<b>20.5%</b>	<b>19.6%</b>	<b>EBITA margin rate</b>
Income from equity affiliates	337	326	221	337	326	221	Income from equity affiliates
Interest	(203)	(218)	(406)	(203)	(218)	(406)	Interest
Income from investments	54	75	89	54	75	89	Income from investments
Other financial charges and income	311	619	1,226	-	-	-	
<b>Earnings from continuing operations before provision for income taxes</b>	<b>4,646</b>	<b>4,378</b>	<b>4,338</b>	<b>4,558</b>	<b>4,168</b>	<b>3,408</b>	<b>Adjusted earnings from continuing operations before provision for income taxes</b>
Provision for income taxes	547	(204)	(292)	(777)	(876)	(824)	Provision for income taxes
<b>Earnings from continuing operations</b>	<b>5,193</b>	<b>4,174</b>	<b>4,046</b>				
Earnings from discontinued operations	-	92	777				
<b>Earnings</b>	<b>€5,193</b>	<b>€4,266</b>	<b>€4,823</b>	<b>€3,781</b>	<b>€3,292</b>	<b>€2,584</b>	<b>Adjusted net income</b>
Attributable to:							Attributable to:
<b>Equity holders of the parent</b>	<b>€4,033</b>	<b>€3,154</b>	<b>€3,767</b>	<b>€2,614</b>	<b>€2,218</b>	<b>€1,498</b>	<b>Equity holders of the parent</b>
				<b>13.0%</b>	<b>11.4%</b>	<b>8.4%</b>	<b>Net margin rate</b>
Minority interests	1,160	1,112	1,056	1,167	1,074	1,086	Minority interests
<b>Earnings, attributable to equity holders of the parent per share - basic (in euros)</b>	<b>€3.50</b>	<b>€2.74</b>	<b>€3.29</b>	<b>€2.27</b>	<b>€1.93</b>	<b>€1.31</b>	<b>Adjusted net income, attributable to equity holders of the parent per share - basic (in euros)</b>
<b>Earnings, attributable to equity holders of the parent per share - diluted (in euros)</b>	<b>€3.47</b>	<b>€2.72</b>	<b>€3.27</b>	<b>€2.25</b>	<b>€1.91</b>	<b>€1.30</b>	<b>Adjusted net income, attributable to equity holders of the parent per share - diluted (in euros)</b>

Over the last three years, in addition to marked improvements in EBITA and Adjusted net income attributable to equity holders of the parent, the operating margin (EBITA divided by revenue) and the net margin (adjusted net income attributable to equity holders of the parent divided by revenue) also increased significantly. We believe that these improvements reflect the appropriateness of investment choices made by Vivendi Management and of the decision to focus on businesses generating the highest margins and cash flows.

In 2006, the operating margin was 21.8% (compared to 20.5% in 2005 and 19.6% in 2004), representing an improvement of 1.3 percentage points over 2005 and 2.2 percentage points over 2004, while the net margin was 13.0% (compared to 11.4% in 2005 and 8.4% in 2004), representing an improvement of 1.6 percentage points over 2005 and 4.6 percentage points over 2004.

### 3.2. 2006 AND 2005 EARNINGS REVIEW

In 2006, **earnings attributable to equity holders of the parent** amounted to €4,033 million (representing basic earnings per share of €3.50 and €3.47 on a diluted basis), compared to €3,154 million for the Year Ended December 31, 2005 (representing basic earnings per share of €2.74 and €2.72 on a diluted basis), an increase of 27.9%.

In 2006, **adjusted net income attributable to equity holders of the parent** amounted to €2,614 million (representing basic adjusted earnings per share of €2.27 and €2.25 on a diluted basis), compared to €2,218 million for the Year Ended December 31, 2005 (representing basic adjusted earnings per share of €1.93 and €1.91 on a diluted basis), an increase of 17.9%.

A reconciliation of earnings attributable to equity holders of the parent with adjusted net income attributable to equity holders of the parent is presented in Note 8 to the Consolidated Financial Statements for the Year Ended December 31, 2006. In 2006, the difference between these two amounts was €1,419 million, and mainly included the gain resulting from the settlement of the tax dispute concerning the DuPont shares (€984 million) and the capital gain generated by the sale of Veolia Environnement shares (€832 million), offset by the capital loss incurred on the PTC shares (€496 million).

The €396 million improvement in **adjusted net income attributable to equity holders of the parent** was due to the following positive impacts:

- a €385 million increase from the growth in EBITA, attributable to SFR (+€161 million), Maroc Telecom (+€126 million), UMG (+€63 million), Vivendi Games (+€60 million) as well as Holding & Corporate (+€82 million) despite the downturn reported by the Canal+ Group (-€128 million). This downturn was primarily due to the recognition in 2006 of a portion of the costs of the Canal+ and TPS combination, expensed in the amount of €177 million; excluding these costs, the Canal+ Group would have reported an increase in EBITA of €49 million. In addition, Holding & Corporate EBITA includes a non-recurring gain of €56 million pursuant to the risk management of retirement pension obligations as well as the positive impact of (i) favorable litigation settlements and (ii) the recovery of a cash deposit

which was initially recognized as an expense with respect to the TVT litigation. In 2005, SFR EBITA included the unfavorable impact of non-recurring losses of €115 million following the €220 million fine imposed by the French competition authorities, partially offset by non-recurring gains of €105 million;

- a €11 million increase in income from equity affiliates;
- a €15 million reduction in interest expense; and
- a €99 million reduction in tax expense.

These positive impacts were partially offset by the following negative items:

- a €21 million decrease in income from investments; and
- a €93 million charge related to the increase in the share of earnings attributable to minority interests.

#### Breakdown of the Main Items of the Consolidated Statement of Earnings

**Revenues increased** to €20,044 million compared to €19,484 million in 2005, representing an increase of €560 million (2.9%). On a comparable basis<sup>1</sup>, revenues amounted to €20,007 million compared to €19,374 million, representing an increase of 3.3% (3.3% at constant currency). For a breakdown of revenues by business segment, please refer to Section 4 "Revenues, EBITA and cash flow from operations by business segment in 2006, 2005 and 2004" of this Financial Report.

**Costs of revenues** amounted to €10,146 million (compared to €9,898 million in 2005), representing an increase of €248 million.

**Margin from operations** increased from €9,586 million in 2005 to €9,898 million in 2006, representing an increase of €312 million, mainly due to Maroc Telecom (+€200 million) and Vivendi Games (+€148 million).

(1) Comparable basis essentially illustrates the effect of the divestitures that occurred in 2005 and 2006 (mainly NC Numéricable in 2005 and the Paris Saint-Germain soccer club (PSG) in 2006 at Canal+ Group) and includes the full consolidation of stakes in distribution subsidiaries at SFR as if these transactions had occurred as of January 1, 2005. Comparable basis results are not necessarily indicative of the results that would have occurred had the events actually occurred at the beginning of 2005.

**Selling, general and administrative expenses, excluding impairment losses on intangible assets acquired through business combinations** were €5,533 million in 2006 compared to €5,568 million in 2005, representing an improvement of €35 million.

**Depreciation and amortization** are part of either selling, general and administrative expenses or cost of revenues. Depreciation and amortization, excluding amortization of intangible assets acquired through business combinations, was €1,357 million compared to €1,286 million in 2005, representing an additional charge of €71 million. This increase is primarily due to major capital expenditures by SFR in order to improve the coverage and capacity of its 2G and 3G/3G+ networks.

**Restructuring charges and other operating charges and income** represented net income of €5 million compared to a net expense of €33 million in 2005. This €38 million increase was mainly attributable to capital gains realized on the sale of real estate. Restructuring costs (mainly at UMG and Maroc Telecom) were stable at approximately €50 million.

**EBITA** totaled €4,370 million compared to €3,985 million in 2005. On a comparable basis, EBITA increased by €381 million to €4,369 million, representing an increase of 9.6% (9.7% at constant currency), compared to €3,988 million in 2005. In 2006, with the exception of the Canal+ Group, each business unit recorded growth in its activities. Excluding the Canal+ Group and TPS combination costs (recognized for -€177 million in 2006), the Canal+ Group would also have recorded positive growth in its activities. The operating margin increased by 1.3 percentage points, from 20.5% in 2005 to 21.8% in 2006. For a breakdown of EBITA by business segment, please refer to Section 4 "Revenues, EBITA and cash flow from operations by business segment in 2006, 2005 and 2004" of this Financial Report.

**Amortization of intangible assets acquired through business combinations** were €223 million in 2006, compared to €239 million in 2005, representing an improvement of €16 million.

**Impairment losses on intangible assets acquired through business combinations** were zero in 2006. In 2005, impairment losses totaled €170 million and mainly included the impact of balance sheet adjustments relating to the NBC Universal transaction (€124 million) and the write down of UMG goodwill (€48 million), recorded to offset the recognition of deferred tax assets in respect of ordinary tax losses not recognized at the end of 2000, as part of the UMG purchase price allocation.

**EBIT** amounted to €4,147 million compared to €3,576 million in 2005, representing an increase of 16.0%.

**Income from equity affiliates** totaled €337 million compared to €326 million in 2005, representing an increase of €11 million. The decrease in net income from NBC Universal (€301 million compared to €361 million in 2005) was more than offset by the increase in income from Neuf Cegetel (net income of €38 million compared to a net loss of €50 million in 2005).

**Interest** amounted to €203 million compared to €218 million in 2005, representing an improvement of €15 million. Borrowing costs increased as a result of an increase in the financing rate (4.20% compared to 3.92% in 2005), despite stable average outstanding borrowings (€6.7 billion, calculated on a daily basis), representing an additional charge of €24 million. This was more than offset by an increase in interest income on cash and cash equivalents (+€35 million).

**Income from investments** decreased by €21 million from €75 million in 2005 to €54 million in 2006. In 2006, this heading mainly comprises dividends from investments in non-consolidated companies of €36 million (€38 million in 2005), including Veolia Environnement and DuPont, both of which were sold during 2006. It also includes interest of €18 million (€37 million in 2005) received on long-term financial receivables. The net decrease in the amount for this line item is due to the repayment of certain receivables at the end of 2005 and during the course of 2006, including repayment of the Neuf Cegetel bonds.

**Other financial charges and income** generated net income of €311 million compared to €619 million in 2005, a decrease of €308 million. In 2006, this line item mainly includes the capital gain on the sale of Veolia Environnement shares (€832 million; please refer to Paragraph 1.1.10 of this Financial Report), offset by the capital loss incurred on the PTC shares (€496 million; please refer to Paragraph 1.1.5 of this Financial Report). This line item breaks down as follows:

- **Gain/(Loss) on the divestiture of financial investments** represented a net gain of €932 million in 2006 and mainly resulted from capital gains realized on the sale of Veolia Environnement shares (€832 million) and Sogecable shares (€66 million, contributed to Prisa in March 2006 as part of a partial tender offer). These gains were partially offset by losses on the divestiture of financial investments of €631 million, including capital losses incurred on the PTC shares (€496 million) and on the sale of the DuPont shares (€98 million). In 2005, net gains on the divestiture of financial investments totaled €490 million and resulted from the capital gains realized on the exchange of Sogecable shares (€256 million) as part of the repayment of convertible bonds and on the early termination of the Veolia Environnement collar (€115 million), as well as the reversal of the provision against LBI Fund shares (€87 million). Capital losses on the divestiture of financial investments totaled €25 million in 2005.
- **Gain/(Loss) on the divestiture of businesses** represented a net gain of €189 million and mainly resulted from capital gains realized on the sale of 9.82% of the share capital of Canal+ France to Lagardère (€128 million; please refer to Paragraph 1.1.1 of this Financial Report) and the residual investment in Ypso (€56 million). These gains were partially offset by losses on the divestiture of businesses of €104 million, including the additional provision (€54 million) recognized in connection with vendor warranties given as part of the sale of Xfera in 2003 and the capital loss realized on the sale of Paris Saint Germain soccer club (€23 million). In 2005, capital gains totaled €322 million and mainly resulted from the capital gain realized on the unwinding of IACI's investment in VUE (€194 million) and the sale of investments in Lagardère Thématiques (€26 million), Ypso (€29 million) and UCI (€34 million). Capital losses totaled €26 million

and mainly resulted from the capital loss generated by the sale of Numéricable (€13 million).

- **Financial component of costs related to employee benefit plans** totaled €32 million in 2006, compared to €35 million for the same period in 2005.
- **Impact of amortized cost on borrowings (including premiums incurred for early redemption)** was a charge of €26 million, compared to a charge of €115 million in 2005. This improvement was mainly due to the negative impact in 2005 (€71 million) of premiums incurred on the early redemption of certain notes.
- **Change in the fair value of derivative instruments** generated a net gain of €24 million in 2006, compared to a loss of €2 million in 2005. This improvement mainly reflects the change in fair value of interest rate swaps (+€17 million) in 2006, compared to the loss incurred in 2005 on the put option granted by SFR to SNCF on 35% of the share capital of Cegetel (€14 million), incurred prior to the contribution of Cegetel to Neuf Télécom.
- **Other** – In 2006, remaining other financial charges and income generated a net charge of €41 million, compared to net income of €10 million in 2005. This downturn of €51 million was mainly due to foreign exchange losses of €37 million.

**Income taxes** is a net income of €547 million, compared to a net charge of €204 million in 2005.

- The income taxes recorded in 2006 comprised of non-recurring items adjusting previous years' income tax (€1,380 million, compared to €305 million) which included, in particular, the gain related to the settlement of the DuPont litigation (€1,082 million), as well as the reversal of tax liabilities relating to risks extinguished over the period (€272 million, compared to €256 million in 2005).
- This income also includes tax savings generated by the Consolidated Global Profit Tax System (€561 million compared to €595 million in 2005). This amount includes current tax savings in respect of 2006 of €604 million, compared to €507 million in 2005, representing an increase of €97 million. Conversely, as of December 31, 2006, the deferred tax asset recorded in respect of expected tax savings in 2007 represented a charge of €43 million, compared to income of

€88 million as of December 31, 2005, a decrease of €131 million. Expected savings in 2007 generated by the Consolidated Global Profit Tax System totaled €537 million compared to tax savings of €604 million in 2006. This decrease mainly results from the impact the combination costs associated with the Canal+ and TPS merger will have on Canal+ France's 2007 income tax calculation.

- In addition, income taxes reported in adjusted net income are a net charge of €777 million, compared to a net charge of €876 million in 2005, which represents an improvement of €99 million. A reconciliation of earnings attributable to equity holders of the parent with adjusted net income attributable to equity holders of the parent is presented in Note 8 to the Consolidated Financial Statements for the Year Ended December 31, 2006. In 2006, the difference between income taxes reported in net income compared to income taxes reported in adjusted net income amounted to €1,324 million (compared to €672 million in 2005). It mainly included non recurring items in the amount of €1,284 million (compared to €482 million in 2005), which were essentially comprised of the gain resulting from the settlement of the dispute concerning the DuPont shares (€1,082 million) and the reversal of tax liabilities relating to risks extinguished over the period (€218 million, compared to €300 million in 2005). It also included the change in the deferred tax asset relating to the tax savings generated by the Consolidated Global Profit Tax System (a decrease of €43 million compared to an increase of €88 million in 2005), as well as the tax effect related to other adjustments (€83 million, compared to €102 million in 2005), essentially comprised of the tax impact of the amortization of intangible assets acquired through business combinations.

In 2005, **Earnings from discontinued operations** totaled €92 million and comprised 72% of the charges and income generated by Cegetel up to August 22, 2005 and the capital gain recognized on the disposal of this company on this date (€121 million).

**Earnings attributable to minority interests**, mainly SFR and Maroc Telecom, amounted to €1,160 million in 2006 compared to €1,112 million in 2005. The increase in earnings attributable to the minority interests of SFR and Maroc Telecom, as a result of higher earnings at these two businesses, was partially offset by the decrease resulting from the buyout of minority interests in UMG and NBC Universal in February 2006.

### 3.3. 2005 AND 2004 EARNINGS REVIEW

In 2005, earnings attributable to equity holders of the parent decreased to €3,154 million (representing basic earnings per share of €2.74 and €2.72 on a diluted basis), compared to €3,767 million for the Year Ended December 31, 2004 (representing basic earnings per share of €3.29 and €3.27 on a diluted basis).

In 2005, adjusted net income attributable to equity holders of the parent amounted to €2,218 million (representing basic adjusted earnings per share of €1.93 and €1.91 on a diluted basis), compared to €1,498 million

for the Year Ended December 31, 2004 (representing basic adjusted earnings per share of €1.31 and €1.30 on a diluted basis). The adjusted net income, attributable to equity holders of the parent compared to revenues reached 11.4% (compared to 8.4% in 2004).

Reconciliation of earnings attributable to equity holders of the parent with adjusted net income attributable to equity holders of the parent is presented in Note 8 of the notes to the Consolidated Financial Statements for the Year Ended December 31, 2006.

The improvement of adjusted net income attributable to equity holders of the parent i.e. €720 million (+48%) was due to the following positive impacts:

- +€481 million from growth in EBIT, notably due to a return to break-even at Vivendi Games (+€243 million), return to growth at UMG (+€89 million) as well as ongoing profitability at SFR (+€90 million) despite negative net impact of -€115 million of non recurring items in 2005) and at Maroc Telecom (+€101 million);
- +€188 million from reduction in interest, resulting from the decrease in the average amount of borrowings as well as improved financing conditions;
- +€105 million from the increase in income from equity affiliates; and
- +€12 million from the decline in the stake of minority interests in earnings;

These positive effects were partially offset by the following items:

- -€52 million from higher provisions for income taxes as a result of the improvement in taxable earnings (UMG, SFR, Maroc Telecom), offset by tax savings resulting from the utilization of ordinary losses carried forward in France and in the United States; and
- -€14 million from the reduction in other income from ordinary activities.

## Breakdown of the Main Items of the Consolidated Statement of Earnings

In 2005, Vivendi's **consolidated revenues** amounted to €19,484 million compared to €17,883 million in 2004, representing an increase of €1,601 million. For an analysis of revenues by business segment, please refer to Section 4 "Revenues, EBITA and cash flow from operations by business segment in 2006, 2005 and 2004" of this Financial Report.

In 2005, **cost of revenues** amounted to -€9,898 million (compared to -€9,100 million in 2004), representing a €798 million increase. However, cost of revenues declined by €77 million when the 2005 rate (i.e. -€875 million<sup>1</sup> is applied to estimated mobile-to-mobile sales in 2004.

**Margin from operations** increased by €803 million to reach €9,586 million in 2005, mainly due to the increased margin from operations at SFR, Vivendi Games and Maroc Telecom.

**Selling, General and administrative expenses, excluding impairment losses of intangible assets acquired through business combinations**, amounted to €5,568 million compared to €5,193 million in 2004, representing an increase of €375 million. This cost increase in 2005 was mainly due to the impact of the €220 million fine from the French

Antitrust Council. Please refer to Note 30 to the Consolidated Financial Statements for the Year Ended December 31, 2006.

**Depreciation and amortization** are part of either administrative and commercial expenses or cost of revenues. Depreciation and amortization, excluding impairment losses of intangible assets acquired through business combinations, amounted to -€1,286 million compared to -€1,383 million in 2004, representing a decrease of €97 million, due to scope changes at UMG (divestiture of CD and DVD manufacturing facilities in the United States and Germany in May 2005) as well as at the Canal+ Group (disposal of NC Numéricable in March 2005) slightly offset by higher amortization costs at SFR, as a result of the commencement of the amortization period for the UMTS license beginning in the middle of June 2004.

**Restructuring charges and other operating charges and income** were -€33 million compared to -€86 million in 2004, representing a €53 million decrease. Restructuring costs (mainly Maroc Telecom and UMG) were -€51 million in 2005 and -€103 million in 2004.

**EBITA** amounted to €3,985 million compared to €3,504 million in 2004. This 13.7% increase (+€481 million) resulted from higher revenues (particularly at SFR, Maroc Telecom and Vivendi Games), combined with efficient cost control within the group (mainly at SFR, Vivendi Games and UMG) and a reduction in restructuring costs (notably at UMG and Vivendi Games). In 2005, EBIT was negatively impacted by -€115 million as a result of the €220 million fine from the French Antitrust Council which was partly offset by the recording of favorable non-recurring items of €105 million. In 2004, EBIT included non-recurring costs associated with product cancellations and the write-off of certain titles at Vivendi Games. EBITA compared to revenues reached 20.5% compared to 19.6% in 2004. For an analysis of earnings from operations by business segment, please refer to Section 4 "Revenues, EBITA and cash flow from operations by business segment in 2006, 2005 and 2004".

**Amortization of intangible assets acquired through business combinations** amounted to -€239 million compared to -€271 million in 2004, representing a €32 million decrease and consists of amortization of music catalogs for -€201 million (-€233 million in 2004).

**Impairment losses of intangible assets acquired through business combinations** (previously referred to as Other charges from ordinary activities"), amounted to -€170 million compared to -€25 million in 2004, representing a €145 million increase. In 2005, such impairment losses essentially included non-cash adjustments relating to the NBC Universal transaction (€124 million) as well as exceptional goodwill amortization (-€48 million) at UMG, which was recorded to offset the activation of the deferred tax asset related to ordinary losses carry forward not recognized at the end of 2000 on the purchase price allocation of UMG.

(1) Mobile-to-mobile sales were not invoiced (income and expenses) between French mobile operators until December 31, 2004. They have been treated as an exchange of goods and services, the fair value of which was not determinable for the Year Ended December 31, 2004, and no revenues were recognized on these calls. Since 2005, these call terminations have been invoiced. For the Year Ended December 31, 2004, the impact of estimated mobile-to-mobile sales amounted to €875 million on revenues and to -€875 million on cost of revenues.

**EBIT** was €3,576 million, compared to €3,208 in 2004, representing a 11.5% increase.

**Income from equity affiliates** amounted to €326 million compared to €221 million in 2004, representing an increase of €105 million, including €156 million related to VUE / NBC Universal. Specifically it included Vivendi's equity interest in twelve months of 2005 NBC Universal (NBCU) earnings (€361 million) compared to 234 days of NBCU earnings and 132 days of 20% of VUE's earnings in 2004 (NBCU was created through the combination between NBC and VUE as of May 11, 2004) and VUE equity in 2004. In addition, during 2005, income from equity affiliates included €50 million in Neuf Cegetel losses compared to -€22 million in Cegetel S.A.S. losses in 2004.

**Interest** amounted to -€218 million compared to -€406 million in 2004, representing an improvement of €188 million. The average amount of borrowings (calculated on a daily basis) decreased to €6.7 billion in 2005, compared to €8.9 billion in 2004. This decrease was mainly due to the impact of the implementation of the divestiture plan, and in particular the divestiture of VUE to NBCU in May 2004.

In 2005, average borrowing costs strongly decreased to 3.92% from 5.01% in 2004. The interest decrease resulted from the combined effect of the redemption of the High Yield Notes (83% in June 2004 and the balance in January 2005), funded by the proceeds from the NBCU transaction as well as the new credit facilities obtained on better financial terms in 2004 and 2005 as a result of the upgrade of Vivendi's credit rating to Investment Grade in 2004. Please refer to Section 5 "Liquidity Management and Capital resources in 2006 and 2005".

In March 2005, Vivendi completed its plan to unwind interest rate swaps without cash consideration, which represented a charge of -€84 million for the full year of 2004.

**Income from investments** (previously presented in "Other income from ordinary activities") amounted to €75 million compared to €89 million in 2004, representing a decrease of €14 million. In 2005, other income from ordinary activities mainly included €38 million of dividends received from unconsolidated companies (compared to €23 million in 2004) including Veolia Environnement, previously equity-accounted, and €37 million of interest income received for long-term financial receivables (compared to €66 million in 2004). The decrease in interest income resulted from the fact that Vivendi ceased to record interest related to the Elektrim Telekomunikacija's loan, due to the company's situation. Please refer to Notes 2.4 and 30 to the Consolidated Financial Statement as of December 31, 2006.

**Other financial charges and income** generated an income of €619 million compared to €1,226 million income in 2004, representing a decrease of €607 million.

Other financial charges and income mainly included capital gains/losses on the divestiture of businesses or financial investments, the financial component of costs related to employee benefit plans, the amortized cost on borrowings (including premiums incurred for early redemption of borrowings and for the unwinding of derivative

instruments), changes in value of derivative instruments and gains/losses on foreign currency translations (other than gains/losses on foreign currency translations on operating activities, recorded in earnings from operations).

- **Gain / (loss) on the divestiture of financial investments.** Gains on the divestiture financial investments amounted to €490 million and resulted mainly from the capital gain on the exchange of Sogecable shares related to the redemption of the Sogecable bonds (+€256 million), the financial gain on early termination of the collar on the 5% stake in Veolia Environnement (+€115 million) as well as the reversal of the provision against the LBI Fund shares (€87 million). Capital losses amounted to -€25 million. In 2004, capital gains amounted to €72 million and mainly included the financial gain on the divestiture of the stake in Viva Media (+€26 million) and capital losses were zero.
- **Gain / (loss) on the divestiture of businesses.** Gains on the divestiture of businesses amounted to €322 million and resulted mainly from the gains related to the unwinding of IACI's interest in VUE (+€194 million), to the divestiture of Vivendi's stake in Lagardère Thématiques (+€26 million), as well as, the capital gain on the divestiture of remaining assets at UCI (+€34 million). Capital losses amounted to -€26 million. In 2004, capital gains amounted to €1,774 million and resulted mainly from the impact of the divestiture of 15% of Veolia Environnement, part of Vivendi's 20.3% stake (+€1,403 million), various liquidation bonuses (+€74 million), the capital gain on the divestiture of the "flux-divertissement" business of StudioExpand and Canal+ Benelux (+€65 million), certain UCI assets (+€64 million), Kencell (+€39 million) and Sportfive (+€38 million) and the impact of the abandonment of Internet operations (+€34 million). Capital losses amounted to -€108 million and mainly resulted from the losses recorded on the NC Numéricable divestiture (-€56 million).
- **The financial component of costs related to employee benefit plans** remained almost flat at -€35 million compared to -€37 million in 2004.
- **Impact of amortized cost on borrowings (including premiums incurred for early redemption).** The impact of amortized cost on borrowings was a charge of €115 million (compared to a charge of €486 million over the same period in 2004). This improvement was due to the large number of early redemptions of borrowings in 2004 following the NBCU transaction. These early redemptions generated exceptional costs in 2004 and lower recurring costs in 2005 as the total amount of borrowings declined. Premiums incurred for early redemption of notes and other financial liabilities represented a charge of €71 million as of December 31, 2005, compared to a charge of €308 million as of December 31, 2004, corresponding to the premium paid (including accrued interests) on the early redemption of 83% of the High Yield Notes in June 2004. 2005 included a charge of €50 million incurred for the redemption of the remaining High Yield Notes at the end of January 2005. In addition, the early redemption of the bonds exchangeable into Vinci shares in the course of March 2005 resulted in a charge of €27 million. In 2005, the impact of amortized cost on borrowings represented a charge of €44 million

(compared to a charge of €178 million as of December 31, 2004, which included an exceptional charge of €53 million due to the redemption of credit lines after the NBCU transaction).

■ **Changes in value of derivative instruments.** The depreciation of derivative instruments represented a loss of €2 million. The depreciation of derivative instruments represented a loss of €10 million in 2004. This change was due to:

- the early termination in 2005 of the collar on the 5% stake in Veolia Environnement, representing an upside adjustment of €25 million;
- the upside adjustment of the value of the embedded option on the bonds exchangeable into Sogecable shares (+€16 million in 2005), corresponding to the portion of the bonds which was not exchanged in the fourth quarter of 2005, compared to a downside adjustment of -€11 million in 2004;
- the smaller downside adjustment of the value of the put option granted to SNCF on 35% of the capital of Cegetel S.A.S. exercised on August 22, 2005 (-€14 million as of December 31, 2005, compared to -€35 million as of December 31, 2004);
- in 2004, downside adjustments were partly offset by the upside adjustment of the value of the interest rate swaps without cash consideration (+€18 million).

**Provision for income taxes** amounted to -€204 million compared to -€292 million in 2004. The effective tax rate amounted to 4.7% in 2005, compared to 6.7% in 2004. Excluding the impact of non recurring items, the effective tax rate reached 21% in 2005, versus 24% in 2004.

Excluding the impact of non recurring tax items and taxes related to non recurring items (change in deferred tax assets, reversal of deferred tax liabilities relating to tax years no longer open to audit, etc.), the tax expense increased by €52 million, due to higher taxable earnings (UMG, SFR and Maroc Telecom). This increase was offset by tax savings

resulting from the utilization of ordinary losses carried forward (mainly in France, including the impact of the Consolidated Global Profit Tax System, and in the United States).

In 2005, the impact of the Consolidated Global Profit Tax System was expected tax savings in fiscal year 2005 of €507 million recorded by Vivendi S.A., compared to expected tax savings in fiscal year 2004 of €464 million. This +€43 million improvement mainly resulted from an increase of SFR's taxable earnings. In addition, as of December 31, 2005, deferred tax assets recorded for 2006 expected tax savings amounted to €580 million, compared to €492 million deferred tax assets recorded in 2004 for 2005 expected tax savings, representing a change of +€88 million in deferred tax assets.

**Earnings from discontinued operations** generated a profit of +€92 million equal to 72% of the charges and income generated by Cegetel over the period, (i.e., -€29 million) (the residual 28% being classified in income from equity affiliates) and to the capital gain generated by the divestiture (€121 million) of Cegetel. In accordance with IFRS 5, following the Cegetel-Neuf Telecom combination announced on May 11, 2005, and closed on August 22, 2005, Cegetel qualified as a discontinued operation.

In 2004, earnings from discontinued operations amounted to +€777 million resulting mainly from the divestiture of VUE on May 11, 2004. This amount was comprised of 80% of €132 million of charges and income generated by VUE over the period (the residual 20% being classified in income from equity affiliates) and the €707 million capital gain generated by the divestiture.

**Earnings attributable to minority interests**, mainly of SFR and Maroc Telecom, amounted to €1,112 million compared to €1,056 million in 2004. The decline resulting from the acquisition of an additional 16% stake in Maroc Telecom by Vivendi in January 2005 was more than offset by the increase of SFR's earnings attributable to minority interests as a result of increased earnings at SFR.

## 2006 FINANCIAL REPORT

Revenues, EBITA and Cash Flow from Operations by Business Segment in 2006, 2005 and 2004

## 4

## Revenues, EBITA and Cash Flow from Operations by Business Segment in 2006, 2005 and 2004

## 4.1. REVENUES, EBITA AND CASH FLOW FROM OPERATIONS AS PUBLISHED BY BUSINESS SEGMENT IN 2006, 2005 AND 2004

(in millions of euros)	As published			
	Year Ended December 31,			
	2006	2005	% Change	2004
<b>Revenues</b>				
Universal Music Group	€4,955	€4,893	1.3%	€4,989
Vivendi Games	804	641	25.4%	475
Canal+ Group	3,630	3,452	5.2%	3,560
SFR	8,678	8,687	-0.1%	7,192
Maroc Telecom	2,053	1,860	10.4%	1,581
Non core operations and elimination of inter segment transactions	(76)	(49)	-55.1%	86
<b>Total Vivendi</b>	<b>€20,044</b>	<b>€19,484</b>	<b>2.9%</b>	<b>€17,883</b>
<b>EBITA</b>				
Universal Music Group	€744	€681	9.3%	€592
Vivendi Games	115	55	109.1%	(188)
Canal+ Group	75	203	-63.1%	188
SFR	2,583	2,422	6.6%	2,332
Maroc Telecom	912	786	16.0%	685
Holding & Corporate	(113)	(195)	42.1%	(193)
Non core operations	54	33	63.6%	88
<b>Total Vivendi</b>	<b>€4,370</b>	<b>€3,985</b>	<b>9.7%</b>	<b>€3,504</b>
<b>EBITA / Revenues (%)</b>	<b>21.8%</b>	<b>20.5%</b>	<b>+1.3 pt</b>	<b>19.6%</b>
<b>Cash flow from operations (CFFO)</b>				
Universal Music Group	€720	€600	20.0%	€755
Vivendi Games	115	127	-9.4%	(18)
Canal+ Group	261	285	-8.4%	674
NBC Universal dividends	262	346	-24.3%	357
SFR	2,430	2,268	7.1%	2,242
Maroc Telecom	943	755	24.9%	707
Holding & Corporate	(279)	(241)	-15.8%	(387)
Non core operations	14	17	-17.6%	24
<b>Total Vivendi</b>	<b>€4,466</b>	<b>€4,157</b>	<b>7.4%</b>	<b>€4,354</b>

## 4.2. REVENUES, EBITA AND CASH FLOW FROM OPERATIONS ON A COMPARABLE BASIS BY BUSINESS SEGMENT IN 2006 AND 2005

Comparable basis essentially illustrates the effect of the divestiture of operations that occurred in 2005 and 2006 (mainly NC Numéricable in 2005 and the Paris Saint-Germain soccer club (PSG) in 2006) by the Canal+ Group, and includes the full consolidation of distribution

subsidiaries at the level of SFR, as if these transactions had occurred as of January 1, 2005. Comparable basis results are not necessarily indicative of the results that would have occurred had the events actually occurred at the beginning of 2005.

(in millions of euros)	Comparable basis (unaudited)			
	Year Ended December 31,			
	2006	2005	% Change	% Change at constant currency
<b>Revenues</b>				
Universal Music Group	€4,955	€4,893	1.3%	1.5%
Vivendi Games	804	641	25.4%	26.1%
Canal+ Group	3,593	3,336	7.7%	7.5%
SFR	8,678	8,693	-0.2%	-0.2%
Maroc Telecom	2,053	1,860	10.4%	10.2%
Non core operations and elimination of inter segment transactions	(76)	(49)	-55.1%	-55.1%
<b>Total Vivendi</b>	<b>€20,007</b>	<b>€19,374</b>	<b>3.3%</b>	<b>3.3%</b>
<b>EBITA</b>				
Universal Music Group	€744	€681	9.3%	10.2%
Vivendi Games	115	55	109.1%	109.1%
Canal+ Group	74	206	-64.1%	-64.1%
SFR	2,583	2,422	6.6%	6.6%
Maroc Telecom	912	786	16.0%	15.8%
Holding & Corporate	(113)	(195)	42.1%	42.5%
Non core operations	54	33	63.6%	64.9%
<b>Total Vivendi</b>	<b>€4,369</b>	<b>€3,988</b>	<b>9.6%</b>	<b>9.7%</b>
<b>EBITA / Revenues (%)</b>	<b>21.8%</b>	<b>20.6%</b>	<b>+1.2 pt</b>	
<b>Cash flow from operations (CFFO)</b>				
Universal Music Group	€720	€600	20.0%	
Vivendi Games	115	127	-9.4%	
Canal+ Group	280	304	-7.9%	
Dividends NBC Universal	262	346	-24.3%	
SFR	2,430	2,268	7.1%	
Maroc Telecom	943	755	24.9%	
Holding & Corporate	(279)	(241)	-15.8%	
Non core operations	14	17	-17.6%	
<b>Total Vivendi</b>	<b>€4,485</b>	<b>€4,176</b>	<b>7.4%</b>	

## 2006 FINANCIAL REPORT

Revenues, EBITA and Cash Flow from Operations by Business Segment in 2006, 2005 and 2004

## 4.3. COMMENTS ON REVENUES, CFFO AND EBITA FOR CONTROLLED BUSINESS SEGMENTS

4.3.1. Universal Music Group (UMG) (100% Vivendi Economic Interest<sup>1)</sup>)

	Year Ended December 31,				
	As published				
	2006	2005	% change	% change at constant currency	2004
<i>(in millions of euros, except for margins)</i>					
<b>Revenues</b>					
North America	€2,117	€2,091	1.2%	0.8%	2,006
Europe	1,845	1,821	1.3%	1.1%	2,003
Asia	436	425	2.6%	7.2%	455
Rest of the world	194	207	-6.3%	-4.1%	191
<i>Sub-total</i>	<i>4,592</i>	<i>4,544</i>	<i>1.1%</i>	<i>1.3%</i>	<i>4,655</i>
Publishing	406	392	3.6%	3.3%	372
Elimination of intercompany transactions	(43)	(43)	0.0%	1.7%	(38)
<b>Total UMG</b>	<b>€4,955</b>	<b>€4,893</b>	<b>1.3%</b>	<b>1.5%</b>	<b>4,989</b>
<b>EBITA</b>	<b>€744</b>	<b>€681</b>	<b>9.3%</b>	<b>10.2%</b>	<b>592</b>
<b>EBITA / Revenues (%)</b>	<b>15.0%</b>	<b>13.9%</b>	<b>+1.1 pt</b>		<b>11.9%</b>
<b>Modified EBITDA</b>	<b>€811</b>	<b>€760</b>	<b>6.7%</b>	<b>7.5%</b>	<b>764</b>
<b>Cash flow from operations (CFFO)</b>	<b>€720</b>	<b>€600</b>	<b>20.0%</b>		<b>755</b>

Best-selling titles (physical units sold, in millions)					
2006		2005		2004	
Artists	Units	Artists	Units	Artists	Units
U2	4	Mariah Carey	8	Eminem	9
Andrea Bocelli	3	50 Cent	8	U2	8
Snow Patrol	3	Black Eyed Peas	7	Shania Twain	5
The Pussycat Dolls	3	Eminem	5	Guns N'Roses	5
Nelly Furtado	3	Gwen Stefani	4	Black Eyed Peas	4
The Killers	3	Kanye West	4	Nelly (Suit)	4
Rihanna	3	Jack Johnson	4	Ashlee Simpson	4
Nickelback	3	The Game	3	D-12	3
Fergie	2	Nickelback	3	Kanye West	3
Jay-Z	2	NOW 20	3	Keane	3
Black Eyed Peas	2	The Killers	3	NOW 16	3
Scissor Sisters	2	Jon Bon Jovi	3	Toby Keith	3
Hinder	2	OST «Get Rich Or Die Tryin»	2	George Strait	3
Ne-Yo	2	The Pussycat Dolls	2	Hoobastank	3
Jack Johnson & Friends	2	Fallout Boy	2	Gwen Stefani	2
% of top 15 of total units sold by UMG	9 %		13 %		13%

(1) In February 2006, Vivendi increased its economic interest in UMG from 92% to 100% as a result of the acquisition from MEI of an approximate 7.7% minority interest in Universal Studios Holding I Corp.

## 2006 versus 2005

### Revenues

Global music market conditions were difficult in 2006 with all the major music markets expected to report year-on-year declines despite strong digital sales growth. The International Federation of the Phonographic Industry (IFPI) estimated that digital music sales nearly doubled in 2006 to approximately US\$2 billion with strong growth in both the online and mobile sectors. For the first six months of the year, the IFPI reported that the global music market declined 4% with strong growth in the digital sector offset by a 10% drop in physical sales.

UMG's revenues of €4,955 million were 1.3% above last year (1.5% on a constant currency basis) driven by strong digital sales growth, higher license income in the U.S. due in part to legal settlements and strong sales growth in the U.K. and Japan.

Music Publishing revenues grew 3.3% on a constant currency basis. Digital sales were €477 million with strong growth in all markets and sectors. Digital revenues were up 84% versus last year and represented 9.6% of total revenues.

Best sellers for the year included new releases from U2, Andrea Bocelli, Snow Patrol, Nelly Furtado and The Killers in addition to strong carryover sales from The Pussycat Dolls. Regional best sellers included Scissor Sisters, Take That, James Morrison and Razorlight in Europe and Spitz, Samsons and Masaharu Fukuyama in Asia. Other regional best sellers were Australia's Wolfmother and Brazil's Kid Abelha.

### EBITA

UMG's EBITA of €744 million was 9.3% higher than last year, up 10.2% on a constant currency basis. Improved margins on higher sales, legal settlements and the recovery of a previously expensed cash deposit in the TVT matter offset increased marketing, artist and repertoire (A&R) costs of local artists.

### Cash flow from operations (CFFO)

Cash Flow from Operations of €720 million was up from last year due to the favorable timing of payments of certain major accounts payable and receivable and the return of the deposit from the TVT matter. Cash flow also benefited from advance payments received in respect of license agreements, legal settlements and the proceeds from asset sales. In 2005, cash flow was adversely impacted by the externalization of pension obligations in Germany, partly offset by the proceeds from various asset disposals.

## 2005 versus 2004

### Revenues

UMG estimates that the global music market declined by 2% in 2005 with a 6% decline in physical music sales partly offset by strong growth in the digital sector. The IFPI reported that sales of music via the Internet and mobile phones were \$1.1 billion for the record industry in 2005, compared to \$380 million in 2004. For the first six months of the year, according to the IFPI, the global music market declined by 1.9%

with higher digital sales nearly offsetting a 6% decrease in physical music sales.

In the US, total album unit sales for the industry as measured by SoundScan decreased by 7.2%, while sales of digital tracks increased from 141 million in 2004 to 353 million in 2005. In 2005, UMG outperformed the market with a 2-basis point increase in market share reaching an unprecedented 31.7%. UMG had the top two best-selling albums of the year with Mariah Carey and 50 Cent and seven of the top 10.

UMG's revenues amounted to €4,893 million. Excluding UMG's music clubs in the United Kingdom and in France divested in 2004, UMG's revenues increased by 1.6% at constant currency, with growth in North America and music publishing offsetting weakness in Asia. Digital sales were €259 million, nearly three times the number of 2004 sales, and represented 5.3% of UMG's total revenues. There was strong growth in both the on-line and mobile sectors.

Best-sellers in 2005 included new releases from Mariah Carey, 50 Cent, Black Eyed Peas, Eminem, Kanye West and Jack Johnson in addition to very strong carryover sales from Gwen Stefani. Other best-sellers were debut releases from The Game, The Pussycat Dolls, Fall Out Boy, Akon and the U.K.'s Kaiser Chiefs. Regional best sellers included Latin artists Juanes and Daddy Yankee, Germany's Rammstein, Brazil's Ivete Sangalo and France's Chimène Badi.

### EBITA

EBITA increased to €681 million, representing a 14.4% increase at constant currency. This increase reflects higher sales volumes, continued cost savings efforts and lower restructuring charges in 2005.

UMG artists dominated the best seller lists in their major markets, topping all the major music genres which enabled UMG to gain market share and lead the competition by earning an unprecedented 40 Grammy awards which represents the diversity and vitality of UMG's portfolio.

### Cash flow from operations (CFFO)

Cash flow from operations of €600 million decreased compared to 2004 due to the timing of working capital movements over the financial year-end the externalization of pension obligations in Germany partly offset by lower restructuring costs and the proceeds from various asset divestitures in 2005.

## 2006 FINANCIAL REPORT

Revenues, EBITA and Cash Flow from Operations by Business Segment in 2006, 2005 and 2004

4.3.2. Vivendi Games (100% Vivendi Economic Interest<sup>1)</sup>)

(in millions of euros, except for margins)	Year Ended December 31,				
	As published				
	2006	2005	% change	% change at constant currency	2004
<b>Revenues</b>	<b>€804</b>	<b>€641</b>	<b>25.4%</b>	<b>26.1%</b>	<b>475</b>
<b>EBITA</b>	<b>€115</b>	<b>€55</b>	<b>109.1%</b>	<b>109.1%</b>	<b>(189)</b>
<b>EBITA / Revenues (%)</b>	<b>14.3%</b>	<b>8.6%</b>	<b>+5.7 pts</b>		<b>na*</b>
<b>Modified EBITDA</b>	<b>€155</b>	<b>€86</b>	<b>80.2%</b>	<b>80.6%</b>	<b>(113)</b>
<b>Cash flow from operations (CFFO)</b>	<b>€115</b>	<b>€127</b>	<b>-9.4%</b>		<b>(18)</b>
<b>% sales</b>					
PC	8%	17%			46%
Console	31%	34%			48%
Online games and other	61%	49%			6%
<b>Breakdown of revenues by geographical area</b>					
North America	51%	53%			56%
Europe	35%	33%			34%
Asia pacific and rest of the world	14%	14%			10%
<b>Best-selling titles</b>	<i>World of Warcraft</i>	<i>World of Warcraft</i>			<i>Half-Life 2</i>
	<i>Scarface</i>	<i>50 Cent: Bulletproof</i>			<i>Simpsons: Hit and Run</i>
	<i>Ice Age 2</i>	<i>Crash Tag Team</i>			<i>Crash Twinsanity</i>
	<i>Eragon</i>	<i>Racing</i>			<i>World of Warcraft</i>
	<i>The Legend of Spyro</i>	<i>Robots</i>			<i>Spyro: A Hero's Tail</i>
	<i>F.E.A.R.</i>	<i>F.E.A.R.</i>			
	<i>50 Cent: Bulletproof</i>	<i>Hulk II</i>			

\* na: not applicable.

## 2006 versus 2005

## Revenues

Vivendi Games' 2006 revenues of €804 million were 25.4% higher than the prior year (up 26.1% on a constant currency basis).

This increase was primarily driven by the continued worldwide success of *World of Warcraft*, the critically acclaimed subscription-based, massively multiplayer online role-playing game (MMORPG) from Blizzard Entertainment.

During 2006, *World of Warcraft* continued its strong growth in all regions, reaching more than 8 million players worldwide; this includes over 2 million in North America, over 1.5 million in Europe and more than 3.5 million in China. Since debuting in North America in November 2004, *World of Warcraft* has become the most popular MMORPG in the world. It is available in six different languages and is played in North America, Europe, mainland China, Korea, Australia, New Zealand, Singapore, and the regions of Taiwan, Hong Kong and Macau.

Other solid performers in 2006 included the new releases *Scarface: The World is Yours*, developed internally by Sierra's internal studio Radical Entertainment, as well as *Ice Age 2*, *The Legend of Spyro: A New Beginning*, *Eragon* (inspired from the Fox movie), and *F.E.A.R.* (for Xbox 360).

Also during 2006, Vivendi Games launched two new divisions: Vivendi Games Mobile and Sierra Online. Vivendi Games Mobile creates and publishes games for the worldwide mobile market. The division has a global presence, with its headquarters, operations and an internal development team in Paris and US-based teams in Los Angeles and San Mateo, CA. Sierra Online creates and publishes quality short- and mid-session, casual online games for PC, Xbox Live® Arcade and all other viable platforms. Sierra Online runs a global business which includes regional studios in Santiago, Chile; Seattle, Washington; and Shanghai, China. In December 2006, Sierra Online launched its first title *Assault Heroes* for Microsoft's Xbox Live® Arcade. *Assault Heroes* was awarded Xbox Live Arcade Game of the Year by IGN.com, the Internet's number one videogame information site.

(1) In February 2006, Vivendi increased its economic interest in UMG from 99% to 100% as a result of the acquisition from MEI of an approximate 7.7% minority interest in Universal Studios Holding I Corp.

## EBITA

Vivendi Games' EBITA amounted to €115 million, a 109.1% increase compared to 2005 EBITA of €55 million (same increase on a constant currency). This significant improvement was driven by growth in revenues, with a large proportion relating to the higher margin of the *World of Warcraft*'s exceptional worldwide success (+2.4 million incremental subscribers during 2006). Additional products contributing to the strong performance included the new releases *Scarface: The World is Yours*, *Ice Age 2*, *The Legend of Spyro: A New Beginning*, *Eragon* and *F.E.A.R.* (for Xbox 360). EBITA was also impacted by increased product development costs linked to the continued build-out of staff and capabilities at Sierra's internal studios (Radical, High Moon, Swordfish and Massive) and expenses linked to the launches of the new Sierra Online and Vivendi Games Mobile divisions.

## Cash flow from operations (CFFO)

Vivendi Games's cash flow from operations was €115 million compared to €127 million in 2005. The increase of €69 million in EBITDA was mainly offset by an increased investment in capital expenditures to support Blizzard Entertainment's *World of Warcraft* capacity as the customer base continues to expand, plus an increase in advances to external developers for Sierra's future projects.

## 2005 versus 2004

### Revenues

In 2005, Vivendi Games' revenues amounted to €641 million, a 34.9% increase compared to 2004 (a 34.6% increase at constant currency). This increase was driven by the MMORPG *World of Warcraft* as well as the very strong performance of the fourth quarter release *50 Cent: Bulletproof*, the gritty urban action game starring multi-platinum recording artist 50 Cent. Other top sellers during 2005 included the new releases *Robots*, *Hulk II*, *F.E.A.R.*, which was named "Best Action Game of E3 2005" by the E3 Critics, *Crash Tag Team Racing* and strong sales

in North America from the distribution of *Delta Force: Black Hawk Down* and *FlatOut*.

During 2005, *World of Warcraft* was successfully launched in several key territories, including South Korea (January), Europe (February), China (June) and Taiwan (November) and continued its strong growth in North America following its commercial launch in late 2004. *World of Warcraft* continues to be the fastest-growing game in its category, totaling more than 5.5 million customers globally via directly managed operations in North America, Europe and South Korea and licensed operations in China and Taiwan.

## EBITA

In 2005, Vivendi Games' EBITA amounted to €55 million, a €244 million increase compared to a loss of €189 million (€244 million at constant currency) in 2004.

This improvement in EBITA was the result of a three-pronged strategy to enter the MMORPG category through Blizzard, reshape the Sierra portfolio and significantly cut operating costs. Additional releases contributing to the strong performance included *50 Cent: Bulletproof*, *Robots*, *Hulk II*, *F.E.A.R.* and *Crash Tag Team Racing* as well as the North American distribution of *Delta Force: Black Hawk Down* and *FlatOut*. However, EBITA included increased product development costs linked to recently acquired studios (Radical, Swingin' Ape, Swordfish and High Moon).

## Cash flow from operations (CFFO)

Vivendi Games' cash flow from operations was €127 million compared to negative cash flow of -€18 million in 2004. Aside from the restored positive EBITDA impact, the subscription based *World of Warcraft* growth has significantly increased the conversion of EBITDA into cash. 2004 cash flow from operations did not fully benefited from the increase in cash arising from the successful launch of *World of Warcraft*, as well as from *Half Life 2*, due to their late release date.

## 2006 FINANCIAL REPORT

Revenues, EBITA and Cash Flow from Operations by Business Segment in 2006, 2005 and 2004

4.3.3. The Canal+ Group (100% Vivendi Economic Interest<sup>1)</sup>)

(in millions of euros, except for margins)	Year Ended December 31,				
	As published			Comparable basis (unaudited) (a)	As published
	2006	2005	% change	% change	2004
<b>Revenues</b>					
Pay-TV – France (b)	€3,001	€2,758	8.8%	8.9%	€2,660
Other core operations (c)	592	579	2.2%	2.2%	551
Other (d)	37	115	-67.8%	na*	349
<b>Total Canal+ Group</b>	<b>3,630</b>	<b>3,452</b>	<b>5.2%</b>	<b>7.7%</b>	<b>3,560</b>
<b>EBITA</b>	<b>(e) 75</b>	<b>203</b>	<b>-63.1%</b>	<b>-64.1%</b>	<b>188</b>
<b>EBITA / Revenues (%)</b>	<b>2.1%</b>	<b>5.9%</b>	<b>-3.8 pts</b>		<b>5.3%</b>
<b>Modified EBITDA</b>	<b>(e) €239</b>	<b>€369</b>	<b>-35.2%</b>	<b>-33.1%</b>	<b>€404</b>
<b>Cash flow from operations (CFFO)</b>	<b>€261</b>	<b>€285</b>	<b>-8.4%</b>	<b>-7.9%</b>	<b>€674</b>
<b>Subscriptions</b>					
Analog	1,902	2,278	-16.5%		2,455
Digital	2,612	2,186	19.5%		1,917
Individual subscribers	4,514	4,464	1.1%		4,372
Collective	425	407	4.4%		395
Overseas (individual and collective)	198	190	4.2%		188
<b>Total Canal+ (premium channel)</b>	<b>5,137</b>	<b>5,061</b>	<b>1.5%</b>		<b>4,955</b>
<b>CanalSat</b>	<b>3,464</b>	<b>3,192</b>	<b>8.5%</b>		<b>2,989</b>
NC Numéricable	-	-	-		436
<b>Total subscriptions in France</b>	<b>8,601</b>	<b>8,253</b>	<b>4.2%</b>		<b>8,380</b>

\* na: not applicable.

(a) Comparable basis essentially illustrates the effect of the divestitures of the Canal+ Group (NC Numéricable in March 2005 and PSG soccer club in 2006) as if these transactions had occurred as of January 1, 2005.

(b) Since the beginning of 2006 revenues of the French pay-TV division corresponds to Canal+ France which mainly includes to this date, Canal+ SA, CanalSat, Canal+ Distribution, Multithématiques and Media Overseas. Information provided for 2005 and 2004 is consistent.

(c) «Other core operations» line shows activities from StudioCanal, pay-TV activities in Poland (Cyfra+), Canal+ Régie and i&gt;Télé.

(d) «Other» includes companies that have been or are in the process of being sold, mainly NC Numéricable, PSG (until June 2006) and residual activities of Expand sub group.

(e) Includes combination costs of Canal+ and TPS for -€177 million.

## 2006 versus 2005

## Revenues

The Canal+ Group's 2006 revenues amounted to €3,630 million. On a comparable basis, revenues were up €257 million, or +7.7% compared to 2005.

## Pay-TV in France

On a comparable basis, revenues from pay-TV operations in France were up €244 million, or +8.9% compared with 2005, mainly due to increased subscriptions of the group's attractive offers in a very competitive market, as well as increased revenue per subscriber.

The Canal+ Group's total portfolio as of December 31, 2006, included over 8.6 million subscriptions (individual and collective, in France and

overseas) for its pay-TV offers. Net additions over the year totaled 350,000 subscriptions, with 1.155 million gross additions.

Total subscriptions to Canal+ at year-end 2006 reached 5.14 million, representing a net increase of 76,000 compared with year-end 2005. The proportion of Canal+ Le Bouquet subscriptions reached 61% of total Canal+ subscriptions at year-end 2006, a 52% increase compared to year-end 2005. In 2006, Canal+ recruitments reached 646,000 in total, an improvement compared to 2005 recruitments which were the best since 1987. In 2006, the Canal+ churn rate was 11.95%, still among the lowest in Europe.

CanalSat total subscriptions were 3.46 million by year-end, which represents a net increase of 272,000, compared with 2005. In 2006, CanalSat gross additions hit 510,000 subscriptions, up 6% compared with 2005. In 2006, CanalSat's churn rate was 10.6%.

(1) As of December 31, 2006, the Canal+ Group held 90% of the French pay-TV division following the acquisition by Lagardère of 9.82% of Canal+ France in December 2006. Following the combination of the Canal+ Group and TPS in "Canal+ France" and the acquisition by Lagardère of a stake of 20% in this entity on January 4, 2007, the Canal+ Group holds a 65% equity interest in "Canal+ France". Please refer to Paragraph 1.1.1 of this Financial Report and to Note 2.1 of the notes to the Consolidated Financial Statement for the Year Ended December 31, 2006.

**Other core operations**

Revenues from the Canal+ Group's other operations grew +2.2% compared to 2005. StudioCanal posted lower revenues (mainly due to decreased income from the Working Title deal) despite good performances in France, where the company ranked third best movie distributor in box-office sales due to the release of *Indigène* and *Prête-moi ta main*. This overall decrease was offset by higher advertising revenues from i>Télé and subscription portfolio growth in Poland.

Since January 4, 2007, the Canal+ Group's pay-TV operations include TPS, whose portfolio ended the year with 1.44 million subscriptions.

The total subscriptions of the Canal+ Group stood at more than 10 million at the beginning of 2007.

**EBITA**

Canal+ Group's EBITA grew sharply to €251 million, excluding transition costs linked to the TPS merger. On a comparable basis, EBITA is up 21.8% compared with 2005. After taking into account transition costs amounting to €177 million, EBITA totaled €74 million.

**Pay-TV in France**

On a comparable basis, pay-TV operations in France posted a +46% increase in EBITA year-on-year, excluding transition costs. This strong performance was achieved due to portfolio growth and increased revenue per subscriber, combined with reduced subscriber acquisition costs, and despite higher soccer costs (up €143 million versus 2005).

**Other core operations**

The group's other operations were slightly down due to non-recurring items in Poland in 2005 and the switch of i>Télé to free-to-air broadcasting, which were not completely offset by positive results at StudioCanal.

**Cash flow from operations (CFFO)**

Full year 2006 CFFO for the Canal+ Group was €261 million, compared with €285 million for 2005. The French Pay-TV business' growing revenues were offset to a large extent by an increase in sport rights payments primarily due to payments on French L1 rights, higher investments in decoders on DTT and HD and in subscriber management tools and increased investments in coproductions by StudioCanal.

**2005 versus 2004****Revenues**

The Canal+ Group reported revenues of €3,452 million. Excluding "Other" revenues, which represent products and services sold between 2004 and 2006, revenues were up €126 million or 3.9% compared to 2004.

**Pay-TV in France**

On a comparable basis, revenues from Pay-TV operations in France were up €98 million or 3.7% compared with year-end 2004, due to increased revenue per subscriber and a larger subscription base.

As of December 31, 2005, the group's total portfolio reached 8.25 million subscriptions. Excluding NC Numéricable, net additions over the year were approximately 310,000. In 2005, the Canal+ Group achieved over 1.1 million gross additions, up 13% compared with 2004, including approximately 640,000 additions to Canal+ which posted its best recruitment period since 1987.

Total subscriptions to Canal+ at year-end reached 5.06 million, up 105,000 compared with December 2004. This was more than twice the growth achieved in 2004. The churn rate stood at 11.4%. Launched in March 2005, Canal+ Group's premium channel package, Canal+ Le Bouquet, represented more than 52% of total Canal+ subscriptions at the end of 2005.

As of December 31, 2005, CanalSat subscriptions reached 3.19 million, up approximately 205,000, compared with 2004. Over the year, CanalSat recruited over 480,000 new subscribers (up 8% compared with 2004), while maintaining a churn rate slightly below 10%.

**Other core operations**

Other Canal+ Group operations posted improved revenues in 2005, up 5.1% compared with 2004. The slight decrease in StudioCanal sales (down 3.4% at €381 million) reflected the termination of non-profitable businesses, particularly in-house film production.

Pay-TV operations in Poland performed strongly in 2005 (up 28% at €193 million) mainly due to an increased subscription portfolio.

**EBITA**

The Canal+ Group's 2005 earnings from operations were €203 million, up 8.0% compared with 2004.

**Pay-TV in France**

Portfolio growth and price increases achieved in 2004 led to increased revenues in 2005, both from Canal+ and CanalSat.

Higher marketing costs due to record gross subscriber additions (1.1 million gross additions, up 13% compared with 2004) and the start of the new contract for exclusive broadcasting of League 1 soccer are reflected in 2005 EBITDA.

**Other core operations**

Other Canal+ Group operations showed sharp increases in EBITA due to higher subscriptions to pay-TV in Poland and to StudioCanal primarily as a result of the Working Title deal.

**Cash flow from operations (CFFO)**

Cash flow from operations was €285 million in 2005, compared to €674 million in 2004. This decrease was due to (i) the decrease of EBITDA reflecting strong investments made in exclusive content and recruitment cost increases linked to the higher subscription base, and (ii) to negative working capital changes mainly due to calendar impacts. In addition, 2004 cash flow from operations included the positive impact of the divestiture of the company's Paris headquarters at Quai André Citroën, for €108 million (including fees).

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Revenues, EBITA and Cash Flow from Operations by Business Segment in 2006, 2005 and 2004

## 4.3.4. SFR (56% Vivendi Economic Interest)

(in millions of euros, except for margins)	Year Ended December 31,				
	As published			Comparable basis (unaudited) (a)	As published
	2006	2005	% change	% change	2004
<b>Revenues</b>					
Network revenues	8,254	8,220	0.4%	0.4%	(b) 6,837
Equipment sales, net	333	348	-4.3%	-4.3%	286
Other (including connection fees)	91	119	-23.5%	-27.2%	69
<b>Total SFR</b>	<b>8,678</b>	<b>8,687</b>	<b>-0.1%</b>	<b>-0.2%</b>	<b>7,192</b>
<b>EBITA</b>	<b>2,583</b>	<b>2,422</b>	<b>(c) 6.6%</b>	<b>6.6%</b>	<b>2,332</b>
<b>EBITA / Revenues (%)</b>	<b>29.8%</b>	<b>(c) 27.9%</b>	<b>+1.9 pt</b>	<b>0.0%</b>	<b>32.4%</b>
<b>Modified EBITDA</b>	<b>3,449</b>	<b>3,209</b>	<b>(c) 7.5%</b>	<b>7.5%</b>	<b>3,078</b>
<b>Capital expenditures, net (Capex, net)</b>	<b>1,133</b>	<b>923</b>	<b>22.8%</b>		<b>776</b>
<b>Cash flow from operations (CFFO)</b>	<b>2,430</b>	<b>2,268</b>	<b>7.1%</b>	<b>7.1%</b>	<b>2,242</b>
<b>Customers (end of period, in thousands) (d)</b>					
Postpaid	11,618	10,880	6.8%		9,601
Prepaid	6,265	6,318	-0.8%		6,219
<b>Total SFR trade name</b>	<b>17,883</b>	<b>17,198</b>	<b>4.0%</b>		<b>15,820</b>
Wholesale customers total base	728	119	na*		-
<b>Total SFR network</b>	<b>18,611</b>	<b>17,317</b>	<b>7.5%</b>		<b>15,820</b>
<b>3G customers (in thousand)</b>	<b>2,686</b>	<b>1,003</b>	<b>*2.7</b>		<b>19</b>
<b>Market share (customer base) (d)/(e)</b>	<b>34.6%</b>	<b>35.8%</b>	<b>-1.2 pt</b>		<b>35.5%</b>
<b>ARPU (in euros / year) (f)</b>					
Postpaid	596	648	-8.0%		603
Prepaid	202	218	-7.3%		183
<b>Total</b>	<b>455</b>	<b>485</b>	<b>-6.2%</b>		<b>432</b>
<b>Data ARPU (in euros / year)</b>	<b>61</b>	<b>59</b>	<b>3.4%</b>		<b>50</b>
<b>AUPU (in minutes / year) (g)</b>	<b>327</b>	<b>296</b>	<b>10.5%</b>		<b>268</b>
<b>Churn rate</b>					
Postpaid	14%	12%	+2 pts		14%
<b>Total SFR customers</b>	<b>24%</b>	<b>23%</b>	<b>+1 pt</b>		<b>24%</b>
<b>Text message (in billion)</b>	<b>6.3</b>	<b>5.4</b>	<b>17.4%</b>		<b>4.5</b>
<b>Media messaging (in million)</b>	<b>168</b>	<b>98</b>	<b>70.8%</b>		<b>37</b>
<b>Data revenues compared to total revenues</b>	<b>12.9%</b>	<b>11.7%</b>	<b>+1.2 pt</b>		<b>9.6%</b>
<b>Acquisition of postpaid customers (euro per acquisition)</b>	<b>193</b>	<b>174</b>	<b>10.9%</b>		<b>183</b>
<b>Acquisition of prepaid customers (euro per acquisition)</b>	<b>23</b>	<b>24</b>	<b>-4.2%</b>		<b>25</b>
<b>Cost of acquisition compared to total revenues (in %)</b>	<b>6.1%</b>	<b>6.3%</b>	<b>-0.2 pt</b>		<b>7.1%</b>
<b>Cost of retention compared to total revenues (in %)</b>	<b>4.8%</b>	<b>5.3%</b>	<b>-0.5 pt</b>		<b>5.3%</b>

\* na: not applicable.

(a) Comparable Basis mainly includes the full consolidation of ownership in distribution subsidiaries since January 1, 2005.

(b) Revenues does not include mobile-to-mobile termination revenues that are booked since January 1, 2005.

(c) Includes €115 million of negative non recurring items in 2005. Excluding these items, the growth of EBITA should reach 1.8% and 3.8% for EBITDA.

(d) Source: ARCEP.

(e) SFR excluding wholesale customer total base.

(f) ARPU (Average Revenue Per User) is defined as revenues net of promotions and net of third-party content provider revenues excluding roaming revenues and equipment sales divided by the average ARCEP total customer base for the last twelve months. 2004 ARPU is calculated excluding estimated mobile-to-mobile sales.

(g) AUPU (Average Usage Per User) is defined as the incoming and outgoing "voice" volumes divided by average ARCEP total customer base for the last twelve months.

## 2006 versus 2005

### Revenues

SFR revenues slightly decreased by 0.1% to €8,678 million compared to the same period in 2005 (down 0.2% on a comparable basis). Network revenues were up 0.4% on a comparable basis at €8,254 million. Despite ongoing growth in mobile voice usage per customer (which grew over 10%), the cut of regulated tariffs imposed by the regulator, coupled with strong competition, weighed very strongly on the growth of the French mobile market.

Favorable effects of the increase in the customer base along with the growth in "voice" and "data" usage were more than offset by, firstly, the cut in the price charged to customers and, secondly, the cut of regulated tariffs (a 24% cut of mobile voice termination rates at the beginning of 2006 and a 19% cut of SMS termination at the beginning of 2006, followed by an additional 30% cut mid-September). SFR ARPU decreased by 6.2% to €455 at the end of December 2006 (versus €485 at the end of December 2005). Excluding the impacts of the regulated tariff cut, SFR revenues would have been up by 4.3%.

In 2006, SFR added 685,000 net new customers, taking its registered customer base to 17.883 million<sup>1</sup>, a 4.0% increase versus last year. The contract customer base grew by 6.8% year-on-year to 11.618 million (738,000 net additions), leading to an improved customer mix of 1.7 percentage points in one year. SFR's 3G customer base reached 2.686 million at the end of December 2006, compared to 1.003 million at the end of December 2005.

Average voice usage of SFR customers (AUPU) continued its strong growth of 10.5% on a year-on-year basis to reach 327 minutes per month at the end of December 2006.

Net data revenues improved significantly primarily due to interpersonal services (SMS and MMS), content (music, TV-Videos, games) and corporate segment operations. Net data revenues represented 12.9% of network revenues at the end of December 2006, compared to 11.7% in 2005. In 2006, the data revenues grew 10.4% despite a cut in regulated tariffs as mentioned above.

The number of text messages (SMS) sent by SFR customers grew by 17.4% on a year-on-year basis to 6.3 billion and multimedia messaging services (MMS) grew by 70.8% on a year-on-year basis to 168 million.

SFR's other data services also strongly increased over the year. The SFR Music portal is one of the top 3 leading legal music downloading platforms in France, with almost 4 million downloads in 2006, compared to 655,000 in 2005. In addition, more than 14 million TV Video programs and 4 million games were downloaded from SFR in 2006, with more than 600 games available for downloading.

In corporate services, 2006 was marked by strong sales mainly due to the 69% increase in sales of PC Mobile Connect Card and the 86% growth in BlackBerry® Mobile Messaging services.

### EBITA

SFR's EBITA rose 6.6% to €2,583 million. EBITA margin was 29.8%. Excluding the impact of ADSL operations development costs, SFR's EBITA growth reached 7.3%. Excluding non recurring items<sup>2</sup>, SFR's EBITA (excluding ADSL) growth would have been 2.4%.

This growth mainly reflected a 0.4% growth in network revenues, a 0.7 percentage point reduction in customer acquisition and retention costs to 10.9% of network revenues, as well as a strict control of other costs, and despite the increase of the GSM license cost (renewed in April 2006 with a new tax of 1% of revenues) and an increase in depreciation costs following several years of strong investments to increase coverage and capacity of SFR's 2G and 3G/3G+ networks.

### Cash flow from operations (CFFO)

In 2006, cash flows from operations amounted to €2,430 million, representing a 7.1% increase versus 2005. This increase was mainly due to EBITDA growth, excluding non recurring items (+3.8% at €3,449 million), and was achieved despite the increase in capital expenditure, net of disposals (+22.8% at €1,133 million).

## 2005 versus 2004

### Revenues

SFR revenues increased by 20.8% to € 8,687 million (8.1% excluding mobile-to-mobile termination revenues), mainly reflecting mobile-to-mobile termination revenues since January 1, 2005 (€909 million with respect to the fiscal year 2005) and the year-on-year increase in the customer base combined with a stable blended ARPU despite the 16.3% reduction in the fixed incoming voice termination rate on January 1, 2005.

SFR demonstrated continuing commercial dynamism throughout the twelve months of 2005 with 1.378 million net new customers taking its registered customer base to 17.198 million, an 8.7% increase versus 2004. The postpaid customer base grew by 13.3% year on year to 10.880 million, with more than 90% of new customers being postpaid customers.

Blended annual ARPU excluding mobile-to-mobile termination remained stable at €429, despite the fixed incoming voice rate cut, benefiting from the improved customer mix at 63.3% of postpaid (versus 60.7% in 2004) and the 10.5% increase of the blended average voice usage per customer (AUPU) to 296 minutes per month. Including mobile-to-mobile termination blended annual ARPU would have reached €485.

These results highlighted the success of SFR's strategy which aimed to substitute fixed voice usage with mobile voice usage and to develop

(1) SFR excluding wholesale customers total base (wholesale customer base reached 728,000 at the end of December 2006).

(2) In 2005, EBITA included €115 million of adverse non-recurring items, consisting of a €220 million fine from the French Antitrust Council which was partly offset by the registering of favorable non-recurring items amounting to €105 million.

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Revenues, EBITA and Cash Flow from Operations by Business Segment in 2006, 2005 and 2004

new services around music and TV. This was made possible due to additional voice capacity and speed brought by SFR investments in the 3G technology along with major strategic agreements with various content providers, including CanalSat in June, UMG in July, and FIFA in November.

SFR achieved excellent results with 3G, topping 1,003,000 3G customers at the end of December 2005. SFR's 3G success can also be seen in the usage patterns of its 3G customers: for example, 340,000 songs were downloaded in the month of December 2005 alone, placing SFR in the top 5 of legal music download platforms in France in 2005.

Net data revenues improved significantly (up 27.7%) to represent 11.7% of network revenues (13.2% excluding mobile-to-mobile termination) for the year 2005, compared to 9.6% at the end of December 2004. This increase is mainly due to the 21% increase in text messaging (SMS) to 5.4 billion SMS, to the increase by a multiple of 2.6 of MMS to 98 million and to the further penetration of Vodafone *Live!* SFR had 4,785,000 customers to the mobile multimedia services portal in 2005, compared to 2,230,000 at the end of December 2004. This contributed to an 18% growth in net data ARPU to €59.

### EBITA

SFR's EBITA rose by 3.9% to €2,422 million. This increase mainly reflected a 20.2% growth in network revenues (6.9% excluding mobile-to-mobile termination), a slight increase of 0.8 percentage point in customer acquisition and retention costs – due to the penetration of 3G devices in SFR base – to 11.6% of network revenues (13.2% excluding mobile-to-mobile termination), and the strict control of other costs. EBITA was also impacted by the recording of €115 million of adverse non-recurring items, consisting of a €220 million fine from the French Antitrust Council which was partly offset by the recording of favorable non-recurring items amounting to €105 million.

### Cash flow from operations (CFFO)

SFR's cash flow from operations increased slightly by 1.2% to €2,268 million, EBITDA growth being negatively impacted by a 18.9% increase in capital expenditure, net of disposals, notably due to investments made for the ongoing roll-out of the GSM and UMTS networks.

### 4.3.5. Maroc Telecom (51% Vivendi Economic Interest)

	Year Ended December 31,				
	As published				
	2006	2005	% change	% change at constant currency	2004
<i>(in millions of euros, except for margins)</i>					
<b>Revenues</b>					
Mobile	1,333	1,156	15.3%	15.1%	879
Fixed and Internet	1,145	1,082	5.8%	5.6%	1,011
Elimination of intercompany transactions	(425)	(378)	na*	na*	(309)
<b>Total Maroc Telecom</b>	<b>€2,053</b>	<b>€1,860</b>	<b>10.4%</b>	<b>10.2%</b>	<b>€1,581</b>
<b>EBITA</b>	<b>€912</b>	<b>€786</b>	<b>16.0%</b>	<b>15.8%</b>	<b>€686</b>
<b>EBITA / Revenues (%)</b>	<b>44.4%</b>	<b>42.3%</b>	<b>+2.1 pts</b>		<b>43.4%</b>
<b>Modified EBITDA</b>	<b>€1,194</b>	<b>€1,056</b>	<b>13.1%</b>	<b>12.9%</b>	<b>€944</b>
<b>Capital expenditures, net (Capex, net)</b>	<b>255</b>	<b>238</b>	<b>7.1%</b>		<b>€187</b>
<b>Cash flow from operations (CFFO)</b>	<b>943</b>	<b>755</b>	<b>24.9%</b>		<b>€707</b>
<b>Mobile (a)</b>					
Number of customers <i>(end of period, in thousands)</i> (b)	10,707	8,237	30.0%		6,306
% of prepaid customers	96%	96%			96%
<b>Market share (as per ANRT)</b>	<b>67%</b>	<b>67%</b>			<b>68%</b>
<b>ARPU (in euros / month) (c)</b>					
Postpaid	63.8	64.3	-0.8%		71.8
Prepaid	7.9	8.8	-10.2%		8.7
<b>Total</b>	<b>10.1</b>	<b>11.1</b>	<b>-9.0%</b>		<b>11.3</b>
<b>Churn rate (in% / year)</b>					
Postpaid	13%	14%	-1 pt		16%
Prepaid	21%	12%	+9 pts		11%
<b>Total</b>	<b>20%</b>	<b>12%</b>	<b>+8 pts</b>		<b>12%</b>
<b>Fixed and Internet (a)</b>					
<b>Number of lines (in thousands) (d)</b>					
Residential	813	885	-8.1%		890
Public phone (e)	157	164	-4.3%		136
Professional and corporate	296	292	1.4%		283
<b>Total</b>	<b>1,266</b>	<b>1,341</b>	<b>-5.6%</b>		<b>1,309</b>
<b>Number of Internet subscribers (in thousands)</b>	<b>391</b>	<b>252</b>	<b>55.2%</b>		<b>105</b>
Number of ADSL subscribers	384	242	58.7%		60

\* na: not applicable

(a) Excludes Mauritel.

(b) The customer base, compliant with the ANRT, is calculated since the beginning of 2006, as the sum of prepaid customers giving or receiving a voice call during the last 3 months and the number of active postpaid customers. Information provided for 2004 and 2005 is consistent.

(c) ARPU (Average Revenue Per User) is defined as revenues (from incoming and outgoing calls and data services), net of promotions, excluding roaming revenues and equipment sales, divided by the average customer base over the period.

(d) Excludes Internet customers.

(e) Includes "Téléboutique" lines and Maroc Telecom's public phones.

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### 2006 versus 2005

#### Revenues

Maroc Telecom's revenues of €2,053 million increased by 10.4% (+10.2% at constant currency) due to the strong performance of all its business activities.

#### Mobile revenues

2006 mobile revenues grew by 15.3% to €1,333 million (+15.1% at constant currency). The strong growth of the customer base which reached 10.7 million customers (+30% and a net increase of 2.47 million customers over the year) explains this growth in mobile revenues. The blended ARPU reached €10.1 (-9.3% compared to December 2005 at constant currency) due to the strong increase of the customer base and the decrease of the average price of communication. With the sharp increase of the customer base and the decrease of access fees, the churn rate reached 20% (+8 points year on year).

2006 fixed and internet revenues grew by 5.8% to €1,145 million (+5.6% at constant currency).

In particular, this result was due to the dynamism of the public telephony segment (revenue grew by almost 15%), to the growth of incoming international traffic (+11%), to the continuing success of broadband activity and to the development of data services to business and operators with revenue growing by 13%. In this context, the voice average monthly invoice increased by almost 3%.

#### Fixed and internet revenues

The fixed customer base decreased to 1.266 million lines (-5.6% compared to December 2005). The ADSL customer base experienced strong growth and reached 384,000 lines (+58.7% compared to December 2005).

In September 2006, to serve its existing customers and attract new ones, Maroc Telecom launched new unlimited offers on its fixed telephony segment, which allow customers to call all local and national Maroc Telecom fixed numbers with no limit of time. The success of these offers led to the stabilization of the customer base over the last quarter.

#### EBITA

Maroc Telecom's EBITA amounted to €912 million, increasing by 16% (+15.8% at constant currency). This performance resulted from growth in revenue (10.2% at constant currency), control of acquisition costs in the context of steady growth of the mobile and ADSL customer base, as well as control of operational expenses.

This outcome also includes a €30 million provision for a new voluntary departure plan (comparable to the provision accrued in 2005).

Mobile EBITA amounted to €627 million in 2006 increasing by 28.3% (+28.1% at constant currency).

Fixed telephony and internet EBITA totaled €285 million in 2006 decreasing by 4.1% (-4.4% at constant currency).

### Cash flow from operations (CFFO)

As of December 31, 2006, cash flow from operations amounted to €943 million, representing a 24.9% increase compared to December 31, 2005. EBITDA growth of €138 million and the improvement of the change in working capital of €28 million, as well as the decrease of restructuring costs paid (€40 million) were partially offset by the increase in capital expenditures, net of disposals (€17 million), linked to investments made in network equipment to face the evolution of the mobile and Internet customer base, as well as the royalty payments on the 3G license granted in 2006.

### 2005 versus 2004

#### Revenues

Maroc Telecom's revenues of €1,860 million increased by 17.6% compared to 2004 (up 18.2% at constant currency on a comparable basis) due to the performance of mobile and internet businesses.

#### Mobile

Mobile revenues of €1,156 million increased by 31.5% compared to 2004 (a 32.1% increase at constant currency). Excluding the impact of the increase in incoming international interconnection tariffs applied by ANRT as of January 1, 2005, revenues increased by 25.8% (a 26.5% increase at constant currency). This increase is primarily due to the continuing growth of the customer base (8.2 million customers, up 30.6% compared to 2004), with a net increase in the customer base of more than 1.9 million since the beginning of 2005. The blended monthly ARPU stood at €11.1 (versus €11.3 in 2004). The churn rate was 12.2% (compared to 11.6% in 2004).

#### Fixed and internet

Fixed telephony and internet revenues of €1,082 million represented a 7.0% increase compared to 2004 (a 7.4% increase at constant currency). This increase was due to the growth of the fixed customer base and of broadband internet activity and to the continuing growth of incoming international traffic, which offset the decrease in the average invoice per customer.

The fixed customer base reached 1.34 million lines at the end of 2005 (a 2.4% increase compared to the end of 2004). As a result of the monthly fee decrease as of March 2005 and year-end promotions, the ADSL customer base continued its development to approximately 242,000 subscribers at the end of December 2005, versus approximately 60,000 at the end of December 2004.

#### EBITA

Maroc Telecom's EBITA amounted to €786 million, increasing by 14.6% compared to 2004 (+14.9% at constant currency basis). Excluding the non-recurring negative impacts of the voluntary leaving plan introduced at the end of 2004, growth in EBITA would have been +16.5% at constant currency.

### Cash flow from operations (CFFO)

The 2005 cash flow from operations was €755 million, increasing by 6.8% compared to the same period in 2004. The increase in EBITDA (+€112 million) was more than offset by the increase in capital expenditures, net of disposals (+€51 million) partly linked to investments made in network equipment to respond to the evolution of the mobile and broadband internet customer base.

## 4.3.6. Holding & Corporate

### 2006 versus 2005

#### EBITA

Holding & Corporate EBITA amounted to -€113 million representing a €82 million improvement compared to 2005. This improvement is mainly due to the favourable impact of €56 million resulting from the actions undertaken as part of the risk management of retirement pension obligations (please refer to Paragraph 1.1.8 of this Financial Report).

## 4.3.7. Non Core Operations

(in millions of euros)	As published		
	Year Ended December 31,		
	2006	2005	2004
<b>Revenues</b>			
Vivendi Telecom International (VTI)	5	6	125
Other operations	24	55	86
Non core operations	29	61	211
Elimination of inter segment transactions	(105)	(110)	(125)
<b>Total revenues</b>	<b>(76)</b>	<b>(49)</b>	<b>86</b>
<b>EBITA</b>	<b>54</b>	<b>33</b>	<b>88</b>
<b>Cash flow from operations (CFFO)</b>	<b>14</b>	<b>17</b>	<b>24</b>

### 2006 versus 2005

#### Revenues

Non core revenues amounted to €29 million (compared to €61 million in 2005) and mainly consisted of revenues from Vivendi Valorisation recognized in other operations. The decrease in revenues compared to 2005 related to the change in the scope of consolidation.

#### EBITA

Non core EBITA amounted to €54 million (compared to €33 million in 2005) representing a €21 million increase mainly resulting from the disposal of assets by Vivendi Valorisation recognized in 2006.

### Cash flow from operations (CFFO)

CFFO amounted to -€279 million in 2006 compared to -€241 million in 2005, representing a downturn of -€38 million. In 2006, CFFO particularly included the cash outlay of -€152 million with respect to US benefit plan transfers.

### 2005 versus 2004

#### EBITA

EBITA amounted to -€195 million at the end of December 2005, down 1% when compared to 2004. Continuing efforts to control costs at the Paris headquarters and New York office as well as lower cost amortization of stock options due to their declining profile over time were slightly offset by higher one-time items as well as increased pension costs.

#### Cash flow from operations (CFFO)

Cash flow from operations was -€241 million in 2005, compared to -€387 million in 2004. In 2004, it notably included €194 million paid to a third party for the transfer of all Vivendi's residual obligations to Veolia Environnement for network renewal costs.

### 2005 versus 2004

#### Revenues

Revenues from non core operations amounted to €61 million and were mainly comprised of Vivendi Valorisation revenues, accounted for in "Other operations". In 2004, VTI's revenues included €118 million generated by Kencell (divested in May 2004) and Monaco Telecom (divested in June 2004).

#### EBITA

EBITA of non core operations declined strongly due to scope changes in 2004, please refer to Paragraph 1.4 of this Financial Report.

## 5

## Liquidity Management and Capital Resources in 2006 and 2005

The analysis of Vivendi's financial position is based on the analysis of changes in the group's Financial Net Debt, as defined hereafter (please refer to the preliminary comment below), and the Consolidated Statement of Cash Flows. Cash flow information is useful to users of financial statements as it provides a basis for assessing Vivendi's ability to generate cash and its use of this cash. The Statement of Cash Flows, when used in conjunction with the other financial statements, provides information that enables users to assess changes in the group's net assets and its financial structure (including its liquidity and solvency). The Statement of Cash Flows reports cash flows resulting from operating, investing and financing activities. The analysis of Vivendi's financial position is also based on an analysis of the main characteristics

of the group's financing activities (maturity, rating, financial covenants, etc.). This analysis consists of the following elements:

- changes in Financial Net Debt (Paragraph 5.1);
- analysis of operating activities (Paragraph 5.2);
- analysis of investing activities (Paragraph 5.3);
- analysis of financing activities (Paragraph 5.4); and
- main financing characteristics (Paragraph 5.5).

### PRELIMINARY COMMENT

- Vivendi considers Financial Net Debt, a non-GAAP measure, to be an important indicator measuring Vivendi's indebtedness. Financial Net Debt is calculated as the sum of long-term and short-term borrowings and other long-term and short-term financial liabilities as reported on the Consolidated Statement of Financial Position, less cash and cash equivalents as reported on the Consolidated Statement of Financial Position as well as derivative financial instruments in assets and cash deposits backing borrowings (included in the Consolidated Statement of Financial Position under "financial assets"). Financial Net Debt should be considered in addition to, not as a substitute for, Vivendi's borrowings and other financial liabilities and cash and cash equivalents reported on the Consolidated Statement of Financial Position, as well as other measures of indebtedness reported in accordance with GAAP. Vivendi Management uses Financial Net Debt for reporting and planning purposes, as well as to comply with certain of Vivendi's debt covenants. Please refer to Paragraph 5.5 of this Financial Report.
- In addition, cash (and cash equivalents) is not fully available for debt repayments since it is used for several purposes, including but not limited to, acquisitions of businesses, capital expenditures, dividends, contractual obligations, and working capital.
- Vivendi S.A.'s cash flow on a consolidated basis is not available in full to Vivendi at the parent company level. In particular, Maroc Telecom and SFR, which are less than wholly-owned, are unable to pool their cash with Vivendi and must pay a portion of any dividends to other shareholders. In addition, the ability of Vivendi's subsidiaries to make certain distributions may also be limited by financial assistance rules, corporate employer benefit laws and other legal restrictions which, if violated, might require the recipient to refund unlawful payments.

## 5.1. CHANGES IN FINANCIAL NET DEBT

As of December 31, 2006, Financial Net Debt amounted to €4,344 million compared to €3,768 million as of December 31, 2005 and €4,724 million as of December 31, 2004. Financial Net Debt includes borrowings amounting to €7,206 million as of December 31, 2006, compared to

€6,567 as of December 31, 2005 and 6,219 as of December 31, 2004. As of December 31, 2006, cash and cash equivalents amounted to €2,400 million compared to €2,902 million as of December 31, 2005 and €3,159 million as of December 31, 2004.

(in millions of euros)	December 31, 2006			
	Borrowings	Commitments to purchase minority interests	Derivative financial instruments and other (a)	Financial Net Debt
Borrowings and other financial liabilities				
Long-term	€4,630	€43	€41	€4,714
Short-term	2,576	14	11	2,601
Derivative financial instruments in assets			(52)	(52)
Collateralized cash received from Lagardère			(469)	(469)
Cash deposits backing borrowings			(50)	(50)
	€7,206	€57	€(519)	€6,744
Cash and cash equivalents				(2,400)
<b>Financial Net Debt</b>				<b>€4,344</b>

(in millions of euros)	December 31, 2005			
	Borrowings	Commitments to purchase minority interests	Derivative financial instruments and other (a)	Financial Net Debt
Borrowings and other financial liabilities				
Long-term	€4,442	€39	€64	€4,545
Short-term	2,125	69	21	2,215
Derivative financial instruments in assets			(29)	(29)
Cash deposits backing borrowings			(61)	(61)
	€6,567	€108	€(5)	€6,670
Cash and cash equivalents				(2,902)
<b>Financial Net Debt</b>				<b>€3,768</b>

(in millions of euros)	December 31, 2004			
	Borrowings	Commitments to purchase minority interests	Derivative financial instruments and other (a)	Financial Net Debt
Borrowings and other financial liabilities				
Long-term	€4,497	€414	€446	€5,357
Short-term	1,722	1,103	17	2,842
Derivative financial instruments in assets			(257)	(257)
Cash deposits backing borrowings			(59)	(59)
	€6,219	€1,517	€147	€7,883
Cash and cash equivalents				(3,159)
<b>Financial Net Debt</b>				<b>4,724</b>

(a) "Other" corresponds to cash deposits backing borrowings.

As a reminder, as of December 31, 2004, financial liabilities mainly consisted of commitments to purchase minority interests given by Vivendi to the Kingdom of Morocco for its 16% stake in Maroc Telecom (€1,100 million) and given by SFR to SNCF for its 35% stake in Cegetel S. A.S. (€304 million), as well as derivative financial instruments (€463 million). In accordance with IFRS, Financial Net Debt includes these financial liabilities, which are reported on the same line as borrowings in the Consolidated Statement of Financial Position.

**In 2006, Financial Net Debt increased by €576 million** mainly due to the use of cash for -€502 million (including a negative foreign currency translation impact of -€28 million) and the effect of non-cash investing and financing activities of -€74 million (including a positive foreign currency translation impact of €56 million).

- Net cash provided by operating activities amounted to €4,425 million.
- Net cash used for investing activities amounted to -€3,420 million. Taking into account the favorable impact of non-cash transactions which amounted to €567 million, the effect of investing activities on Financial Net Debt amounted to €2,853 million. Non-cash transactions

mainly consisted of a cash collateral in the amount of €469 million established by Vivendi as part of the disposal of 9.82% of Canal+ France to Lagardère in December. As of December 31, 2006, the cash collateral is recognized as a short-term financial asset and, given its termination on January 4, 2007, it is considered as a reduction of Financial Net Debt.

- Net cash used for financing activities amounted to -€1,479 million and includes (i) cash outflows of -€2,110 million, reflecting cash used for the payment of dividends by Vivendi S.A. to its shareholders and the payment of dividends by consolidated subsidiaries to their minority shareholders partially offset by cash received from other transactions with shareholders (such as share capital subscriptions or the purchase of treasury shares) and (ii) cash inflows from refinancing transactions amounting to €631 million consisting of net cash provided by the setting up/reimbursement of borrowings for €798 million offset by cash used for interest payments on borrowings and other financial activities for -€167 million. After taking into account the unfavorable impact of non-cash transactions, the effect of financing activities on Financial Net Debt amounted to -€2,176 million.

<i>(in millions of euros)</i>	refer to section	Cash and cash equivalents	Borrowings and other (a)	Impact on Financial Net Debt
<b>Financial Net Debt as of December 31, 2005</b>		<b>€(2,902)</b>	<b>€6,670</b>	<b>€3,768</b>
Net cash (provided by) / used for:				
Operating activities	5.2	(4,425)	-	(4,425)
Investing activities	5.3	3,420	(567)	2,853
Financing activities	5.4	1,479	697	2,176
Foreign currency translation adjustments		28	(56)	(28)
<i>Change in Financial Net Debt over the Year Ended December 31, 2006</i>		<i>502</i>	<i>74</i>	<i>576</i>
<b>Financial Net Debt as of December 31, 2006</b>		<b>€(2,400)</b>	<b>€6,744</b>	<b>€4,344</b>

(a) "Other" comprises commitments to purchase minority interests, derivative financial instruments and cash deposits backing borrowings.

**In 2005, Financial Net Debt decreased by €956 million** mainly due to the use of cash for -€257 million (including a positive currency translation impact of €37 million) more than offset by the favorable effect of non-cash investing and financing activities of €1,213 million (including a negative foreign currency translation impact of -€41 million).

- Net cash provided by operating activities amounted to €3,670 million.
- Net cash used for investing activities amounted to -€2,225 million. Taking into account the favorable impact of non-cash transactions which amounted to €1,402 million, the effect of investing activities on Financial Net Debt amounted to -€823 million. Non-cash transactions included a commitment to purchase minority interests given by Vivendi to the Kingdom of Morocco for an additional 16% stake in Maroc Telecom (€1,100 million), which was reversed in January 2005 following the completion of the acquisition.

- Net cash used for financing activities amounted to -€1,739 million and includes (i) cash outflows of -€1,723 million, reflecting cash used for the payment of dividends by Vivendi S.A. to its shareholders and the payment of dividends by consolidated subsidiaries to their minority shareholders partially offset by cash received from other transactions with shareholders (such as share capital subscriptions or the purchase of treasury shares) and (ii) cash outflows from refinancing activities amounting to -€16 million consisting mainly of net cash provided by the setting up/reimbursement of borrowings for €687 million offset by cash used for interest payments on borrowings and other financial activities for -€703 million. Taking into account the unfavorable impact of non-cash transactions which amounted to -€148 million and corresponded to the change in the fair value of financial derivative instruments, the effect of financing activities on Financial Net Debt amounted to -€1,887 million.

(in millions of euros)	refer to section	Cash and cash equivalents	Borrowings and other (a)	Impact on Financial Net Debt
<b>Financial Net Debt as of December 31, 2004</b>		<b>€(3,159)</b>	<b>€7,883</b>	<b>€4,724</b>
Net cash (provided by) / used for:				
Operating activities	5.2	(3,670)	-	(3,670)
Investing activities	5.3	2,225	(1,402)	823
Financing activities	5.4	1,739	148	1,887
Foreign currency translation adjustments		(37)	41	4
<i>Change in Financial Net Debt over the Year Ended December 31, 2005</i>		<i>257</i>	<i>(1,213)</i>	<i>(956)</i>
<b>Financial Net Debt as of December 31, 2005</b>		<b>€(2,902)</b>	<b>€6,670</b>	<b>€3,768</b>

(a) "Other" comprises commitments to purchase minority interests, derivative financial instruments and cash deposits backing borrowings.

## 5.2. ANALYSIS OF OPERATING ACTIVITIES

**Net cash provided by operating activities** is a key indicator of the extent to which Vivendi's operations generate sufficient cash in order to repay its borrowings, maintain its operating capacity, pay dividends and undertake new investments without relying on external financing. Cash flows provided by operating activities are primarily generated by Vivendi's principal revenue-producing activities and involve cash received from the sale of goods and services, cash paid to suppliers of goods and services, cash paid to employees or on their behalf and cash paid and received in respect of income taxes.

In addition, for information and planning purposes and because it is often used by the financial analysts and investors community, Vivendi considers **cash flow from operations (CFFO)**, a non-GAAP measure, to be a relevant indicator of cash generated by its businesses and, more generally, of the operating performance of the group. Cash flow from operations (CFFO) is equal to net cash provided by operating activities, as presented in the Consolidated Statement of Cash Flows, before tax and adjusted for cash used for net capital expenditures (Capex, net) and cash received as dividends from equity affiliates and unconsolidated companies.

Cash flow from operations after interest and income tax paid (CFAIT) is equal to cash flow from operations (CFFO) after adjustment for interest paid, cash used for other financial activities (i.e. premiums paid on early redemption of borrowings or cash flows relating to foreign exchange transactions related to financing activities) and income taxes paid.

**In 2006, cash flow from operations, after capital expenditure, interest and income tax paid (CFAIT)** amounted to €2,912 million compared to €2,062 million in 2005, representing a 41% increase (€850 million). It is broken down as follows:

- **Cash flow from operations (CFFO) generated by the businesses** totaled €4,466 million (compared to €4,157 million during the same period in 2005), representing a 7% increase (+€309 million) and includes:

- Cash flows from operations before capital expenditures (CFFO, before capex, net) amounting to €6,111 million (compared to €5,448 million in 2005), representing an increase of €663 million (+12%), which is consistent with the increase in EBITDA and the favorable change in working capital. This result was achieved despite the payment made for the transfer of certain US pension plans to third parties (-€152 million), the increase in content investments (-€96 million) and the dividend received from NBCU (-€84 million). In addition, in 2005, it was affected by the payment of the -€220 million fine imposed to SFR by the French competition authorities.

- Capital expenditures (property, plant and equipment as well as intangible assets, net of disposals) amounted to €1,645 million (compared to €1,291 million in 2005), representing a 27% increase (€354 million), mainly due to investments in network equipment by SFR and Maroc Telecom and set-top boxes by the Canal+ Group.

- **Cash flow used for interest and other financial activities** totaled -€173 million compared to -€709 million in 2005, representing an improvement of €536 million. It includes interest paid of -€203 million with respect to borrowings, net of interest received on cash and cash equivalents, representing a 7% improvement, as well as other financial activities that generated cash inflows of €30 million mainly resulting from a foreign currency exchange gain (€59 million). In 2005, it included interest paid of -€218 million, premiums paid with respect to early redemption of some borrowings (bonds exchangeable into Vinci shares for -€108 million and the remaining High Yield Notes for -€41 million) as well as the early unwinding of interest rate swaps without counterparts for -€131 million and a foreign currency exchange loss of -€217 million resulting from the change in value of the US dollar.

- **Cash expenses related to income taxes paid** amounted to -€1,381 million (compared to -€1,386 million during the same period in 2005). It includes income taxes paid on the settlement of the litigation on the DuPont shares (€521 million), partially offset by the

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repayment of €505 million received from the French Treasury, under the Consolidated Global Profit Tax System, in 2006 with respect of fiscal year 2005. In 2005 it included the catch-up adjustment on the tax paid by SFR with respect to fiscal year 2005 (-€1,414 million paid of which -€628 million related to fiscal year 2004, compared to

-€68 million paid in 2004), resulting from the streamlining of the SFR Cegetel Group legal structure at the end of 2003, partially offset by the repayment of €465 million received from the French Treasury, under the Consolidated Global Profit Tax System, in 2005 in respect of fiscal year 2004.

### Contribution of operating activities to the reduction of Financial Net Debt for the Years Ended December 31, 2006 and 2005

(in millions of euros)	Year Ended December 31,		
	2006	2005	% change
Revenues	€20,044	€19,484	3%
Operating expenses excluding depreciation and amortization	(14,306)	(14,153)	-1%
<i>Sub-total (modified EBITDA)</i>	<i>5,738</i>	<i>5,331</i>	<i>8%</i>
Restructuring charges paid	(48)	(110)	56%
Content investments, net (a)			
Payments to artists and repertoire owners, net at UMG			
Payment to artists and repertoire owners	(620)	(588)	-5%
Recoupment and other movements	601	570	5%
	(19)	(18)	-6%
Film and television rights, net at the Canal+ Group			
Acquisition of film and television rights	(599)	(567)	-6%
Consumption of film and television rights	581	551	5%
	(18)	(16)	-13%
Sport rights, net at the Canal+ Group			
Acquisition of sport rights	(683)	(554)	-23%
Consumption of sport rights	717	570	26%
	34	16	113%
Advances to games' developers, net at Vivendi Games			
Payment of advances	(63)	(28)	-125%
Recoupment of advances	62	38	63%
	(1)	10	na*
Other	(107)	(7)	na*
	(111)	(15)	na*
Change in provisions included in modified EBITDA	158	(77)	na*
Other cash operating items excluded from modified EBITDA	2	(40)	na*
Other changes in net working capital	67	(33)	na*
<b>Net cash provided by operating activities before income tax paid</b>	<b>5,806</b>	<b>5,056</b>	<b>15%</b>
Income tax (paid) / collected	(1,381)	(1,386)	0%
<b>Net cash provided by operating activities</b>	<b>€4,425</b>	<b>€3,670</b>	<b>21%</b>
<b>Contribution to the reduction of Financial Net Debt</b>	<b>€(4,425)</b>	<b>€(3,670)</b>	<b>-21%</b>

\* na: not applicable.

(a) For more details, please refer to Note 10 of the notes to the Consolidated Financial Statements for the Year Ended December 31, 2006.

## Reconciliation from net cash provided by operating activities before income tax paid to cash flow from operations after interest and income tax paid (CFAIT) for the Years Ended December 31, 2006 and 2005

(in millions of euros)	Year Ended December 31,		
	2006	2005	% Change
<b>Net cash provided by operating activities before income tax paid</b>	<b>5,806</b>	<b>5,056</b>	<b>15%</b>
Dividends received from equity affiliates			
NBC Universal	262	346	-24%
Other	9	9	0%
	271	355	-24%
Dividends received from unconsolidated companies	34	37	-8%
<b>Cash flow from operations excluding capital expenditures and proceeds from sales of property, plant, equipment and intangible assets (CFFO before capex, net)</b>	<b>6,111</b>	<b>5,448</b>	<b>12%</b>
Capital expenditures, net (Capex, net)			
SFR	(1,133)	(923)	-23%
Maroc Telecom	(255)	(238)	-7%
Other	(257)	(130)	-98%
	(1,645)	(1,291)	-27%
<b>Cash flow from operations (CFFO)</b>	<b>4,466</b>	<b>4,157</b>	<b>7%</b>
Financial activities			
Interest paid	(203)	(218)	-7%
Premium paid as part of the early redemption of borrowings and the unwinding of derivative instruments			
Unwinding of interest rate swaps without cash consideration (a)	-	(131)	na*
Early redemption of bonds exchangeable into Vinci shares	-	(108)	na*
Early redemption of the High Yield Notes	-	(41)	na*
Other	(3)	(1)	na*
	(3)	(281)	99%
Cash impact of currency hedging	59	(217)	na*
Other	(26)	7	na*
Other cash items related to financial activities	30	(491)	na*
<b>Financial activities cash payment</b>	<b>(173)</b>	<b>(709)</b>	<b>76%</b>
Income tax (paid) / collected			
Down-payment for the current year at SFR	(816)	(786)	-4%
Ex-post payments for the previous year at SFR	(39)	(628)	94%
Income tax paid at Maroc Telecom	(286)	(279)	-3%
Payment received from the French State Treasury as part of the Consolidated Global Profit Tax System	505	465	9%
Income tax paid with respect to DuPont settlement with IRS (June)	(521)	-	na*
Other	(224)	(158)	-42%
<b>Income tax cash payment</b>	<b>(1,381)</b>	<b>(1,386)</b>	<b>0%</b>
<b>Cash flow from operations after interest and income tax paid (CFAIT)</b>	<b>2,912</b>	<b>2,062</b>	<b>41%</b>

\* na: not applicable.

(a) Please refer to Paragraph 5.4 of this Financial Report, below.

## 5.3. ANALYSIS OF INVESTING ACTIVITIES

Net cash provided by (used for) investing activities represents the extent to which expenditures have been made by Vivendi and its businesses for resources intended to generate future income and cash

flows. It reflects the cash impact of financial investments and capital expenditures, including:

- cash used for financial investments: acquisitions of consolidated companies, investments in equity affiliates, available-for-sale

securities and other increases in financial assets (e.g., loans or advances to third parties);

- cash generated by divestitures: sales of consolidated companies, investments in equity affiliates, available-for-sale securities and other decreases in financial assets (e.g., the repayment of loans and advances to third parties);
- cash used for capital expenditures: purchases of intangible assets and property, plant and equipment, net of disposals; and
- cash generated by dividends received from equity affiliates and unconsolidated companies.

In addition, certain investing activities can impact Financial Net Debt without generating an inflow or outflow of cash. This is the case for borrowings and other financial liabilities of companies entering or leaving the scope of consolidation, which respectively increase or decrease the Financial Net Debt of Vivendi without impacting cash. In addition, the impact of commitments to purchase minority interests in consolidated subsidiaries is reflected in Financial Net Debt in advance of the potential acquisition.

**In 2006, cash flow used for investing activities amounted to -€3,420 million compared to -€2,225 million in 2005.** It includes net cash used for financial investments amounting to -€2,080 million consisting of purchases of investments and increase in financial assets for -€3,881 million partially offset by proceeds from sales of investments and decrease in financial assets for €1,801 million. In addition, net cash used for capital expenditures amounted to -€1,645 million and Vivendi received €305 million of dividends from equity affiliates and unconsolidated companies (please refer to Paragraph 5.2 of this Financial Report). After taking into account the favorable impact of non-cash transactions which amounted to €567 million, investing activities contributed -€2,853 million to the increase in Financial Net Debt.

- Main financial investments in 2006 were, (i) in January, the payment of the advance of €150 million to TF1 and M6 with respect to the combination of Canal+ France and TPS (the advance was repaid on January 4, 2007; please refer to Paragraph 1.1.1 of this Financial Report), (ii) in February, the acquisition from MEI of its indirect minority interests in UMG and NBCU (-€964 million), (iii) between May and October, the increase by SFR of its stake in Neuf Cegetel (-€626 million) (iv) the payment made in December to Bertelsmann AG for the acquisition of BMG Music Publishing (-€1,639 million) and (v) in December, the acquisition of a 51% stake in Onatel by Maroc Telecom (-€220 million).
- These investments were partially financed by (i) the sale of Veolia Environnement shares (€861 million) in July, (ii) the sale of DuPont shares (€534 million) in June and (iii) the redemption of the bonds issued by Neuf Telecom (€183 million) in March.
- In addition, in December 2006, as a preliminary step towards the combination of Canal+ France and TPS and the contribution by Lagardère of 34% of CanalSat, Vivendi sold 9.82% of the share capital

of Canal+ France to Lagardère for a total cash consideration of €469 million. However, in order to guarantee repayment of this sum to Lagardère if the combination of Canal+ France and TPS were not completed on January 4, 2007, a bank guarantee was set up by a financial institution in favor of Lagardère with an associated cash collateral set up by Vivendi for the corresponding amount and duration. The guarantee and the cash collateral were terminated on January 4, 2007. As of December 31, 2006, the cash collateral is recorded as short-term financial assets and reported as a reduction of Financial Net Debt, considering its maturity date (January 4, 2007). (Please refer to Paragraph 1.1.1 of this Financial Report for more information with regards to the combination of Canal+ France and TPS and the agreement with Lagardère).

**In 2005, cash flow used by investing activities** amounted to -€2,225 million. It includes net cash used for financial investments in the amount of -€1,326 million consisting of purchases of investments and increase in financial assets for -€1,481 million partially offset by proceeds from sales of investments and decrease in financial assets for €155 million. In addition, net cash used for capital expenditures amounted to -€1,291 million and Vivendi received €392 million dividends from unconsolidated and equity affiliates. After taking into account the favorable impact of non-cash transactions which amounted to €1,402 million, investing activities contributed -€823 million to the increase in Financial Net Debt.

- Main financial investments were, (i) in January, the acquisition of an additional 16% stake in Maroc Telecom for -€1,112 million (already accounted for at the end of 2004; refer to Paragraph 1.3.1 of this Financial Report), (ii) the unwinding of the IACI stake in VUE (-€203 million), and (iii) in December, the acquisition of an additional 2% in Telco (-€130 million) as well as the acquisition of games' development studios by Vivendi Games (-€52 million).
- These investments were partially financed by (i) the divestiture of NC Numéricable/Ypso (€133 million) and, (ii) the partial reimbursement of the bonds issued by Neuf Telecom (€200 million).
- In addition, after the reimbursement by Cegetel of the shareholders' loan granted by SFR, all of the cash flows generated during the completion of the combination of Cegetel and Neuf Telecom (refer to Paragraph 1.3.2 of this Financial Report) had a negative impact of €329 million on SFR's cash position (including the deconsolidation of Cegetel's cash position in the amount of -€30 million). Given the recognition of the put option granted by SFR to SNCF as of December 31, 2004 in accordance with IAS 32 (the present value of such commitment being €304 million as of that date), this transaction had a favorable impact of €97 million on the Financial Net Debt (including the deconsolidation of borrowings and other financial liabilities of Cegetel for €122 million).

## Contribution of investing activities to the increase of Financial Net Debt for the Year Ended December 31, 2006

(in millions of euros)	Refer to section	Year Ended December 31, 2006		
		Impact on cash and cash equivalents	Impact on borrowings and other (a)	Impact on Financial Net Debt
<b>Financial investments</b>				
Purchases of consolidated companies, after acquired cash				
Purchase of the 7.7% stake held by MEI in USHI (February)	1.1.2	964	-	964
Other (b)		58	(14)	44
		1,022	(14)	1,008
Purchases of investments in equity affiliates				
Acquisition by SFR of an additional stake from 28.2% to 40.5% in Neuf Cegetel	1.1.3	626	-	626
Subscription to NBCU's increase in capital to fund iVillage acquisition	1.1.9	98	-	98
		724	-	724
Increase in financial assets				
Advance paid related to the TPS/Canal+ draft combination agreement (January)	1.1.1	150	-	150
Amp'd share capital increase	1.1.10	27	-	27
Acquisition of BMG Music Publishing (December)	1.1.6	1,639	-	1,639
Acquisition of 51% in Onatel (December)	1.1.9	220	-	220
Other (b)		99	-	99
		2,135	-	2,135
<b>Total financial investments</b>		<b>3,881</b>	<b>(14)</b>	<b>3,867</b>
<b>Financial divestments</b>				
Proceeds from sales of consolidated companies, after divested cash				
Early withdrawal of rental guarantees related to «Quartier 207» (June)	1.1.11	52	-	52
Divestiture of Colisée (July)	1.1.11	(39)	(63)	(102)
Divestiture of 9.82% of Canal+ France to Lagardère	1.1.1	-	(469)	(469)
Other (b)		(20)	(21)	(41)
		(7)	(553)	(560)
Sales of investments in equity affiliates				
Remaining 20% stake in Ypso (January)	1.1.9	(36)	-	(36)
Other (b)		(6)	-	(6)
		(42)	-	(42)
Decrease in financial assets				
Merger Cegetel - Neuf Telecom: reimbursement of all bonds issued by Neuf Telecom (including €3 million interest, March)	1.1.3	(183)	-	(183)
Sogetel shares brought to Prisa as part of partial take-over bid (March), net of acquisitions on the market		(10)	-	(10)
Divestiture of DuPont shares on the market (June)	1.1.4	(534)	-	(534)
Divestiture of Veolia Environnement shares on the market (July)	1.1.10	(861)	-	(861)
LBI fund liquidation	1.1.5	(91)	-	(91)
EMI shares		(95)	-	(95)
Other (b)		22	-	22
		(1,752)	-	(1,752)
<b>Total financial divestments</b>		<b>(1,801)</b>	<b>(553)</b>	<b>(2,354)</b>
<b>Financial investment activities</b>		<b>2,080</b>	<b>(567)</b>	<b>1,513</b>
Dividends received from equity affiliates		(271)	-	(271)
Dividends received from unconsolidated companies		(34)	-	(34)
<b>Investing activities excluding capital expenditures and proceeds from sales of property, plant, equipment and intangible assets</b>		<b>€1,775</b>	<b>€(567)</b>	<b>€1,208</b>
Capital expenditures		1,690	-	1,690
Proceeds from sales of property, plant, equipment and intangible assets		(45)	-	(45)
<b>Investing activities in 2006</b>		<b>€3,420</b>	<b>€(567)</b>	<b>€2,853</b>

(a) "Other" comprises commitments to purchase minority interests, derivative financial instruments and cash deposits backing borrowings.

(b) Includes acquisition and divestiture fees.

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## Contribution of investing activities to the increase of Financial Net Debt for the Year Ended December 31, 2005

(in millions of euros)	Refer to section	Year Ended December 31, 2005		
		Impact on cash and cash equivalents	Impact on borrowings and other (a)	Impact on Financial Net Debt
<b>Financial investments</b>				
Purchases of consolidated companies, after acquired cash				
Acquisition of an additional 16% stake in Maroc Telecom by Vivendi (January)	1.3.1	€1,112	€(1,100)	€12
Unwinding of cross-shareholdings in MultiThématiques: purchase by Canal+ of the shares held by Lagardère (February)	1.3.4	20	-	20
Vivendi Games - acquisition of development studios: Radical, Swingin' Ape, Swordfish and High Moon Studios		52	-	52
Acquisition of a 2% stake in Telco / 1% stake in Carcom (December)		80	50	130
Other (b)		47	(1)	46
		1,311	(1,051)	260
Increase in financial assets				
Increase in Amp'd's stake (19.9%)		17	-	17
Other (b)		153	-	153
		170		170
<b>Total financial investments</b>		<b>1,481</b>	<b>(1,051)</b>	<b>430</b>
<b>Financial divestments</b>				
Proceeds from sales of consolidated companies, after divested cash				
Merger Cegetel - Neuf Telecom (August)	1.3.2	329	(426)	(97)
NC Numéricable / Ypso (March / December)	1.3.4	(133)	-	(133)
Unwinding of IACI stake in VUE by Vivendi (June)	1.3.5	203	-	203
Other (b)		(38)	(18)	(56)
		361	(444)	(83)
Sales of investments in equity affiliates				
Sale of the stake in UGC	1.3.4	(54)	-	(54)
Other (b)		(18)	-	(18)
		(72)	-	(72)
Decrease in financial assets				
Reimbursement of bonds issued by Neuf Telecom	1.3.2	(200)	-	(200)
Termination on Veolia Environnement collar option (October)	1.3.5	(140)	93	(47)
Other (b)		(104)	-	(104)
		(444)	93	(351)
<b>Total financial divestments</b>		<b>(155)</b>	<b>(351)</b>	<b>(506)</b>
<b>Financial investing activities</b>		<b>1,326</b>	<b>(1,402)</b>	<b>(76)</b>
Dividends received from equity affiliates		(355)	-	(355)
Dividends received from unconsolidated companies		(37)	-	(37)
<b>Investing activities in 2005 excluding capital expenditures and proceeds from sales of property, plant, equipment and intangible assets</b>		<b>934</b>	<b>(1,402)</b>	<b>(468)</b>
Capital expenditures		1,380	-	1,380
Proceeds from sales of property, plant, equipment and intangible assets		(89)	-	(89)
<b>Investing activities in 2005</b>		<b>2,225</b>	<b>(1,402)</b>	<b>823</b>

(a) "Other" comprises commitments to purchase minority interests, derivative financial instruments and cash deposits backing borrowings.

(b) Includes acquisition and divestiture fees.

## 5.4. ANALYSIS OF FINANCING ACTIVITIES

Net cash provided by (used for) financing activities reflects the impact on cash of transactions with shareholders and the setting-up/ reimbursement of financing arrangements.

- The cash impact of transactions with shareholders includes cash proceeds from issuing shares or other equity instruments, in particular, share capital subscriptions by employees under the Group Savings Plan or on the exercise of stock options for shares and cash outflows resulting from the payment of dividends to Vivendi shareholders and minority shareholders in subsidiaries.
- The cash impact of refinancing transactions includes the cash received as a result of the issuance of borrowings and cash used for their repayment, as well as cash used for the payment of interest and other financial activities (e.g., premiums paid on the early repayment of borrowings or cash flows relating to foreign exchange transactions related to financings).

The impact of financing operations on Financial Net Debt is different from the cash impact. In addition, certain operations that do not have an impact on cash are included in the determination of Financial Net Debt.

- The issuance of borrowings has no impact on Financial Net Debt as cash proceeds are fully offset by a new borrowing payable. However, when a borrowing is issued or repaid through a non-cash transaction, it impacts Financial Net Debt. For example, the redemption of a bond exchangeable for shares paid for by the delivery of shares generates a reduction in Financial Net Debt without a corresponding impact on cash.
- In addition, in accordance with IAS 32 and IAS 39, derivative financial instruments are recognized in the consolidated statement of financial position at fair value. When this value is negative, they are recorded as financial liabilities, classified as "borrowings and other financial liabilities". Consequently, when a derivative financial instrument is unwound at its market value, as recorded in the consolidated statement of financial position, the premium paid is deducted from cash but has no impact on Financial Net Debt as the corresponding liability has already been recorded in the consolidated statement of financial position.

**In 2006, cash flow from financing activities amounted to -€1,479 million compared to -€1,739 million in 2005.** It includes cash flows used for financing activities with respect to transactions with shareholders amounting to -€2,110 million compared to -€1,723 million in 2005 and net cash provided by refinancing activities amounting to €631 million compared to -€16 million in 2005. After taking into account the favorable

impact of non-cash transactions, the effect of financing activities on Financial Net Debt amounted to -€2,176 million (compared to -€1,887 million in 2005).

In 2006, cash flows used for financing activities is broken down as follows:

- Cash used for transactions with shareholders mainly included dividend payments in the amount of -€1,152 million made by Vivendi S.A. to its shareholders (-€1,147 million to Vivendi S.A. shareholders and -€5 million to shareholders of Vivendi Exchangeco) and dividend payments or, as the case may be, reimbursements of contribution of capital, made by consolidated subsidiaries to their minority shareholders (-€1,034 million). These cash outflows were partially offset by cash received following subscriptions to share capital by employees (€60 million, of which €30 million was received under Group Savings Plan and €30 million received following the exercise of vested stock options) and the disposal of treasury shares (€16 million).
- Refinancing transactions included the issuance of borrowings in the aggregate amount of -€1,919 million, which included (i) in October, two-tranche bonds offering by Vivendi (€700 million and €500 million), (ii) in April and October, the issuance by SFR of two notes (€300 million and €400 million), offset by debt repayment in the aggregate amount of €1,299 million, which included the repayment by SFR of a €550 million revolving credit facility, the redemption by Vivendi of a €305 million bond and the repayment by SPT of a MAD 2 billion facility (€182 million on that date).

In 2005, cash flows used for financing activities is broken down as follows:

- Cash used for transactions with shareholders which mainly included dividend payments of -€689 million made by Vivendi S.A. to its shareholders (-€639 million to Vivendi S.A. shareholders, €47 million paid to the bondholders of a bond mandatorily redeemable in Vivendi shares and -€3 million to shareholders of Vivendi Exchangeco) and dividend payments made by consolidated subsidiaries to their minority shareholders in the amount of -€965 million as well as cash used for treasury share repurchases (-€108 million).
- Refinancing transactions included the issuance of long-term borrowings in the aggregate amount of -€2,380 million which included (i) the issuance of notes by Vivendi in February and April in the amount of €600 million and €630 million, respectively, (ii) the issuance by SFR in July of notes in the amount of €600 million, as well as the use of a €200 million revolving credit facility in July, and the setting

up by SPT in January of a MAD 4 billion facility (€350 million). Vivendi's refinancing transactions also included the issuance of short-term borrowings comprised of SFR treasury bonds (€632 million) and the issuance by SPT of a MAD 2 billion tranche (€177 million), and debt repayment in the aggregate amount of €2,612 million, including the redemption of (i) the NBC Universal promissory note (€573 million) by Vivendi in January, (ii) bonds exchangeable into Vinci shares (€527 million) and (iii) the remaining high-yield bonds (€394 million), as well as the repayment by SFR of its securitization program (€423 million).

■ In addition, the following non-cash items had an impact on Financial Net Debt:

- the favorable impact of the partial redemption of bonds exchangeable into Sogecable shares (€363 million) held by Vivendi; and
- the unfavorable impact of the change in the fair value of financial derivatives instruments for €212 million.

## Contribution of financing activities to the increase of Financial Net Debt for the Year Ended December 31, 2006

(in millions of euros)	Refer to section	Year Ended December 31, 2006		
		Impact on cash and cash equivalents	Impact on borrowings and other (a)	Impact on Financial Net Debt
<b>Dividends and other transactions with shareholders</b>				
Net proceeds from issuance of common shares		(60)	-	(60)
(Sales) purchases of treasury shares		(16)	-	(16)
Dividends paid by Vivendi SA, €1 per share (May) (b)	1.1.11	1,152	-	1,152
Dividends and reimbursements of contribution of capital paid by consolidated companies to their minority shareholders		-	-	-
SFR (March/May/September) (c)		473	-	473
Maroc Telecom (May/June) (d)(e)		425	-	425
Canal+ Group		132	-	132
Other subsidiaries		4	-	4
		1,034	-	1,034
<b>Dividends and other transactions with shareholders</b>		<b>€2,110</b>	<b>-</b>	<b>€2,110</b>
<b>Transactions on borrowings and other financial liabilities</b>				
Setting up of long-term borrowings and increase in other long-term financial liabilities				
SFR - €300 million notes (April) (f)		(300)	300	-
SFR - €400 million notes (October) (g)		(400)	400	-
Vivendi - €700 million notes (October) (h)		(700)	700	-
Vivendi - €500 million notes (October) (h)		(500)	500	-
Other		(19)	19	-
		(1,919)	1,919	-
Principal payment on long-term borrowings and decrease in other long-term financial liabilities				
SFR - €1.2 billion revolving credit facility		550	(550)	-
Other		26	(26)	-
		576	(576)	-
Principal payments on short-term borrowings				
Vivendi - Bonds reimbursement		305	(305)	-
Maroc Telecom - MAD 6 billion notes - Tranche A: 2 billion (May)		182	(182)	-
Other		236	(236)	-
		723	(723)	-
Other changes in short-term borrowings and other short-term financial liabilities				
Other		(178)	178	-
		(178)	178	-
Non cash transactions				
Commitments to repurchase minority interests		-	(38)	(38)
Value changes in derivative instruments		-	(62)	(62)
Other activities with no cash impact		-	(7)	(7)
		-	(107)	(107)
Interest paid		203	-	203
Other cash items related to financing activities		(36)	6	(30)
<b>Transactions on borrowings and other financial liabilities</b>		<b>(631)</b>	<b>697</b>	<b>66</b>
<b>Financing activities in 2006</b>		<b>€1,479</b>	<b>€697</b>	<b>€2,176</b>

(a) "Other" comprises commitments to purchase minority interests, derivative financial instruments and cash deposits backing borrowings.

(b) Includes the dividend paid by Vivendi SA to its shareholders in an amount of €1,147 million and the dividend paid to the shareholders of Vivendi Exchangeco (former Seagram shareholders) in the amount of €5 million.

(c) In 2006, SFR paid the remaining balance of the dividend with respect to the fiscal year 2005 and €1,075 million as an interim dividend with respect to fiscal year 2006, including €602 million paid to Vivendi.

(d) In 2006, Maroc Telecom paid dividends of €552 million, including €281 million paid to Vivendi.

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- (e) The Combined Shareholders' Meeting of Maroc Telecom held on March 30, 2006 decided to decrease the share capital by MAD 3.5 billion, or €315 million. Payment to shareholders, including €161 million paid to Vivendi, was made in June, 2006.
- (f) On April 25, 2006, SFR issued €300 million notes at Euribor 3 months +0.09%, maturing October 2007.
- (g) On October 31, 2006, SFR issued notes for €400 million with a 2-year maturity at a variable interest rate of Euribor 3 months +0.125%.
- (h) On October 3, 2006, Vivendi issued two-tranche bonds for an aggregated amount of €1.2 billion: the first tranche of €700 million, which maturity is 5 years, at a floating rate of Euribor 3 months +50 basis points and the second tranche of €500 million, which maturity is 7 years, including a fixed interest of 4.5% issued for 99.366%. The notes are listed on the Luxembourg Stock Exchange.

Please refer to Notes 23 and 24 to the Consolidated Financial Statements for the Year Ended December 31, 2006.

## Contribution of financing activities to the increase of Financial Net Debt for the Year Ended December 31, 2005

(in millions of euros)	Year Ended December 31, 2005		
	Impact on cash and cash equivalents	Impact on borrowings and other (a)	Impact on Financial Net Debt
<b>Dividends and other transactions with shareholders</b>			
Net proceeds from issuance of common shares	€(39)	-	€(39)
(Sales) purchases of treasury shares	108	-	108
Cash dividends paid by Vivendi S.A., €0.60 per share (May)	689	-	689
Cash dividends paid by subsidiaries to their minority shareholders			
SFR (March, May, September and November) (b)	712	-	712
Maroc Telecom (June) (c)	196	-	196
Other subsidiaries	57	-	57
	965	-	965
<b>Dividends and other transactions with shareholders</b>	<b>1,723</b>	<b>-</b>	<b>1,723</b>
<b>Transactions on borrowings and other financial liabilities</b>			
Setting up of long-term borrowings and increase in other long-term financial liabilities			
Maroc Telecom - MAD 6 billion borrowings - MAD 4 billion tranche (January) (d)	(350)	350	-
Vivendi - €600 million notes (February) (e)	(600)	600	-
Vivendi - €630 million notes (April) (f)	(630)	630	-
SFR - €600 million notes (July) (g)	(600)	600	-
SFR - €1.2 billion revolving credit facility	(200)	200	-
	(2,380)	2,380	-
Principal payment on long-term borrowings and decrease in other long-term financial liabilities			
Vivendi - High Yield Notes (January) (h)	394	(394)	-
Vivendi - Bonds exchangeable into Vinci shares (March)	527	(527)	-
Vivendi - Promissory note to USI (NBC Universal subsidiary) (January)	573	(573)	-
Partial redemption of bonds exchangeable into Sogecable shares (November, December)	-	(363)	(363)
Other	155	(155)	-
	1,649	(2,012)	(363)
Principal payments on short-term borrowings			
SFR - Securitization program	423	(423)	-
Other	540	(540)	-
	963	(963)	-
Net increase (decrease) in short-term borrowings and other			
SFR - Treasury bills	(632)	632	-
Maroc Telecom - MAD 6 billion borrowings - MAD 2 billion tranche (January) (d)	(177)	177	-
Other	(110)	110	-
	(919)	919	-
Non cash transactions			
Commitments to repurchase minority interests	-	7	7
Value changes in derivative instruments	-	(212)	(212)
Other activities with no cash impact	-	23	23
	-	(182)	(182)
Interest paid	218	-	218
Other cash items related to financing activities	485	6	491
<b>Transactions on borrowings and other financial liabilities</b>	<b>16</b>	<b>148</b>	<b>164</b>
<b>Financing activities in 2005</b>	<b>1,739</b>	<b>148</b>	<b>1,887</b>

(a) "Other" comprises commitments to purchase minority interests, derivative financial instruments and cash deposits backing borrowings.

(b) In 2005, SFR paid the remaining balance of the dividend with respect to the fiscal year 2004 and €1,614 million as an interim dividend with respect to the fiscal year 2005, including €902 million paid to Vivendi.

(c) Maroc Telecom paid in 2005 with respect to the fiscal year 2004, dividends of €398 million, including €202 million paid to Vivendi.

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- (d) To finance the purchase an additional 16% stake in Maroc Telecom on January 4, 2005, a MAD 6 billion note (i.e., €551 million as of December 31, 2005) was set up by Société de Participation dans les Télécommunications (SPT), a Moroccan company wholly-owned by Vivendi, which directly holds 51% of Maroc Telecom's shares. The borrowing comprises two tranches: a MAD 2 billion tranche with a 2006 maturity (reimbursed in May 2006) and a MAD 4 billion tranche with a 2011 maturity.
- (e) On February 15, 2005, Vivendi issued notes for €600 million with a 3.9% yield rate, maturing February 15, 2012.
- (f) On April 6, 2005, Vivendi issued notes for €630 million with a 3.63% yield rate, maturing April 2010.
- (g) On July 18, 2005, SFR issued notes for €600 million with a 3.4% yield rate, maturing July 2012.
- (h) On January 21, 2005, the remaining high-yield notes were redeemed for a principal amount of €394 million (corresponding to \$107 million notes issued in dollars and €316 million notes issued in euros).

Please refer to Notes 23 and 24 to the Consolidated Financial Statements for the Year Ended December 31, 2006.

### Other borrowings in 2005

On April 19, 2005, a MAD 6 billion credit facility was set up by SPT, a wholly-owned Moroccan subsidiary of Vivendi, from Attijari, a Moroccan bank. This facility was backed by a cash collateral deposit made by Vivendi Telecom International (VTI) for the same amount. This cash deposit has the same maturity as the facility and is recoverable as the facility is repaid. For these reasons, the borrowing and the cash collateral are netted in Vivendi's consolidated statement of financial position. As of December 31, 2005, the credit facility and the related cash deposit were fully redeemed.

### Available undrawn facilities

Vivendi issued 2 syndicated loans in the amount of €2 billion each:

- The first syndicated loan, maturing April 2011, was extended in February 2007 by one year until April 2012.

- The second one set up in August 2006, with a five year maturity, can be extended by two years, subject to the approval of the lenders.

As of February 27, 2007, the date of the Management Board's meeting which approved the financial statements for the Year Ended December 31, 2006, considering the amount of treasury bond issued on that day, the syndicated loan was available in an amount of €3,635 million.

SFR set up a credit line of €1.2 billion (April 2011), and a credit line of €450 million (November 2011). The later can be extended by one year. As of February 27, 2007, date of the Management Board meeting which approved the financial statements for the Year Ended December 31, 2006, considering the amount of treasury bonds issued on that day, the two credit lines were available in an amount of €653 million.

## 5.5. MAIN FINANCING CHARACTERISTICS AND CREDIT RATINGS

### 5.5.1. Credit Ratings

As of February 27, 2007, date of the Management Board meeting which approved the financial statements for the Year Ended December 31, 2006, the credit ratings were as follows:

Rating agency	Rating date	Type of debt	New ratings	Outlook	Previous ratings
Standard & Poor's	July 27, 2005	Long-term corporate	BBB	Stable	BBB -
		Short-term corporate	A-2		A-3
		Senior unsecured debt	BBB		BBB-
Moody's	September 13, 2005	Long-term senior unsecured debt	Baa2	Stable	Baa3
Fitch Ratings	December 10, 2004	Long-term senior unsecured debt	BBB	Positive (December 19, 2005)	BBB-

### 5.5.2. Average Maturity

The average term of the different instruments included in Vivendi's consolidated debt may be assessed using two methodologies:

- The "accounting" average term takes into account short-term draw downs on medium-term credit lines for the term of the short-term draw-down. At the end of 2006, the "accounting" average term of Vivendi Group debt was 3 years, compared to 3.3 years at the end of 2005.
- The "economic" average term considers that all undrawn amounts on available medium-term credit lines may be used to repay group borrowings with the shortest term. As of December 31, 2006, under this definition, the average term of Vivendi's consolidated debt was 4.9 years and 5.2 years when taking into account the extension of the duration by one year obtained in February 2007 for one of the two €2 billion credit lines (compared to 4.8 years at the end of 2005).

### 5.5.3. Description of Main Covenants

Vivendi and its subsidiary SFR are subject to certain financial covenants which require them to maintain various financial ratios computed at the end of each half-year, described hereunder. As of December 31, 2006, Vivendi and SFR were in compliance with applicable financial ratio.

#### Loans

Regarding Vivendi, the two syndicated facilities (each of €2.0 billion set up in March 2005 and April 2006), contain customary provisions related to events of default and restrictions in terms of negative pledge and divestiture and merger transactions. In addition, Vivendi is required to maintain a ratio of Proportionate Financial Net Debt<sup>1</sup> to proportionate EBITDA<sup>2</sup> at a maximum of 3 for the duration of the loan.

Regarding SFR, the two credit lines (€1.2 billion and €450 million) contain customary default, negative pledge and merger and divestiture

restrictions. These facilities are subject to a change in ownership clause. In addition, SFR must comply at the end of each semester, with the two following financial ratios: (i) a ratio of Financial Net Debt to EBITDA not exceeding 3.5: 1; and (ii) a ratio of Earnings from operations to Net Financing costs (interest) equal to or greater than 3: 1.

Lastly, on January 4, 2005, SPT issued a MAD 6 billion facility to finance the acquisition of an additional 16% of Maroc Telecom. The borrowing is comprised of two tranches: a MAD 2 billion tranche that was early terminated in May 2006 and a MAD 4 billion tranche with a 2011 maturity date. Vivendi has granted a security (jointly liable guarantee) to SPT in the amount of MAD 6 billion. The security contract contains the same financial ratios as those included in the €2 billion syndicated loan, set up in April 2005.

#### Bonds

Bonds issued by Vivendi (total of €3,626 million as of December 31, 2006) and its subsidiary SFR (€1,300 million as of December 31, 2006) contain customary provisions related to default, negative pledge and pari-passu. In addition the last two bonds issued in October 2006 by Vivendi for a total amount of €1.2 billion, contain a change-of-control provision subject to a downgrade of their rating below investment grade status (Baa3/BBB-) resulting from such event.

### 5.5.4. Financial Net Debt of SFR and Maroc Telecom

As of December 31, 2006, the Financial Net Debt of SFR amounted to €2,257 million (compared to €2,235 million as of December 31, 2005) and included borrowings of €2,356 million (compared to €2,252 million as of December 31, 2005). In addition, on January 16, 2007, SFR paid its fourth interim dividend with respect to fiscal year 2006 (€448 million, of which €197 million was paid to Vodafone).

As of December 31, 2006, before taking into account Onatel's Financial Net Debt, Maroc Telecom showed a net cash position of €241 million (compared to €685 million as of December 31, 2005).

(1) Defined as Vivendi Financial Net Debt less the share of Financial Net Debt attributable to minority shareholders of SFR and Maroc Telecom.

(2) Defined as Vivendi modified EBITDA less modified EBITDA attributable to minority shareholders of SFR and Maroc Telecom plus the dividends received from entities that are not consolidated.

## 6 Forward Looking Statements

This report contains forward-looking statements with respect to the financial condition, results of operations, business, strategy and plans of Vivendi. Although Vivendi believes that such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance. Actual results may differ materially from the forward-looking statements as a result of a number of risks and uncertainties, many of which are outside Vivendi's control, including, but not limited to the risk that Vivendi will not be able to obtain the necessary regulatory approvals in connection with certain transactions as well as the risks described in the documents Vivendi

filed with the Autorité des Marchés Financiers (French securities regulator) and which are also available in English on Vivendi's web site ([www.vivendi.com](http://www.vivendi.com)). Investors and security holders may obtain a free copy of documents filed by Vivendi with the Autorité des Marchés Financiers at [www.amf-france.org](http://www.amf-france.org), or directly from Vivendi. The present forward-looking statements are made as of the date of the present Financial Report and Vivendi disclaims any intention or obligation to provide, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## 7 Disclaimer

This report is an English translation of the French version of such report and is provided for informational purposes. This translation is qualified in its entirety by the French version which is available on the company's

web site ([www.vivendi.com](http://www.vivendi.com)). In the event of any inconsistencies between the French version of this report and the English translation, the French version will control.

## II – Appendix to 2006 Financial Report

### Effect of Change in Presentation of Operating Performance since June 30, 2006

Please refer to Paragraph 2 of the 2006 Financial Report for definition of EBITA.

Reconciliation from earnings from operations to EBITA by business segment in 2005 and 2004:

Year Ended December 31, 2005 <i>(in millions of euros)</i>	Earnings from operations as published	Reversal of amortization of intangible assets acquired through business combinations	EBITA
Universal Music Group	480	201	681
Vivendi Games	41	14	55
Canal+ Group	203	-	203
SFR	2,422	-	2,422
Maroc Telecom	762	24	786
Holding & Corporate	(195)	-	(195)
Non core operations	33	-	33
<b>Total Vivendi</b>	<b>€3,746</b>	<b>€239</b>	<b>€3,985</b>

Year Ended December 31, 2004 <i>(in millions of euros)</i>	Earnings from operations as published	Reversal of amortization of intangible assets acquired through business combinations	EBITA
Universal Music Group	359	233	592
Vivendi Games	(203)	15	(188)
Canal+ Group	188	-	188
SFR	2,332	-	2,332
Maroc Telecom	662	23	685
Holding & Corporate	(193)	-	(193)
Non core operations	88	-	88
<b>Total Vivendi</b>	<b>€3,233</b>	<b>€271</b>	<b>€3,504</b>

Summary of effect of change in presentation regarding adjusted net earnings, attributable to equity holders of the parent, in 2005 and 2004

<i>(in millions of euros)</i>	Year Ended December 31,	
	2005	2004
<b>IFRS Adjusted net income as previously published</b>	<b>2,078</b>	<b>1,338</b>
Reversal of amortization of intangible assets acquired through business combinations	239	271
Related tax impacts	(89)	(100)
Minority interests	(10)	(11)
<b>IFRS Adjusted net income, attributable to equity holders of the parent (new definition)</b>	<b>€2,218</b>	<b>€1,498</b>

## III – Consolidated Financial Statements for the Year Ended December 31, 2006

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NOTA: In accordance with European Commission regulation (EC) 809/2004 of April 29, 2004 (Article 28) which sets out the disclosure obligations for issuers of securities on a regulated market in the European Union (The "Prospectus Directive"), the followings items are included as reference:

- the Consolidated Financial Statements for the Year Ended December 31, 2005 prepared under French GAAP and the related report of independent registered public accounting firms are presented in pages 174 through 286 and in pages 172 through 173, respectively, of the Document de Référence No. D06-0178 filed with the French Autorité des Marchés Financiers (AMF) on March 28, 2006 and in pages 174 through 286 and in pages 172 through 173, respectively, of the English translation of the Document de Référence filed on Form 6-K with the SEC on May 31, 2006;
- the Consolidated Financial Statements for the Year Ended December 31, 2004 prepared under French GAAP and the related report of independent registered public accounting firms are presented in pages 163 through 248 and in pages 161 through 162, respectively, of the Document de Référence No. D05-0456 filed with the AMF on April 18, 2005 or, for an English version, in pages F-6 through F-118 and in page F-5, respectively, of the Form 20-F filed with the SEC on June 29, 2005.

# Statutory Auditors' Report on the Consolidated Financial Statements<sup>1</sup>

To the shareholders,

In compliance with the assignment entrusted to us by your general meetings, we have audited the accompanying consolidated financial statements of Vivendi for the Year Ended December 31, 2006.

These consolidated financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements based on our audit.

## I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 the management, as well as evaluating the overall

financial statements presentation. We believe that our audit provides a reasonable basis for our opinion set out hereafter.

We certify that the consolidated financial statements give a true and fair view of the assets and liabilities, and of the financial position as well as the results of operations of the group of individuals and entities included in the consolidation, in accordance with the IFRSs as adopted by the EU.

## II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of article L. 823-9 of the French Commercial Law (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- in the context of our appreciation of the accounting principles, we verified that Note 1.1 to the financial statements provided appropriate information concerning the accounting method your company used concerning the acquisition of an additional interest in a consolidated subsidiary, the company's commitments to purchase minority interests in its subsidiaries and the loyalty bonuses, due to the lack of a specific provision in the IFRSs as adopted by the EU on these matters;
- your company does not consolidate its shareholding in PTC and has reduced the value of these shares to zero in the balance sheet in view of the litigation related to this shareholding, as described in notes 2.4 and 30 to the financial statements. Within the scope of our assessment of the accounting rules and principles used by your

company, we have assessed the assumptions used and ensured the reasonableness of the approach used;

- on each closing date, your company systematically does an impairment test of goodwill and assets with indefinite lives and also assess if there is an indication for any loss of value of other tangible and intangible assets, under the conditions indicated in Note 1.3.5.6 to the financial statements. We examined the implementation conditions of this impairment test and checked that Note 1.3.5.6. gives the appropriate information;
- your company reassessed the value of equity-accounted NBC Universal shares under the conditions indicated in Note 14 to the financial statements. We have examined the valuation methods used by your company. Within the scope of our assessment of such methods, we have assessed the assumptions used and ensured the reasonableness of the resulting evaluations;

(1) This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes explanatory paragraphs discussing the auditors' assessment(s) of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. The report also includes information relating to the specific verification of information in the group management report.

- your company forms provisions to cover risks relative to financial transactions undertaken, share-based compensation, pension commitment, litigation, restructuring, taxes payable, tax risks and other risks, as described in notes 6, 19, 20, 21 and 22 to the financial statements. We assessed the methods used by your company, described in the notes, on the basis of information available to date, and carried out tests in order to verify their application through sampling. Within the scope of our assessment, we ensured the reasonableness of the resulting estimates;
- your company recognized a deferred tax asset corresponding to losses carried forward in the context of the consolidated global profit

tax system, according to the evaluation conditions described in Note 6.2 to the financial statements. We assessed the method used, as described in the notes, on the basis of information available to date, and carried out tests in order to verify their application through sampling. Within the scope of our assessment, we ensured the reasonableness of the resulting evaluations.

The assessments were thus made in the context of the performance of our audit of the consolidated financial statements taken as a whole and therefore contributed to the formation of our audit opinion set out in the first part of this report.

### III. SPECIFIC VERIFICATION

In accordance with the professional standards applicable in France, we have also verified the information given in the group management

report. We have no matters to report regarding its fair presentation and conformity with the consolidated financial statements.

Paris-La Défense and Neuilly-sur-Seine, March 7, 2007

The Statutory Auditors

**SALUSTRO REYDEL**

Member of KPMG International

Benoît Lebrun

Marie Guillemot

**ERNST & YOUNG et Autres**

Dominique Thouvenin

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

Consolidated Statement of Earnings for the Years Ended December 31, 2006 and 2005

# Consolidated Statement of Earnings for the Years Ended December 31, 2006 and 2005

(in millions of euros, except per share amounts)	Note	Year Ended December 31,	
		2006	2005
<b>Revenues</b>	4.1	<b>20,044</b>	<b>19,484</b>
Cost of revenues	4.1	(10,146)	(9,898)
Selling, general and administrative expenses		(5,756)	(5,807)
Restructuring charges and other operating charges and income		5	(33)
Impairment losses of intangible assets acquired through business combinations	4.4	-	(170)
<b>Earnings before interest and income taxes (EBIT)</b>		<b>4,147</b>	<b>3,576</b>
Income from equity affiliates	14	337	326
Interest	5.1	(203)	(218)
Income from investments	5.2	54	75
Other financial charges and income	5.3	311	619
<b>Earnings from continuing operations before provision for income taxes</b>		<b>4,646</b>	<b>4,378</b>
Provision for income taxes	6	547	(204)
<b>Earnings from continuing operations</b>		<b>5,193</b>	<b>4,174</b>
Earnings from discontinued operations	7	-	92
<b>Earnings</b>		<b>5,193</b>	<b>4,266</b>
<i>Attributable to:</i>			
<b>Equity holders of the parent</b>		<b>4,033</b>	<b>3,154</b>
Minority interests		1,160	1,112
Earnings from continuing operations, attributable to the equity holders of the parent per share – basic (in euros)	8	3.50	2.70
Earnings from continuing operations, attributable to the equity holders of the parent per share – diluted (in euros)	8	3.47	2.68
Earnings from discontinued operations per share – basic (in euros)	8	-	0.08
Earnings from discontinued operations per share – diluted (in euros)	8	-	0.08
<b>Earnings, attributable to the equity holders of the parent per share – basic (in euros)</b>	<b>8</b>	<b>3.50</b>	<b>2.74</b>
Earnings, attributable to the equity holders of the parent per share – diluted (in euros)	8	3.47	2.72
<b>Adjusted net income, attributable to equity holders of the parent (in euros)</b>	<b>8</b>	<b>2,614</b>	<b>2,218</b>
<b>Adjusted net income, attributable to equity holders of the parent per share – basic (in euros)</b>	<b>8</b>	<b>2.27</b>	<b>1.93</b>
Adjusted net income, attributable to equity holders of the parent per share – diluted (in euros)	8	2.25	1.91

The accompanying notes are an integral part of these Consolidated Financial Statements.

*Disclaimer: The English translation of the Consolidated Financial Statements originally prepared in French has been prepared solely for the convenience of English-speaking readers. Despite all the efforts devoted to this translation, certain errors, omissions or approximations may subsist. Vivendi, its representatives and employees decline all responsibility in this regard. In the event of a discrepancy, the French-language version will control.*

# Consolidated Statement of Financial Position as of December 31, 2006 and December 31, 2005

<i>(in millions of euros)</i>	Note	December 31, 2006	December 31, 2005
<b>ASSETS</b>			
Goodwill	9	13,068	13,796
Non-current content assets	10	2,120	2,462
Other intangible assets	11	2,262	1,937
Property, plant and equipment	12	4,379	4,331
Investments in equity affiliates	14	7,032	6,856
Non-current financial assets	15	3,164	3,783
Deferred tax assets	6	1,484	1,784
<b>Non-current assets</b>		<b>33,509</b>	<b>34,949</b>
Inventories	16	358	375
Current tax receivables	6	617	822
Current content assets	10	842	790
Trade accounts receivable and other	16	4,489	4,531
Short-term financial assets	15	833	114
Cash and cash equivalents	17	2,400	2,902
<b>Current assets</b>		<b>9,539</b>	<b>9,534</b>
<b>TOTAL ASSETS</b>		<b>43,048</b>	<b>44,483</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital		6,364	6,344
Additional paid-in capital		7,257	6,939
Treasury shares		(33)	(60)
Retained earnings and other		6,324	5,546
<b>Equity, attributable to Vivendi's shareholders</b>	18	<b>19,912</b>	<b>18,769</b>
Minority interests		1,952	2,839
<b>Total equity</b>		<b>21,864</b>	<b>21,608</b>
Non-current provisions	19	1,388	1,220
Long-term borrowings and other financial liabilities	23	4,714	4,545
Deferred tax liabilities	6	1,070	3,476
Other non-current liabilities	16	1,269	1,342
<b>Non-current liabilities</b>		<b>8,441</b>	<b>10,583</b>
Current provisions	19	398	578
Short-term borrowings and other financial liabilities	24	2,601	2,215
Trade accounts payable and other	16	9,297	8,737
Current tax payables	6	447	762
<b>Current liabilities</b>		<b>12,743</b>	<b>12,292</b>
<b>Total liabilities</b>		<b>21,184</b>	<b>22,875</b>
Contractual obligations and contingent assets and liabilities	29	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>43,048</b>	<b>44,483</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

# CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

Consolidated Statement of Cash Flows for the Years Ended December 31, 2006 and 2005

## Consolidated Statement of Cash Flows for the Years Ended December 31, 2006 and 2005

(in millions of euros)	Note	Year Ended December 31,	
		2006	2005
<b>Operating activities:</b>			
EBIT		4,147	3,576
Adjustments	27.1	1,703	1,528
Content investments, net	10	(111)	(15)
<b>Gross cash provided by operating activities before income tax paid</b>		<b>5,739</b>	<b>5,089</b>
Other changes in net working capital	16	67	(33)
<b>Net cash provided by operating activities before income tax paid</b>		<b>5,806</b>	<b>5,056</b>
Income tax paid	6	(1,381)	(1,386)
<b>Net cash provided by operating activities</b>		<b>4,425</b>	<b>3,670</b>
<b>Investing activities:</b>			
Capital expenditures		(1,690)	(1,380)
Purchases of consolidated companies, after acquired cash	2	(1,022)	(1,311)
Investments in equity affiliates	14	(724)	-
Increase in financial assets	15	(2,135)	(170)
<b>Investments</b>		<b>(5,571)</b>	<b>(2,861)</b>
Proceeds from sales of property, plant, equipment and intangible assets		45	89
Proceeds from sales of consolidated companies, after divested cash	2	7	(361)
Disposals of equity affiliates	14	42	72
Decrease in financial assets	15	1,752	444
<b>Divestitures</b>		<b>1,846</b>	<b>244</b>
Dividends received from equity affiliates	14	271	355
Dividends received from unconsolidated companies		34	37
<b>Net cash provided by (used for) investing activities</b>		<b>(3,420)</b>	<b>(2,225)</b>
<b>Financing activities:</b>			
Net proceeds from issuance of common shares		60	39
Sales (purchases) of treasury shares		16	(108)
Dividends paid by Vivendi S.A. to its shareholders		(1,152)	(689)
Dividends and reimbursements of contribution of capital paid by consolidated companies to their minority shareholders		(1,034)	(965)
<b>Dividends and other transactions with shareholders</b>		<b>(2,110)</b>	<b>(1,723)</b>
Setting up of long-term borrowings and increase in other long-term financial liabilities	23	1,919	2,380
Principal payment on long-term borrowings and decrease in other long-term financial liabilities	23	(576)	(1,649)
Principal payment on short-term borrowings	24	(723)	(963)
Other changes in short-term borrowings and other short-term financial liabilities	24	178	919
Interest paid	5.1	(203)	(218)
Other cash items related to financial activities		36	(485)
<b>Transactions on borrowings and other financial liabilities</b>		<b>631</b>	<b>(16)</b>
<b>Net cash provided by (used for) financing activities</b>		<b>(1,479)</b>	<b>(1,739)</b>
Foreign currency translation adjustments		(28)	37
<b>Change in cash and cash equivalents</b>		<b>(502)</b>	<b>(257)</b>
<b>Cash and cash equivalents:</b>			
At beginning of the period		2,902	3,159
At end of the period		2,400	2,902

The accompanying notes are an integral part of these Consolidated Financial Statements.

# Consolidated Statement of Changes in Equity for the Years Ended December 31, 2006 and 2005

## Year Ended December 31, 2006

(in millions of euros, except number of shares)	Note	Attributable to Vivendi S.A. shareholders								Minority interests	Total equity	
		Common shares		Additional paid-in capital	Treasury shares	Retained earnings and other						Equity, attributable to equity holders of the parent
		Number of shares (in thousands)	Amount			Retained earnings	Net unrealized gains (losses)	Foreign currency translation adjustments	Total			
<b>Balance as of december 31, 2005</b>		<b>1,153,477</b>	<b>6,344</b>	<b>6,939</b>	<b>(60)</b>	<b>5,349</b>	<b>899</b>	<b>(702)</b>	<b>5,546</b>	<b>18,769</b>	<b>2,839</b>	<b>21,608</b>
Dividends paid by Vivendi S.A. (€1.0 per share)		-	-	-	-	(a) (1,152)	-	-	(1,152)	(1,152)	-	(1,152)
Repayment of Vivendi Exchangeco shares	18.2	-	-	278	-	(278)	-	-	(278)	-	-	-
Other transactions with shareholders		(b) 3,557	20	40	27	(c) (14)	-	-	(14)	73	-	73
<b>Dividends and other transactions with Vivendi S.A. shareholders</b>		<b>3,557</b>	<b>20</b>	<b>318</b>	<b>27</b>	<b>(1,444)</b>	<b>-</b>	<b>-</b>	<b>(1,444)</b>	<b>(1,079)</b>	<b>-</b>	<b>(1,079)</b>
Acquisition of an additional 7.7% stake in USHI	2.2	-	-	-	-	-	-	-	-	-	(832)	(832)
Dividends and reimbursements of contribution of capital paid by subsidiaries to minority interests		-	-	-	-	-	-	-	-	-	(1,232)	(1,232)
Other transactions with minority interests		-	-	-	-	-	-	-	-	-	22	22
<b>Transactions with minority interests</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,042)</b>	<b>(2,042)</b>
Earnings		-	-	-	-	4,033	-	-	4,033	4,033	1,160	5,193
Charges and income directly recognized in equity		-	-	-	-	(31)	(803)	(977)	(1,811)	(1,811)	(5)	(1,816)
<b>Total recognized charges and income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,002</b>	<b>(803)</b>	<b>(977)</b>	<b>2,222</b>	<b>2,222</b>	<b>1,155</b>	<b>3,377</b>
<b>Total changes over the period</b>		<b>3,557</b>	<b>20</b>	<b>318</b>	<b>27</b>	<b>2,558</b>	<b>(803)</b>	<b>(977)</b>	<b>778</b>	<b>1,143</b>	<b>(887)</b>	<b>256</b>
<b>Balance as of december 31, 2006</b>		<b>1,157,034</b>	<b>6,364</b>	<b>7,257</b>	<b>(33)</b>	<b>(d) 7 907</b>	<b>96</b>	<b>(1,679)</b>	<b>6,324</b>	<b>19,912</b>	<b>(e) 1 952</b>	<b>21,864</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

(a) Includes €5 million paid to shareholders of Vivendi Exchangeco (former Seagram shareholders).

(b) Corresponds to capital increases subscribed by employees in connection with the stock purchase plan (€30 million for approximately 1.5 million shares) or stock option plans (€30 million for approximately 2.1 million shares).

(c) Includes the counterpart of the share-based compensation cost related to equity-settled instruments for the period (€53 million) and the reclassification of the estimated value of the vested rights as of May 15, 2006 of the ADS option plans, converted into SARs plans in liabilities, as non-current provisions (-€67 million). Please refer to Note 21 "Share-based compensation".

(d) Retained earnings are mainly comprised of previous years' earnings which were not distributed and 2006 earnings attributable to equity holders of the parent.

(e) Includes cumulative foreign currency translation adjustments of -€36 million.

# CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

Consolidated Statement of Changes in Equity for the Years Ended December 31, 2006 and 2005

## Consolidated Statement of Changes in Equity for the Years Ended December 31, 2006 and 2005

### Year Ended December 31, 2005

<i>(in millions of euros, except number of shares)</i>	Note	Attributable to Vivendi S.A. shareholders								Minority interests	Total equity	
		Common shares		Additional paid-in capital	Treasury shares	Retained earnings and other			Equity, attributable to equity holders of the parent			
		Number of shares <i>(in thousands)</i>	Amount			Retained earnings	Net unrealized gains (losses)	Foreign currency translation adjustments				Total
<b>Balance as of december 31, 2004</b>		<b>1,072,624</b>	<b>5,899</b>	<b>7,313</b>	<b>(12)</b>	<b>2,932</b>	<b>910</b>	<b>(1,593)</b>	<b>2,249</b>	<b>15,449</b>	<b>2,643</b>	<b>18,092</b>
Redemption of ORA (November 2005)		78,672	433	(433)	-	-	-	-	-	-	-	-
Dividends paid by Vivendi S.A. (€0.6 per share)		-	-	-	-	(a) (689)	-	-	(689)	(689)	-	(689)
Other transactions with shareholders		2,181	12	59	(48)	12	-	-	12	35	-	35
<b>Dividends and other transactions with Vivendi S.A. shareholders</b>		<b>80,853</b>	<b>445</b>	<b>(374)</b>	<b>(48)</b>	<b>(677)</b>	<b>-</b>	<b>-</b>	<b>(677)</b>	<b>(654)</b>	<b>-</b>	<b>(654)</b>
Acquisition of an additional 16% stake in Maroc Telecom	2.5	-	-	-	-	-	-	-	-	-	(38)	(38)
Dividends and reimbursements of contribution of capital paid by subsidiaries to minority interests		-	-	-	-	-	-	-	-	-	(965)	(965)
Other transactions with minority interests		-	-	-	-	-	-	-	-	-	(18)	(18)
<b>Transactions with minority interests</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,021)</b>	<b>(1,021)</b>
Earnings		-	-	-	-	3,154	-	-	3,154	3,154	1,112	4,266
Charges and income directly recognized in equity		-	-	-	-	(60)	(11)	891	820	820	105	925
<b>Total recognized charges and income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,094</b>	<b>(11)</b>	<b>891</b>	<b>3,974</b>	<b>3,974</b>	<b>1,217</b>	<b>5,191</b>
<b>Total changes over the period</b>		<b>80,853</b>	<b>445</b>	<b>(374)</b>	<b>(48)</b>	<b>2,417</b>	<b>(11)</b>	<b>891</b>	<b>3,297</b>	<b>3,320</b>	<b>196</b>	<b>3,516</b>
<b>Balance as of december 31, 2005</b>		<b>1,153,477</b>	<b>6,344</b>	<b>6,939</b>	<b>(60)</b>	<b>5,349</b>	<b>899</b>	<b>(702)</b>	<b>5,546</b>	<b>18,769</b>	<b>(b) 2 839</b>	<b>21,608</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

(a) Includes €47 million paid to the holders of ORA (November 2005) and €3 million paid to shareholders of Vivendi Exchangeco (former Seagram shareholders).

(b) Includes cumulative foreign currency translation adjustments of € 2 million.

## Statement of Recognized Charges and Income for the Years 2006 and 2005

(in millions of euros)	Note	Year Ended December 31, 2006			Year Ended December 31, 2005		
		Charges and income recorded over the period	Attributable to:		Charges and income recorded over the period	Attributable to:	
			Vivendi S.A.'s shareholders	Minority interests		Vivendi S.A.'s shareholders	Minority interests
<b>Net Income</b>		<b>5,193</b>	<b>4,033</b>	<b>1,160</b>	<b>4,266</b>	<b>3,154</b>	<b>1,112</b>
<b>Foreign currency translation adjustments</b>		<b>(1,021)</b>	<b>(a) (977)</b>	<b>(44)</b>	<b>1,002</b>	<b>(a) 891</b>	<b>111</b>
Assets available for sale	15.1	(847)	(847)	-	(87)	(86)	(1)
Valuation gains/(losses) taken to equity		(7)	(7)	-	170	171	(1)
Transferred to profit or loss on divestiture		(840)	(840)	-	(257)	(257)	-
Cash flow hedges		25	20	5	(1)	(1)	-
Tax		23	24	(1)	76	76	-
<b>Unrealized gains (losses)</b>		<b>(799)</b>	<b>(803)</b>	<b>4</b>	<b>(12)</b>	<b>(11)</b>	<b>(1)</b>
Charges and income directly recorded in equity related to equity affiliates		5	5	-	(11)	(10)	(1)
Other		(1)	(36)	35	(54)	(50)	(4)
<b>Other impacts on retained earnings</b>		<b>4</b>	<b>(31)</b>	<b>35</b>	<b>(65)</b>	<b>(60)</b>	<b>(5)</b>
<b>Charges and income directly recognized in equity</b>		<b>(1,816)</b>	<b>(1,811)</b>	<b>(5)</b>	<b>925</b>	<b>820</b>	<b>105</b>
<b>Total recognized charges and income for the period</b>		<b>3,377</b>	<b>2,222</b>	<b>1,155</b>	<b>5,191</b>	<b>3,974</b>	<b>1,217</b>

(a) Includes changes in foreign currency translation adjustments relating to the investment in NBC Universal of -€662 million in 2006 and €761 million in 2005.

# Notes to the Consolidated Financial Statements

Vivendi is a limited liability company (*société anonyme*) incorporated under French law, and subject to French commercial company legislation and, in particular, the French Commercial Code (*Code de commerce*). Vivendi was incorporated on December 18, 1987, for a term of 99 years expiring on December 17, 2086, except in the event of an early dissolution or unless extended. Its registered office is located at 42 avenue de Friedland 75008 Paris (France). Vivendi is listed on the Paris stock exchange Compartiment A.

Vivendi is a leader in entertainment with activities in music, TV, cinema, mobile, fixed and internet, and games.

The Consolidated Financial Statements reflect the financial and accounting situation of Vivendi and its subsidiaries (the "group"),

together with interests in equity affiliates and joint ventures. They are reported in euros, and all values are rounded to the nearest million.

On February 27, 2007, the Management Board approved the Annual Financial Report and the Consolidated Financial Statements for the Year Ended December 31, 2006, which were presented to the Audit Committee on February 28, 2007. On March 6, 2007, the Supervisory Board examined the Annual Financial Report and the Consolidated Financial Statements for the Year Ended December 31, 2006, as approved by the Management Board on February 27, 2007.

On April 19, 2007, the Consolidated Financial Statements for the Year Ended December 31, 2006 will be submitted for approval at Vivendi's Annual General Shareholders' meeting.

## NOTE 1 ACCOUNTING POLICIES AND VALUATION METHODS

### 1.1. Compliance with Accounting Standards

The Consolidated Financial Statements of Vivendi S.A. have been prepared in accordance with International Financial Reporting Standards (IFRS).

Vivendi prepared its 2006 Consolidated Financial Statements and its 2005 comparative financial statements adopting:

- all mandatory IFRS/IFRIC (International Financial Reporting Interpretations Committee) standards and interpretations as of December 31, 2006. All these standards and interpretations, as applied by Vivendi, have been adopted by the EU;
- Vivendi has chosen to apply, IAS 32 and 39, IFRS 5 and IFRIC Interpretation 4 from January 1, 2004 onwards;
- the following options, pending publication of a decision of the IASB or IFRIC on the matter:
  - in the absence of guidance provided by the IFRS, in the event of the acquisition of an additional interest in a subsidiary, Vivendi recognizes the excess of the acquisition cost over the carrying amount of minority interests acquired as goodwill,
  - in accordance with IAS 32, put options granted by Vivendi to holders of minority interests in its subsidiaries are reported as financial liabilities at the present value of the cost of acquisition. In the absence of guidance provided by IFRS 3 on business combinations and pending publication of an IASB/IFRIC interpretation, Vivendi accounts for as goodwill the difference arising on initial recognition of these options, between the carrying

amount of the minority interests and the present value of the cost of acquisition. The subsequent change in this present value (with the exception of the undiscounting effect or expected losses) is also accounted for as goodwill,

- pending a final IFRIC interpretation, Vivendi does not accrue loyalty coupons granted to the customers of SFR, Maroc Telecom and Canal+, which do not result in an additional cost. In effect, these bonuses do not represent a benefit greater than that granted to new customers at the inception date of a contract. Loyalty coupons convertible into free services are accrued. Such recognition is compliant with IFRIC D20-IAS18 drafted by IFRIC which sets forth the accounting treatment of customer loyalty programs;
- new standards applied:
  - Vivendi applied IFRIC Interpretation 11 and IFRS 2 ("Group Treasury Share Transactions") as published by the IFRIC but not yet adopted by the EU. Such transactions were previously recognized by Vivendi in a manner that is consistent with these standards. Therefore applying these standards had no significant impact on Vivendi's Consolidated Financial Statements for the Year Ended December 31, 2006,
  - Vivendi applied IFRIC Interpretation 6 "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment", which was adopted by the UE on January 11, 2006 and published in the Official Journal of the EU on January 27, 2006, to each of its activities in the jurisdictions concerned. The first application of IFRIC 6 did not have any significant impact on the Consolidated Financial Statements for the Year Ended December 31, 2006.

## 1.2. Changes in the Presentation of the Consolidated Financial Statements

As of June 30, 2006, considering the practice of major European companies with respect to the application of IFRS and the accounting impact of acquisitions, Vivendi has made the following changes to the presentation of its consolidated statement of earnings and its consolidated statement of cash flows as well as the operating performances of its business segments and of the group. Pursuant to IAS 1, Vivendi has applied these presentation changes to all the periods presented in these financial statements.

### 1.2.1. Change in the presentation of the consolidated statement of earnings

Vivendi Management has decided to simplify the consolidated statement of earnings presentation by eliminating certain subtotals which are not currently used. Pursuant to IAS 1, the main line items presented in the consolidated statement of earnings of Vivendi are revenues, income from equity affiliates, interest, provision for income taxes, earnings from discontinued operations and earnings.

In addition, the presentation of the consolidated statement of earnings now includes a subtotal known as "EBIT". EBIT is defined as the difference between charges and income that do not result from financing activities, equity affiliates, discontinued operations and tax. As a result, EBIT includes the following items:

- revenues <sup>(\*)</sup> <sup>(\*\*)</sup>;
- cost of revenues <sup>(\*)</sup>;
- selling, general and administrative expenses, <sup>(\*)</sup> including costs related to employee benefit plans (excluding the financial component) and share-based payments;
- restructuring costs <sup>(\*\*)</sup>;
- changes in the fair value of foreign currency hedging instruments relating to operating activities;
- proceeds from disposals of property, plant and equipment and intangible assets <sup>(\*\*)</sup>;
- amortization of intangibles acquired through business combinations <sup>(\*\*)</sup>; and
- impairment losses of goodwill and other intangibles acquired through business combinations <sup>(\*)</sup> <sup>(\*\*)</sup>.

EBIT does not include the following items:

- income from equity affiliates <sup>(\*)</sup> <sup>(\*\*)</sup>;
- interest <sup>(\*)</sup> <sup>(\*\*)</sup> which includes interest expenses on borrowings, interest expenses or income from interest rate swaps and interest income from cash and cash equivalents;

- income from investments, including dividends received from unconsolidated interests as well as interest collected on current account advances to equity affiliates and loans to unconsolidated interests <sup>(\*)</sup> <sup>(\*\*)</sup>;
- other financial charges and income <sup>(\*)</sup> <sup>(\*\*)</sup>, which primarily include changes in derivative instruments, the effect of amortized cost accounting for borrowings (including premiums paid in connection with the early redemption of borrowings and the unwinding of derivative instruments), the cash impact of foreign currency hedging (other than operating activities that are included in the EBIT), the financial components of employee benefits (including interest cost and expected return on plan assets) and gains and losses on the divestiture of available-for-sale securities, held for trading securities, and consolidated operations or consolidated entities, that qualify as discontinued operations;
- earnings from discontinued operations <sup>(\*)</sup> <sup>(\*\*)</sup>; and
- provision for income taxes <sup>(\*)</sup> <sup>(\*\*)</sup>.

### 1.2.2. Change in the presentation of the consolidated statement of cash flows

As a result of the change in the presentation of the consolidated statement of earnings, Vivendi Management decided to change the presentation of the consolidated statement of cash flows in accordance with IAS 7.

#### Net cash provided by operating activities

Net cash provided by operating activities is now calculated using the indirect method based on EBIT instead of earnings. EBIT is adjusted for non-cash impact items and the change in net working capital. Net cash provided by operating activities now excludes the cash impact of financial charges and income and the net change in working capital related to property, plant and equipment and intangible assets.

#### Net cash used for investing activities

Net cash used for investing activities now includes the change in net working capital related to property, plant and equipment and intangible assets as well as the cash impact of income received from financial investments (particularly, dividends received from equity affiliates).

#### Net cash used for financing activities

Net cash used for financing activities now includes the net interest paid on borrowings and cash and cash equivalents as well as the cash impact of other items related to financing activities such as premiums paid in connection with the early redemption of borrowings, the unwinding of derivative instruments and the cash impact of foreign currency hedging.

<sup>(\*)</sup> Items as presented in the consolidated statement of earnings. <sup>(\*\*)</sup> Items as reported by each business unit segment.

### 1.2.3. Change in presentation of the operating performance by business segment and of the group

#### EBITA

Vivendi Management evaluates the performance of the business segments and allocates necessary resources to them based on certain operating indicators (segment earnings and cash flow from operations). Until June 30, 2006, reported segment earnings were calculated on the basis of the earnings from operations for each business.

Beginning June 30, 2006, earnings from operations (EFO) was replaced by adjusted earnings before interest and income taxes (EBITA), a non-GAAP measure, as the key operating performance measure of the business units reported in the segment data. The difference between EBITA and previously published EFO consists of the amortization of intangible assets acquired through business combinations that is excluded from EBITA. The method used in calculating EBITA therefore eliminates the accounting impact of the amortization of intangible assets acquired through business combinations and enables the operating performance of the business segments to be measured:

- on a comparable basis, regardless of whether their activity results from the company's internal growth or acquisitions; and
- on a basis closer to the cash that they generate, by eliminating accounting amortization with no cash impact.

The difference between EBITA and EBIT consists of the amortization of intangible assets acquired through business combinations and the impairment of goodwill and other intangibles acquired through business combinations that are included in EBIT.

#### Adjusted net income attributable to equity holders of the parent

Vivendi considers adjusted net income, attributable to equity holders of the parent, a non-GAAP measure, as a relevant indicator of the group's operating and financial performance. Vivendi Management uses adjusted net income, attributable to equity holders of the parent, because it better illustrates the performance of continuing operations by excluding most non-recurring and non-operating items.

Following the adoption of EBITA as the key operating performance measure of the business segments reported in the segment data, Vivendi Management decided to change the method for calculating adjusted net income by excluding amortization of intangible assets acquired through business combinations.

Adjusted net income, attributable to equity holders of the parent, includes the following items:

- EBITA <sup>(\*\*)</sup>;
- income from equity affiliates <sup>(\*)</sup> <sup>(\*\*)</sup>;

- interest <sup>(\*)</sup> <sup>(\*\*)</sup>;
- income from investments <sup>(\*\*)</sup>; and
- taxes and minority interests related to these items.

It does not include the following items:

- impairment losses of goodwill and other intangibles acquired through business combinations <sup>(\*)</sup> <sup>(\*\*)</sup>;
- the amortization of intangibles acquired through business combinations <sup>(\*\*)</sup>;
- other financial charges and income <sup>(\*)</sup> <sup>(\*\*)</sup>;
- earnings from discontinued operations <sup>(\*\*)</sup>;
- provision for income taxes and minority interests relating to these adjustments; and
- non-recurring tax items (notably the changes in deferred tax assets relating to the Consolidated Global Profit Tax System and the reversal of tax liabilities relating to risks extinguished over the period).

### 1.2.4. Change in presentation of the consolidated statement of financial position

Assets and liabilities expected to be realized in, or intended for sale or consumption in the entity's normal operating cycle which normally consists of 12 months, are recorded as current assets or liabilities. If their maturity exceeds this period, they are recorded as non-current assets or liabilities.

## 1.3. Principles Governing the Preparation of the Consolidated Financial Statements

Pursuant to IFRS accounting policies, the Consolidated Financial Statements have been prepared according to the historical cost principle, with the exception of certain assets and liabilities detailed below. They include the financial statements of Vivendi and its subsidiaries after eliminating the main intragroup items and transactions.

Vivendi has a December 31 year-end. Subsidiaries that do not have a December 31 year-end prepare interim financial statements, except when their year-end falls within the three months prior to December 31.

Subsidiaries acquired are included in the Consolidated Financial Statements from the acquisition date, or, for convenience reasons and if the impact is not material, the date of the most recent Consolidated Statement of Financial Position.

<sup>(\*)</sup> Items as presented in the consolidated statement of earnings. <sup>(\*\*)</sup> Items as reported by each business unit segment.

### 1.3.1. Use of estimates

The preparation of Consolidated Financial Statements in compliance with IFRS requires group management to make certain estimates and assumptions that they consider reasonable and realistic. Despite regular reviews of these estimates and assumptions, based in particular on past achievements or anticipations, facts and circumstances may lead to changes in these estimates and assumptions which could impact the reported amount of group assets, liabilities, equity or earnings. These estimates and assumptions notably relate to the measurement of deferred taxes (please refer to notes 1.3.10 and 6), provisions (please refer to notes 1.3.9 and 19), employee benefits (please refer to notes 1.3.9 and 20), share-based compensation (please refer notes 1.3.11 and 21) and certain financial instruments (please refer to notes 1.3.7 and 25), revenue recognition (please refer to notes 1.3.4 and 3) and the valuation of goodwill (please refer to notes 1.3.5.1 and 9), other intangible assets (please refer to notes 1.3.5.4 and 11) and property, plant and equipment (please refer to notes 1.3.5.5 and 12).

### 1.3.2. Principles of consolidation

A list of Vivendi's major subsidiaries, joint ventures and other associated entities is presented in Note 31 "Major consolidated entities".

#### Full consolidation

All companies in which Vivendi has a controlling interest, specifically those in which it has the power to govern the financial and operational policies to obtain benefit from their operations, are fully consolidated.

A controlling position is presumed to exist when Vivendi holds, directly or indirectly, a voting interest exceeding 50%, and where no other shareholder or group of shareholders exercises substantive participating rights which would enable it to veto or to block ordinary decisions taken by Vivendi.

A controlling position also exists when Vivendi, holding an interest of 50% or less in an entity, possesses (i) control over more than 50% of the voting rights by virtue of an agreement with other investors, (ii) power to govern the financial and operational policies of the entity by virtue of a statute or contract, (iii) the right to appoint or remove from office the majority of the members of the board of directors or other governing body, or (iv) the power to assemble the majority of voting rights at meetings of the board of directors or other governing body.

Vivendi consolidates special purpose entities that it controls in substance because it has the right to obtain a majority of benefits, or because it retains the majority of residual risks inherent in the special purpose entity or its assets.

#### Proportionate consolidation

Companies that are controlled jointly by Vivendi or another member of the group and a limited number of other shareholders under the terms of a contractual arrangement are proportionally consolidated.

### Equity accounting

Entities over which Vivendi exercises significant influence are accounted for under the equity method.

Significant influence is presumed to exist when Vivendi holds, directly or indirectly, at least 20% of an entity's voting rights unless it can be clearly demonstrated otherwise. Significant influence can be demonstrated on the basis of other criteria, such as representation on the board of directors or the entity's equivalent governing body, participation in policy-making processes, material transactions with the entity or interchange of managerial personnel.

### 1.3.3. Foreign currency translation

Foreign currency transactions are initially recorded in the functional currency at the exchange rate prevailing at the transaction date. At the closing date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency exchange rate prevailing on that date. All foreign currency differences are expensed, apart from differences on borrowing in foreign currencies, which constitute a hedge for the net investment in a foreign entity. These differences are allocated directly to equity until the divestiture of the net investment.

Except in cases of significant exchange rate fluctuation, financial statements of subsidiaries, joint ventures and other associated entities for which the functional currency is not the euro, are translated into euros as follows: all asset and liability accounts are translated at the exchange rate at the end of the period; and all earnings and expense accounts and cash flow statement items are translated at average exchange rates for the period. The resulting translation gains and losses are recorded as foreign currency translation differences in equity.

In accordance with the provisions of IFRS 1 "First time adoption of International Financial Reporting Standards", Vivendi decided to reverse the accumulated foreign currency translation differences against retained earnings as of January 1, 2004. These foreign currency translation differences resulted from the translation into euro of the financial statements of subsidiaries having foreign currencies as their functional currencies. Consequently, on the subsequent divestiture of the subsidiaries, joint ventures or other associated entities, whose functional currency is not the euro, as the case may be, these adjustments are not taken to earnings.

### 1.3.4. Revenues from operations and associated costs

Revenues from operations are reported when it is probable that future economic benefits will be obtained by the group and when these revenues can be reliably measured.

#### 1.3.4.1. Universal Music Group (UMG)

Revenues from the sale of recorded music, net of a provision for estimated returns (please refer to Note 1.3.4.5 hereof) and rebates, are recognized upon shipment to third parties, at the shipping point for

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Note 1 Accounting Policies and Valuation Methods

products sold free on board (FOB) and on delivery for products sold free on destination.

Cost of revenues includes manufacturing and distribution costs, royalty expenses, copyright expenses, artists' costs, recording costs and direct overheads. Selling, general and administrative expenses notably include marketing and advertising expenses, selling costs, provisions for doubtful receivables and indirect overheads.

#### 1.3.4.2. Vivendi Games

Revenues from the sale of boxes for Massively Multiplayer Online Role Playing Games (MMORPG), as well as revenues from the sale of boxes for other games, are recorded upon transfer of the ownership and related risks to the distributor, net of a provision for estimated returns (please refer to Note 1.3.4.5 hereof) and rebates. Revenues generated by subscriptions and prepaid cards for online games are recorded on a straight-line basis over the duration of the service.

Cost of revenues includes manufacturing, warehousing, shipping and handling costs, royalty expenses, research and development expenses, and the amortization of capitalized software development costs.

#### 1.3.4.3. The Canal+ Group

##### Pay television

Revenues from television subscription services for terrestrial, satellite or cable pay television programming are recognized over the service period. Revenues from advertising are recognized over the period during which advertising commercials are broadcast. Revenues from ancillary services (such as interactive services or video-on-demand services) are recognized over the service period. Subscriber management and acquisition costs, as well as television distribution costs, are included in cost of revenues.

##### Theatrical film and television programming distribution

Theatrical revenues are recognized as the films are screened. Revenues from film distribution and from video and television or pay television licensing agreements are recognized when the films and television programs are available for telecast and all other conditions of sale have been met. Home video product revenues, less a provision for estimated returns (please refer to Note 1.3.4.5 hereof) and rebates, are recognized upon shipment and availability of the product for retail sale to the ultimate customer. Amortization of film and television capitalized and acquisition costs, theatrical print costs, home video inventory costs and television and home video marketing costs are included in cost of revenues.

#### 1.3.4.4. SFR and Maroc Telecom

Revenues from telephone subscriptions are recognized on a straight-line basis over the subscription contract period. Revenues from incoming and outgoing traffic are recognized when the service is rendered. Revenues from the sale of telecommunications equipment (mobile phone and other), as part of telephone packages, net of point-of-sale discounts and connection charges, are recognized upon

activation of the line. Customer acquisition and loyalty costs for mobile phones principally consisting of rebates on the sale of equipment to customers through distributors are recognized as a deduction from revenues. Customer acquisition and loyalty costs consisting of premiums not related to the sale of equipment as part of telephone packages and commissions paid to distributors are recognized as selling and general expenses.

Sales of services provided to customers managed by SFR and Maroc Telecom on behalf of content providers (mainly toll numbers) are accounted for gross, or net of content providers' fees when the provider is responsible for the content and for setting the price to be paid by subscribers.

Cost of revenues comprises purchasing costs (including purchases of mobile phones), interconnection and access costs, and network and equipment costs. Selling, general and administrative expenses notably include commercial costs consisting of marketing and customer care expenses.

#### 1.3.4.5. Other

**Provisions for estimated returns** are deducted from sales of products to customers through distributors. They are estimated based on past sales statistics and take account of the economic environment and product sales forecasts.

**Selling, general and administrative expenses** principally include salaries and employee benefits, rents, consulting and services fees, insurance costs, travel and entertainment expenses, administrative department costs (e.g. Finance department, General Counsel comprising legal department, etc.) and other operating expenses.

**Advertising costs** are expensed as incurred.

**Slotting fees and cooperative advertising expenses** are recorded as a reduction in revenues. However, cooperative advertising at UMG and Vivendi Games is treated as a marketing expense and expensed when the expected profit is individualized and can be estimated.

### 1.3.5. Assets

#### 1.3.5.1. Goodwill and business combinations

In accordance with the provisions of IFRS 1, Vivendi decided not to restate business combinations prior to January 1, 2004.

In accordance with the provisions of IFRS 3, business combinations are recorded using the purchase method. Under this method, on the initial consolidation of an entity over which the group has acquired exclusive control, the assets acquired and the liabilities and contingent liabilities assumed are recognized at their fair value at the acquisition date. At this date, goodwill is initially measured at cost, being the excess of the cost of the business combination over Vivendi's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. If goodwill is negative, it is recognized directly in the statement of earnings.

Subsequently, goodwill is measured at cost less accumulated impairment losses recorded. Goodwill is subject to impairment tests each year, or when events or changes in the market environment indicate a risk of impairment loss. In the event of a loss in value, an impairment loss may be recorded in losses of intangible assets acquired through business combinations.

In addition, pursuant to the provisions of IFRS 3, the following principles are applied to business combinations:

- if possible on the acquisition date, goodwill is allocated to each cash-generating unit likely to benefit from the business combination;
- in the event of acquisition of an additional interest in a subsidiary, the excess of the acquisition cost over the carrying amount of minority interests acquired is recognized as goodwill;
- goodwill is no longer amortized.

Vivendi previously recorded goodwill as a reduction in equity in accordance with recommendations made by the AMF in 1988 that are no longer in effect. This was done, in particular, in connection with the mergers with Havas and Pathé in 1998 and 1999 and the acquisition of US Filter and an additional investment in the Canal+ Group in 1999.

### 1.3.5.2. Content assets

#### UMG

Music publishing rights and catalogs include music catalogs, artists' contracts and publishing rights acquired in December 2000 as part of the acquisition of The Seagram Company Ltd. or more recently. They are amortized over 15 years in selling, general and administrative expenses.

Royalty advances to artists, songwriters and co-publishers are capitalized as an asset when their current popularity and past performances provide a reasonable basis for concluding that the probable future recoupment of such royalty advances against earnings otherwise payable to them is reasonably assured. Royalty advances are recognized as an expense as subsequent royalties are earned by the artist, songwriter or co-publisher. Any portion of capitalized royalty advances not deemed to be recoverable against future royalties is expensed during the period in which the loss becomes evident. These expenses are recorded in cost of revenues.

Royalties earned by artists, songwriters and co-publishers are recognized as an expense in the period in which the sale of the product takes place, less a provision for estimated returns.

#### Vivendi Games

In the ordinary course of its business, Vivendi Games pays advances on royalties and license fees to entitled beneficiaries for the use of their intellectual property content for developing new games (e.g., software developments, graphics and editorial contents). Such royalty

and license fee advances are recognized as an expense, based on contractual rates, in the period in which revenues from the sale of the games integrating the intellectual property content are recognized. Any portion of capitalized royalty and license fee advances not deemed to be recoverable from future royalties and license fees is expensed during the period in which the loss becomes evident.

#### The Canal+ Group

##### *Film, television or sport broadcasting rights*

When signing contracts for the acquisition of film, television or sport broadcasting rights, the rights acquired are recorded as off-balance sheet commitments. They are recorded in the statement of financial position, classified as content assets, as follows:

- film and television broadcasting rights are recognized at their acquisition cost, when the screening certificate has been obtained and the programming is available for exhibition. They are expensed over their broadcasting period;
- sport broadcasting rights are recognized at their acquisition cost, on the opening of the broadcasting period of the related sport season or upon the first payment and are expensed as they are broadcast;
- expensing of film, television or sport broadcasting rights is included in cost of revenues.

##### *Theatrical film and television rights produced or acquired to be sold*

Theatrical film and television rights produced or acquired before their initial exhibition, to be sold, are recorded as a content asset at capitalized cost (mainly direct production and overhead costs) or at their acquisition cost. Theatrical film and television rights are amortized, and other related costs are expensed, pursuant to the estimated revenue method (i.e., based on the ratio of the current periods gross revenues to estimated total gross revenues from all sources on an individual production basis). Such revenues are estimated to be generated over a maximum 12-year period. Where appropriate, estimated losses in value are provided in full against earnings of the period, on an individual product basis, in which the losses are estimated.

##### *Film and television rights catalogs*

Catalogs are comprised of film rights acquired for a second television exhibition, or film and television rights produced or acquired that are sold after their first television exhibition (i.e., after the first broadcast on a terrestrial channel). They are recognized as an asset at their acquisition or transfer cost, and amortized as groups of films or individually, based on the estimated revenue method, respectively.

### 1.3.5.3. Research and development costs

Research costs are expensed when incurred. Development expenses are capitalized when the feasibility and profitability of the project can reasonably be considered certain.

**Cost of software for rental, sale or commercialization**

Capitalized software development costs comprise costs incurred during the internal development of products. Software development costs are capitalized when the technical feasibility of the software has been established and they are considered recoverable. These costs are mainly generated by Vivendi Games as part of games development and are amortized over 4 months starting when the product is placed on sale. Technical feasibility is determined individually for each product. Non-capitalized software development costs are immediately recorded in research and development costs.

**Cost of internal use software**

Direct internal and external costs incurred for the development of computer software for internal use, including web site development costs, are capitalized during the application development stage. Application development stage costs generally include software configuration, coding, installation and testing. Costs of significant upgrades and enhancements resulting in additional functionality are also capitalized. These capitalized costs mainly recognized at SFR are amortized over 4 years. Maintenance and minor upgrade and enhancement costs are expensed as incurred.

**1.3.5.4. Other intangible assets**

Intangible assets acquired separately are recorded at cost, and intangible assets acquired in connection with a business combination are recorded at their fair value at acquisition date. The historical cost model is applied to intangible assets subsequent to their initial recognition. Amortization is accrued for assets with a finite useful life. Useful life is reviewed at the end of each reporting period.

Music catalogs, trade names, subscribers' bases and market shares generated internally are not recognized as intangible assets.

**SFR and Maroc Telecom**

Licenses to operate telecom networks are recorded at historical cost or, when necessary, based upon the discounted value of deferred payments and amortized on a straight-line basis from the effective service start date over their estimated useful life until maturity. Licenses to operate in France are recognized in the amount of the fixed upfront fee paid upon the granting of the license. The variable fee which cannot reliably be determined (equal, in the case of the UMTS and GSM licenses to 1% of the revenues generated by the activity) is recorded as an expense when incurred.

Vivendi has chosen not to apply the option provided in IFRS 1 involving the remeasurement of certain intangible assets at their fair value as of January 1, 2004.

**1.3.5.5. Property, plant and equipment**

Property, plant and equipment are carried at historical cost less any accumulated depreciation and impairment losses. Historical cost

includes the acquisition cost or production cost as well as the costs directly attributable to moving an asset to its physical location and condition necessary for its use in operations. When property, plant and equipment include significant components with different useful lives, they are recorded and amortized separately. Amortization is computed using the straight-line method based on the estimated useful life of the assets. Useful life is reviewed at the end of each reporting period.

Property, plant and equipment mainly consist of the network equipment of SFR and Maroc Telecom, each part of which is amortized using the straight-line method, generally over 4 to 20 years. The useful life of the main parts is as follow:

- buildings: over 8 to 20 years;
- pylons: over 15 to 20 years;
- radio and transmission equipment: over 8 to 10 years;
- switch centers: 8 years;
- servers and hardware: over 4 to 8 years.

Assets financed by finance lease contracts are capitalized at the lower of the fair value of future minimum lease payments and market value and the related debt is recorded in "borrowings and other financial liabilities". These assets are amortized on a straight-line basis over their estimated useful life. Depreciation expenses on assets acquired under such leases are included in depreciation expenses.

Subsequent to initial recognition, the cost model is applied to property, plant and equipment, including investment real estate.

Vivendi has elected not to apply the option provided by IFRS 1, involving the remeasurement of certain property, plant and equipment at their fair value as of January 1, 2004.

On January 1, 2004, in accordance with the provisions of IFRS 1, Vivendi decided to apply IFRIC Interpretation 4 "Determining whether an arrangement contains a lease" to commercial contracts for the supply of the Canal+ Group satellite capacity (please refer to Note 29.1 "Contractual obligations and contingent assets and liabilities – off-balance sheet commercial commitments").

**1.3.5.6. Asset impairment**

When events or changes in the economic environment indicate a risk of impairment of goodwill, other intangible assets, property, plant and equipment or assets in progress, an impairment test is performed to determine whether the carrying amount of the asset or group of assets under consideration exceeds its or their recoverable amount. Recoverable amount is defined as the higher of an asset's fair value (less costs to sell) and its value in use. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset.

In addition, pursuant to IAS 36, asset impairment tests are subject to the following provisions:

- irrespective of whether there is any indication of impairment, goodwill, other indefinite life intangible assets as well as assets in progress are subject to an annual impairment test. This test is performed during the fourth quarter of each year. The recoverable value of each of the group's operating units is compared to the carrying amount of the corresponding assets (including goodwill);
- recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the group of assets;
- value in use is determined based on cash flow projections consistent with the most recent budget and business plan approved by executive management and presented to the Management Board. The applied discount rate reflects current assessments by the market of the time value of money and the risks specific to the asset or group of assets;
- fair value (less costs to sell) is the amount obtainable from the sale of the asset or group of assets in an arm's length transaction between knowledgeable and willing parties, less costs to sell. These values are determined based on market data (comparison with similar listed companies, value attributed in recent transactions and stock market prices) or, on discontinued future cash flows in the absence of reliable data based;
- if the recoverable amount is less than the carrying amount of an asset or group of assets, an impairment loss is recognized for the difference. In the case of a group of assets, this impairment loss is recorded first against goodwill;
- impairment losses recognized in respect of property, plant and equipment and intangible assets (other than goodwill) may be reversed in a later period if the recoverable amount becomes greater than the carrying amount, within the limit of impairment losses previously recognized. Impairment losses recognized in respect of goodwill cannot be reversed.

#### 1.3.5.7. Financial assets

Financial assets consist of financial assets measured at fair value and financial assets recognized at amortized cost. Financial assets are initially recognized at the fair value of the consideration given, for which the best evidence is the transaction price (including associated transaction costs, if any).

##### Financial assets at fair value

Financial assets at fair value include available-for-sale securities, derivative financial instruments with a positive value (please refer to Note 1.3.7 below) and other financial assets measured at fair value through profit or loss.

For financial assets actively traded in organized public markets, fair value is determined by reference to the published market price at the period end. For financial assets for which no published market price exists in an active market, fair value is estimated. As a last resort, the group values financial assets at historical cost, less any impairment losses, when a reliable estimate of fair value cannot be made using valuation techniques in the absence of an active market.

**Available-for-sale securities** consist of unconsolidated interests and other securities not qualifying for classification in the other financial asset categories described below. Unrealized gains and losses on available-for-sale securities are recognized in equity until the financial asset is sold, collected or removed from the statement of financial position in another way, or until there is objective evidence that the investment is impaired, at which time the accumulated gain or loss previously reported in equity is expensed.

**Other financial assets measured at fair value through profit or loss** mainly consist of assets held for trading which Vivendi intends to sell in the near term (primarily marketable securities). Unrealized gains and losses on these assets are recognized in other financial charges and income.

##### Financial assets at amortized cost

Financial assets at amortized cost consist of **loans and receivables** (primarily loans to affiliates and associates, current account advances to equity affiliates and unconsolidated interests, cash deposits, securitized loans and receivables and other loans and receivables and debtors) and **held-to-maturity investments** (financial assets with fixed or determinable payments and fixed maturity). At the end of each period, these assets are measured at amortized cost using the effective interest method. If there is objective evidence that an impairment loss has been incurred, the amount of this loss, measured as the difference between the asset's carrying amount and its recoverable amount (equal to the present value of estimated future cash flows discounted at the financial asset's original effective interest rate) is recognized in profit or loss. Impairment losses may be reversed if the recoverable amount of the asset subsequently increases.

#### 1.3.5.8. Inventories

Inventories are valued at the lower of cost and net realizable value. Cost comprises purchase costs, production costs and other supply and packaging costs. It is usually computed using the weighted average cost method. Net realizable value is the estimated selling price in the normal course of business, less estimated completion costs and estimated selling costs.

#### 1.3.5.9. Cash and cash equivalents

The "cash and cash equivalents" category consists of cash in banks, euro-denominated and international monetary UCITS, which satisfy the recommendation No. 2005-02 of the AMF, and other highly liquid investments with initial maturities of three months or less. Investments in securities, investments with initial maturities longer than three months without early exit possibilities and bank accounts subject to

restrictions (blocked accounts), other than restrictions due to regulations specific to a country or activity sector (exchange controls, etc.) are not presented as cash equivalents but as financial assets.

### 1.3.6. Assets held for sale and discontinued operations

A non-current asset or a group of assets and liabilities is held for sale when its carrying amount will be recovered principally through its divestiture and not by continuing utilization. To meet this definition, the asset must be available for immediate sale and divestiture must be highly probable. These assets and liabilities are recognized as assets held for sale and liabilities associated with assets held for sale, without offset. The related assets recorded as assets held for sale are valued at the lower of fair value, net of divestiture fees, and cost less accumulated depreciation and impairment losses, and are no longer depreciated.

An operation is qualified as discontinued when it represents a separate major line of business and the criteria for classification as an asset held for sale have been met or when Vivendi has sold the asset. Discontinued operations are presented on a single line of the statement of earnings for the periods reported, comprising the earnings after tax of discontinued operations until divestiture and the gain or loss after tax on sale or fair value measurement, less costs to sell the assets and liabilities making up the discontinued operations. In addition, the cash flows generated by discontinued operations are presented on one separate line of the statement of consolidated cash flows for the periods presented.

### 1.3.7. Financial liabilities

Long and short-term borrowings and other financial liabilities include:

- notes and facilities, as well as miscellaneous other borrowings (including treasury bills and debt related to finance leases) and related accrued interest;
- obligations arising in respect of commitments to purchase minority interests;
- the negative value of other derivative financial instruments. Derivatives with positive fair values are recorded as financial assets in the statement of financial position.

#### Borrowings

All borrowings are initially accounted for at the fair value of the consideration received, for which the best evidence is the transaction price, net of transaction costs directly attributable to the borrowing. Borrowings bearing interest are subsequently valued at amortized cost, applying the effective interest method. The effective interest rate is the internal yield rate that exactly discounts future cash flows through the term of the borrowing. In addition, where the borrowing comprises an embedded derivative (e.g., an exchangeable bond) or an equity instrument (e.g., a convertible bond), the amortized cost is calculated for the debt component only, after separation of the

embedded derivative or equity instrument (please refer to Note 1.3.8 on compound financial instruments). In the event of a change in expected future cash flows (e.g., early redemption not initially expected), the amortized cost is adjusted against earnings in order to reflect the value of the new expected cash flows, discounted at the initial effective interest rate.

#### Commitments to purchase minority interests

Vivendi has granted commitments to purchase minority interests to certain shareholders of its fully consolidated subsidiaries. These purchase commitments may be optional (e.g., put option) or firm (e.g., forward purchase contracts). Pending an IFRIC interpretation or a specific IFRS, the following accounting treatment has been adopted provisionally in accordance with prevailing IFRS:

- on initial recognition, the commitment to purchase minority interests is recognized as a financial liability for the present value of the purchase consideration under the put option or forward purchase contract, mainly offset through minority interests and the balance through goodwill;
- subsequent changes in the value of the commitment are recognized as a financial liability by an adjustment to goodwill;
- where applicable, at the time of initial recognition or the recognition of subsequent changes, any expected loss on purchase is recognized in other financial charges and income; and
- on maturity of the commitment, if the minority interests are not purchased, the entries previously recognized are reversed; if the minority interests are purchased, the amount recognized in financial liabilities is reversed, offset by the cash outflow relating to the purchase of the minority interests.

#### Derivative financial instruments

Vivendi uses derivative financial instruments to manage and reduce its exposure to fluctuations in interest rates, foreign currency exchange rates and stock prices. All instruments are either listed on organized markets or traded over the counter with highly-rated counterparties. These instruments include interest rate and currency swaps and forward exchange contracts. They also include stock options used to hedge debt where principal repayment terms are based on the value of Vivendi or other stock, as well as Vivendi stock purchase option plans granted to executives and employees. All derivative financial instruments are used for hedging purposes.

When these contracts qualify as hedges for accounting purposes, the gains and losses arising on these contracts are offset in earnings against the gains and losses relating to the hedged item. When the derivative financial instrument hedges exposures to fluctuations in the fair value of an asset or a liability recognized in the statement of financial position or off-balance sheet, it is a fair value hedge. The instrument is remeasured at fair value through earnings, with the gains or losses arising on remeasurement of the hedged portion of the hedged item offset on the same line of the income statement. When

the derivative financial instrument hedges cash flows, it is a cash flow hedge. The hedging instrument is remeasured at fair value and the portion of the gain or loss that is determined to be an effective hedge is recognized through equity, whereas its ineffective portion is recognized through earnings. When the hedged item is realized, accumulated gains and losses recognized in equity are released to the income statement and recorded on the same line as the hedged item. When the derivative financial instrument hedges fluctuation of a net investment in a foreign operation, it is recognized as a cash flow hedge. Derivative financial instruments which do not qualify as hedges for accounting purposes are remeasured at fair value and resulting gains and losses are recognized directly in earnings.

Furthermore, income and expenses relating to foreign currency instruments used to hedge highly probable budget exposures and firm commitments, contracted pursuant to the acquisition of editorial content rights (sports, audiovisual, film rights, etc.) are recognized in EBIT. In all other cases, gains and losses arising on the fair value remeasurement of instruments are recognized in financial income and expenses.

### 1.3.8. Compound financial instruments

Certain financial instruments comprise a liability component and an equity component. This is notably the case with the notes mandatorily redeemable for new shares of Vivendi issued in November 2002.

The various components of these instruments are accounted for in equity and borrowings and other financial liabilities according to their classification, as defined in IAS 32 "Financial Instruments: Disclosure and Presentation".

The component classified as borrowings and other financial liabilities is valued at issuance at the present value (taking into account the credit risk at issuance date) of the future cash flows (including interest and repayment of the nominal value) of an instrument with the same characteristics (maturity and cash flows) but without any option for conversion or redemption in shares.

The component classified as equity is defined as the difference between the fair value of the instrument and the fair value of the financial liability component.

### 1.3.9. Other liabilities

#### Provisions

Provisions are recognized when at the end of the reporting period, Vivendi has a legal obligation (legal, regulatory or contractual) or a constructive obligation, as a result of past events, and it is probable that an outflow of resources (for no consideration) will be required to settle the obligation, and the obligation can be reliably estimated. Where the effect of the time value of money is material, provisions are determined by discounting expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time

value of money. If no reliable estimate can be made of the amount of the obligation, no provision is recorded and a disclosure is made in the Notes to the Consolidated Financial Statements.

#### Employee benefit plans

In accordance with the laws and practices of each country in which it operates, Vivendi participates in, or maintains, employee benefit plans providing retirement pensions, post-retirement health care, life insurance and post-employment benefits, principally severance, to eligible employees, retirees and their beneficiaries. Retirement pensions are provided for substantially all employees through defined contribution plans, which are integrated with local social security and multi-employer plans, or defined benefit plans which are generally managed *via* group pension plans. Vivendi's funding policy is consistent with applicable government funding requirements and regulations of each country in which the group maintains a pension plan. Defined benefit plans may be funded with investments in various instruments such as insurance contracts and equity and debt investment securities, but not holdings in Vivendi shares or debt instruments. Contributions to defined contribution and multi-employer plans are expensed during the year.

For defined benefit plans, pension expenses are determined by independent actuaries using the projected unit credit method. This method is based on assumptions updated annually, which include the probability of employees remaining with Vivendi until retirement, expected changes in future compensation and an appropriate discount rate for each country in which Vivendi maintain a pension plan. The assumptions adopted in 2005 and 2006, and the means of determining these assumptions, are presented in Note 20 "Employee benefits". In this way, the group recognizes pension-related assets and liabilities and the related net expense over the estimated term of service of Vivendi's employees.

Furthermore, Vivendi applies the following rules:

- balance sheet liabilities represent the difference between the actuarial value of the related benefits and the fair value of any associated plan assets, net of prior services costs and unrecognized actuarial gains and losses which remain off-balance sheet in accordance with the "corridor method";
- actuarial gains and losses are recognized through profit and loss for the year using the "corridor method": actuarial gains and losses in excess of 10% of the greater of the obligation and the fair value of plan assets are divided by the average remaining service period of active employees.

Where financial assets exceed recognized obligations, a financial asset is recognized up to the maximum cumulative amount of net actuarial losses, unrecognized past service costs and the present value of future redemptions and the expected decrease in future contributions.

Some other post-employment benefits, such as life insurance and medical coverage (mainly in the US) are subject to provisions which are assessed through an actuarial computation comparable to the method used for pension provisions.

On January 1, 2004, in accordance with the provisions of IFRS 1, Vivendi decided to record unrecognized actuarial gains and losses against consolidated equity.

### 1.3.10. Deferred taxes

Differences existing at the closing date between the tax base value of assets and liabilities and their carrying amount in the consolidated statement of financial position give rise to temporary differences. Pursuant to the liability method, these temporary differences result in the accounting of:

- deferred tax assets, when the tax base value is greater than the carrying amount (expected future tax saving); and
- deferred tax liabilities, when the tax base value is lower than the carrying amount (expected future tax expense).

Deferred tax assets and liabilities are measured at the expected tax rates for the year during which the asset will be realized or the liability settled, based on tax rates (and tax regulations) enacted or substantially enacted by the closing date. They are reviewed at the end of each year, in line with any changes in applicable tax rates.

Deferred tax assets are recognized for all deductible temporary differences, tax losses carry-forward and unused tax credits, insofar as it is probable that a taxable profit will be available, or when a current tax liability exists, to make use of those deductible temporary differences, tax loss carry-forwards and unused tax credits, except where the deferred tax asset associated with the deductible temporary difference is generated by initial recognition of an asset or liability in a transaction which is not a business combination, and that, at the transaction date, does not impact neither earnings, nor tax income or loss.

For deductible temporary differences arising from investments in subsidiaries, joint ventures and other associated entities, deferred tax assets are recorded to the extent that it is probable that the temporary difference will reverse in the foreseeable future, and that taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred tax assets is reviewed at each closing date, and revalued or reduced to the extent that it is more or less probable that a taxable profit will be available to allow the deferred tax asset to be utilized. When assessing the probability of a taxable profit being available, account is notably taken of prior year results, forecast future results, non-recurring items unlikely to occur in the future and the tax strategy. As such, the assessment of the group's ability to utilize tax losses carried forward is to a large extent judgment-based. If the future taxable results of the group prove significantly

different to those expected, the group will be obliged to increase or decrease the carrying amount of deferred tax assets, with a potentially material impact on the statement of financial position and statement of earnings of the group.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability results from impairment of goodwill losses not deductible for tax purposes, or initial recognition of an asset or liability in a transaction which is not a business combination, and that, at the transaction date, does not impact neither earnings, nor tax income or loss.

For taxable temporary differences arising from investments in subsidiaries, joint ventures and other associated entities, deferred tax liabilities are recorded except to the extent that both of the following conditions are satisfied: the parent, investor or venturer is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

Current tax and deferred tax shall be charged or credited directly to equity, and not earnings, if the tax relates to items that are credited or charged directly to equity.

### 1.3.11. Share-based compensation

With the aim of aligning the interest of executive management and employees with shareholders' interest by providing an additional incentive to improve company performance and increase the share price on a long-term basis, Vivendi maintains several share-based compensation plans (group savings plan and restricted stocks) or other equity instruments based on the value of the Vivendi share price (stock purchase plans – until first semester 2002 – and stock option plans), which are settled either in equity instruments or cash. These instruments become exercisable according to customary vesting periods (three years in the case of stock options and two years in the case of restricted stock units) and may only be exercised by management and employees who are active employees of the group, with certain exceptions.

The cost of share-based compensation payments is allocated to each business unit in accordance with the number of share-based instruments (stock options, or, in the case of group savings plans, subscriptions), granted to their respective management and employees.

#### Stock Option and Restricted Stock plans granted

In accordance with IFRS 2, share-based compensation is recognized as a personnel cost at the fair value of the equity instruments granted. Vivendi uses a binomial model to assess the fair value of such equity instruments. However, depending on whether the equity instruments granted are equity-settled through the issuance of Vivendi shares or cash-settled, the accounting treatment differs:

- if the equity instrument is settled through the issuance of Vivendi shares, the fair value of the equity instruments granted is estimated

and fixed at the grant date and recorded over the vesting period based on the characteristics of the equity instruments. In addition, the expense is recorded against equity;

- if the equity instrument is settled in cash, the fair value of the equity instruments granted is estimated as of the grant date and is re-estimated at each reporting date and the expense is adjusted pro rata taking account the vested rights at the relevant reporting date. The expense is amortized over the vesting period based on the characteristics of the equity instruments. The expense is recorded as a non-current provision.

The dilutive effect of stock options and restricted stocks settled through the issuance of Vivendi shares granted to management and employees which are in the process of vesting, is reflected in the calculation of diluted earnings per share.

In accordance with the transitional provisions of IFRS 1 with respect to IFRS 2, the group elected for retrospective application of IFRS 2 as of January 1, 2004. Consequently, all share-based payment transactions for which rights remained to be vested as of January 1, 2004 are now recognized.

#### Stock purchase plans

Vivendi also maintains employee stock purchase plans (group savings plans) that allow substantially all of its full-time employees and retirees to purchase Vivendi shares through capital increases reserved to them. Shares purchased by employees under these plans are subject to certain restrictions relating to their sale or transfer. The related expenses are recorded as a personnel cost against equity at the subscription date and represent the difference between the subscription price of the shares (with a maximum 20% discount under French Law) and the share price on the date of grant.

### 1.4. Contractual Obligations and Contingent Assets and Liabilities

Once a year, Vivendi and its subsidiaries prepare detailed records on all contractual obligations, commercial and financial commitments and contingent obligations, for which it is jointly and severally liable. These detailed records are updated by the relevant departments and reviewed by senior management on a regular basis. In order to ensure completeness, accuracy and consistency of these records, some dedicated internal control procedures are performed, including (but not limited to):

- the review of the minutes of shareholders' meetings, meetings of the Management Board and of the Supervisory Board and meetings of the Supervisory Board committees, for matters such as contracts, litigation, and authorization of asset acquisitions or divestitures;
- the review with banks and financial institutions of pledges and guarantees;
- the review with internal and/or external legal counsels of pending litigation, claims (in dispute) and environmental matters as well as related assessments for unrecorded contingencies;
- the review of tax examiner's reports, and as the case may be, notices of assessments and tax expense analyses for prior years;
- the review with the risk management department and insurance agents and brokers with which the group contracted, of insurance coverage for unrecorded contingencies;
- the review of related party transactions for guarantees and other given or received commitments; and
- more generally, the review of the main contracts and agreements.

### 1.5. New IFRS

#### IFRS 7 "Financial instruments: disclosures" and Amendment to IAS 1 "Presentation of financial statements: capital disclosures"

On August 18, 2005, the IASB issued IFRS 7 "Financial instruments: disclosures" and an amendment to IAS 1 "Presentation of financial statements: capital disclosures".

The objective of IFRS 7 is to bring together all disclosures relating to financial instruments in a new standard, after having redefined those disclosures currently required by IAS 32 – Financial instruments: disclosure and presentation, and IAS 39 – Financial instruments: recognition and measurement. Amendment to IAS 1 adds requirements for qualitative disclosures on the objectives, policies and processes of operations impacting capital and for quantitative data on what elements compose capital. IFRS 7 and Amendment to IAS 1, adopted by the EU on January 11, 2006 and published in the Official Journal of the European Union on January 27, 2006, shall apply to financial reporting periods from January 1, 2007.

Vivendi has decided not to apply IFRS 7 and the Amendment to IAS 1 to financial reporting periods prior to January 1, 2007 and do not anticipate its application after such date to have any material effect to the Notes to the Consolidated Financial Statements.

#### Accounting standards and interpretations that have been published but are not yet effective

The IFRS/IFRIC accounting standards and interpretations that have been issued by the IASB/IFRIC and that are not yet effective, but which have been applied in anticipation are detailed in the Note 1.1. Compliance with accounting standards.

Among other IFRS/IFRIC accounting standards and interpretations issued by the IASB/IFRIC at the date of approval of these consolidated financial statements but that are not yet effective and for which Vivendi has not elected an earlier application, the main ones which may affect Vivendi are as follows:

- IFRS 8 standard – Operating Segments, for segment data, shall apply to periods beginning on or after January 1, 2009; and

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2 Changes in the Scope of Consolidation for the Years Ended December 31, 2006, 2005

- IFRIC 12 interpretation – Service Concession Arrangements, applies to public-to-private service concession arrangements and shall apply to periods beginning on or after January 1, 2008.

Vivendi is currently assessing the potential impacts that application of these standards and interpretations will have on the statement of earnings, the statement of financial position, net cash flows and notes to the financial statements.

## NOTE 2 CHANGES IN THE SCOPE OF CONSOLIDATION FOR THE YEARS ENDED DECEMBER 31, 2006, 2005

### 2.1. Combination of the Canal+ France and TPS Pay-TV Activities in France

On January 6, 2006, Vivendi, TF1 and M6 entered into an agreement (the "TF1-M6 Agreement") setting forth the terms and conditions of the proposed merger of (i) Télévision Par Satellite SNC (TPS) and its direct and indirect subsidiaries and (ii) the pay-TV publishing and service distribution activities of Groupe Canal+ in France (including overseas departments and territories) and other Francophone countries, into Canal+ France. TF1 and M6 would own an aggregate of 15% (9.9% and 5.1%, respectively) of Canal+ France which would be under the exclusive control of Vivendi. The TF1-M6 Agreement stipulated that the merger transactions would be achieved on a cash-free, debt-free basis with a zero "net cash position" (contractual aggregate determined on August 31, 2006).

On March 14, 2006, Lagardère, Vivendi and Groupe Canal+ entered into an investment agreement (the "Lagardère Agreement") mainly providing for the acquisition of TPS by Vivendi and Groupe Canal+. Under the terms of this agreement, Lagardère Active undertook, subject to certain conditions precedent, to acquire a 20% interest in Canal+ France by (i) transferring its 34% ownership interest in CanalSatellite (without dilution of the shareholdings of TF1 and M6) and (ii) acquiring Canal+ France shares from Groupe Canal+ for €525 million in cash, less 34% of CanalSatellite's "net cash position" and 16.7% of the net available cash of GIE Numérique, plus 20% of the "net cash position" of Canal+ France.

The scope of Canal+ France's assets principally includes 100% ownership of CanalSatellite, Canal+ Distribution, MultiThématiques, Media Overseas, GIE Numérique and TPS, and 49% ownership of Canal+ S.A. The assets of Groupe Canal+ held outside Canal+ France are StudioCanal, Cyfra+, Canal+ Régie and i>Télé.

On August 30, 2006, the merger was authorized, pursuant to the merger control regulations, by a decision of the French Minister of the Economy, Finance and Industry, subject to Vivendi and Groupe Canal+ complying with certain undertakings. Without calling into question the pay-TV economic model, or the industrial logic behind the transaction and the benefits to the consumer, these commitments satisfy, more specifically, the following objectives:

- facilitate the access of television and video-on-demand (VOD) operators to rights on attractive audiovisual content and in particular French and US films and sporting events. To this end, the Canal+

Group undertakes, notably, to restrict the term of future framework agreements with major US studios to a maximum of three years, not to seek exclusive VOD rights, to guarantee non-discriminatory access to the StudioCanal catalogue, to restrict the proportion of films taken from this catalogue in the acquisition of films by the future entity and to cease soliciting combined offers for different categories of cinematographic and sporting rights.

In addition, the Canal+ Group undertakes to retrocede, within the framework of competition requirements, free-to-air audiovisuals rights to TV series and sporting events that the new entity may hold and does not use;

- make available to all pay-TV distributors who so wish several high-quality channels, enabling them to develop attractive products. Third parties will be provided with access to TPS Star, three cinema channels (CinéStar, CinéCulte, CinéToile), Sport+ and the children's channels Piwi and Teletoon. In addition, Canal+ will be available in digital (self distribution) to all operators wishing to include this channel in their product range;
- enable French-language independent licensed channels to be included in the satellite offerings of the new group. The current proportion of theme channels in the Group's offerings that are neither controlled by the Canal+ Group or one of the minority shareholders in the new entity (Lagardère, TF1, M6), will be retained at the current level as a minimum, including in the basic offering. This guarantee applies in terms of both the number of channels and revenue.

These commitments are given by Vivendi and the Canal+ Group for a maximum period of six years, with the exception of those commitments concerning the availability of channels and VOD, that cannot exceed five years.

Below is a description of the preliminary transactions to the merger that took place in 2006 with their impact on the Consolidated Financial Statements for the Year Ended December 31, 2006:

- on January 6, 2006, Vivendi paid a €150 million advance to TF1 and M6 recognized as a short-term financial asset. This advance was repaid as well as corresponding interests on January 4, 2007;
- on November 30, 2006, Groupe Canal+ transferred to Canal+ France all of its assets and activities of pay-TV publishing and distribution in France (including overseas departments and territories) and other Francophone countries (with the exception principally of Media

Overseas which had been previously sold to Canal+ France). The recapitalizations provided for in the TF1-M6 Agreement to reduce the “net cash position” of TPS and Canal+ France to zero were also carried out on this date by TF1 and M6, on the one hand, and by Groupe Canal+ on the other;

- on December 19, 2006, Groupe Canal+ transferred 9.82% of the share capital of Canal+ France (which, at such date, excluded TPS and included 66% of CanalSatellite) to Lagardère Active for a total consideration of €469 million, subject to the satisfaction by January 15, 2007 of certain conditions precedent, including the completion of the contribution to Canal+ France of 100% of TPS by TF1 and M6 and of 34% of CanalSatellite by Lagardère. Pursuant to the Lagardère Agreement, the amount paid corresponded to the price of €525 million on a cash-free-debt-free basis, less 34% of the “net cash position” of CanalSatellite and less 16.7% of the available net cash of GIE Numérique, plus 20% of the “net cash position” of Canal+ France. In 2006, this disposal generated a gain of €128 million. In order to guarantee repayment of this sum by Groupe Canal+ to Lagardère if conditions precedent were not satisfied, a stand-alone, first-demand bank guarantee was set up by a financial institution in favor of Lagardère Active at the request of Vivendi. As part of the arrangements for setting up this guarantee, Vivendi delivered a cash deposit for the same amount and duration to guarantee Vivendi’s obligation to repay the financial institution the amount it would pay Lagardère Active in the event that the first-demand guarantee were to be called. The guarantee and the cash deposit were terminated

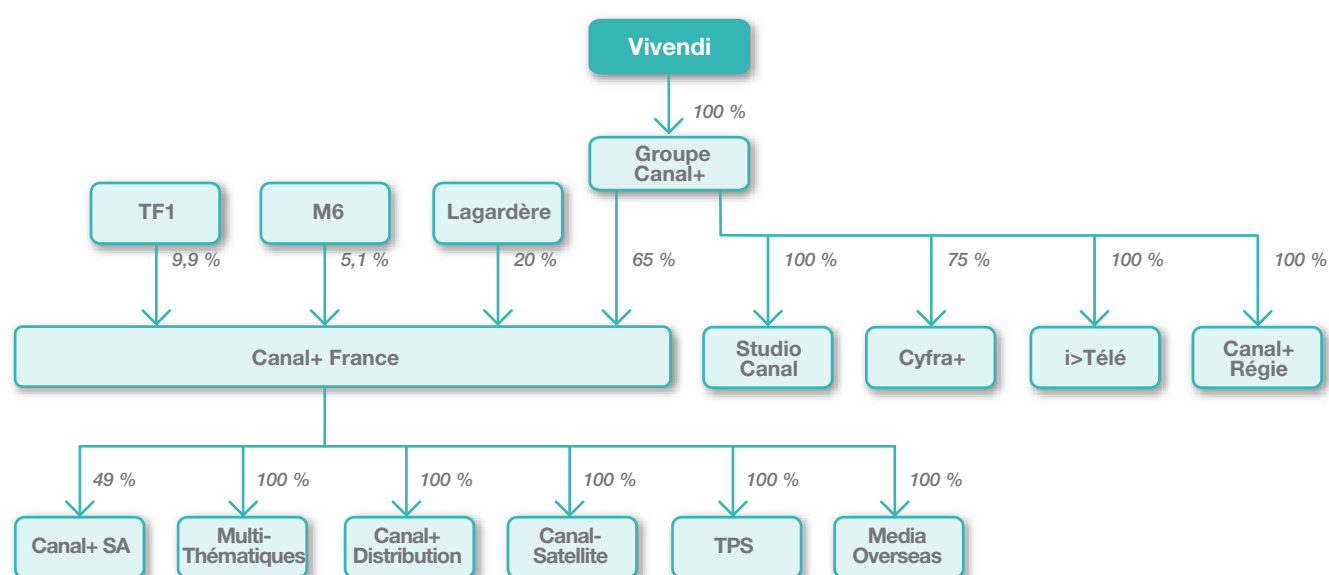
on January 4, 2007. As of December 31, 2006, the cash deposit is recognized as short-term financial assets and booked as a reduction of Financial Net Debt, considering its maturity date of January 4, 2007.

The merger was completed on January 4, 2007 as follows:

- TF1 and M6 transferred to Canal+ France 100% of the share capital of TPS Gestion, a company which wholly-owns TPS. These contributions of assets were valued at €900 million and were paid for in Canal+ France shares. Upon completion of these asset transfers, TF1 and M6 held a 9.9% and 5.1% interest in Canal+ France, respectively;
- Lagardère Active transferred to Canal+ France its 24% equity interest in CanalSatellite and 100% of its equity interest in Lagardère Television Holdings SA, which owns 10% of CanalSatellite’s share capital. These contributions of assets were valued at €891 million and were paid for in Canal+ France shares. Upon completion of these asset transfers and considering the Canal+ France shares acquired on December 19, 2006, Lagardère Active held a 20% interest in the share capital of Canal+ France;

TPS was included in the scope of consolidation of Canal+ France (fully consolidated) on January 4, 2007, on which date Vivendi became in a position to exercise its shareholders’ rights that gave it the exclusive control of TPS.

Following these transactions, the organizational chart of the new group is as follows:



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2 Changes in the Scope of Consolidation for the Years Ended December 31, 2006, 2005

**Effect of the Canal+ and TPS combination in Consolidated Financial Statements as of March 31, 2007**

■ acquisition of 85% of TPS from TF1 and M6, in exchange for 15% of Canal+ France (including the additional investment in CanalSatellite, purchased at the same time from Lagardère, please see below). The cost of this business combination cost will be determined based on the fair value of the TPS shares contributed by TF1 and M6 (€900 million for 100% of TPS), plus the costs directly attributable to the acquisition. In accordance with the accounting standards applicable to business combinations, Canal+ France is currently performing an initial purchase price allocation, in order to determine the fair values, of identifiable assets acquired and liabilities incurred or assumed, based on analyses and expert appraisals performed by Canal+ France. The definitive allocation, to be finalized within the 12-month period prescribed by accounting standards, may differ significantly from the initial allocation. At this stage, the following acquired assets, assumed liabilities and contingent liabilities have been identified:

- certain intangible assets identified: market share and TPS trade name. The fair value of such intangible assets will be determined using the “Income Approach” method based on the present value of the estimated future cash flows:
- the fair value of the market share will be estimated using the “Income Approach”, on the basis of the discounted value of expected revenues attributable to existing customers at the acquisition date. The present value of the estimated future cash flows will be calculated using a discount rate of return that considers the relative risk of achieving these cash-flows and the time value of money. This discount rate should be equal to the rate used by Vivendi for the purpose of evaluating other similar businesses. This asset is considered to be an intangible asset with a finite useful life and as such should be amortized over 3 to 5 years, based on the churn rate used for valuation purposes,
- the TPS trade name will be valued based on the relief from royalty method, which involves assessing the royalties that would have been paid to third parties for the use of the trade name if Vivendi had not owned it. The present value of the estimated future cash flows will be calculated using a discount rate of return equal to the rate used by Vivendi for the purpose of evaluating other similar businesses of Group Canal+. This asset will be considered to be an intangible asset with an indefinite useful life and as such should not be amortized;
- liabilities incurred primarily as a result of this business combination and mainly relating to “broadcasting rights” as well as the fair value of certain liabilities and long-term commitments;
- deferred taxes that are generated by the assigned values and tax basis of the assets and liabilities recognized in the purchase accounting for this business combination, which also takes into account the tax benefit (deferred tax asset) arising from TPS’s tax losses and some temporary differences that were not recognized

by the acquiree before the business combination, qualifies for recognition as an identifiable asset;

- the excess of the purchase price over Canal+ France’s interest in the net fair value of the identifiable assets, liabilities, and contingent liabilities recognized in the preliminary purchase price allocation will be recognized as goodwill as of the acquisition date. Considering the preliminary allocation described above and as part of the process of finalizing the purchase price allocation during the 12-month period allowed under IFRS 3, goodwill is estimated at approximately €1 billion for the purchase of an 85% interest in TPS.
- the acquisition by Canal+ France from Lagardère of 80% of its 34% interest in CanalSat, in exchange for 10.18% of Canal+ France and 20% of TPS, that should generate a dilution gain estimated at €239 million.

**Commitments granted by Vivendi and Groupe Canal+ to TF1, M6 and Lagardère**

## ■ TF1’s and M6’s Put Options

Each TF1 and M6 were granted by Vivendi a put option on their shares in Canal+ France. This option is exercisable in February 2010 at fair market value, to be determined by an expert, with a floor of €1,130 million for 15% of Canal+ France (corresponding to a valuation of €7.5 billion for 100% of Canal+ France).

## ■ Lagardère’s Call Option

Pursuant to the Lagardère Agreement, Lagardère was granted a call option by Groupe Canal+ pursuant to which Lagardère may increase to 34% the level of its equity interest in Canal+ France. The option is exercisable in October 2009 at fair market value, to be determined by an expert (which exercise price will be the same as the exercise price of the put options held by TF1 and M6 if one and/or the other is exercised) with a floor of €1,050 million for 14% of Canal+ France (corresponding to a valuation of €7.5 billion for 100% of Canal+ France). If Lagardère decides to exercise such call option, the transaction would take place following the exercise (or failing that, the lapse) of the put options held by TF1 and M6.

Finally, Vivendi holds shareholders’ rights which provide exclusive control on Canal+ France. In return, Vivendi granted to the minority shareholders some protective rights on their investment.

## ■ Shareholders’ Agreement between Vivendi, TF1 and M6, dated as of January 4, 2007

Pursuant to Shareholders’ Agreement mentioned above, TF1 and M6 were granted a tag-along right in the event of the transfer of the exclusive control of Canal+ France by Vivendi/Groupe Canal+, together with a priority right to sell their stakes on the market in the event of a public offering of Canal+ France’s shares. TF1 and M6 are not represented on the supervisory board of Canal+ France and do not have rights of any kind in respect of the management of Canal+

France. Vivendi has a pre-emptive right over all the shares owned by TF1 and M6.

■ **Strategic Agreements between Vivendi, Groupe Canal+, Lagardère and Lagardère Active**

The Canalsatellite agreement entered into between Lagardère and Groupe Canal+ in 2000 terminated on January 4, 2007.

Pursuant to the Canal+ France strategic agreements entered into on January 4, 2007, Lagardère was granted rights to preserve its economic interest in Canal+ France, which rights vary according to the level of its ownership in Canal+ France. Under no circumstances will Lagardère have any joint control of Canal+ France, including in the event that Lagardère were to exercise its call option. The main provisions of these strategic agreements are as follows:

- the Chairman and all members of the management board of Canal+ France will be appointed by Groupe Canal+. Lagardère will be represented by two out of the eleven members of the supervisory board. This number will be increased to three in the event of an increase to a level of 34% of Lagardère's ownership in Canal+ France;
- Lagardère has certain veto rights over Canal+ France and, in certain cases, over its major subsidiaries (including in the event of a change in the statutes, a major and lasting change in the business, its transformation into a company in which the partners have unlimited liability, a single investment of over a third of revenues, a public offering of the company's shares, in certain circumstances the entry of a third party as a shareholder, and, so long as Lagardère owns 34% of Canal+ France's capital, borrowings over the thresholds of 50% and 90% of revenues as a function of the margin of earnings from operations (EFO<sup>(1)</sup>), and certain other rights (including a tag-along right, an anti-dilution right, certain bidding rights in the event of the sale of Canal+ France) intended to protect its economic interest. Vivendi has a pre-emptive right in the event of a sale of Lagardère's equity interest;
- between 2008 and 2014, Lagardère will have a liquidity right exercisable between March 15<sup>th</sup> and April 15<sup>th</sup> of each calendar year, provided, however, that Lagardère owns at least 10% but no more than 20% of the capital and voting rights of Canal+ France, and provided further that it has waived its right to exercise its call option (if such option has not lapsed) enabling it to own 34% of the capital of Canal+ France. Pursuant to this liquidity right, Lagardère will be able to request the public offering of Canal+ France shares. In this event Vivendi/Groupe Canal+ has the right to acquire all of Lagardère's equity interest;
- the financing of Canal+ France has been structured through a mechanism which includes shareholders' loans and the delivery

of guarantees with respect to Canal+ France's obligations. Pursuant to this mechanism, Lagardère has the option to participate in such financing and guarantee arrangements pro rata its level of ownership in the share capital of the company. With effect from 2011, after the reimbursement of the shareholder loans to which Lagardère has not contributed in proportion of its equity interest, and subject to compliance with certain indebtedness ratios, Canal+ France will distribute a dividend equal to its available cash flow not necessary for the financing of its operations provided that Lagardère owns at least 34% of the share capital of Canal+ France.

- In addition, Vivendi granted counter-guarantees with regards to TF1 and M6's commitments:
  - Vivendi has undertaken to assume the commitments and guarantees made by TF1 and M6 in connection with TPS's liabilities, upon completion of the merger. This commitment took the form of a counter guarantee which was given by Vivendi on January 4, 2007 in favor of TF1 and M6.
  - Vivendi has also guaranteed TF1's commitments and guarantees in connection with an output arrangement between TF1 and The Weinstein Company. Such arrangement was transferred to TPS on January 4, 2007.
  - These counter guarantees, which represent an amount of €300 million, are intended to remain in place so long as TPS' obligations guaranteed by TF1 and M6 remain outstanding.

## 2.2. Purchase of the 7.7% Stake held by Matsushita Electric Industrial Co, Ltd (MEI) in Universal Studios Holding on February 7, 2006

On February 7, 2006, Vivendi finalized the acquisition of the approximate 7.7% minority interest which Matsushita Electric Industrial (MEI) held in Vivendi's subsidiary, Universal Studios Holding I Corp. (USHI) for a purchase price of \$1,154 million. USHI was a holding company located in the US, 92.3% owned by Vivendi and its assets consisted of Vivendi's main investments in the US (excluding Vivendi Games): 100% of Universal Music Group (UMG), and 20% of NBC Universal (NBCU). USHI was liquidated in 2006. Due to this transaction, Vivendi increased its control and interest in UMG from 92.3% to 100% and its interest in NBCU from 18.5% to 20%.

The excess of the acquisition cost (€964 million) over the carrying amount of minority interests acquired (€832 million) was recognized as goodwill for €67 million, allocated to UMG and as investment in equity affiliate NBC Universal for €65 million.

(1) EFO (Earnings From Operations as defined and used by Vivendi until June 30, 2006, please refer to Section 1.2.3 "Change in presentation") consists of gross margin, selling, general and administrative expenses, costs related to employee benefit plan excluding the change in financial component, costs related to share base payments, restructuring costs, the change in currency hedging instruments related to operating activities and gain and loss on the divestments of property, plant and equipment and intangible assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2 Changes in the Scope of Consolidation for the Years Ended December 31, 2006, 2005

**2.3. Increase in SFR's Stake in Neuf Cegetel**

In 2006, pursuant to the exercise of its pre-emptive rights, SFR increased its stake in Neuf Cegetel from 28.2% to 40.5% for a total investment amounting to € 626 million. Neuf Cegetel shares have been listed on the Eurolist of Euronext Paris SA since October 24, 2006. The total investment for the period was made as follows:

- in May 2006, SFR increased its stake in Neuf Cegetel from 28.2% to 34.9% for a purchase price of €276 million;
- in September 2006, SFR further increased its stake in Neuf Cegetel from 34.9% to 40.5% for a purchase price of €238 million;
- prior to the Neuf Cegetel IPO, SFR purchased approximately 5 million of Neuf Cegetel shares from the Louis Dreyfus Group by means of an over-the-counter transaction at the IPO share price, representing a total purchase price of €112 million. This enabled SFR to maintain its percentage ownership interest in Neuf Cegetel after completion of Neuf Cegetel share capital increases as part of the IPO;
- following these transactions, SFR became the predominant shareholder with a 40.5% ownership interest with four members out of the ten board members. Louis Dreyfus Group holds a 29.6% ownership and is represented by three out of the ten board members;
- in addition, effective as of the date of the IPO, SFR and the Louis Dreyfus Group entered into a new shareholders' agreement. This agreement did not affect the governance of Neuf Cegetel which is consolidated by SFR using the equity method. Please refer to Note 29.5 "Shareholder agreements".

**2.4. Stake in PTC****2.4.1. Situation at the end of 2006**

The legal uncertainty surrounding the ownership of Telco's stake in Polska Telefonica Cyfrowa (PTC) a Polish mobile telecom company, due to the legal disputes involving Elektrim Telekomunikacja (Telco), Vivendi, Deutsche Telekom (DT) and Elektrim SA (Elektrim), prevents Telco from exercising joint control over PTC, as provided in the bylaws of PTC. As a result of this situation, Vivendi has not consolidated its stake in PTC.

In addition, the courts have rendered several decisions that were unfavorable to Telco (notably the decision of the Warsaw Court of Appeal on March 29, 2006, followed by another decision of the Warsaw Court of Appeal on June 21, 2006 which cancelled the registration of Telco as a PTC shareholder on the Trade and Companies Registry, and the decision on July 13, 2006 of the Trade and Companies Registry to re-instate Elektrim as a PTC shareholder). As a result, Vivendi has recognized a loss of €496 million on the PTC shares. Vivendi purchased its stake in Telco/PTC between 1999 and 2005 (see Note 2.4.2 below) for an aggregated amount of €2,011 million (in share capital subscriptions and advances, including capitalized interests). Please refer to Note 15.1 "Changes in available-for-sale securities".

Recently, several courts have rendered decisions that were favorable to Telco. In particular, on December 18, 2006, the Austrian Supreme Court rejected the request for annulment of the arbitration award rendered in Vienna on November 26, 2004, on the basis that Telco was not a party to that arbitration and that this arbitration award could not affect Telco's rights with respect to the PTC shares. On January 18, 2007, the Polish Supreme Court overturned the decision of the Warsaw Court of Appeal of March 29, 2006 and ordered that the case be reheard by the court of first instance. Consequently, Vivendi and Telco appealed for the registration of Telco as a shareholder of PTC.

Moreover, Vivendi continues legal proceedings, particularly for compensatory damages, the outcome of which remains uncertain. Please refer to Note 30 "Litigations" of the notes to the Consolidated Financial Statements for the Year Ended December 31, 2006 for a description of the main legal proceedings involving Telco, Vivendi, DT and Elektrim, especially regarding Telco's ownership stake in PTC, updated on February 27, 2007, the date of the Management Board meeting which approved the financial statements for the Year Ended December 31, 2006.

**2.4.2. Events occurring prior to 2006****Initial investment in Telco/PTC between 1999 and 2001**

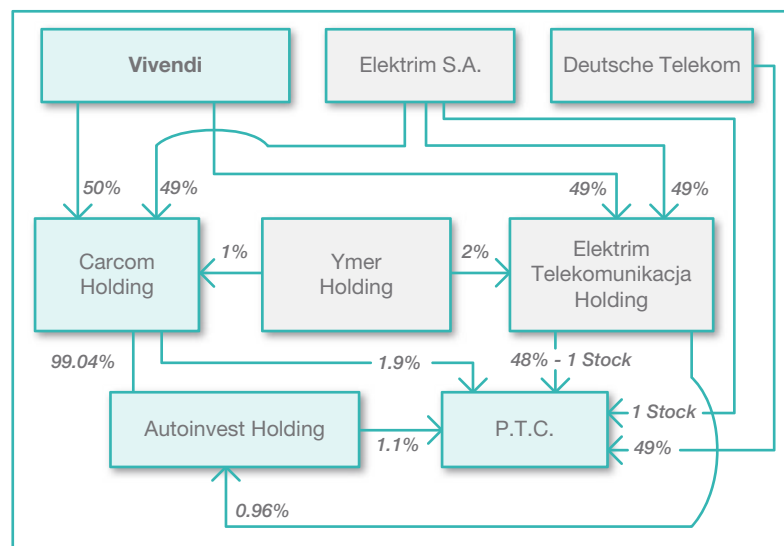
In December 1999, Vivendi purchased a 49% stake in the share capital of Telco, alongside Elektrim which held the remaining 51% interest until September 3, 2001. On September 3, 2001, Vivendi and Elektrim entered into an agreement concerning the shareholding structure and corporate governance of Telco. On that same date, Ymer Finance (Ymer), a company incorporated under Luxembourg law, acquired a 2% stake in Telco from Elektrim. In parallel, Vivendi acquired non-voting shares in LBI Fund, an investment company operating as a mutual fund, which provided Ymer with the financing necessary to purchase its stake in Telco. Via the mechanism used to determine the net asset value of its shares in the LBI Fund, Vivendi bore the economic risk associated with the assets held by Ymer. Vivendi had no obligation to purchase the Telco shares held by Ymer and the latter was neither entitled nor obligated to sell them to Vivendi. The Telco bylaws grant preemptive rights to Vivendi.

**Acquisition of a supplementary stake of 2% in Telco on December 12, 2005**

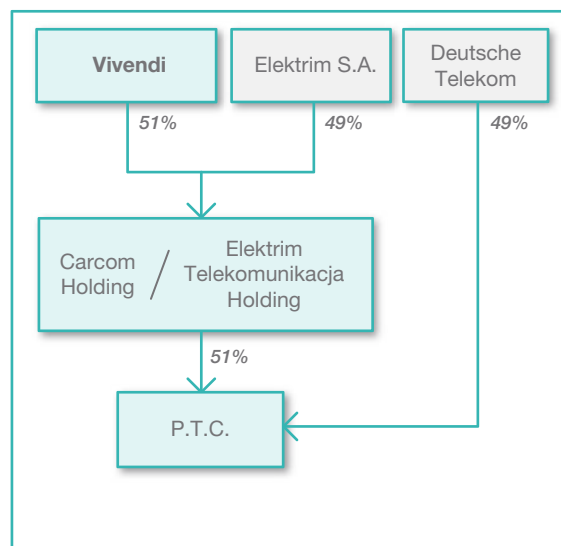
Until December 12, 2005, Telco was held 49% by Vivendi, 49% by Elektrim and 2% by Ymer. Telco's only asset is a 48% investment in PTC, alongside Deutsche Telekom (DT) (49%) and Carcom (3%). Until this date, Carcom was held 50% by Vivendi, 49% by Elektrim and 1% by Ymer. On December 12, 2005, after having consulted with EU competition authorities in November 2005, Vivendi acquired from Ymer the stakes it held in Telco (2%) and in Carcom (1%), for a total cash consideration of €90 million. Since that date, Vivendi has held a 51% equity and voting interest in both Telco and Carcom.

As of December 31, 2005, the simplified organization chart of Telco and PTC is as follows:

Organization chart as at December 31, 2004



Simplified organization chart as at December 31, 2005



### 2.4.3. Accounting for Ymer

Until December 12, 2005, Vivendi bore all risks and enjoyed the majority of economic benefits associated with the investments held by Ymer. As such, and in accordance with SIC Interpretation 12 on the consolidation of special purpose entities, Ymer was fully consolidated by Vivendi.

Since this date and following the €90 million cash payment to Ymer for the acquisition of its interests in Telco and Carcom, Vivendi no longer bears any risk or enjoys any economic benefits associated with the investments held by Ymer. As such, Vivendi considered that from December 12, 2005, Ymer no longer satisfied the criteria laid down in SIC Interpretation 12 on the consolidation of special purpose entities. Vivendi therefore deconsolidated Ymer and recognized in its balance sheet its investment in the LBI Fund, which was previously neutralized upon Ymer's first consolidation. As of December 31, 2005, the net carrying amount of this investment was €87 million (gross carrying amount of €105 million), after the reversal of a provision in the same amount. During the fourth quarter 2006, the stake held in LBI Fund was redeemed in cash (€91 million) leading to the release of the provision (€4 million).

### 2.4.4. Accounting for Telco/PTC<sup>1</sup>

Until December 12, 2005, and notwithstanding the consolidation of Ymer due to the financial risk borne, Vivendi accounted for its interest in Telco using the equity method. In addition, due to the legal disputes

surrounding ownership of the PTC shares held by Telco, the investment in PTC has not been consolidated. Since this date, Vivendi holds a 51% equity and voting interest in Telco and Carcom and exercises exclusive control over these companies, which it fully consolidates. However, due to the legal disputes surrounding ownership of the PTC shares, Telco and Carcom are unable to exercise joint control over PTC as provided in the bylaws. As such, the stake in PTC cannot be consolidated by Vivendi and the impact of the full consolidation of Telco by Vivendi is not material.

## 2.5. Acquisition of an Additional 16% of the Capital of Maroc Telecom on January 4, 2005

On November 18, 2004 following a firm purchasing commitment, the Kingdom of Morocco and Vivendi agreed to the acquisition by Vivendi of an additional 16% stake in Maroc Telecom, through Vivendi's wholly-owned subsidiary Société de Participation dans les Télécommunications. This acquisition, which was completed on January 4, 2005 for a consideration of €1,112 million, enabled Vivendi to increase its stake from 35% to 51% thereby perpetuating its 51% controlling interest. Payment was partly financed by a borrowing of MAD 6 billion (€551 million as of December 31, 2005) issued in Morocco.

Pursuant to IAS 32, the firm purchase commitment was recorded in the 2004 Consolidated Statement of Financial Position under short-term financial liabilities of €1,100 million, included in Financial Net Debt.

(1) Following the investigation opened by the Commission des Opérations de Bourse (COB) on September 12, 2003, the consolidation using the equity method of Telco, was challenged by a decision of the Autorité des Marchés Financiers (AMF) Sanctions Commission. The AMF Sanctions Commission upheld the criticism challenging the recording of Telco using the equity method rather than proportionate consolidation. On June 28, 2005, the Paris Court of Appeals partially overturned the decision of the AMF Sanctions Commission validating Vivendi's accounting treatment. On December 19, 2006, the French Supreme Court (Cour de Cassation) confirmed Vivendi's accounting treatment for Telco. Please refer to Note 30 "Litigations" of this document.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2 Changes in the Scope of Consolidation for the Years Ended December 31, 2006, 2005

On January 4, 2005, this financial liability was eliminated, offset by cash outflow. The difference between the acquisition cost (€1,112 million) and the carrying amount of minority interest acquired (€268 million) was recorded as goodwill (€844 million).

## 2.6. Combination of Cegetel S.A.S. and Neuf Telecom on August 22, 2005

The combination of Cegetel S.A.S. (Cegetel) and Neuf Telecom was announced on May 11, 2005 and closed on August 22, 2005. After acquiring the 35% stake in Cegetel held by SNCF, in accordance with financial conditions set forth in pre-existing agreements, and after re-capitalizing Cegetel, SFR contributed its entire interest in the capital of Cegetel to Neuf Telecom in exchange for a 28.2% interest in the share capital of Neuf Telecom as well as bonds issued by Neuf Telecom for €380 million, of which €200 million were redeemed in cash by Neuf Telecom at the end of November 2005 and the remaining balance in 2006.

On August 22, 2005, SFR and Louis Dreyfus Group, the reference shareholders of the new company, had an equal stake of 28.2% each while the remaining stake of approximately 44% is held by the historical shareholders of Neuf Telecom. SFR's 28.2% stake in Neuf Cegetel (15.8% ownership interest for Vivendi, as it holds 56% in SFR) is equity-accounted.

Pursuant to IFRS 5, Cegetel qualified as discontinued operations as of January 1, 2005:

- from an accounting standpoint, this combination is accounted for as the divestiture of 71.8% of SFR's interest in Cegetel for €617 million (corresponding to the value of Neuf Telecom shares received (€237 million), together with the value of the bonds issued by Neuf Telecom), and as the concurrent acquisition of a 28.2% interest in Neuf Telecom;
- as a result, net income and expenses of Cegetel from January 1, 2005 to August 22, 2005, were deconsolidated and presented netted, of which 71.8% were recorded as earnings from discontinued operations and 28.2% as income from equity affiliates;
- as of December 31, 2005, this transaction resulted in a capital gain of €121 million before SFR's minority interests, (€58 million after SFR's minority interests for Vivendi), recorded in earnings from discontinued operations.

Please refer to Note 7 "Discontinued Operations for the Year Ended December 31, 2005".

## 2.7. Other Changes in the Scope of Consolidation in 2006 and 2005

Preliminary note: the consideration indicated for the divestitures corresponds to the enterprise value of the divested stake (i.e. the cash received plus the value of principal payments on borrowings deconsolidated from fully consolidated subsidiaries, when applicable).

**Other main changes in scope in 2006 (acquisition, divestiture, dilution or merger) were as follows:**

- divestiture of its residual 20% stake in Ypso to Cinven and Altice (January) for a consideration of €36 million (please refer hereunder);
- divestiture of the Paris Saint-Germain soccer club in June 2006. The Canal+ Group sold the Paris Saint-Germain soccer club to Colony Capital, Butler Capital Partners and Morgan Stanley for a purchase price of €26 million. This divestiture generated a capital loss of -€23 million (including some impacts related to vendor warranties);
- acquisition of Optimum Releasing, a UK film distribution company by StudioCanal in July 2006;
- acquisition of Vale, Spain's number 1 independent music publishing company, by UMG in October 2006;
- disposal of Roadrunner by UMG. On December 15, 2006, Universal Music Group exercised its put option to sell its stake in, and terminated its distribution agreement with, Roadrunner Records BV; and
- acquisition of a 51% stake in Onatel, the national telecommunications provider in Burkina Faso (Onatel) by Maroc Telecom in December 2006 (please refer to Note 15.3 "Stake in Onatel").

**Other main changes in scope in 2005 (acquisition, divestiture, dilution or merger) were as follows:**

- January/April 2005: full consolidation of minority stakes in distribution subsidiaries at SFR;
- February 2005: acquisition of an additional stake in MultiThématiques (now wholly-owned by Canal+ Group) and divestiture of Lagardère Thématiques for a net consideration of €20 million;
- March 2005: divestiture of NC Numéricâble for a consideration of €96 million. From an accounting standpoint, this transaction led to the divestiture of 80% of the Canal+ Group's stake in NC Numéricâble and to the concurrent acquisition of 20% of Ypso Holding;
- December 2005: divestiture of a 37.8% equity interest, representing a 40% voting interest, held in UGC for a consideration of €89 million (please refer to Note 14.2 "Changes in value of equity affiliates").

## NOTE 3 SEGMENT DATA

### 3.1. Business Segment Data

The group operates through different entertainment businesses. Each business offers different products and services that are marketed through different channels. Given the unique customer base, technology, marketing and distribution requirements of these businesses, they are managed separately and represent the primary segment reporting level. As of December 31, 2006, Vivendi had five business segments engaging in the activities described below:

- Universal Music Group, publishing and distribution of music content (original creation or catalogs);
- Vivendi Games, publishing and distribution of video games, online or on other media (such as console, PC and mobile phones);
- the Canal+ Group, production and distribution of pay-TV in France, analog or digital (terrestrially, *via* satellite or ADSL);
- SFR, mobile phone services in France;
- Maroc Telecom, telecommunications operator (mobile, fixed and Internet) in Morocco.

Vivendi Management evaluates the performance of the business segments and allocates necessary resources to them based on certain operating indicators (segment earnings and cash flow from operations). Segment earnings correspond to EBITA of each business.

Additionally, segment data is elaborated according to the following principles:

- the segment "Holding & Corporate" includes the cost of Vivendi S.A.'s headquarters in Paris and of its New York City office, after the allocation of a portion of these costs to each of the businesses;
- Cegetel S.A.S. (divested on August 22, 2005) qualified as discontinued operations in 2005, pursuant to IFRS 5, paragraph 34;
- the segment "Non-core operations" includes miscellaneous businesses outside Vivendi's core businesses (mainly Vivendi Valorisation), which assets are being divested or liquidated and which are not disclosed as discontinued operations as they do not comply with criteria prescribed by IFRS5;
- inter-segment commercial relations are conducted on an arm's length basis on terms and conditions similar to those which would be proposed by third parties; and
- the business segments presented hereunder are identical to those appearing in the information given to Vivendi's Management and Supervisory Boards.

Vivendi has identified five geographic areas, consisting of its four main geographic markets (France, Rest of Europe, US and Morocco), as well as the rest of the world.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 3 Segment Data

## 3.1.1. Consolidated Statement of Earnings for 2006 and 2005

Year Ended December 31, 2006 <i>(in millions of euros)</i>	Universal Music Group	Vivendi Games	Canal+ Group	SFR	Maroc Telecom	Holding & Corporate	Non-core operations	Eliminations	Total Vivendi
External revenues	4,931	804	3,563	8,674	2,043	5	24	-	20,044
Inter-segments revenues	24	-	67	4	10	-	-	(105)	-
<b>Revenues</b>	<b>4,955</b>	<b>804</b>	<b>3,630</b>	<b>8,678</b>	<b>2,053</b>	<b>5</b>	<b>24</b>	<b>(105)</b>	<b>20,044</b>
Operating expenses excluding amortization and depreciation	(4,144)	(649)	(3,391)	(5,229)	(859)	(114)	(25)	105	(14,306)
<b>Sub-total (EBITDA)</b>	<b>811</b>	<b>155</b>	<b>239</b>	<b>3,449</b>	<b>1,194</b>	<b>(109)</b>	<b>(1)</b>	<b>-</b>	<b>5,738</b>
Restructuring charges	(15)	(2)	-	-	(30)	(4)	1	-	(50)
Gains (losses) on tangible and intangible assets	-	(1)	7	(43)	1	5	(1)	-	(32)
Other non-recurring items	-	-	1	-	(3)	3	70	-	71
Depreciation of tangible assets	(52)	(28)	(103)	(503)	(199)	(7)	(13)	-	(905)
Amortization of intangible assets excluding those acquired through business combinations	-	(9)	(69)	(320)	(51)	(1)	(2)	-	(452)
<b>Adjusted earnings before interest and income taxes (EBITA)</b>	<b>744</b>	<b>115</b>	<b>75</b>	<b>2,583</b>	<b>912</b>	<b>(113)</b>	<b>54</b>	<b>-</b>	<b>4,370</b>
Amortization of intangible assets acquired through business combinations	(199)	-	-	-	(24)	-	-	-	(223)
Impairment losses of intangible assets acquired through business combinations	-	-	-	-	-	-	-	-	-
<b>Earnings before interest and income taxes (EBIT)</b>	<b>545</b>	<b>115</b>	<b>75</b>	<b>2,583</b>	<b>888</b>	<b>(113)</b>	<b>54</b>	<b>-</b>	<b>4,147</b>
Income from equity affiliates									337
Interest									(203)
Income from investments									54
Other financial charges and income									311
Provision for income taxes									547
Earnings from discontinued operations									-
<b>Earnings</b>									<b>5,193</b>
<i>Attributable to:</i>									
<b>Equity holders of the parent</b>									<b>4,033</b>
Minority interests									1,160

Income from equity affiliates mainly comprised the group's share in earnings of NBC Universal (€301 million), an investment allocated to the Holding & Corporate business segment and the group's share in

earnings of Neuf Cegetel (€38 million), an investment allocated to the SFR business segment. Please refer to Note 14 "Equity affiliates".

Year Ended December 31, 2005 (in millions of euros)	Universal Music Group	Vivendi Games	Canal+ Group	SFR	Maroc Telecom	Holding & Corporate	Non-core operations	Eliminations	Total Vivendi
External revenues	4,877	641	3,379	8,683	1,848	-	56	-	19,484
Inter-segments revenues	16	-	73	4	12	-	5	(110)	-
<b>Revenues</b>	<b>4,893</b>	<b>641</b>	<b>3,452</b>	<b>8,687</b>	<b>1,860</b>	<b>-</b>	<b>61</b>	<b>(110)</b>	<b>19,484</b>
Operating expenses excluding amortization and depreciation	(4,133)	(555)	(3,083)	(5,478)	(804)	(149)	(61)	110	(14,153)
<b>Sub-total (EBITDA)</b>	<b>760</b>	<b>86</b>	<b>369</b>	<b>3,209</b>	<b>1,056</b>	<b>(149)</b>	<b>-</b>	<b>-</b>	<b>5,331</b>
Restructuring charges	(26)	(1)	1	-	(28)	2	1	-	(51)
Gain (losses) on tangible and intangible assets	8	-	(4)	(20)	-	11	-	-	(5)
Other non-recurring items	-	(1)	2	-	-	(52)	47	-	(4)
Depreciation of tangible assets	(61)	(18)	(96)	(478)	(195)	(7)	(15)	-	(870)
Amortization of intangible assets excluding those acquired through business combinations	-	(11)	(69)	(289)	(47)	-	-	-	(416)
<b>Adjusted earnings before interest and income taxes (EBITA)</b>	<b>681</b>	<b>55</b>	<b>203</b>	<b>2,422</b>	<b>786</b>	<b>(195)</b>	<b>33</b>	<b>-</b>	<b>3,985</b>
Amortization of intangible assets acquired through business combinations	(201)	(14)	-	-	(24)	-	-	-	(239)
<b>Earnings from operations</b>	<b>480</b>	<b>41</b>	<b>203</b>	<b>2,422</b>	<b>762</b>	<b>(195)</b>	<b>33</b>	<b>-</b>	<b>3,746</b>
Impairment losses of intangible assets acquired through business combinations	(50)	-	4	-	-	(124)	-	-	(170)
<b>Earnings before interest and income taxes (EBIT)</b>	<b>430</b>	<b>41</b>	<b>207</b>	<b>2,422</b>	<b>762</b>	<b>(319)</b>	<b>33</b>	<b>-</b>	<b>3,576</b>
Income from equity affiliates									326
Interest									(218)
Income from investments									75
Other financial charges and income									619
Provision for income taxes									(204)
Earnings from discontinued operations									92
<b>Earnings</b>									<b>4,266</b>
<i>Attributable to:</i>									
<b>Equity holders of the parent</b>									<b>3,154</b>
Minority interests									1,112

Income from equity affiliates mainly comprised the group's share in earnings of NBC Universal (€361 million), an investment allocated to the Holding & Corporate business segment and the group's share in earnings of Neuf Cegetel/Cegetel S.A.S. (-€50 million), an investment allocated to the SFR business segment. Please refer to Note 14 "Equity affiliates".

Earnings from discontinued operations comprised the group's share in earnings of Cegetel S.A.S. (71.8%, i.e., -€29 million) and the capital gain generated by the divestiture of this SFR subsidiary (€121 million) recorded under SFR. Please refer to Note 7 "Discontinued operations and assets held for sale".

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 3 Segment Data

## 3.1.2. Consolidated Statement of Financial Position as of December 31, 2006 and 2005

(in millions of euros)	Universal Music Group	Vivendi Games	Canal+ Group	SFR	Maroc Telecom	Holding & Corporate	Non-core operations	Total Vivendi
<b>December 31, 2006</b>								
Segment assets (a)	8,953	428	5,398	12,415	4,045	7,134	174	38,547
incl. investments in equity affiliates (b)	21	-	2	1,055	1	5,953	-	7,032
Unallocated assets (c)	-	-	-	-	-	-	-	4,501
<b>Total assets</b>								<b>43,048</b>
Segment liabilities (d)	2,890	331	2,457	5,130	959	389	196	12,352
Unallocated liabilities (e)	-	-	-	-	-	-	-	8,832
<b>Total liabilities</b>								<b>21,184</b>
Increase in tangible and intangible assets	46	86	150	1,380	361	2	-	2,025
<b>December 31, 2005</b>								
Segment assets (a)	8,085	361	5,735	11,498	3,861	8,572	863	38,975
incl. investments in equity affiliates (b)	34	-	5	397	1	6,419	-	6,856
Unallocated assets (c)	-	-	-	-	-	-	-	5,508
<b>Total assets</b>								<b>44,483</b>
Segment liabilities (d)	3,008	238	2,210	4,401	870	853	297	11,877
Unallocated liabilities (e)	-	-	-	-	-	-	-	10,998
<b>Total liabilities</b>								<b>22,875</b>
Increase in tangible and intangible assets	52	36	126	1,106	291	3	-	1,614

In addition, segment data is presented in Note 9 "Goodwill" and Note 10 "Content assets and commitments".

- (a) Includes goodwill, content assets, other intangible assets, property, plant and equipment, investments in equity affiliates, financial assets, inventories and trade accounts receivable and other.
- (b) Holding & Corporate includes the 20% stake in NBC Universal.
- (c) Includes deferred tax assets, current tax receivables, cash and cash equivalents and assets held for sale.
- (d) Includes provisions, other non-current liabilities and trade accounts payable and other.
- (e) Includes borrowings and other financial liabilities, deferred tax liabilities, current tax payables and liabilities associated with assets held for sale.

## 3.2. Geographic Data

Information by geographic area is the second level of segment data. Revenues are presented based on the customers' location.

(in millions of euros)	Year Ended December 31, 2006		Year Ended December 31, 2005	
<b>Revenues</b>				
France	12,372	62%	12,216	63%
Rest of Europe	2,081	10%	1,933	10%
USA	2,448	12%	2,414	12%
Morocco	1,960	10%	1,773	9%
Rest of World	1,183	6%	1,148	6%
	<b>20,044</b>	<b>100 %</b>	<b>19,484</b>	<b>100 %</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 4 EBIT for the Years Ended December 31, 2006 and 2005

(in millions of euros)	December 31, 2006		December 31, 2005	
<b>Segment assets (a)</b>				
France	19,147	50%	19,053	49%
Rest of Europe	1,201	3%	1,680	4%
USA	13,836	36%	14,049	36%
Morocco	3,930	10%	3,746	10%
Rest of World	433	1%	447	1%
	<b>38,547</b>	<b>100%</b>	<b>38,975</b>	<b>100 %</b>

(a) Please refer to the definition provided in (a) to the Note 3.1.2. "Consolidated statement of financial position".

In 2006 and 2005, capital expenditures were mainly realized by SFR and Maroc Telecom for which geographic areas are France and Morocco respectively.

## NOTE 4 EBIT FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

### 4.1. Breakdown of Revenues and Cost of Revenues for the Years Ended December 31, 2006 and 2005

(in millions of euros)	Year Ended December 31,	
	2006	2005
Product sales, net	5,788	5,739
Service revenues	14,222	13,700
Other	34	45
<b>Revenues</b>	<b>20,044</b>	<b>19,484</b>
Cost of products sold, net	(3,628)	(3,699)
Cost of service revenues	(6,521)	(6,196)
Other	3	(3)
<b>Cost of revenues</b>	<b>(10,146)</b>	<b>(9,898)</b>

### 4.2. Personnel Costs and Average Employee Numbers for the Years Ended December 31, 2006 and 2005

(in millions of euros except number of employees)	Note	Year Ended December 31,	
		2006	2005
<b>Annual average number of full time equivalent employees</b>		<b>37,014</b>	<b>36,859</b>
Salaries		(1,573)	(1,560)
Social security and other employment charges		(367)	(358)
Capitalized personnel costs		9	15
<b>Wages and expenses</b>		<b>(1,931)</b>	<b>(1,903)</b>
Share-based compensation	21	(113)	(74)
Employee benefit plans	20	(78)	(69)
Other		(105)	(128)
<b>Personnel costs</b>		<b>(2,227)</b>	<b>(2,174)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 4 EBIT for the Years Ended December 31, 2006 and 2005

### 4.3. Additional Information on Operating Expenses for the Years Ended December 31, 2006 and 2005

#### 4.3.1. Research and development costs for the Years Ended December 31, 2006 and 2005

Research and development costs recorded in expenses amounted to -€217 million in 2006 and -€154 million in 2005.

#### 4.3.2. Advertising costs for the Years Ended December 31, 2006 and 2005

Advertising costs amounted to -€661 million in 2006 and -€637 million in 2005.

### 4.4. Amortization and Depreciation of Tangible and other Intangible Assets for the Years Ended December 31, 2006 and 2005.

(in millions of euros)	Note	Year Ended December 31,	
		2006	2005
Amortization (excluding intangible assets acquired through business combinations)		(1,357)	(1,286)
<i>o/w property, plant and equipment</i>	12.2	(905)	(870)
<i>content assets</i>		(50)	(41)
<i>other tangible assets</i>		(402)	(375)
Amortization of intangible assets acquired through business combinations		(223)	(239)
<i>o/w content assets</i>	10.1	(199)	(201)
<i>other intangible assets</i>		(24)	(38)
Impairment losses of other intangible assets acquired through business combinations		-	(170)
<i>o/w impairment of goodwill losses</i>	9.2	-	(46)
<i>other non-cash write-off</i>	14.2	-	(124)
<b>Amortization and depreciation of tangible and intangible assets</b>		<b>(1,580)</b>	<b>(1,695)</b>

## NOTE 5 FINANCIAL CHARGES AND INCOME FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

### 5.1. Interest

(in millions of euros)	Year Ended December 31,	
	2006	2005
Interest expenses on borrowings	(286)	(262)
Interest income from cash and cash equivalents	80	45
Interest income (expenses) from interest rate swaps	3	(1)
<b>Interest at nominal rate</b>	<b>(203)</b>	<b>(218)</b>
Premiums incurred for early redemption of notes and other financial liabilities (a)	-	(71)
Other impacts of amortized cost on borrowings (a)	(26)	(44)
<b>Interest at effective rate</b>	<b>(229)</b>	<b>(333)</b>

(a) Premiums incurred for early redemption of notes and other financial liabilities and other impacts of amortized costs on borrowings are recorded under "Impacts of amortized cost on borrowings" in other financial charges. Please refer Note 5.3, hereafter.

### 5.2. Income from Investments

(in millions of euros)	Year Ended December 31,	
	2006	2005
Dividends received from non-consolidated companies	36	38
Interest income from loans to equity affiliates and other financial receivables	18	37
<b>Income from investments</b>	<b>54</b>	<b>75</b>

### 5.3. Other Financial Charges and Income

(in millions of euros)	Note	Year Ended December 31,	
		2006	2005
Other capital gain on the divestiture of businesses		189	322
Downside adjustment on the divestiture of businesses		(104)	(26)
Other capital gain on financial investments		(a) 932	490
Downside adjustment on financial investments		(b) (631)	(25)
Financial components of employee benefits	20.2.2	(32)	(35)
Impacts of amortized cost on borrowings	5.1	(26)	(115)
Change in derivative instruments		24	(2)
Other		(41)	10
<b>Other financial charges and income</b>		<b>311</b>	<b>619</b>

(a) Includes the capital gain realized on the sale of Veolia Environnement shares (€832 million). Please refer to section 15.1 "Changes in available-for-sale securities during the Years Ended December 31, 2006 and December 31, 2005".

(b) Includes the capital losses incurred on the PTC shares (€496 million). Please refer to Notes 2.4 "Stake in PTC" and 15.1 "Changes in available-for-sale securities during the Years Ended December 31, 2006 and December 31, 2005".

## NOTE 6 INCOME TAXES FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

### 6.1. Settlement of Litigation on DuPont Shares

At the beginning of June 2006, Vivendi announced that an agreement had been reached with the United States Internal Revenue Service (IRS), ending their dispute concerning the amount of tax due on the redemption of DuPont shares from Seagram in April 1995. The agreement reached with the IRS provided for a payment by Vivendi in the total amount of approximately \$671 million (€521 million), including tax of \$284 million and interest of \$387 million.

As a result, after including the payment made in connection with the agreement with the IRS (-\$671 million) and a tax credit related to the deductible portion of this payment (\$135 million), the reversal of the entire deferred tax liability established in connection with this matter (\$1,847 million) recorded on the group's balance sheet resulted in a net gain of \$1,311 million (€1,019 million) which was recorded under "Provision for income taxes" and breaks down as follows:

- reversal of the deferred tax liability of \$1,547 million, recorded by Seagram in April 1995, net of tax of \$284 million paid in connection with the agreement with the IRS, generated a gain of \$1,263 million. This deferred tax liability corresponded to the additional tax which would have been owed to the IRS if the gain on the DuPont share redemption in 1995 had been fully taxable;
- the difference between the reversal of the provision for interest in an amount of \$462 million (\$300 million after accounting for the tax benefit of deductible interest resulting in a savings of \$162 million), and interest paid of \$387 million (\$252 million after accounting for the tax benefit of deductible interest resulting in a savings of \$135 million), generated a gain of \$75 million or \$48 million after taking into account the effect on income tax of tax-deductible interest. This interest was provided for by Vivendi in December 2000 as part of the allocation of the purchase price of Seagram.

Furthermore, the agreement with the IRS provided that the 16.4 million DuPont shares that Vivendi has held since its merger with Seagram could be freely transferred and therefore subject to taxation in accordance with ordinary general tax rules. At the end of June 2006, Vivendi sold these shares at a unit price of \$40.82, for a total amount of \$671 million (€534 million), resulting in an accounting loss of \$123 million (€98 million) and a capital gain, for tax purposes, of \$523 million (€417 million). The tax on the capital gain is fully covered by the above mentioned tax-deductible interest and the US tax loss carry-forwards of Vivendi.

### 6.2. Consolidated Global Profit Tax System

On December 23, 2003, Vivendi applied to the French Ministry of Finance for permission to use the Consolidated Global Profit Tax System under Article 209 *quinquies* of the French tax code. Authorization was granted by an order, dated August 22, 2004, and notified on August 23, 2004, for a five-year period beginning with the taxable year 2004 and ending with the taxable year as of December 31, 2008. This period may be extended for an additional three-year period. Therefore, Vivendi is entitled to consolidate its own profits and losses (including tax losses carried forward as of December 31, 2003) with the profits and losses of its subsidiaries operating within and outside France. Subsidiaries in which Vivendi owns at least 50% of outstanding shares, both French and foreign, as well as Canal+ S.A., fall within the scope of the Consolidated Global Profit Tax System, including, but not limited to Universal Music Group, Vivendi Games, CanalSat, SFR and, as of January 1, 2005, Maroc Telecom. The 2004 Finance Act authorized the unlimited carry forward of existing ordinary losses as of December 31, 2003, which, combined with Vivendi's permission to use the Consolidated Global Profit Tax System, enables Vivendi to maintain its capacity to use ordinary losses carried forward.

The effect of applying the Consolidated Global Profit Tax System on the valuation of losses carried forward is as follows:

- as of December 31, 2005, Vivendi carried forward losses of €10,610 million as the head company consolidating for tax purposes the results of its French and foreign subsidiaries (based on tax results converted in accordance with French tax rules for the latter) in which it held at least a 50% equity interest, as well as of Canal+ SA;
- on February 27, 2007, the date of the Management Board's meeting held to approve the financial statements for the Year Ended December 31, 2006, the 2006 taxable profits of the tax group companies, as of December 31, 2006 and, as a consequence, the amount of ordinary tax losses available for carry forward as such date, cannot be determined with sufficient certainty in accordance with French tax rules;
- therefore, before the impact of 2006 taxable profits on the future utilization of ordinary tax losses carried forward, Vivendi S.A. will be able to achieve maximum tax savings up to €3,537 million (undiscounted value based on the current income tax rate of 33.33%);
- nonetheless, the period during which losses will be utilized cannot currently be determined with sufficient precision given the uncertainty associated with economic activity and Vivendi's ability to maintain SFR or the Canal+ Group, (two French entities) in its taxable income basket. As a result, Vivendi values its tax losses carried forward under the Consolidated Global Profit Tax System based on one year's forecast results, taken from the following year's budget.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 6 Income Taxes for the Years Ended December 31, 2006 and 2005

Impact of the Consolidated Global Profit Tax System on the Consolidated Financial Statements for the Years Ended December 31, 2006 and 2005 is as follows:

(in millions of euros)	December 31, 2004	Income in the statement of earnings	Collections	December 31, 2005	Income in the statement of earnings	Collections	December 31, 2006
Current taxes	464	507	(464)	507	(a) 602	(505)	604
Deferred tax assets	492	88	-	580	(43)	-	537
	<b>956</b>	<b>595</b>	<b>(464)</b>	<b>1,087</b>	<b>559</b>	<b>(505)</b>	<b>1,141</b>

(a) Corresponds to the expected tax savings for 2006 (€604 million) and the difference between the 2005 forecasted tax savings and the related 2005 tax savings received in 2006.

As of December 31 2006, current taxes corresponded to the 2006 expected tax savings. Deferred tax assets corresponded to the 2007 forecasted tax savings.

### 6.3. Provision for Income Taxes

(in millions of euros)	Note	Year Ended December 31,	
		2006	2005
Provision for income taxes:			
Current			
DuPont shares litigation settlement	6.1	€ (521)	-
Use of tax losses:			
Tax savings related to the Consolidated Global Profit Tax System	6.2	604	507
Tax savings related to the US fiscal group		217	258
Adjustments to prior year tax expense (a)		26	49
Other income taxes items		(1,688)	(1,505)
		<b>€ (1,362)</b>	<b>€ (691)</b>
Deferred			
DuPont shares litigation settlement	6.1	€1,603	-
Impact of the Consolidated Global Profit Tax System	6.2	(43)	98
Other changes in deferred tax assets		78	145
Impact of the change(s) in tax rates		-	(16)
Reversal of tax liabilities relating to risks extinguished over the period		272	256
Other deferred tax income / (expenses)		(1)	14
		<b>€1,909</b>	<b>€487</b>
<b>Provision for income taxes</b>		<b>€547</b>	<b>€(204)</b>

(a) Includes prior year's income tax and tax penalties adjustments, if any.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 6 Income Taxes for the Years Ended December 31, 2006 and 2005

## 6.4. Provision for Income Taxes and Income Tax Paid by Geographical Area

(in millions of euros)	Note	Year Ended December 31,	
		2006	2005
Provision for income taxes:			
Current			
France		(497)	(437)
US		(539)	7
including DuPont shares litigation settlement	6.1	(521)	-
Morocco		(295)	(260)
Other jurisdictions		(31)	(1)
		<b>(1,362)</b>	<b>(691)</b>
Deferred			
France		7	156
US		1,798	292
including DuPont shares litigation settlement	6.1	1,603	-
Morocco		-	7
Other jurisdictions		104	32
		<b>1,909</b>	<b>487</b>
<b>Provision for income taxes</b>		<b>547</b>	<b>(204)</b>
Income tax (paid)/collected:			
France		(522)	(1,057)
including SFR		(852)	(a) (1,414)
US		(541)	7
including DuPont shares litigation settlement	6.1	(521)	-
Morocco		(286)	(279)
Other jurisdictions		(32)	(57)
<b>Income tax paid</b>		<b>(1,381)</b>	<b>(1,386)</b>

(a) The 2005 tax expense paid by SFR was notably due to catch-up adjustments resulting from the reorganization of the SFR Cegetel Group legal structure at the end of 2003.

## 6.5. Effective Tax Rate

(in millions of euros, except%)	Note	Year Ended December 31,	
		2006	2005
<b>Earnings from continuing operations before provision for income taxes</b>		<b>4,646</b>	<b>4,378</b>
<b>French statutory tax rate (a)</b>		<b>33.33%</b>	<b>33.33%</b>
<b>Theoretical provision for income taxes based on French statutory tax rate</b>		<b>(1,549)</b>	<b>(1,459)</b>
Reconciliation of the theoretical and effective provision for income taxes:			
<b>Permanent differences</b>			
Income from equity affiliates		116	114
Other differences from tax rates		(55)	(75)
Other permanent differences		(3)	(110)
		58	(71)
<b>Consolidated Global Profit</b>			
Current tax savings	6.2	604	507
Changes in related deferred tax assets	6.2	(43)	88
		561	595
<b>Other tax losses</b>			
Other changes in deferred tax assets		(24)	123
Use of unrecognized ordinary losses		139	215
Unrecognized tax losses		(141)	(16)
		(26)	322
<b>Restatements in respect of the provision for income taxes of previous years</b>			
DuPont shares litigation settlement		1,082	-
Reversal of tax liabilities relating to risks extinguished over the period		272	256
Adjustment on previous years' income tax		26	49
		1,380	305
<b>Capital gain or loss on the divestiture of financial investments or businesses</b>		123	104
<b>Effective provision for income taxes</b>		<b>547</b>	<b>(204)</b>
<b>Effective tax rate</b>		<b>-11.8%</b>	<b>4.7%</b>

(a) The French statutory tax rate is 33.33%. The December 30, 2004 Finance Act (Act No. 2004-1484) provided for the phasing out of the additional contribution (*contribution additionnelle*) surtax, equal to 3% of the corporate tax liability of French companies since 2002. This surtax has since been reduced to 1.5% from January 1, 2005 and was abolished in 2006. Act No. 99-1140 of December 29, 1999 dealing with the financing of the social security system provided for the introduction of a surtax equal to 3.3% of the corporate tax liability of French companies. This surtax had the effect of raising the French corporate tax rate by 1.1 percentage points. The French corporate tax rate was therefore 34.43% in 2006 (versus 34.93% in 2005).

## 6.6. Changes in Current and Deferred Tax Assets and Liabilities

### Changes in deferred tax liabilities in 2006 and 2005, net

(in millions of euros)	Year Ended December 31,	
	2006	2005
<b>Deferred tax Assets/(Liabilities), as of December 31, 2005, net</b>	<b>(1,692)</b>	<b>(2,000)</b>
Effect on provision for income taxes	1,909	487
Effect on shareholders' equity	26	76
Change in the scope of consolidation	(1)	39
Change in foreign currency translation adjustments	172	(294)
<b>Deferred tax Assets/(Liabilities), as of December 31, 2006, net</b>	<b>414</b>	<b>(1,692)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 6 Income Taxes for the Years Ended December 31, 2006 and 2005

## Deferred tax assets and liability components as of December 31, 2006 and December 31, 2005

(in millions of euros)	Note	December 31, 2006	December 31, 2005
Deferred tax assets			
Recognized deferred taxes			
Tax losses (a)		3,737	4,121
Temporary differences		1,061	1,130
Recognized deferred taxes		4,798	5,251
Unrecognized deferred taxes			
Tax losses		(2,830)	(2,989)
Temporary differences		(484)	(478)
Unrecognized deferred taxes		(3,314)	(3,467)
<b>Recorded deferred tax assets</b>		<b>1,484</b>	<b>1,784</b>
Deferred tax liabilities			
Purchase accounting reevaluation of assets (b)		535	777
DuPont share redemption	6.1	-	1,559
Spirits and wine sale		177	225
Other		358	915
<b>Recorded deferred tax liabilities</b>		<b>1,070</b>	<b>3,476</b>
<b>Deferred tax assets/(liabilities), net</b>		<b>414</b>	<b>(1,692)</b>

(a) Mainly includes deferred tax assets in respect of ordinary tax losses carried forward by Vivendi as head of the tax group under the Consolidated Global Profit Tax System (€3,537 million as of December 31, 2005, before adjustment due to the expected 2006 tax savings amounting to €604 million, please refer to section 6.2 above), and ordinary tax losses carried forward by the US tax group (€293 million as of December 31, 2005).

(b) These tax liabilities generated by asset revaluations as a result of the purchase price allocation of company acquisition costs are cancelled on the depreciation, amortization or divestiture of the underlying asset and generate no current tax charge.

## Maturity of losses carried forward

The tax losses carried forward reported to tax authorities for the fiscal Year Ended December 31, 2005, which are material to Vivendi are described below along with their respective maturity periods:

- France: losses carried forward amounted to €10,060 million and can be carry forward indefinitely;
- United-States: losses carried forward amounted to \$983 million and can be carried forward for a twenty-year period. No losses will mature prior to June 30, 2020;
- Germany: losses carried forward amounted to €237 million and can be carry forward indefinitely;
- Netherlands: losses carried forward amounted to €156 million and can be carry forward indefinitely.

## 6.7. Tax Audits

The Years Ended December 31, 2006 and 2005 and prior years, where appropriate, are open to tax audits by the respective tax authorities in the jurisdictions in which Vivendi has operations. Various tax authorities have proposed or levied assessments for additional tax in respect of prior years. Management believes that the settlement of any or all of these assessments will not have a material impact on the results of operations, financial position or liquidity of Vivendi.

**NOTE 7 DISCONTINUED OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2005**

Following the Cegetel and Neuf Telecom combination announced on May 11, 2005 and closed on August 22, 2005, Cegetel qualified as a discontinued operation pursuant to IFRS 5. Accordingly, the net earnings and expenses of its fixed-line telephony activity were presented netted (71.8% in earnings from discontinued operations and 28.2% in income from equity affiliates) until the divestiture (-€29 million).

This operation resulted in a capital gain of €121 million, before SFR minority interests (€58 million for Vivendi's shareholders, net of minority interests), excluding tax effects, and was recognized as earnings from discontinued operations. Thus, earnings from discontinued operations amounted to €92 million in 2005.

Cegetel S.A.S.'s condensed statement of earnings for the period presented was as follows:

<i>(in millions of euros)</i>	Period from January 1 to August 22, 2005 234 days
Revenues	685
Earnings before interest and income taxes (EBIT)	(94)
Financial charges and income	(6)
Earnings before provisions for income taxes	(100)
Provision for income taxes	-
<b>Earnings before adjustments related to the classification of 71.8% of Cegetel S.A.S. as discontinued operations</b>	<b>(100)</b>
Income from equity affiliates (28.2% of earnings)	(28)
Earnings from discontinued operations (71.8% of earnings and adjustments)	<b>(a) (29)</b>

**(a)** Includes the cessation of depreciation and amortization of property, plant and equipment and intangible assets (€42 million after tax as of August 22, 2005). Pursuant to IFRS 5, assets held for sale are not amortized.

Cash flows related to Cegetel S.A.S. for the period presented were as follows:

<i>(in millions of euros)</i>	Period from January 1 to August 22, 2005
Net cash provided by operating activities	(6)
Net cash provided by (used for) investing activities	(18)
Net cash provided by (used for) financing activities	21
Net cash outflows related to the divestiture of the period	3
<b>Change in cash and cash equivalents</b>	<b>-</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 8 Earnings per Share for the Years Ended December 31, 2006 and 2005

**NOTE 8 EARNINGS PER SHARE FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	Year Ended December 31,			
	2006		2005	
	Basic	Diluted	Basic	Diluted
<b>Earnings</b> (in millions of euros)				
Earnings from continuing operations, attributable to the equity holders of the parent	4,033	4,033	3,109	3,109
Earnings from discontinued operations	-	-	92	92
Earnings, attributable to the equity holders of the parent	4,033	4,033	3,154	3,154
Adjusted net income, attributable to equity holders of the parent	2,614	2,614	2,218	2,218
<b>Weighted average number of shares</b> (in millions)	1,153.4	1,162.4	1,149.6	1,158.5
<b>Earnings per share</b> (in euros)				
Earnings from continuing operations, attributable to the equity holders of the parent per share	3.50	3.47	2.70	2.68
Earnings from discontinued operations per share	-	-	0.08	0.08
Earnings, attributable to the equity holders of the parent per share	3.50	3.47	2.74	2.72
Adjusted net income, attributable to equity holders of the parent per share	2.27	2.25	1.93	1.91

Reconciliation of earnings, attributable to equity holders of the parent and adjusted net income, attributable to equity holders of the parent is as follows:

(in millions of euros)	Note	Year Ended December 31,	
		2006	2005
<b>Earnings, attributable to equity holders of the parent (a)</b>		<b>4,033</b>	<b>3,154</b>
<b>Adjustments</b>			
Amortization of intangible assets acquired through business combinations		223	239
Impairment losses of intangible assets acquired through business combinations (a)		-	170
Other financial charges and income (a)		(311)	(619)
Earnings from discontinued operations (a)		-	(92)
Change in deferred tax asset related to the Consolidated Global Profit Tax System	6.2	43	(88)
Non-recurring items related to provision for income taxes (b)		(1,284)	(482)
Provision for income taxes on adjustments		(83)	(102)
Minority interests in adjustments		(7)	38
<b>Adjusted net income, attributable to equity holders of the parent</b>		<b>2,614</b>	<b>2,218</b>

(a) As presented in the consolidated statement of earnings.

(b) Corresponds mainly to the reversal of tax liabilities relating to risks extinguished over the period. As of December 31, 2006, this item mainly includes the profit related to the settlement of the DuPont litigation (€1,082 million).

The number of shares used in the calculation of earnings per share was as follows:

(in number of shares)	Year Ended December 31,	
	2006	2005
<b>Weighted average number of shares outstanding over the period</b>	<b>1,154,793,341</b>	<b>1,152,131,605</b>
Treasury shares at the end of the period	(1,379,953)	(2,498,948)
<b>Weighted average number of shares outstanding restated over the period</b>	<b>1,153,413,388</b>	<b>1,149,632,657</b>
<b>Potential dilutive effect:</b>		
Vivendi stock option plans (a)	8,499,531	8,893,705
Vivendi stock plans	535,184	-
<b>Potential dilutive effect of financial instruments outstanding</b>	<b>9,034,715</b>	<b>8,893,705</b>
<b>Weighted average number of shares after potential dilutive effect</b>	<b>1,162,448,103</b>	<b>1,158,526,362</b>

(a) Includes the number of additional shares that would have been outstanding if the potential dilutive shares attributable to Vivendi's subscription plans had been issued during the respective periods, using the treasury stock method.

**NOTE 9 GOODWILL AS OF DECEMBER 31, 2006 AND 2005****9.1. Goodwill as of December 31, 2006 and 2005**

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005
Goodwill, gross	25,240	27,063
Impairment losses	(12,172)	(13,267)
<b>Goodwill</b>	<b>13,068</b>	<b>13,796</b>

**9.2. Changes in Goodwill in 2006 and 2005**

<i>(in millions of euros)</i>	Goodwill as of December 31, 2005	Impairment losses	Changes in value of commitments to purchase minority interests	Changes in scope of consolidation	Changes in foreign currency translation adjustments and other	Goodwill as of December 31, 2006
Universal Music Group	4,275	-	-	(a) 73	(425)	3,923
Vivendi Games	77	-	-	17	15	109
Canal+ Group	3,784	-	(b) (54)	(c) (318)	-	3,412
<i>including StudioCanal</i>	106	-	-	23	-	129
SFR	4,024	-	-	-	-	4,024
Maroc Telecom	1,636	-	-	2	(38)	1,600
Non-core operations	-	-	-	-	-	-
<b>TOTAL</b>	<b>13,796</b>	<b>-</b>	<b>(54)</b>	<b>(226)</b>	<b>(448)</b>	<b>13,068</b>

(a) Corresponds mainly to the allocation of the excess of the acquisition cost over the carrying amount of the approximately 7.7% stake held by MEI in Universal Studios Holding I Corp. (please refer to Note 2.2 "Purchase of the 7.7% stake held by Matsushita Electric Industrial (MEI) in Universal Studios Holding").

(b) The put option granted to minority shareholders on TKP shares maturing October 2006 was not exercised. The goodwill calculated following the initial recognition of the put option was reversed.

(c) Includes mainly the sale of 9.82% of the share capital of Canal+ France to Lagardère on December 19, 2006 (please refer to Note 2.1 "Combination of the Canal+ France and TPS pay-TV activities in France").

<i>(in millions of euros)</i>	Goodwill as of December 31, 2004	Impairment losses	Changes in value of commitments to purchase minority interests	Changes in scope of consolidation	Changes in foreign currency translation adjustments and other	Goodwill as of December 31, 2005
Universal Music Group	3,755	(a) (50)	-	-	570	4,275
Vivendi Games	29	-	-	37	11	77
Canal+ Group	3,732	4	(13)	61	-	3,784
<i>including StudioCanal</i>	62	2	-	43	(1)	106
SFR	4,025	-	-	(b) (6)	5	4,024
Maroc Telecom	1,612	-	-	(22)	46	1,636
Non-core operations	1	-	-	-	(1)	-
<b>TOTAL</b>	<b>13,154</b>	<b>(46)</b>	<b>(13)</b>	<b>70</b>	<b>631</b>	<b>13,796</b>

(a) Pursuant to IAS 12, a write-off of goodwill of €48 million was recorded in order to offset the recognition of deferred tax assets relating to ordinary tax losses not recognized at the end of 2000 as part of UMG's purchase price allocation.

(b) Includes -€155 million in respect of the deconsolidation of Cegetel S.A.S., partially offset by the recognition of additional goodwill (€97 million) on the acquisition of 35% of the share capital of Cegetel S.A.S. from SNCF before the divestiture of Cegetel S.A.S. to Neuf Telecom (please refer to Note 2.6. "Combination of Cegetel S.A.S. with Neuf Telecom on August 22, 2005").

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 9 Goodwill as of December 31, 2006 and 2005

## 9.3. Goodwill Impairment Test

In 2006, as in every year or whenever events or a change in the economic environment indicates a risk of impairment, Vivendi has reviewed the value of goodwill allocated to its cash-generating units (CGU). As prescribed by IAS 36, an impairment test of goodwill was performed by Vivendi for each CGU or group of CGUs, depending on the level at which Vivendi management measures return on operations.

In the absence of any identified indicator of impairment, the test was performed on the basis of an internal valuation work.

As of December 31, 2006, based on the valuations performed, Vivendi management reached the conclusion that the recoverable value of CGUs or groups of CGUs significantly exceeded their carrying value.

CGUs or groups of CGUs tested are as follows:

Business segments	Cash Generating Units (CGUs)	Groups of CGUs
Universal Music Group	Music recording	Universal Music Group
	Music publishing	
Vivendi Games	Vivendi Games	Vivendi Games
The Canal+ Group	Canal+ Premium	Canal+ French Pay-TV
	CanalSat	
	Multithématiques	
	Media Overseas	
	StudioCanal	StudioCanal
SFR	SFR	SFR
Maroc Telecom	Mobile	Maroc Telecom
	Fixed and internet	

The main assumptions used are presented in the following table.

	2006			2005		
	Method	Discount Rate	Perpetual Growth Rate	Method	Discount Rate	Perpetual Growth Rate
Universal Music Group	DCF and comparables model	8.25%	2.5%	DCF and comparables model	8.25%	2.5%
Vivendi Games	DCF	11.0%-12.0%	3.5%	DCF	11.0%-12.0%	3.5%
Canal+ Group						
Pay TV	(a) Value of transactions with TF1, M6 and Lagardère	-	-	(a) Value of transactions with TF1, M6 and Lagardère	-	-
StudioCanal	DCF	8.25%-8.75%	0%-1%	DCF	8.0%-9.0%	0%-0,5%
SFR	DCF and comparables model	8.0%	2.5%	DCF and comparables model	8.0%	2.5%
Maroc Telecom	Stock market price, DCF and comparables model	10.5%	2.5%	Stock market price, DCF and comparables model	10.5%	2.5%

(a) Please refer to Note 2.1 "Combination of the Canal+ France and TPS pay-TV in France".

The method and main assumptions underlying the valuations of CGUs or groups of CGUs are presented hereunder:

- the recoverable value of each CGU or group of CGUs is the higher of its value in use or its fair value (less costs to sell) which were determined as follows;
- value in use of each CGU or groups of CGU is determined as the discounted value of the future cash flows (discounted cash flow method (DCF)) by using cash flow projections consistent with the most recent budget and business plan approved by Vivendi management and presented to the management board. The applied discount rates

reflect the current assessment by the market of the time value of money and risks specific to each CGU or group of CGUs. The perpetual growth rates are those used to prepare budgets and three-year business plans, and beyond the period covered, consistent with growth rates estimated by the company by extrapolating the growth rates used for three-year business plans, without exceeding the long-term average growth rate for the markets in which the group operates;

- fair value (less costs to sell) of each CGU or group of CGUs is the amount based on market data, mainly comparisons with similar listed companies, values attributed in recent transactions or stock market prices of companies active in the same industries.

## NOTE 10 CONTENT ASSETS AND COMMITMENTS AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

### 10.1. Content Assets as of December 31, 2006 and December 31, 2005

December 31, 2006 (in millions of euros)	Content assets, gross	Accumulated amortization and impairment losses	Content assets
Music catalogs and publishing rights	4,854	(3,221)	1,633
Advances to artists and repertoire owners	362	-	362
Sport rights	366	-	366
Film and television costs	4,023	(3,452)	571
Games advances	194	(164)	30
<b>Content assets</b>	<b>9,799</b>	<b>(6,837)</b>	<b>2,962</b>
Deduction of current content assets	(1,046)	204	(842)
<b>Non-current content assets</b>	<b>8,753</b>	<b>(6,633)</b>	<b>2,120</b>

December 31, 2005 (in millions of euros)	Content assets, gross	Accumulated amortization and impairment losses	Content assets
Music catalogs and publishing rights	5,350	(3,361)	1,989
Advances to artists and repertoire owners	366	-	366
Sport rights	355	-	355
Film and television costs	3,697	(3,188)	509
Games advances	185	(152)	33
<b>Content assets</b>	<b>9,953</b>	<b>(6,701)</b>	<b>3,252</b>
Deduction of current content assets	(983)	193	(790)
<b>Non-current content assets</b>	<b>8,970</b>	<b>(6,508)</b>	<b>2,462</b>

Changes in the main content assets during the Years Ended December 31, 2006 and 2005 were as follows:

(in millions of euros)	Year Ended December 31, 2006	Year Ended December 31, 2005
<b>Opening balance of music catalogs and publishing rights</b>	1,989	1,910
Amortization, net (a)	(199)	(201)
Purchases of catalogs	32	6
Divestitures of catalogs	-	-
Changes in foreign currency translation adjustments and other	(189)	274
<b>Closing balance of music catalogs and publishing rights</b>	<b>1,633</b>	<b>1,989</b>

(a) This amortization is recorded in "Amortization of intangible assets acquired through business combinations" in the consolidated statement of earnings.

(in millions of euros)	Year Ended December 31, 2006	Year Ended December 31, 2005
<b>Opening balance of payments to artists and repertoire owners</b>	366	321
Payment to artists and repertoire owners	620	588
Recoupment and other movements	(601)	(570)
Changes in foreign currency translation adjustments and other	(23)	27
<b>Closing balance of payments to artists and repertoire owners</b>	<b>362</b>	<b>366</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 10 Content Assets and Commitments as of December 31, 2006 and December 31, 2005

<i>(in millions of euros)</i>	Year Ended December 31, 2006	Year Ended December 31, 2005
<b>Opening balance of sport rights</b>	355	187
Rights acquisition (a)	683	554
Rights accrual (a) (b)	51	198
Consumption of broadcasting rights	(717)	(570)
Other	(6)	(14)
<b>Closing balance of sport rights</b>	<b>366</b>	<b>355</b>

- (a) The rights are accrued upon the commencement of the broadcasting period. They are reclassified as acquired rights upon billing by the third party unless they have already been expensed. The rights accrual, net, corresponds to accrued rights less rights transferred to acquired rights and rights consumed before their billing.
- (b) The rights to broadcast the French Professional Soccer League for the ongoing season are recognized in the statement of financial position upon the opening of the season on July 1 for an amount of €600 million.

<i>(in millions of euros)</i>	Year Ended December 31, 2006	Year Ended December 31, 2005
<b>Opening balance of film and television costs</b>	509	556
Acquisition of coproductions and catalogs	24	25
Coproductions developed internally	-	-
Consumption of coproductions and catalogs	(56)	(44)
Acquisition of film and television rights	599	567
Consumption of film and television rights	(581)	(551)
Other	76	(44)
<b>Closing balance of film and television costs</b>	<b>571</b>	<b>509</b>

## Additional information on film costs and television programs excluding broadcasting rights

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005
<b>Film costs (a):</b>		
Released in theaters, less amortization	237	252
Completed, not released	-	-
In production	77	22
	314	274
<b>Costs of television coproductions:</b>		
Released, less amortization	2	5
In production	1	1
	3	6
<b>Film and television costs generating income</b>	<b>317</b>	<b>280</b>

- (a) Includes films produced or acquired before their first release for sale to third parties, as well as television rights catalogs.

At the Canal+ Group, based on management's total gross revenue estimates as of December 31, 2006, approximately 34% of completed and unamortized film and television costs (excluding amounts allocated to acquired catalogs) are expected to be amortized in 2007, and approximately 72% by December 31, 2009. Amortization of acquired

film catalogs recorded for the Years Ended December 31, 2006 and 2005 was €38 million and €33 million, respectively. As of December 31, 2006, the group estimated that payments to beneficiaries and guilds of approximately €50 million would be due in 2007.

## 10.2. Contractual Content Commitments as of December 31, 2006 and December 31, 2005

### Commitments given recorded in the Statement of Financial Position: content liabilities

Content liabilities are part of "Trade accounts payable and other" (please refer to Note 16.3) or part of "Other non-current liabilities" (please refer to Note 16.4) depending on their nature or maturity,

current or non-current, as applicable. Content liabilities related to share-based compensation plans are part of provisions (please refer to Note 19).

(in millions of euros)	Total as of December 31, 2006	Payments due in			Total as of December 31, 2005
		2007	2008-2011	After 2011	
Music royalties to artists and repertoire owners	1,334	1,279	55	-	1,514
Film and television rights (a)	116	116	-	-	63
Sport rights	500	482	18	-	445
Creative talent and employment agreements (b)	201	30	135	36	196
<b>Total content liabilities</b>	<b>2,151</b>	<b>1,907</b>	<b>208</b>	<b>36</b>	<b>2,218</b>

### Off balance sheet commitments given/received

(in millions of euros)	Total as of December 31, 2006	Payments due in			Total as of December 31, 2005
		2007	2008-2011	After 2011	
Film and television rights (a)	(c) 2,672	840	1,236	596	2,412
Sport rights	(d) 748	677	71	-	1,377
Creative talent and employment agreements (b)	979	462	462	55	930
<b>TOTAL GIVEN</b>	<b>4,399</b>	<b>1,979</b>	<b>1,769</b>	<b>651</b>	<b>4,719</b>
Film and television rights (a)	(118)	(69)	(49)	-	(111)
Sport rights	(29)	(19)	(10)	-	(48)
Creative talent and employment agreements (b)		not available			
<b>TOTAL RECEIVED</b>	<b>(147)</b>	<b>(88)</b>	<b>(59)</b>	<b>-</b>	<b>(159)</b>
<b>Total net</b>	<b>4,252</b>	<b>1,891</b>	<b>1,710</b>	<b>651</b>	<b>4,560</b>

The amount presented above for off balance sheet commitments given is the minimum amount guaranteed to third parties.

- (a) Includes primarily contracts valid over several years relating to the broadcast of future film and TV productions (mainly exclusivity contracts with major US studios and pre-purchases in the French movie industry), StudioCanal film coproduction commitments (given and received) and broadcasting rights of CanalSat and Cyfra+ multichannel digital TV packages. They are recorded as content assets when the broadcast is available for initial release. As of December 31, 2006, provisions recorded relating to film and television rights amounted to €214 million (compared to €92 million as of December 31, 2005).
- (b) UMG routinely commits to artists and other parties to pay agreed amounts upon delivery of content or other product ("Creative talent and employment agreements"). Until the artist or other party has delivered his or her content, UMG discloses its obligation as an off balance sheet commitment. While the artist or other party is also obligated to deliver his or her content or other product to UMG (these arrangements are generally exclusive), UMG does not report these obligations (or the likelihood of the other party's failure to meet its obligations) as an offset to its off balance sheet commitments.
- (c) As a result of the Canal+ Group and TPS combination, broadcasting contracts with thematic channels owned by TF1, M6 and Lagardère have been renegotiated in November and December 2006. Moreover, channels previously broadcasted on TPS exclusively will now be available on CanalSat.
- (d) Includes €600 million in respect of residual rights to broadcast the French Professional Soccer League won by the Canal+ Group in December 2004 for the 2007 – 2008 season. These rights will be recognized in the statement of financial position on the opening of the related sport season or at first payment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 11 Other Intangible Assets as of December 31, 2006 and December 31, 2005

## Other off balance sheet commitments received

- Vivendi Games granted operating licenses for the MMORPG World of Warcraft to China The 9 in China and to Softworld in Taiwan. The game was launched in China in June 2005 and in November 2005 in Taiwan. In both cases, Vivendi Games has received guaranteed minimum earnings from royalties. In addition, these partners are responsible for local technical aspects, game masters and customer assistance as well as distribution and marketing.
- The Canal+ Group has received commitments from its subscribers estimated at approximately €2,063 million (including VAT) as of December 31, 2006, compared to €1,907 million as of December 31, 2005. This estimate reflects the minimum commitments granted by subscribers over the residual life of the contracts (including decoder rental, where appropriate).

## NOTE 11 OTHER INTANGIBLE ASSETS AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

## 11.1. Other Intangible Assets as of December 31, 2006 and December 31, 2005

December 31, 2006 (in millions of euros)	Other intangible assets, gross	Accumulated amortization and impairment losses	Other intangible assets
Internally developed software (a)	968	(574)	394
Acquired software (b)	1,630	(1,135)	495
Telecom licenses	1,318	(227)	1,091
Other	675	(393)	282
	<b>4,591</b>	<b>(2,329)</b>	<b>2,262</b>

As of December 31, 2006, Vivendi does not hold any other intangible assets with an indefinite life.

December 31, 2005 (in millions of euros)	Other intangible assets, gross	Accumulated amortization and impairment losses	Other intangible assets
Internally developed software (a)	839	(483)	356
Acquired software (b)	1,202	(901)	301
Telecom licenses	988	(158)	830
Other	1,130	(680)	450
	<b>4,159</b>	<b>(2,222)</b>	<b>1,937</b>

(a) Includes mainly the cost of internal software developed by SFR and amortized over 4 years.

(b) Includes mainly SFR software amortized over 4 years.

## 11.2. Changes in other Intangible Assets for the Years Ended December 31, 2006 and December 31, 2005

(in millions of euros)	Year Ended December 31,	
	2006	2005
<b>Opening balance</b>	<b>1,937</b>	<b>2,177</b>
Amortization (a)	(426)	(414)
Impairment losses	-	(3)
Acquisitions	641	254
Increase related to internal developments	152	197
Divestitures/Decrease	(7)	(24)
Changes in scope of consolidation	(25)	(b) (234)
Changes in foreign currency translation adjustments	(12)	19
Other	2	(35)
<b>Closing balance</b>	<b>2,262</b>	<b>1,937</b>

(a) Accounted for in cost of revenues and in selling, general and administrative expenses. The amortization charge mainly consists of telecom licenses (SFR: -€52 million in 2006 and -€38 million in 2005, Maroc Telecom: -€25 million in 2006 and -€25 million in 2005), internally developed software (-€120 million in 2006 and -€101 million in 2005) and acquired software (-€171 million in 2006 and -€144 million in 2005).

(b) Includes Cegetel S.A.S. other intangible assets including internally-developed software for €47 million, acquired software for €12 million, telecom licenses for €18 million and user rights and rights of passage for €209 million (please refer to Note 2.6 "Combination of Cegetel S.A.S. and Neuf Telecom on August 22, 2005").

## NOTE 12 PROPERTY, PLANT AND EQUIPMENT AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

### 12.1. Property, Plant and Equipment as of December 31, 2006 and December 31, 2005

December 31, 2006 (in millions of euros)	Property, plant and equipment, gross	Accumulated depreciation and impairment losses	Property, plant and equipment
Land	246	(20)	226
Buildings	1,939	(1,184)	755
Equipment and machinery	6,527	(3,995)	2,532
Construction-in-progress	273	-	273
Other	2,379	(1,786)	593
	<b>11,364</b>	<b>(6,985)</b>	<b>4,379</b>

December 31, 2005 (in millions of euros)	Property, plant and equipment, gross	Accumulated depreciation and impairment losses	Property, plant and equipment
Land	297	(29)	268
Buildings	1,905	(1,111)	794
Equipment and machinery	5,985	(3,610)	2,375
Construction-in-progress	239	-	239
Other	2,436	(1,781)	655
	<b>10,862</b>	<b>(6,531)</b>	<b>4,331</b>

As of December 31, 2006, property, plant and equipment financed by finance lease contracts amounted to €65 million. As of December 31, 2005, they amounted to €116 million and included the "Colisée" tower located in La Défense sold to Philip Morris Capital Corporation (PMCC)

in 1998 and leased back to Vivendi under a very long-term lease (30 years). This asset was disposed of in July 2006, resulting in a decrease in the group's borrowings of €74 million and realized capital gains of €32 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 13 Property, Plant, Equipment and Intangible Assets of Telecom Operations as of December 31, 2006 and December 31, 2005

## 12.2. Changes in Property, Plant and Equipment for the Years Ended December 31, 2006 and 2005

(in millions of euros)	Year Ended December 31,	
	2006	2005
<b>Opening balance</b>	<b>4,331</b>	<b>4,740</b>
Depreciation (a)	(905)	(870)
Acquisitions/Increase	1,232	1,163
Divestitures/Decrease	(42)	(137)
Changes in scope of consolidation	(91)	(b) (634)
Changes in foreign currency translation adjustments	(43)	52
Other	(103)	17
<b>Closing balance</b>	<b>4,379</b>	<b>4,331</b>

(a) Accounted for in cost of revenues and in selling, general and administrative expenses. The depreciation charge mainly consists of buildings (-€129 million in 2006 and -€135 million in 2005) and equipment and machinery (-€550 million in 2006 and -€526 million in 2005).

(b) Consisted of Cegetel S.A.S. property, plant and equipment including land for €3 million, buildings for €75 million, equipment and machinery for €438 million and construction-in-progress for €87 million (please refer to Note 2.6 "Combination of Cegetel S.A.S. with Neuf Telecom as of August 22, 2005").

## NOTE 13 PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS OF TELECOM OPERATIONS AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

(in millions of euros)	December 31, 2006	December 31, 2005
Network equipment (a)	2,365	2,160
Software (b)	726	671
Licenses (b)	(c) 832	574
Other	427	440
<b>Property, plant, equipment and intangible assets of telecom operations at SFR</b>	<b>4,350</b>	<b>3,845</b>

(in millions of euros)	December 31, 2006	December 31, 2005
Network equipment (a)	835	844
Software (b)	124	82
Licenses (b)	259	256
Other	330	343
<b>Property, plant, equipment and intangible assets of telecom operations at Maroc Telecom</b>	<b>1,548</b>	<b>1,525</b>

(a) Principally pylons, radio and transmission equipment, switch centers and servers and hardware, recorded as "Property, plant and equipment".

(b) Recorded as "Other intangible assets".

(c) Includes €278 million (before amortization), representing the discounted value of the fixed royalty GSM license used by SFR which was renewed for 15 years in March 2006.

## NOTE 14 INVESTMENTS IN EQUITY AFFILIATES AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

### 14.1. Equity Affiliates as of December 31, 2006 and December 31, 2005

(in millions of euros)	Note	Voting Interest		Value of Equity Affiliates	
		December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
NBC Universal (a)		20.0%	20.0%	5,953	6,419
Neuf Cegetel (b)	2.3	40.5%	28.2%	1,020	363
Other		na*	na*	59	74
				<b>7,032</b>	<b>6,856</b>

\* na: not applicable.

- (a) As of December 31, 2006, as at each year end, an impairment test was performed to determine whether the carrying amount of Vivendi's 20% of interest in NBCU exceeds its recoverable amount. Vivendi's management, with the assistance of an independent expert, concluded that the carrying amount of the NBCU interest exceeded its recoverable amount which was determined using the discounted cash flows method or stock market multiples employing financial assumptions consistent with those used as of December 31, 2005 (discount rate between 8.25% and 8.50%; perpetual growth rate between 2.5% and 3.0%). Moreover, General Electric, as the controlling shareholder with an 80% interest in NBCU, announced positive forecasts.
- (b) Based on the trading value of Neuf Cegetel shares (€26.9 per share as of December 31, 2006), the stock market value of SFR's stake in Neuf Cegetel as of December 31, 2006, amounted to approximately €2.2 billion.

### 14.2. Changes in Value of Equity Affiliates during the Years Ended December 31, 2006 and 2005

(in millions of euros)	Note	Value of Equity Affiliates as of December 31, 2005	Changes in Scope of Consolidation	Income from Equity Affiliates	Dividends Received	Changes in foreign currency translation adjustments and other	Value of Equity Affiliates as of December 31, 2006
NBC Universal	2.2	6,419	(a) 165	301	(262)	(b) (670)	5,953
Neuf Cegetel	2.3	363	(c) 626	38	-	(7)	1,020
Other		74	(1)	(2)	(9)	(3)	59
		<b>6,856</b>	<b>790</b>	<b>337</b>	<b>(271)</b>	<b>(680)</b>	<b>7,032</b>

- (a) Includes Vivendi's subscription to the NBC Universal capital increase (€98 million) to finance the acquisition of iVillage by NBC Universal, and the allocation (€65 million) of the excess of the acquisition cost over the carrying amount of the approximate 7.7% stake held by MEI in Universal Studios Holding I Corp.
- (b) Includes changes in foreign currency translation adjustments (-€673 million).
- (c) Corresponds to the 2006 increase of SFR's stake in Neuf Cegetel

(in millions of euros)	Note	Value of Equity Affiliates as of December 31, 2004	Changes in Scope of Consolidation	Income from Equity Affiliates	Dividends Received	Changes in foreign currency translation adjustments and other	Value of Equity Affiliates as of December 31, 2005
NBC Universal		5,555	-	361	(346)	(a) 849	6,419
Neuf Cegetel	2.6	-	(b) 413	(50)	-	-	363
UGC	2.7	78	(c) (80)	3	-	(1)	-
Other		140	4	12	(9)	(73)	74
		<b>5,773</b>	<b>337</b>	<b>326</b>	<b>(355)</b>	<b>775</b>	<b>6,856</b>

- (a) Includes the impact of non-cash adjustments relating to the investment in NBC Universal (€124 million) and change in foreign currency translation (€824 million).
- (b) Corresponds to the reclassification of SFR's 28.19% stake in Cegetel S.A.S. (€176 million), following the combination of Cegetel S.A.S. with Neuf Telecom, and the 28.19% investment in Neuf Telecom (€237 million).
- (c) In December 2005, following the exercise of the call option held by the family shareholders, Vivendi divested its 37.8% stake in UGC S.A.'s share capital for €89 million (including interest).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 15 Financial Assets as of December 31, 2006 and December 31, 2005

### 14.3. Financial Information Relating to Equity Affiliates as of December 31, 2006 and December 31, 2005

The following condensed information relating to equity affiliates corresponds to Vivendi's equity in the stand-alone financial statements of these affiliates.

(in millions of euros)	December 31, 2006			
	NBC Universal	Neuf Cegetel	Other	Total
Vivendi's ownership interests	20.0%	22.7%	na*	na*
Revenues	2,467	657	55	3,179
EBIT	468	15	2	485
Earnings	305	48	2	355
Total assets	4,837	993	50	5,880
Total liabilities	1,301	658	27	1,986

(in millions of euros)	December 31, 2005				
	NBC Universal	Neuf Cegetel (a)	Elektrim Telekomunikacja (b)	Other	Total
Vivendi's ownership interests	18.5%	15.8%	49.0%	na*	na*
Revenues	2,089	436	-	124	2,649
EBIT	464	(26)	(4)	10	444
Earnings	338	(28)	(11)	6	305
Total assets	4,951	603	na*	92	5,646
Total liabilities	1,446	452	na*	63	1,961

\* na: not applicable.

(a) Company equity accounted from August 22, 2005.

(b) Company consolidated, with a 51% ownership interest, from December 12, 2005. Please refer to Note 2.4 "Stake in PTC".

## NOTE 15 FINANCIAL ASSETS AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

(in millions of euros)	Note	December 31, 2006	December 31, 2005
Available-for-sale securities	15.1	325	2,475
Derivative financial instruments	15.2	52	29
Financial assets at fair value through P&L		119	83
Down payments made to Bertelsmann for the acquisition of Music Publishing activities (a)	29.3	1,663	-
Onatel shares	15.3	222	-
<b>Financial assets at fair value</b>		<b>2,381</b>	<b>2,587</b>
Collateralized cash received from Lagardère	2.1	469	-
Cash deposits		51	61
Other loans and receivables	15.4	1,096	1,065
Held-to-maturity investments		-	(b) 184
<b>Financial assets at amortized cost</b>		<b>1,616</b>	<b>1,310</b>
<b>Financial assets</b>		<b>3,997</b>	<b>3,897</b>
Deduction of short-term financial assets		(833)	(114)
<b>Non-current financial assets</b>		<b>3,164</b>	<b>3,783</b>

(a) On September 6, 2006, Universal Music Group (UMG) entered into an agreement with Bertelsmann AG to purchase BMG Music Publishing (BMGP). The gross purchase price is €1,639 million. A deposit representing the net amount was paid in cash on December 15, 2006 and included an adjustment for cash generated by BMGP during the period comprised between July 1, 2006 and that day and for interest capitalized over this period. Until the closing date and the consolidation of BMGP by UMG, the cash outlay and the acquisition fees are recorded as a non-current financial asset. The definitive transaction price will include an adjustment for cash generated by BMGP during the period comprised between December 16, 2006 and the closing date including interest capitalized over this period. This transaction is subject to the regulatory approvals of the competition authorities in the relevant countries. Such approval has been obtained in the United States. However, the European Commission announced on December 8, 2006 that the transaction will be subject to a Phase II inquiry.

(b) Includes bonds issued by Neuf Cegetel fully redeemed in March 2006 (€180 million). Please refer to the Note 2.3.

## 15.1. Changes in Available-for-sale Securities during the Years Ended December 31, 2006 and December 31, 2005

(in millions of euros)	Note	December 31, 2005	Changes in value	Acquisition/ divestiture	Changes in foreign currency translation adjustments and other	December 31, 2006
Veolia Environnement shares (a)		823	38	(861)	-	-
DuPont shares	6.1	590	(6)	(550)	(34)	-
Sogecable shares hedging the exchangeable bonds (b)	23.1	282	(48)	(28)	-	206
PTC shares held by Telco and Carcom	2.4	531	-	(496)	(35)	-
LBI fund shares	2.4	87	-	(87)	-	-
Amp'd shares (c)		17	-	27	(2)	42
Other		145	9	(83)	6	77
<b>Available-for-sale securities</b>		<b>2,475</b>	<b>(7)</b>	<b>(2,078)</b>	<b>(65)</b>	<b>325</b>

(a) This residual stake of 5.3% in Veolia Environnement's share capital was sold in July 2006 under an Accelerated Book Building procedure, for a total amount of €861 million. The capital gain amounted to €832 million. Vivendi also held 218,255,690 Veolia Environnement warrants to purchase Veolia Environnement shares at an exercise price of €55 per share. These warrants matured in March 2006 and were not exercised.

(b) Includes 1 million of Sogecable shares that were subject to a loan as of December 31, 2006 (compared to 8.3 million as of December 31, 2005). At the time of the issuance, Vivendi committed to lend a maximum of 20 million Sogecable shares to the financial institution acting as a bookrunner for the bond issue.

(c) Vivendi perpetuated its stake in the share capital of Amp'd of 19.9% following Amp'd's share capital increases.

(in millions of euros)	Note	December 31, 2004	Changes in value	Acquisition/ divestiture	Changes in foreign currency translation adjustments and other	December 31, 2005
Veolia Environnement shares		573	250	-	-	823
DuPont shares		592	(86)	-	84	590
Sogecable shares hedging the exchangeable bonds (a)	23.1	671	14	(a) (403)	-	282
PTC shares held by Telco and Carcom	2.4	-	-	-	531	531
LBI fund shares	2.4	-	-	-	87	87
Other		122	(8)	33	15	162
<b>Available-for-sale securities</b>		<b>1,958</b>	<b>170</b>	<b>(370)</b>	<b>717</b>	<b>2,475</b>

(a) In November and December 2005, Vivendi divested 12.5 million Sogecable shares to bondholders.

## 15.2. Changes in Derivative Financial Instruments during the Years Ended December 31, 2006 and 2005

(in millions of euros)	December 31, 2005	Changes in value	Acquisition/ divestiture	Changes in foreign currency translation adjustments and other	December 31, 2006
Foreign currency hedging swaps	13	2	-	-	15
Interest rate swaps	10	8	-	-	18
Swaps indexed on shares and warrants	3	8	-	-	11
Other	3	5	-	-	8
<b>Derivative financial instruments</b>	<b>29</b>	<b>23</b>	<b>-</b>	<b>-</b>	<b>52</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 15 Financial Assets as of December 31, 2006 and December 31, 2005

<i>(in millions of euros)</i>	December 31, 2004	Changes in value	Acquisition/ divestiture	Changes in foreign currency translation adjustments and other	December 31, 2005
Collar option on Veolia Environnement shares (a)	93	-	(93)	-	-
Call options on Vinci shares hedging the exchangeable bonds	72	-	(b) (72)	-	-
Foreign currency hedging swaps	32	(19)	-	-	13
Interest rate swaps	42	(32)	-	-	10
Swaps indexed on shares and warrants	3	-	-	-	3
Other	15	(12)	-	-	3
<b>Derivative financial instruments</b>	<b>257</b>	<b>(63)</b>	<b>(165)</b>	<b>-</b>	<b>29</b>

(a) Pursuant to the sale of 15% of the share capital of Veolia Environnement in December 2004, Vivendi and Société Générale set up a derivative structure comprising a notional commitment covering 5% of the share capital of Veolia Environnement and enabling Vivendi to benefit over a 3-year period from any increase in the share price of Veolia Environnement above €23.91. This derivative structure was terminated earlier in October 2005. Due to an increase in the share price of Veolia Environnement above the collar trigger price set in December 2004, the unwinding of this instrument led to the recognition in 2005 of financial income of €115 million for Vivendi, equal to the gross income from the transaction (€208 million after commission) less the value of the collar as of January 1, 2005 (€93 million).

(b) These options were unwound at the same time as the early redemption of the bonds exchangeable for Vinci shares which occurred in March 2005.

## 15.3. Stake in Onatel

In December 2006, following the completion of a bidding process, Maroc Telecom acquired a 51% stake in Onatel, the national telecommunications operator in Burkina Faso for a cash consideration of €220 million. Onatel has been fully consolidated since January 1<sup>st</sup>, 2007. As of December 31, 2006, the stake in Onatel is recognized as a financial asset for the purchase price, i.e., €222 million. As of September 30, 2006, Onatel's main financial figures (unaudited), reported under local accounting principles are, as follows:

<i>(in millions of euros – unaudited)</i>	September 30, 2006
Total assets	226
Net assets acquired	49
Estimated goodwill	173
<b>Purchase price</b>	<b>222</b>

<i>(in millions of euros – unaudited)</i>	September 30, 2006
Borrowings and other financial liabilities	66
Cash and cash equivalents	(13)
<b>Borrowings and other financial liabilities, net</b>	<b>53</b>

<i>(in millions of euros – unaudited)</i>	Period from January 1 to September 30, 2006
Revenues	
Fixed	55
Mobile	37
Eliminations	(6)
<b>Consolidated revenues</b>	<b>86</b>

## 15.4. Other Financial Assets as of December 31, 2006 and December 31, 2005

<i>(in millions of euros)</i>	Note	December 31, 2006	December 31, 2005
Deposits related to Qualified Technological Equipment lease/sublease operations (a)	16.4	686	807
Down payments made to TF1 & M6	2.1	154	-
Pension funds	20	21	35
Others		235	223
<b>Other loans and receivable</b>		<b>1,096</b>	<b>1,065</b>

(a) Cash deposits assuring the pre-financing of agreement arrangement commission for Qualified Technological Equipment (QTE) operations set up in 1999 and 2001 by SFR.

## NOTE 16 CHANGES IN NET WORKING CAPITAL AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

### 16.1. Changes in Net Working Capital during the Years Ended December 31, 2006 and 2005

<i>(in millions of euros)</i>	Note	December 31, 2005	Net cash provided by operating activities	Net cash provided by investing activities	Changes in Scope of Consolidation	Changes in foreign currency translation adjustments and other	December 31, 2006
Inventories		375	(8)	-	-	(9)	358
Trade accounts receivable and other	16.2	4,531	(10)	-	(34)	2	4,489
<b>Working capital assets</b>		<b>4,906</b>	<b>(18)</b>	<b>-</b>	<b>(34)</b>	<b>(7)</b>	<b>4,847</b>
Trade accounts payable and other	16.3	8,737	326	75	(7)	(a) 166	9,297
Other non-current liabilities	16.4	1,342	(277)	267	73	(136)	1,269
<b>Working capital liabilities</b>		<b>10,079</b>	<b>49</b>	<b>342</b>	<b>66</b>	<b>30</b>	<b>10,566</b>
<b>Net working capital</b>		<b>(5,173)</b>	<b>(67)</b>	<b>(342)</b>	<b>(100)</b>	<b>(b) (37)</b>	<b>(5,719)</b>

(a) Includes the impact of the change in sports rights accrued by the Canal+ Group for €61 million (i.e., €51 million excluding taxes) and the interim dividend to be paid to Vodafone with respect to the fiscal year 2006 (€197 million)

(b) Includes €114 million in changes in foreign currency translation adjustments

<i>(in millions of euros)</i>	Note	December 31, 2004	Net cash provided by operating activities	Net cash provided by investing activities	Changes in Scope of Consolidation	Changes in foreign currency translation adjustments and other	December 31, 2005
Inventories		315	48	-	28	(16)	375
Trade accounts receivable and other	16.2	4,528	300	-	(401)	104	4,531
<b>Working capital assets</b>		<b>4,843</b>	<b>348</b>	<b>-</b>	<b>(373)</b>	<b>88</b>	<b>4,906</b>
Trade accounts payable and other	16.3	8,187	540	199	(546)	357	8,737
Other non-current liabilities	16.4	1,955	(225)	-	(343)	(45)	1,342
<b>Working capital liabilities</b>		<b>10,142</b>	<b>315</b>	<b>199</b>	<b>(889)</b>	<b>312</b>	<b>10,079</b>
<b>Net working capital</b>		<b>(5,299)</b>	<b>33</b>	<b>(199)</b>	<b>516</b>	<b>(a) (224)</b>	<b>(5,173)</b>

(a) Includes -€233 million in respect of changes in foreign currency translation adjustments.

### 16.2. Trade Accounts Receivable and other as of December 31, 2006 and December 31, 2005

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005
Trade accounts receivable	3,955	4,188
Trade accounts receivable write-offs	(820)	(788)
<b>Trade accounts receivable, net</b>	<b>3,135</b>	<b>3,400</b>
Other	1,354	1,131
<i>Including</i>		
VAT to be received	705	635
Social costs and other taxes	39	33
Prepaid charges	204	167
<b>Trade accounts receivable and other</b>	<b>4,489</b>	<b>4,531</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 18 Information on the Share Capital as of December 31, 2006 and December 31, 2005

## 16.3. Trade Accounts Payable and other as of December 31, 2006 and December 31, 2005

<i>(in millions of euros)</i>	Note	December 31, 2006	December 31, 2005
Trade accounts payable		4,898	4,735
Other		4,399	4,002
<i>Including</i>			
Royalty advances to music artist	10.2	1,279	1,341
Deferred income related to telecommunication operations (a)		681	772
VAT		634	588
Social costs and other taxes		540	408
<b>Trade accounts payable and other</b>		<b>9,297</b>	<b>8,737</b>

(a) Mainly includes subscriptions and sold prepaid cards that are not consumed, mobile phones held by distributors as well as roll-over minutes.

## 16.4. Other Non-current Liabilities as of December 31, 2006 and December 31, 2005

<i>(in millions of euros)</i>	Note	December 31, 2006	December 31, 2005
Advance lease payments in respect of Qualified Technological Equipment operations	15.4	715	840
Non-current content liabilities	10.2	120	255
Liabilities related to SFR GSM licence	13	253	-
Other		181	247
		<b>1,269</b>	<b>1,342</b>

## NOTE 17 CASH AND CASH EQUIVALENTS AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005
Cash	410	517
Cash equivalents	1,990	2,385
<b>Cash and cash equivalents</b>	<b>2,400</b>	<b>2,902</b>

As of December 31, 2006, cash equivalents comprised UCITS for €1,459 million (€1,748 million as of December 31, 2005) and certificates of deposit and term deposits for €531 million (€637 million as of December 31, 2005).

## NOTE 18 INFORMATION ON THE SHARE CAPITAL AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

## 18.1. Number of Common Shares and Voting Rights Outstanding as of December 31, 2006 and December 31, 2005

<i>(in thousands)</i>	December 31, 2006	December 31, 2005
<b>Common shares outstanding (nominal value: €5.5 per share)</b>	<b>1,157,034</b>	<b>1,153,477</b>
Treasury shares	(1,380)	(2,499)
<b>Voting rights</b>	<b>1,155,654</b>	<b>1,150,978</b>

As of December 31, 2006, Vivendi holds 1,379,953 treasury shares of which 79,114 were held to hedge certain share purchase options granted to executives and employees and 1,300,389 shares were in the process of cancellation at that time. Such cancellation, which could be completed in the beginning of 2007, results from the conversion of ADS options into cash-settled stock appreciation rights (please refer to Note 21 "Share-based compensation"). In 2006, Vivendi sold approximately 1.1 million shares for a net amount of €27 million, which was recorded against equity. In 2005, Vivendi acquired approximately 1.9 million shares for a net amount of €48 million, which was recorded against equity.

## 18.2. Acquisition of Shares of Vivendi Exchangeco

On November 27, 2006, as part of Vivendi's process of simplifying the organizational structure of the group in North America, all of the outstanding exchangeable shares of Vivendi Exchangeco Inc. were acquired by a Canadian indirect subsidiary of Vivendi (through the exercise of its overriding call right in accordance with the terms and conditions of the exchangeable shares, as recently amended), in

exchange for an ordinary share of Vivendi S.A. plus a cash amount of Cdn\$1.42 per exchangeable share (corresponding to a total cash amount of Cdn\$6 million). This exchange had no impact on the share capital of Vivendi as, simultaneously to the issuance of the new Vivendi shares, an equivalent number of treasury shares was cancelled. As a result, from such date, no exchangeable shares remain outstanding, the exchangeable shares were delisted from the Toronto Stock Exchange and Vivendi Exchangeco Inc. has ceased to be a reporting issuer under Canadian securities laws.

## 18.3. 2006 Dividends

On February 27, 2007, the date of the Management Board's meeting which approved Vivendi's Consolidated Financial Statements and the appropriation of earnings, Vivendi's Management Board decided to propose the distribution of a dividend of €1.20 per share to shareholders, corresponding to a total distribution of approximately €1.4 billion. This proposal was presented to the Supervisory Board at its meeting held on March 6, 2007.

## NOTE 19 PROVISIONS AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

<i>(in millions of euros)</i>	Note	December 31, 2005	Addition	Utilization	Reversal and changes in estimates	Changes in scope of consolidation and other	December 31, 2006
Employee benefit plans	20	724	73	(236)	(19)	(57)	485
Share-based compensation plans	21	46	60	(10)	(7)	58	147
Other employee provisions (a)		127	15	(6)	(26)	(17)	93
Employee benefits (b)		897	148	(252)	(52)	(16)	725
Restructuring costs	22	73	63	(63)	(1)	(5)	67
Litigations	30	285	50	(69)	(35)	(1)	230
Losses on onerous contracts		105	(c) 186	(26)	-	(5)	260
Contingent liabilities due to disposal	29.4	173	98	(102)	(12)	(2)	155
Cost of dismantling and restoring site (d)		95	9	-	-	(18)	86
Other		170	60	(47)	(18)	98	263
<b>Provisions</b>		<b>1,798</b>	<b>614</b>	<b>(559)</b>	<b>(118)</b>	<b>51</b>	<b>1,786</b>
Deduction of current provisions		(578)	(179)	344	8	7	(398)
<b>Non-current provisions</b>		<b>1,220</b>	<b>435</b>	<b>(215)</b>	<b>(110)</b>	<b>58</b>	<b>1,388</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 20 Employee Benefits as of December 31, 2006 and December 31, 2005

<i>(in millions of euros)</i>	Note	December 31, 2004	Addition	Utilization	Reversal and changes in estimates	Changes in scope of consolidation and other	December 31, 2005
Employee benefit plans	20	691	47	(124)	(10)	120	724
Share-based compensation plans	21	18	28	-	-	-	46
Other employee provisions (a)		93	65	-	-	(31)	127
Employee benefits (b)		802	140	(124)	(10)	89	897
Restructuring costs	22	124	27	(81)	(3)	6	73
Litigations	30	371	86	(127)	(51)	6	285
Losses on onerous contracts		101	15	(12)	(2)	3	105
Contingent liabilities due to disposal		224	30	(105)	(3)	27	173
Cost of dismantling and restoring site (d)		86	4	(2)	-	7	95
Other		210	168	(114)	(63)	(31)	170
<b>Provisions</b>		<b>1,918</b>	<b>470</b>	<b>(565)</b>	<b>(132)</b>	<b>107</b>	<b>1,798</b>
Deduction of current provisions		(357)	(214)	217	55	(279)	(578)
<b>Non-current provisions</b>		<b>1,561</b>	<b>256</b>	<b>(348)</b>	<b>(77)</b>	<b>(172)</b>	<b>1,220</b>

(a) Includes employee deferred compensation.

(b) Excludes employee termination reserves recorded under restructuring costs in the amount of €25 million in 2006 and €47 million in 2005.

(c) The costs incurred in 2006 relating to the combination of the Canal+ France and TPS pay-TV activities in France amounted to €177 million of which €165 million was recorded under provisions and €12 million was recorded in deduction of content assets or in trade accounts payable.

(d) SFR is required to dismantle and restore each mobile telephony antenna site following the termination of the site lease agreement.

## NOTE 20 EMPLOYEE BENEFITS AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

## 20.1. Analysis of the Expense Related to Employee Benefit Plans for the Years Ended December 31, 2006 and 2005

The following table provides the cost of employee benefit plans excluding its financial component. The total cost of defined benefit plans is disclosed in Note 20.2.2 hereunder.

<i>(in millions of euros)</i>	Note	Year Ended December 31,	
		2006	2005
Retirement pensions through defined contribution plans		56	46
Retirement pensions through defined benefit plans	20.2	22	23
<b>Employee benefit plans</b>		<b>78</b>	<b>69</b>

## 20.2. Retirement Pensions through Defined Benefit Plans

### 20.2.1. Assumptions used in the evaluation and sensitivity analysis

The weighted average rates and assumptions used in accounting for these plans for the Years Ended December 31, 2006 and 2005 were:

	Pension Benefits		Post-retirement Benefits	
	2006	2005	2006	2005
Discount rate	4.9%	4.9%	5.2%	5.2%
Expected return on plan assets	4.7%	4.7%	na*	na*
Rate of compensation increase	3.9%	3.8%	3.4%	3.4%
Expected residual active life (in years)	12.4	13.2	9.5	11.0

\* na: not applicable.

The applicable discount rates were determined by reference to returns received on notes issued by investment grade companies having maturities identical to that of the valued plans. A 50 basis point increase in the 2006 discount rate would have lead to a decrease of €3 million in the pre-tax expense. A 50 basis point decrease in the 2006 discount rate would have lead to an increase of €6 million in the pre-tax expense.

For each country where Vivendi has plan assets, expected returns on plan assets were determined taking into account the structure of the asset portfolio and the expected rates of return for each of the components. A 50 basis point increase (or decrease) in the expected return on plan assets for 2006 would have led to a decrease of €4 million in the pre-tax expense (or an increase of €4 million).

The assumptions used in accounting for the pension benefits, by country, were as follows:

	US		UK		Germany		France	
	2006	2005	2006	2005	2006	2005	2006	2005
Discount rate	5.3%	5.3%	4.9%	4.9%	4.3%	4.2%	4.3%	4.2%
Expected return on plan assets	5.0%	5.5%	4.5%	4.5%	na*	na*	4.4%	3.9%
Rate of compensation increase	4.0%	4.0%	4.6%	4.3%	3.5%	3.5%	3.5%	3.4%

\* na: not applicable.

Through its pension management policy in the US and in the UK, Vivendi has put in place an investment strategy, including notably the conclusion use of derivatives, which protects the group against unfavorable changes in interest rates and increases in the rate of inflation. Thus, an increase in the pension obligation is compensated for by a symmetrical increase in the fair value of the plan assets.

For the RAP plan in the US, the investment policy put in place aims to match cash flows such that those generated by the investments match those of the pension obligations.

For the VUPS plan in the UK, this has resulted in the conclusion use of interest and inflation derivatives that protect the group from unfavorable movements in interest rates and inflation.

The assumptions used in accounting for the postretirement benefits, by country, were as follows:

	US		Canada	
	2006	2005	2006	2005
Discount rate	5.3%	5.3%	4.8%	5.0%
Expected return on plan assets	na*	na*	na*	na*
Rate of compensation increase	4.0%	4.0%	na*	na*

\* na: not applicable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 20 Employee Benefits as of December 31, 2006 and December 31, 2005

The range of investment allocation by asset category for each major plan was as follows:

	Minimum	Maximum
Equity securities	10%	10%
Real estate	0%	0%
Debt securities	84%	84%
Cash	6%	6%

Vivendi's pension plan asset allocation as of December 31, 2006 and 2005 was as follows:

	December 31,	
	2006	2005
Equity securities	9.7%	43.0%
Real estate	0.3%	0.4%
Debt securities	84.3%	50.5%
Cash	5.7%	6.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

These assets do not include buildings occupied by or assets used by Vivendi, or Vivendi shares or debt instruments.

For purposes of measuring post-retirement benefits measurement, Vivendi assumed a slow-down in growth in the *per capita* cost of covered health care benefits (the annual trend in health care cost) from 8.7% for categories under 65 years old and 65 years old and over

in 2006, down to 4.7% in 2012 for these categories. In 2006, a one-percentage-point increase in the annual trend rate would have increased the post-retirement obligation by €11 million and the pre-tax expense by less than €1 million; conversely, a one percentage-point decrease in the annual trend rate would have decreased the post-retirement benefit obligation by €9 million and the pre-tax expense by less than €1 million.

## 20.2.2. Analysis of the expense recorded for the Years Ended December 31, 2006 and 2005

(in millions of euros)	Pension Benefits		Post-retirement Benefits		Pension and Post-retirement Benefits	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2006	2005	2006	2005	2006	2005
Current service cost	13	15	-	-	13	15
Amortization of actuarial (gains) losses	11	1	-	-	11	1
Amortization of past service costs	(16)	2	4	-	(12)	2
Effect of curtailments/settlements	10	5	-	-	10	5
Adjustment related to asset ceiling	-	-	-	-	-	-
<b>Impact on selling, administrative and general expenses</b>	<b>18</b>	<b>23</b>	<b>4</b>	<b>-</b>	<b>22</b>	<b>23</b>
Interest cost	62	64	9	11	71	75
Expected return on plan assets	(39)	(40)	-	-	(39)	(40)
<b>Impact on other financial charges and income</b>	<b>23</b>	<b>24</b>	<b>9</b>	<b>11</b>	<b>32</b>	<b>35</b>
<b>Net benefit cost</b>	<b>41</b>	<b>47</b>	<b>13</b>	<b>11</b>	<b>54</b>	<b>58</b>

### 20.2.3. Analysis of net benefit obligations with respect to pensions and post-retirement benefits as of December 31, 2006 and December 31, 2005

The date pension plan obligations are measured is as of December 31<sup>st</sup> of the fiscal year. The tables below present changes in the value of the benefit obligations, the fair value of plan assets, the funded status and

the net provision recorded in the statement of financial position for the Years Ended December 31, 2006 and 2005:

		Pension Benefits		Post-retirement Benefits		Pension and Post-retirement Benefits	
(in millions of euros)	Note	2006	2005	2006	2005	2006	2005
<b>Changes in benefit obligation</b>							
Benefit obligation at the beginning of the year		1,376	1,276	200	201	1,576	1,477
Current service cost		13	15	-	-	13	15
Interest cost		62	64	9	11	71	75
Contributions by plan participants		-	1	1	1	1	2
Business combinations		1	-	-	-	1	-
Divestitures		-	(4)	-	-	-	(4)
Curtailments		(1)	(4)	-	(1)	(1)	(5)
Settlements		(19)	(64)	-	-	(19)	(64)
Transfers		16	-	(16)	-	-	-
Plan amendments		(18)	7	-	(18)	(18)	(11)
Experience (gains) losses		(2)	(4)	(2)	(4)	(4)	(8)
Actuarial (gains) losses related to changes in actuarial assumptions		68	65	3	-	71	65
Benefits paid		(116)	(90)	(17)	(19)	(133)	(109)
Special termination benefits		4	5	-	-	4	5
Other (foreign currency translation adjustments)		(65)	109	(19)	29	(84)	138
<b>Benefit obligation at the end of the year</b>		<b>1,319</b>	<b>1,376</b>	<b>159</b>	<b>200</b>	<b>1,478</b>	<b>1,576</b>
<i>Including wholly or partly funded benefits</i>		<i>997</i>	<i>1,049</i>	<i>-</i>	<i>-</i>	<i>997</i>	<i>1,049</i>
<i>Including wholly unfunded benefits (a)</i>		<i>322</i>	<i>327</i>	<i>159</i>	<i>200</i>	<i>481</i>	<i>527</i>
<b>Changes in fair value of plan assets</b>							
Fair value of plan assets at the beginning of the year		806	685	-	-	806	685
Expected return on plan assets (b)		39	40	-	-	39	40
Experience gains (losses) (b)		24	9	-	-	24	9
Contributions by employers		223	152	16	18	239	170
Contributions by plan participants		-	1	1	1	1	2
Business combinations		-	-	-	-	-	-
Divestitures		-	-	-	-	-	-
Settlements		(19)	(59)	-	-	(19)	(59)
Transfers		-	3	-	-	-	3
Benefits paid		(116)	(90)	(17)	(19)	(133)	(109)
Other (foreign currency translation adjustments)		(46)	65	-	-	(46)	65
<b>Fair value of plan assets at the end of the year</b>		<b>911</b>	<b>806</b>	<b>-</b>	<b>-</b>	<b>911</b>	<b>806</b>
<b>Funded status</b>							
Underfunded obligation		(408)	(570)	(159)	(200)	(567)	(770)
Unrecognized actuarial (gains) losses		117	92	(18)	(16)	99	76
Unrecognized past service cost		4	5	-	-	4	5
Adjustment related to asset ceiling		-	-	-	-	-	-
<b>Net (provision) asset recorded in the statement of financial position</b>		<b>(287)</b>	<b>(473)</b>	<b>(177)</b>	<b>(216)</b>	<b>(464)</b>	<b>(689)</b>
<i>Including assets</i>	15.4	<i>21</i>	<i>35</i>	<i>-</i>	<i>-</i>	<i>21</i>	<i>35</i>
<i>Including provisions for employee benefit plans (c)</i>	19	<i>(308)</i>	<i>(508)</i>	<i>(177)</i>	<i>(216)</i>	<i>(485)</i>	<i>(724)</i>

(a) Certain pension plans, in accordance with local laws and practices, are not covered by pension funds. As of December 31, 2006, they principally comprise supplementary pension plans in the US and pension plans in Germany.

(b) The actual return on plan assets is the sum of the expected return on plan assets and the actuarial (gains) losses related to changes in actuarial assumptions.

(c) Includes a current liability of €73 million as of December 31, 2006

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 20 Employee Benefits as of December 31, 2006 and December 31, 2005

The table below presents the benefit obligation, the fair value of plan assets and the funded status as of January 1, 2004 and as of December 31, 2004, 2005 and 2006:

(in millions of euros)	Pension Benefits				Post-retirement Benefits			
	December 31,			January 1,	December 31,			January 1,
	2006	2005	2004	2004	2006	2005	2004	2004
Benefit obligation	1,319	1,376	1,276	1,439	159	200	201	206
Fair value of plan assets	911	806	685	769	-	-	-	-
<b>Funded status</b>	<b>(408)</b>	<b>(570)</b>	<b>(591)</b>	<b>(670)</b>	<b>(159)</b>	<b>(200)</b>	<b>(201)</b>	<b>(206)</b>

The table below presents experience gains and losses as of December 31, 2004, 2005 and 2006:

(in millions of euros)	Pension Benefits			Post-retirement Benefits		
	2006	2005	2004	2006	2005	2004
Experience (gains) losses in the benefit obligation (a)	(2)	(4)	(4)	(2)	(4)	(3)
Experience gains (losses) in the fair value of plan assets (b)	24	9	6	-	-	-

(a) Represents the impact on the benefit obligation resulting from the difference between benefits estimated at the previous year end and benefits paid during the year.

(b) Represents the difference between the expected return on plan assets as of the previous year end and the actual return on assets during the year.

In 2006, the benefits paid, including settlements relating to externalized liabilities, amounted to €135 million (€149 million 2005) with respect to pensions, of which €107 million (€71 million in 2005) was paid by pension funds, and €17 million (€19 million in 2005) with respect to post-retirement benefits.

The table below provides a breakdown of the pension benefit obligations and the fair value of plan assets by country for the Years Ended December 31, 2006 and 2005:

(in millions of euros)	Pension Benefits		Post-retirement Benefits	
	December 31,			
	2006	2005	2006	2005
Benefit obligations				
US companies	564	633	137	177
UK companies	488	457	-	-
French companies	82	69	-	-
Other	185	217	22	23
	1,319	1,376	159	200
Fair value of plan assets				
US companies	456	341	-	-
UK companies	354	337	-	-
French companies	43	40	-	-
Other	58	88	-	-
	911	806	-	-

## 20.2.4. Additional information on pension benefits in France

Vivendi maintains four funded pension plans in France which are invested through insurance companies. The allocation of assets by category of the various plans was as follows:

	Equity securities	Real estate	Debt securities	Cash	Total
Corporate Supplementary Plan	14.0%	3.5%	82.0%	0.5%	100.0%
Corporate Management Supplementary Plan	14.5%	3.0%	82.0%	0.5%	100.0%
SFR Supplementary Plan	14.0%	4.4%	76.5%	5.1%	100.0%
Canal+ Group IDR * Plan	16.0%	11.0%	73.0%	0.0%	100.0%

\* IDR (Indemnités de départ en retraite): Indemnities payable on retirement.

The asset allocation remains fairly stable over time and the current asset allocation reflects the target asset allocation. Contributions to these plans amounted to €13 million in 2005, €4 million in 2006 and are estimated to be less than €1 million for 2007.

## 20.2.5. Benefits estimation and future payments

For 2007, pension fund contributions and benefit payments to retirees by Vivendi (contributions by employers) are estimated at €64 million in respect of pensions (of which €41 million in contributions to pension funds) and €14 million in respect of post-retirement benefits.

The table below presents the estimated future benefit payments that will be met by the pension funds or by Vivendi:

<i>(in millions of euros)</i>	Pension Benefits	Post-retirement Benefits
2007	98	14
2008	41	13
2009	37	13
2010	37	13
2011	38	13
2012-2016	223	59

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 21 Share-based Compensation Plans for the Years Ended December 31, 2006, and 2005

**NOTE 21 SHARE-BASED COMPENSATION PLANS FOR THE YEARS ENDED DECEMBER 31, 2006, AND 2005****21.1. Analysis of the Expense Related to Share-based Compensation Plans for the Years Ended December 31, 2006 and 2005**

As of December 31, 2006 and 2005 the compensation cost recognized with respect to all outstanding plans is as follows:

(in millions of euros)	Note	Year Ended December 31,	
		2006	2005
<b>Equity-settled instruments</b>			
Vivendi stock option plans	21.2.1	32	48
Vivendi restricted stock plans – 2006	21.2.1	14	-
Employee stock purchase plans	21.6	7	7
		53	(a) 55
<b>Cash-settled instruments (b)</b>			
Vivendi stock appreciation rights plans	21.2.2	12	-
Vivendi “restricted stock units” plans – 2006	21.2.2	6	-
UMG employee equity unit plan	21.5.1	30	24
Blizzard employee equity unit plan – 2006	21.5.2	12	-
		60	24
<b>Share-based compensation cost</b>		<b>113</b>	<b>79</b>

(a) Includes €5 million recorded in earnings from discontinued operations in respect of Cegetel S.A.S. (please refer to Note 7 “Discontinued operations for the Year Ended 2005”).

(b) As of December 31, 2006, the estimated value of the vested rights at this date in respect of the concerned plans has been recorded as a liability and classified in non-current provisions for an amount of €147 million (€46 million in 2005), corresponding to vested rights for SARs plans of €65 million, RSUs plans of €6 million and UMG and Blizzard long-term incentive plans of €64 million and €12 million, respectively.

**21.2. Information on Plans Granted by the Group****21.2.1. Plans granted to non-US resident executives and employees****Stock Option Plans**

Over the past years, Vivendi has adopted several subscription stock option plans under which options may be granted to employees. Options vest annually in one-third tranches from the grant date’s anniversary. Vested options become exercisable at the beginning of the third year from the grant date (i.e., two thirds of the original grant), and the remaining one-third becomes exercisable at the beginning of the fourth year from the grant date.

Recognition of the compensation cost relating to stock options is amortized over the vesting period, but not on a straight-line basis given the vesting conditions, i.e., in one-third tranches over three years. The expense is accounted for using the degressive method in accordance with the following spread rates: 61% in year 1 of the plan, 28% in year 2 and 11% in year 3.

**Restricted Stock Plans**

For the first time in 2006, Vivendi set up restricted stock plans, as established by the 2005 French Finance Act. Accordingly, in April, September and December 2006, Vivendi granted restricted stocks to

certain non-US resident executives and employees. On December 12, 2006, Vivendi also granted 15 restricted shares to each employee.

**a) Restricted stock plans granted to non-US resident executives and employees**

In April, September and December 2006, Vivendi set up restricted stock plans for certain employees. The shares, granted to beneficiaries following a two-year vesting period, are conditional upon the achievement of certain operating objectives in terms of group adjusted net income and cash flow from operations set forth in the 2006 budget. The restricted shares granted will only be available after a four-year period from the date of grant. However, as the shares granted are ordinary shares of the same class as existing shares making up the share capital of the company, employee shareholders will be entitled to dividend and voting rights relating to all their shares from the end of the vesting period.

The compensation cost corresponds to the value of the equity instrument received by the beneficiary equal to the difference between the fair value of the shares to be received less the discounted value of the dividends expected to be distributed by Vivendi over the two-year vesting period. The compensation cost relating to the restricted stocks is recognized on a straight-line basis over the two-year vesting period.

As of December 31, 2006, as the performance conditions set were satisfied, the plan was measured using a factor of 100% achievement. Therefore, all shares are definitively granted and will be acquired by the beneficiaries following the two-year vesting period.

**b) 15 restricted shares to each employee**

On December 12, 2006, Vivendi set up a grant of 15 restricted shares without any performance condition for all non-temporary employees resident in France and Morocco and who are employed and who have been employed by the company for at least six months at this date. The 15 shares granted to each beneficiary will be issued at the end of a two-year period from the grant date. At the end of this period, the restricted shares will remain unavailable for an additional two-year period. However, as the shares granted are ordinary shares of the same class as existing shares making up the share capital of the company, employee shareholders will be entitled to dividends and voting rights relating to all their shares from their issuance.

Given the immediate vesting of such grant, the compensation cost was recognized in full on the grant date.

**21.2.2. Plans granted to executives and employees resident outside France and Morocco**

In 2006, in view of the delisting of Vivendi's shares from the NYSE and given prevailing US securities regulations, Vivendi granted specific equity awards to its US resident employees, with economic characteristics similar to those granted to non-US resident managers and employees; however, these equity instruments are exclusively cash-settled instruments:

- when the equity awards grant entitlement to the appreciation of the value of Vivendi shares, they are known as "stock appreciation rights" ("SARs"), which are the economic equivalent of stock options;
- when the equity awards grant entitlement to the value of Vivendi shares, they are known as "restricted stock units" ("RSUs"), which are the economic equivalent of restricted stocks;
- moreover, for the same reasons, Vivendi has converted the former ADS stock option plans for its US employees into SARs plans;
- SARs and RSUs are denominated in dollars and their value therefore fluctuates with changes in the euro/dollar exchange rate.

**Stock Appreciation Rights (SARs) plans**

Under the Vivendi stock appreciation rights plan, the beneficiaries will receive, upon exercise of their rights, a cash payment based on Vivendi share price, equal to difference between the Vivendi share price upon exercise of the SARs and their strike price as set at the grant date. As for standard stock option plans, rights vest annually in one-third tranches at the grant date's anniversary. Vested SARs become exercisable at the beginning of the third year from the grant date (i.e., two-thirds of the original grant) and the remaining one-third becomes exercisable at the beginning of the fourth year from the grant date.

The compensation cost of the SARs is recorded over the vesting period but not on a straight-line basis, as the SARs under the plan vest in one-third tranches over three years. The expense is accounted for using the degressive method in accordance with the following spread rates: 61% in year 1 of the plan, 28% in year 2 and 11% in year 3.

Moreover, the fair value of the plan is re-estimated at each reporting date and the expense adjusted pro rata to vested rights at the relevant reporting date. As of December 31, 2006, the estimated value of the vested rights has been recorded as a liability, classified in non-current provisions, for an amount of €3 million.

**Restricted Stock Unit (RSUs) plans**

For the first time in 2006, Vivendi set up restricted stock unit plans. In April and September 2006, Vivendi granted restricted stock units to certain US-resident executives and employees. On December 12, 2006, Vivendi also granted the equivalent of 15 shares of Vivendi restricted stock equivalents in the form of 15 RSUs to each employee not resident in France or Morocco.

In general, the participant will receive a cash payment equal to the value of his or her RSUs four years from the date of grant. The value of the RSUs will be based on the value of Vivendi shares at that time (as quoted on the Paris stock exchange), plus the value of dividends paid on Vivendi shares for the fiscal years 2008 and 2009, and converted to local currency based on prevailing exchange rates.

As of December 31, 2006, the estimated value of vested rights has been recorded as a liability, classified in non-current provisions, for an amount of €6 million.

**a) Restricted Stock Unit plans granted to US executives and employees**

As for the restricted stock plans set up in April and September 2006, Vivendi set up restricted stock unit plans for certain US employees. The shares, granted to beneficiaries following a two-year vesting period, are conditional upon the achievement of certain operating objectives in terms of group adjusted net income and cash flow from operations set forth in the 2006 budget.

The compensation cost in respect of the RSUs plan is recognized over the two-year vesting period. As of December 31, 2006, as the performance conditions were satisfied, the plan was measured using a factor of 100% achievement. Therefore, all RSUs granted are definitively granted and will be acquired following the two-year vesting period. The value of the plan is remeasured at each period end and the compensation cost adjusted accordingly, prorata to rights vested at the relevant reporting date.

**b) 15-RSU plan for each employee**

On December 12, 2006, Vivendi set up a 15 RSU plan without any performance condition for all non-temporary employees resident outside France and Morocco and who are employed and who have been employed by the company for at least six months at this date. In general, the restricted stock units granted will be paid out after a four-year period from the date of grant. RSUs are simply units of account and do not have any value outside the context of this plan. They do not have voting rights, and they do not represent or imply an ownership interest in Vivendi or any of its businesses.

Given the immediate vesting of such grant, the compensation cost was recognized in full on grant date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 21 Share-based Compensation Plans for the Years Ended December 31, 2006, and 2005

**Conversion of the former ADS option plans into SAR plans**

On May 15, 2006, the ADS option plans for US resident employees were converted into SAR plans. The terms and conditions of the stock options granted remain unchanged (exercise price, vesting period, maturity, etc.), but can only be cash-settled henceforth. As a result, the estimated value of the vested rights of these plans as at that date (€67 million) has been recorded as a liability and classified in non-current provisions as a deduction from equity (Please refer to the Consolidated Statement of Changes in Equity for the Year Ended December 31, 2006). As of December 31, 2006 the estimated value of the vested rights of these plans amounts to €62 million.

**21.3. Information on Outstanding Plans**

Vivendi uses a binomial model to value the personnel cost corresponding to the awards granted. For purposes of determining the expected term and in the absence of historical data relating to stock options exercises,

Vivendi applies a simplified approach: the expected term of equity-settled instruments granted is presumed to be the mid-point between the vesting date and the end of the contractual term (i.e., 6 years for the 10 year-term grants). For cash-settled instruments, the expected term used is equal to:

- for rights that can be exercised, one-half of the residual contractual term of the instrument;
- for rights that can't be yet exercised, the mean of the residual vesting period and the residual contractual term of the instrument.

The computed volatility corresponds to the average of Vivendi 3-year historical volatility and its implied volatility, that is determined with Vivendi put and call options traded on the MONEP with a maturity of six months or more.

The characteristics and assumptions used to value the instruments granted since 2002 are as follows:

**Equity-settled instruments**

	Subscription plans								
	2006			2005	2004	2003			2002
Grant date	December 12	September 22	April 13	April 26	May 21	December 9	May 28	January 29	October 10
Options strike price (in euros)	29.41	28.54	28.54	23.64	20.67	19.07	14.40	15.90	12.10
Maturity (in years)	10	10	10	10	10	10	10	8	8
Expected term (in years)	6	6	6	10	10	10	10	8	8
Number of options initially granted	24,000	58,400	5,481,520	7,284,600	8,267,200	310,000	10,547,000	1,610,000	2,451,000
Options strike price at grant date (in euros)	29.39	27.9	28.14	23.72	20.15	18.85	15.67	15.20	10.98
Expected volatility	21%	22%	26%	17%	20%	20%	20%	20%	60%
Risk-free interest rate	3.93%	3.73%	3.99%	3.48%	4.35%	3.90%	3.90%	3.90%	5.00%
Expected dividend yield	4.25%	4.05%	3.80%	3.37%	2.98%	3.18%	3.83%	3.95%	0.00%
Fair value of the granted options (in euros)	4.43	4.20	5.38	4.33	4.78	4.21	3.65	2.64	7.25
<b>Fair value of the plan</b> (in millions of euros)	<b>0.1</b>	<b>0.2</b>	<b>29.5</b>	<b>31.5</b>	<b>39.5</b>	<b>1.3</b>	<b>38.5</b>	<b>4.3</b>	<b>17.8</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 21 Share-based Compensation Plans for the Years Ended December 31, 2006, and 2005

	Restricted stock plans			
	2006			
Grant date	(a) December 12	December 12	September 22	April 13
Maturity (in years)	2	2	2	2
Number of shares initially granted	353,430	2,001	4,861	456,968
Strike price at grant date (in euros)	29.39	29.39	27.90	28.14
Expected volatility	na*	na*	na*	na*
Risk-free interest rate	na*	na*	na*	na*
Expected dividend yield	4.25%	4.25%	4.05%	3.80%
Fair value of the granted shares (in euros)	26.94	26.94	25.69	26.04
<b>Fair value of the plan (in millions of euros)</b>	<b>9.5</b>	<b>0.1</b>	<b>0.1</b>	<b>11.9</b>

\* na: not applicable.

(a) Under the grant for all employees set-up on December 12, 2006, each beneficiary definitively acquired a right to receive 15 restricted shares that will be issued on an individual account, on December 13, 2008

	Purchase plans		
	2002		
Grant date	May 29	April 24	January 24
Options strike price (in euros)	33.75	37.83	53.38
Maturity (in years)	8	8	8
Expected term (in years)	8	8	8
Number of options initially granted	75,000	404,000	256,392
Options strike price at grant date (in euros)	33.75	38.90	53.60
Expected volatility	60%	60%	60%
Risk-free interest rate	5.00%	5.00%	5.00%
Expected dividend yield	0.00%	0.00%	0.00%
Fair value of the granted options (in euros)	22.87	26.57	36.36
<b>Fair value of the plan (in millions of euros)</b>	<b>1.7</b>	<b>10.7</b>	<b>9.3</b>

## Cash-settled instruments

	2006				
	RSUs			SARs	
Grant date	(a) December 12	September 22	April 13	September 22	April 13
Strike price (in US dollars)	\$ -	\$ -	\$ -	\$ 34.58	\$ 34.58
Maturity at the origin (in years)	2	2	2	10	10
Expected term (in years)	2	1.7	1.3	5.7	5.3
Number of instruments initially granted	141,495	2,000	104,250	24,000	1,250,320
Share market price at grant date (in US dollars)	39.05	39.05	39.05	39.05	39.05
Expected volatility	na*	na*	na*	21%	21%
Risk-free interest rate	na*	na*	na*	3.93%	3.94%
Expected dividend yield	4.26%	4.22%	4.22%	4.22%	4.22%
Fair value of the granted instruments (in US dollars)	35.70	37.40	37.40	7.99	7.56
<b>Fair value of the plan (in millions of US dollars)</b>	<b>5.1</b>	<b>0.1</b>	<b>3.9</b>	<b>0.2</b>	<b>9.5</b>

\* na: not applicable.

(a) Under the grant for all employees set-up on December 12, 2006, each beneficiary definitively acquired a right to receive 15 restricted stocks units.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 21 Share-based Compensation Plans for the Years Ended December 31, 2006, and 2005

## 21.4. Information on Outstanding Plans since January 1, 2005

Transactions involving all equity-settled and cash-settled plans since January 1<sup>st</sup>, 2005 are summarized below:

## Equity-settled instruments

	Stock Options on Vivendi shares			Vivendi restricted stock plan	
	Number of Stock Options Outstanding	Weighted Average Strike Price of Stock Options Outstanding (in euros)	Weighted average remaining contractual life (in years)	Number of restricted Stocks Outstanding	Weighted average remaining period before issuing shares (in years)
<b>Balance as of December 31, 2004</b>	<b>58,185,058</b>	<b>46.5</b>	-	-	-
Granted	7,284,600	23.6	-	-	-
Exercised	(465,656)	13.7	-	-	-
Forfeited	(1,222,167)	85.3	-	-	-
Cancelled	(1,083,840)	30.0	-	-	-
<b>Balance as of December 31, 2005</b>	<b>62,697,995</b>	<b>44.7</b>	-	-	-
Granted	5,563,920	28.5	-	817,260	-
Exercised (a)	(1,840,970)	14.2	-	-	-
Forfeited	(2,447,721)	140.2	-	-	-
Cancelled	(513,302)	23.9	-	(11,700)	-
<b>Balance as of December 31, 2006</b>	<b>63,459,922</b>	<b>44.2</b>	<b>4.5</b>	<b>805,560</b>	<b>1.6</b>
<b>Exercisable as of December 31, 2006</b>	<b>48,066,348</b>	<b>49.7</b>			
<b>Acquired as of December 31, 2006</b>	<b>51,351,219</b>	<b>48.6</b>			

(a) The weighted average share price for options exercised during the year 2006 was €28.74.

## Cash-settled instruments

	Stock Options on ADS converted into SARs (May 2006)				SARs			RSUs	
	Number of SARs (ex ADS) Outstanding	Weighted Average Strike Price of SARs (ex ADS) Outstanding (in US dollars)	Total intrinsic value (in millions of US dollars)	Weighted average remaining contractual life (in years)	Number of SARs Outstanding	Weighted Average Strike Price of SARs Outstanding (in US dollars)	Weighted average remaining contractual life (in years)	Number of Restricted Stocks Units Outstanding	Weighted average remaining period before acquisition (in years)
<b>Balance as of December 31, 2004</b>	<b>40,317,526</b>	<b>49.6</b>							
Granted	1,825,400	28.9							
Exercised	(965,077)	18.1							
Forfeited	(2,414,192)	38.7							
Cancelled	(860,046)	38.1							
<b>Balance as of December 31, 2005</b>	<b>37,903,611</b>	<b>50.3</b>							
Granted	-	-			1,274,320	34.6		247,745	
Exercised (a)	(1,781,581)	19.3			-	-		-	
Forfeited	(2,381,357)	44.1			-	-		-	
Cancelled	(535,937)	40.6			(16,000)	34.6		(1,334)	
<b>Balance as of December 31, 2006</b>	<b>33,204,736</b>	<b>52.6</b>	<b>62.5</b>	<b>2.8</b>	<b>1,258,320</b>	<b>34.6</b>	<b>9.3</b>	<b>246,411</b>	<b>1.7</b>
<b>Exercisable as of December 31, 2006</b>	<b>31,282,105</b>	<b>54.0</b>	<b>44.9</b>						
<b>Acquired as of December 31, 2006</b>	<b>31,850,773</b>	<b>53.9</b>	<b>49.6</b>						

(a) The weighted average share price for SARs exercised during 2006 was \$34.47.

The following table summarizes information concerning stock options for ordinary shares outstanding and vested as of December 31, 2006:

Range of Strike Prices	Number Outstanding	Weighted Average Strike Price (in euros)	Weighted Average Remaining Contractual Life (in years)	Number Vested	Weighted Average Strike Price (in euros)
Under €20	12,193,990	14.4	5.8	12,193,990	14.4
€20-€30	19,980,861	23.9	8.2	8,077,826	21.6
€30-€40	79,114	34.0	3.4	79,114	34.0
€40-€50	7,008,105	46.9	2.8	7,008,105	46.9
€50-€60	771,926	56.1	2.7	566,258	57.1
€60-€70	5,431,688	62.3	0.5	5,431,688	62.3
€70-€80	12,617,912	74.0	1.2	12,617,912	74.0
€80 and more	5,376,326	94.6	1.7	5,376,326	94.6
	<b>63,459,922</b>	<b>44.2</b>	<b>4.5</b>	<b>51,351,219</b>	<b>48.6</b>

The following table summarizes information concerning stock appreciation rights outstanding and vested as of December 31, 2006:

Range of Strike Prices	Number Outstanding	Weighted Average Strike Price (in US dollars)	Weighted Average Remaining Contractual Life (in years)	Number Vested	Weighted Average Strike Price (in US dollars)
Under \$20	1,012,444	14.8	5.0	1,012,444	14.8
\$20-\$30	1,500,162	24.6	6.4	1,261,729	24.6
\$30-\$40	3,479,078	32.8	7.8	1,105,228	32.9
\$40-\$50	12,908,185	44.6	1.9	12,908,185	44.6
\$50-\$60	2,888,878	57.8	2.2	2,888,878	57.8
\$60-\$70	6,964,478	67.1	2.0	6,964,478	67.1
\$70-\$80	5,698,388	74.0	3.0	5,698,388	74.0
\$80 and more	11,443	175.2	3.0	11,443	175.2
	<b>34,463,056</b>	<b>51.9</b>	<b>3.0</b>	<b>31,850,773</b>	<b>53.9</b>

## 21.5. Long-term Incentive Plans

### 21.5.1. UMG long-term incentive plan

Since 2003, UMG has maintained an Equity Incentive Plan. Under the Plan, certain key executives of UMG are awarded Equity Units. These Equity Units are phantom stock units whose value is intended to reflect the value of UMG, net of certain other adjustments as defined in the plan. These Equity Units are simply units of account, and they do not represent an actual ownership interest in either UMG or Vivendi. In general, the plan calls for Equity Units to vest at the end of a fixed vesting period that typically coincides with the term of the executive's employment agreement. In general, the Plan calls for cash payments to be made to participants at the end of that vesting period, based on the value of the Equity Units at that time (all amounts under the plan are due in 2008 and 2009). The Plan is denominated in US\$. There are 1,350,000 units granted (unchanged compare to 2005).

While an executive's Equity Units generally vest at the end of a fixed vesting period, compensation expense is recognized over the vesting period as services are rendered. Specifically, the expense recognized

is based on the portion of the vesting period that has elapsed and the estimated value of those Equity Units. As of December 31, 2006, the estimated and discounted value of the rights vested, i.e. 891,667 units, amounted to \$84 million (€64 million) compared to \$54 million (€46 million) as of December 31, 2005. The expense is recorded as a non-current provision.

Except in case of certain transactions, the cash payments made under the Plan will be based on the appraised value of UMG as determined by a third-party valuation. This appraised value is based on UMG's total enterprise value, taking into account other adjustments as defined in the Plan, as of December 31 of the year preceding the payment. No payments have yet been made (or are due to be made) under the Plan. Accordingly, no third-party valuation has yet been undertaken. In order to value the Equity Units for accounting purposes prior to an actual payment, the value of the Units is estimated based on publicly-available estimates of UMG's enterprise value. As of December 31, 2006 and 2005, the estimated value was \$104.45 and \$83.53 per Equity Unit, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 21 Share-based Compensation Plans for the Years Ended December 31, 2006, and 2005

**21.5.2. Blizzard (Vivendi Games subsidiary) long-term incentive plan**

In 2006, Blizzard Entertainment Inc. ("Blizzard"), a subsidiary of Vivendi Games, implemented an Equity Incentive Plan, under which a certain number of key executives and key developers of Blizzard were awarded Restricted Stocks of Blizzard. The Restricted Stocks granted in 2006 are actual shares of Blizzard, whose value is determined every year based on an external independent appraisal. These Restricted Stocks will vest in one-third increments over the next 3 years, starting January 1, 2007. In general, under the Plan participants may only redeem vested shares in exchange for cash payments. Shares granted under the Plan are denominated in US\$. In total, 1,361,000 restricted stocks were granted in October 2006.

Compensation expense is recognized over the vesting period as services are rendered. Amortization is not straight-line, as the rights under the plan vest in one-third increments over three years. The expense is, therefore, amortized in accordance with the following spread rates: 61% in year 1 of the plan, 28% in year 2 and finally 11%

in year 3. Specifically, the expense recognized in 2006 is based on the elapsed portion of each vesting tranche and the estimated value of Blizzard as determined by the external independent appraisal. As of December 31, 2006, the estimated value of the rights granted under the Plan amounted to \$26 million, of which \$16 million (€12 million) represents the accrued portion of the rights and is recorded as a non-current provision.

Except in case of certain transactions, the cash payments to be made under the Plan will be based on the value of Blizzard as determined by the latest available independent expert appraisal. Such appraisal will be carried out every year, based on the financial situation of Blizzard at December 31<sup>st</sup> of the preceding year. The last valuation available was determined as of December 31, 2005, using standard professional valuation methodologies.

As of December 31, 2006, all Restricted Stock grants are still outstanding, and no shares have become vested, been exercised, forfeited or cancelled.

**21.6. Employee Stock Purchase Plans**

Shares sold to employees and retirees through the employee stock purchase plans in 2006 and 2005 were as follows:

	Year Ended December 31,	
	2006	2005
Subscription price <i>(in euros)</i>	20.72	19.46
Share price at grant date <i>(in euros)</i>	25.7	24.2
Number of shares subscribed	1,471,499	(a) 1,399,097
Amount subscribed <i>(in millions of euros)</i>	30	27

(a) Includes 286,675 shares subscribed by Cegetel S.A.S. employees in 2005. The related expenses, i.e. €1.4 million in 2005 were recorded in earnings from discontinued operations.

## NOTE 22 RESTRUCTURING PROVISIONS AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

<i>(in millions of euros)</i>	Universal Music Group	Vivendi Games	Canal+ Group	SFR	Maroc Telecom	Holding & Corporate	Non-core operations	Total Vivendi
<b>Restructuring reserves as of December 31, 2004</b>	<b>40</b>	<b>22</b>	<b>10</b>	<b>8</b>	<b>14</b>	<b>30</b>	<b>-</b>	<b>124</b>
Changes in scope of consolidation and purchase accounting adjustments	3	2	2	(8)	-	1	6	6
Additions	24	1	-	-	1	1	-	27
Utilization	(33)	(14)	(7)	-	(14)	(8)	(5)	(81)
Reversals	-	-	-	-	-	(3)	-	(3)
<b>Restructuring reserves as of December 31, 2005 (a)</b>	<b>34</b>	<b>11</b>	<b>5</b>	<b>-</b>	<b>1</b>	<b>21</b>	<b>1</b>	<b>73</b>
Changes in scope of consolidation and purchase accounting adjustments	-	-	(4)	-	-	-	(1)	(5)
Additions	33	2	-	-	27	1	-	63
Utilization	(50)	(7)	(1)	-	-	(5)	-	(63)
Reversals	-	-	-	-	-	(1)	-	(1)
<b>Restructuring reserves as of December 31, 2006 (a)</b>	<b>17</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>28</b>	<b>16</b>	<b>-</b>	<b>67</b>

(a) Includes pension benefits (€25 million as of December 31, 2006 and €47 million as of December 31, 2005).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 23 Long-term Borrowings and other Financial Liabilities as of December 31, 2006 and December 31, 2005

## NOTE 23 LONG-TERM BORROWINGS AND OTHER FINANCIAL LIABILITIES AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

### 23.1. Analysis of Long-term Borrowings and other Financial Liabilities as of December 31, 2006 and December 31, 2005

(in millions of euros)	Note	Nominal interest rate (%)	Effective interest rate (%)	Maturity	December 31, 2006	December 31, 2005
Finance leases	12.1	-	-	2008-2016	247	362
<b>Asset-backed borrowings (a)</b>					<b>247</b>	<b>362</b>
Notes						
€700 million notes (October 2006) (b)		Euribor 3 months +0.50%	4.54%	October 2011	700	-
€500 million notes (October 2006) (b)		4.50%	4.58%	October 2013	500	-
€700 million notes (July 2004) (b)		Euribor 3 months +0.55%	2.28%	July 2007	(c) -	700
€630 million notes (April 2005) (b)		3.63%	3.63%	April 2010	630	630
€600 million notes (February 2005) (b)		3.88%	3.94%	February 2012	600	600
€600 million notes (July 2005) – SFR (b)		3.38%	3.43%	July 2012	600	600
€400 million notes (October 2006) – SFR (b)		Euribor 3 months +0.125%	3.65%	October 2008	400	-
Bonds exchangeable for Sogecable shares (d)		1.75%	6.48%	October 2008	221	242
Other notes(e)		-	-	-	275	275
Facilities						
€1.2 billion revolving credit facility – SFR		Euribor 1 month +0.18%	3.81%	April 2011	-	550
MAD 6 billion notes – tranche B: 4 billion	2.5	(f) TMP BDT 5 years. +1.15%	5.10%	December 2011	359	367
Other (e)		-	-	-	138	169
<b>Unsecured borrowings</b>					<b>4,423</b>	<b>4,133</b>
<b>Nominal value of borrowings</b>					<b>4,670</b>	<b>4,495</b>
Cumulative effect of amortized cost and split accounting of embedded derivatives		na*	na*	na*	(40)	(53)
<b>Borrowings</b>					<b>4,630</b>	<b>4,442</b>
Put options granted to various third parties by Canal+ Group and SFR		na*	na*	-	43	39
<b>Commitments to purchase minority interests</b>					<b>43</b>	<b>39</b>
Embedded derivative in bonds exchangeable for Sogecable shares		na*	na*	October 2008	26	50
Other financial derivative instruments		na*	na*	-	15	14
<b>Other derivative instruments</b>					<b>41</b>	<b>64</b>
<b>Long-term borrowings and other financial liabilities</b>					<b>4,714</b>	<b>4,545</b>

\* na: no interest accrued on other financial liabilities.

(a) Borrowings are considered secured whenever the creditor(s) is/are backed by a pledge on the borrower's and/or its guarantors' assets.

(b) The notes, listed on the Luxembourg Stock Exchange, are subject to customary *pari passu*, negative pledge and event of default provisions.

(c) This borrowing was recorded as a short term borrowing.

- (d) On October 30, 2003, Vivendi issued €605 million of 1.75% exchangeable bonds due 2008. The bonds are exchangeable for common shares of Sogecable S.A. (a limited liability company incorporated under the laws of the Kingdom of Spain, whose shares are listed on the Madrid Stock Exchange). Interest is payable annually in arrears on October 30th of each year, commencing on October 30, 2004. Each bond is exchangeable at the option of the bondholder at any time, from January 1, 2004, up to the tenth business day preceding the maturity date, into common shares of Sogecable S.A. at an exchange ratio of one share for one bond, subject to adjustment upon the occurrence of certain events. In June 2005, this ratio increased to 1.0118 share for one bond. Vivendi may at its discretion elect to pay holders exercising their option the cash equivalent in euros of the present market value of the relevant shares. In November and December 2005, Vivendi divested 12.5 million Sogecable shares, at the bondholders' request, as part of the redemption of €363 million of bonds exchangeable into Sogecable shares (please refer to Note 15.1 "Changes in available-for-sale"). In addition, Vivendi is entitled, at any time since October 30, 2006, at its discretion, to redeem in cash all, but not less than all, of the outstanding bonds, if on 20 out of 30 consecutive trading days, the product of (i) the closing price of a Sogecable share on the Madrid Stock Exchange and (ii) the then applicable exchange ratio equals or exceeds 125% of the sum of the principal amount of one bond (€29.32) plus accrued interest to, but excluding, the date set for redemption. In addition, Vivendi is entitled at any time to redeem in cash all, but not less than all, of the bonds outstanding at a price equal to the principal amount of the bonds plus accrued interest, if any, if less than 10% of the bonds originally issued remain outstanding at that time. Unless previously redeemed, exchanged or purchased and cancelled, the bonds will be redeemed in cash on the maturity date at their principal amount. The bonds, which are listed on the Luxembourg Stock Exchange, are subject to customary *pari passu*, negative pledge and event of default provisions.

- (e) Additional information on "other notes and "other":

(in millions of euros)	Fixed interest rate			Floating interest rate			Total
	Rate (%)	Maturity	Amount	Rate (%)	Maturity	Amount	
<b>As of December 31, 2006</b>							
Other notes	6.50%	January 2009	152	Euribor 3 months -0.27% to Libor 3 months -0.23%	2008-2009	123	275
Other	0%-8.67%	2008-2023	119	Euribor 12 months +0.25%	> 2008	19	138
<b>Total</b>			<b>271</b>			<b>142</b>	<b>413</b>
<b>As of December 31, 2005</b>							
Other notes	6.50%	January 2009	152	Euribor 3 months -0.27% to Libor 3 months -0.23%	2008-2009	123	275
Other	0%-8.67%	2007-2023	136	Euribor 3 months +0.215%	> 2007	33	169
<b>Total</b>			<b>288</b>			<b>156</b>	<b>444</b>

- (f) The interest rate is calculated base on the weighted average rate of the treasury bonds issued by the Kingdom of Morocco.

## 23.2. Currency, Maturity and Nature of Interest Rate of the Nominal Value of Borrowings as of December 31, 2006 and December 31, 2005

(in millions of euros)	December 31, 2006		December 31, 2005	
Currency:				
Euro – EUR	4,224	90.4%	4,025	89.5%
US dollar – USD	81	1.8%	92	2.1%
Dirham – MAD	359	7.7%	367	8.2%
Other	6	0.1%	11	0.2%
<b>Total</b>	<b>4,670</b>	<b>100.0%</b>	<b>4,495</b>	<b>100.0%</b>
Maturity:				
Due between one and two years	758	16.2%	778	17.3%
Due between two and three years	299	6.4%	375	8.4%
Due between three and four years	647	13.9%	307	6.8%
Due between four and five years	1,077	23.1%	1,197	26.6%
Due after five years	1,889	40.4%	1,838	40.9%
<b>Total</b>	<b>4,670</b>	<b>100.0%</b>	<b>4,495</b>	<b>100.0%</b>
Nature of interest rate:				
Fixed interest rate	3,050	65.3%	2,681	59.6%
Floating interest rate	1,620	34.7%	1,814	40.4%
<b>Total</b>	<b>4,670</b>	<b>100.0%</b>	<b>4,495</b>	<b>100.0%</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 24 Short-term Borrowings and other Financial Liabilities as of December 31, 2006 and December 31, 2005

## NOTE 24 SHORT-TERM BORROWINGS AND OTHER FINANCIAL LIABILITIES AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

### 24.1. Analysis of Short-term Borrowings and other Financial Liabilities as of December 31, 2006 and December 31, 2005

(in millions of euros)	Note	Nominal interest rate (%)	December 31, 2006	December 31, 2005
Current portion of finance leases		-	10	1
<b>Asset-backed borrowings (a)</b>			<b>10</b>	<b>1</b>
Treasury Bills				
Vivendi S.A.		Eonia +0.05%	167	173
SFR		Eonia +0.03%	950	957
Current portion of long-term borrowings				
MAD 6 billion notes – tranche A: 2 billion (b)	2.5	TMP BDT 52 weeks +1.15%	-	184
€700 million notes (July 2004) – Vivendi S.A.		Euribor 3 months +0.55%	700	-
€300 million (April 2006) – SFR		Euribor 3 months +0.09%	300	-
Other notes (c)		-	-	342
Other borrowings (c)		-	65	68
Other (c)		-	375	391
<b>Unsecured borrowings</b>			<b>2,557</b>	<b>2,115</b>
<b>Nominal value of borrowings</b>			<b>2,567</b>	<b>2,116</b>
Cumulative effect of amortized cost and split accounting of embedded derivatives		na*	9	9
<b>Borrowings</b>			<b>2,576</b>	<b>2,125</b>
Put options granted to various third parties by Canal+ Group		na*	14	(d) 69
<b>Commitments to purchase minority interests</b>			<b>14</b>	<b>69</b>
Other financial derivative instruments		na*	11	21
<b>Short-term borrowings and other financial liabilities</b>			<b>2,601</b>	<b>2,215</b>

\* na: no interest accrued on other financial liabilities.

(a) Borrowings are considered secured whenever the creditor(s) is/are backed by a pledge on the borrower and/or its guarantors' assets.

(b) This tranche was redeemed in May 2006.

(c) Additional information on "other notes" and "other" is provided below:

(in millions of euros)	Fixed interest rate		Floating interest rate		Total
	Rate (%)	Amount	Rate (%)	Amount	
As of December 31, 2006	0%-9%	78	Euribor 3 months -0.10% to Libor USD 6 months +0.50%	362	440
As of December 31, 2005	0%-9%	386	Euribor 3 months -0.10% to Libor USD 6 months +0.50%	415	801

(d) Includes mainly a put option on TKP shares which matured in October 2006 and was not exercised.

### 24.2. Currency of the Nominal Value of Borrowings as of December 31, 2006 and December 31, 2005

(in millions of euros)	December 31, 2006		December 31, 2005	
Euro – EUR	2,472	96.3%	1,810	85.5%
US dollar – USD	5	0.2%	15	0.7%
Dirham – MAD	20	0.8%	222	10.5%
Other	70	2.7%	69	3.3%
<b>Total</b>	<b>2,567</b>	<b>100.0%</b>	<b>2,116</b>	<b>100.0%</b>

## NOTE 25 FAIR VALUE OF FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

Pursuant to IAS 32, financial instruments are defined as follows:

- financial assets, which comprise the following assets:
  - cash,
  - contractual rights to receive cash or another financial asset,
  - contractual rights to exchange a financial instrument under conditions that are potentially favorable, and
  - equity instruments of another entity.

In practice, financial assets include cash and cash equivalents, trade accounts receivable and other as well as financial assets measured at fair value, at historical cost and at amortized cost;

- financial liabilities, which comprise the following liabilities:

- contractual obligations to deliver cash or another financial asset, and
- contractual obligations to exchange a financial instrument under conditions that are potentially unfavorable.

In practice, financial liabilities include trade accounts payable and other, other non-current liabilities, short and long-term borrowings and other financial liabilities, including commitments to purchase minority interests and other derivative financial instruments;

- equity instruments of the group (including equity derivative instruments).

The following table presents the net carrying amount and fair value of financial instruments of the group as of December 31, 2006 and December 31, 2005.

(in millions of euros)	Note	December 31,			
		2006		2005	
		Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets</b>					
Financial assets at fair value	15	2,381	2,381	2,587	2,587
Financial assets at cost or at amortized cost	15	1,616	1,616	1,310	1,310
Trade accounts receivable and other	16.2	4,489	4,489	4,531	4,531
Cash and cash equivalents	17	2,400	2,400	2,902	2,902
<b>Financial liabilities</b>					
Borrowings and other financial liabilities		7,315	7,402	6,760	6,998
Including					
Long term borrowings	23	4,630	4,717	4,442	4,680
Short term borrowings	24	2,576	2,576	2,125	2,125
Commitments to purchase minority interests		57	57	108	108
Other derivative instruments		52	52	85	85
Other non-current liabilities	16.4	1,269	1,269	1,342	1,342
Trade accounts payable and other	16.3	9,297	9,297	8,737	8,737

The carrying amount of trade accounts receivable and other, cash and cash equivalents, trade accounts payable and other and short-term borrowings is a reasonable approximation of fair value, due to the short maturity of these instruments.

The estimated fair value of other financial instruments, as set forth above, has generally been determined by reference to market prices

resulting from trading on a national securities exchange or in an over-the-counter market. In cases where listed market prices are not available, fair value is based on estimates using present value or other valuation techniques. Please refer to Note 1 "Accounting policies and valuation methods".

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 26 Risk Management and Financial Derivative Instruments as of December 31, 2006 and December 31, 2005

**NOTE 26 RISK MANAGEMENT AND FINANCIAL DERIVATIVE INSTRUMENTS  
AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005**

Vivendi centrally manages financial liquidity, interest rate, foreign currency exchange rate and equity market risks. Vivendi's Financing and Treasury Department carries out these activities, reporting directly to the chief financial officer of Vivendi, a member of the Management Board. The Department has the necessary expertise, resources, notable technical resources and information systems for this purpose.

Vivendi uses various derivative financial instruments to manage and reduce its exposure to fluctuations in interest rates, foreign currency exchange rates and stock prices. All instruments are either listed on organized markets or traded over the counter with highly-rated counter-parties. All derivative financial instruments are used for hedging purposes.

The following table sets forth the value of derivative financial instruments recorded in the Consolidated Statements of financial position as of December 31, 2006 and December 31, 2005.

(in millions of euros)	December 31, 2006		December 31, 2005	
	Derivative financial instruments as assets	Derivative financial instruments as liabilities	Derivative financial instruments as assets	Derivative financial instruments as liabilities
<i>Interest rate risk managements</i>				
Pay-fixed interest rate swaps	14	-	-	3
Pay-floating interest rate swaps	3	1	10	-
Interest rate caps	1	-	-	-
<i>Foreign currency risk management</i>				
Currency swaps	2	4	13	19
Forward contracts	13	1	-	-
<i>Equity market risk management</i>				
Swaps indexed on Vivendi shares	-	4	1	5
Swaps indexed on other shares	11	-	-	1
Veolia Environnement warrants	-	-	2	-
<i>Other derivative instruments</i>				
Embedded derivative in bonds exchangeable for Sogecable shares	-	26	-	50
Other embedded derivatives on borrowings	-	16	-	5
Other	8	-	3	2
<b>Total</b>	<b>52</b>	<b>52</b>	<b>29</b>	<b>85</b>
Deduction of current derivative financial instruments	(37)	(11)	(13)	(21)
<b>Non-current derivative financial instruments</b>	<b>15</b>	<b>41</b>	<b>16</b>	<b>64</b>

**26.1. Interest Rate Risk Management**

Interest rate risk management instruments are used by Vivendi to reduce net exposure to interest rate fluctuations, to adjust the respective proportion of fixed and floating interest rates in the total debt and to lower net financing costs. However, the use of these instruments has decreased in line with the substantial reduction in the group's gross borrowings. In 2006, average gross borrowings amounted to €6.7 billion (flat compared to 2005), of which €3 billion was of fixed rates and €3.7 billion was of floating rates (unchanged as compared to 2005). In 2006, the average cost of borrowings was 4.22% (compared to 3.83% in 2005) before taking into account the impact of interest rate derivative instruments. After interest rate management, the average cost of borrowings was 4.20% with a fixed rate ratio of 52% (compared to 3.92%, with a fixed-rate ratio of 51% in 2005).

Interest rate risk management instruments used by Vivendi include pay-floating and pay-fixed interest rate swaps. Pay-floating swaps effectively convert fixed rate borrowings to LIBOR and EURIBOR indexed ones. Pay-fixed swaps convert floating rate borrowings into fixed rate borrowings. These instruments enable the group to manage and reduce volatility in future cash flows required for interest payments on floating rate borrowings.

In addition, Vivendi has a number of interest rate caps. If interest rates rise above the strike rate, the caps convert floating-rate borrowings into fixed-rate borrowings. Below the strike rate, the caps are not activated and Vivendi is able to benefit from decreases in interest rates.

At the end of December 2006, borrowings totaled €7.2 billion. Before considering any hedging instruments, floating-rate borrowings totaled €4.1 billion, hedged by interest rate swaps for the amount of €970 million and interest rate caps for the amount of €450 million.

Moreover, cash and cash equivalents totaled €2.4 billion and are entirely of floating rate. The cash collateral deposit of €469 million made by Vivendi in favor of Lagardère pursuant to the sale of 9.82% of the share capital of Canal+ France to Lagardère terminated on January 4, 2007 and is therefore recorded as a deduction in the Financial Net Debt as of December 31, 2006.

Given the relative weighting of the group's fixed-rate positions (borrowings of €3.1 billion, swaps of €1 billion and caps of €0.45 billion) and floating-rate positions (borrowings of €4.1 billion less cash and cash equivalents of €2.4 billion), an increase of 100 basis points in short-term interest rates would generate an additional €3.5 million in interest cost and a decrease of 100 basis points in short-term interest rates would generate a improvement of €8 million in interest cost.

The following table summarizes information concerning Vivendi's interest rate risk management instruments:

(in millions of euros)	December 31,	
	2006	2005
<b>Pay-fixed interest rate swaps</b>		
Notional amount	1,250	566
Average interest rate paid	3.49%	3.56%
Average interest rate received	3.69%	2.58%
Maturity:		
Due within one year	500	66
Due between one and five years	(a) 700	500
Due after five years	(b) 50	-
<b>Pay-floating interest rate swaps</b>		
Notional amount	280	280
Average interest rate paid	3.66%	2.43%
Average interest rate received	3.28%	3.28%
Maturity:		
Due within one year	250	-
Due between one and five years	30	280
<b>Net position at Fixed interest rate</b>	<b>970</b>	<b>286</b>
<b>Interest rate caps</b>		
Notional amount	(c) 450	150
Guarantee rate bought	3.57%	3.33%
Maturity:		
Due within one year	450	-
More than one year and up to five years	-	150

(a) In 2006, Vivendi hedged its €700 million floating-rate notes issued in October (Please refer to Note 23.1 "Analysis of long-term borrowings and other financial liabilities as of December 31, 2005") with pay-fixed interest rate swaps for a notional amount of €700 million and with a maturity of five years (i.e., 2011). For accounting purposes, such derivative instruments are qualified as cash flow hedge.

(b) Deferred-start (October 2007) pay-fixed interest rate swaps with a maturity of 5 years.

(c) In 2006, SFR completed the hedging of its interest rate risk on its treasury bill program with the implementation of additional interest rate caps of €300 million maturing in 2007, that will be converted into pay-fixed interest rate swaps or deferred-start swaps with maturities of 4 and 5 years (i.e., 2011 and 2012).

## 26.2. Foreign Currency Risk Management

Vivendi's foreign currency risk policy seeks to hedge highly probable budget exposures, resulting primarily from monetary flows generated by commercial activities performed in currencies other than the euro and firm commitments, essentially relating to the acquisition of editorial content including sports, audiovisual and film rights, valued in foreign currency. For this purpose, Vivendi enters into currency swaps and forward contracts, in accordance with procedures forbidding speculative transactions:

- Vivendi is the sole counter-party for foreign currency transactions within the group, unless specific regulatory or operational restrictions require otherwise;

- all foreign currency hedging transactions are backed, in amount and by maturity, to an identified economic underlying item;

- all identified exposures are hedged at a minimum of 80% for forecasted transactions exposures and 100% for firm commitment contracts.

In addition, Vivendi also hedges foreign currency exposure resulting from foreign-currency denominated financial assets and liabilities, by entering into currency swaps and forward contracts enabling the refinancing or investment of cash balances in euros or the local currency.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 26 Risk Management and Financial Derivative Instruments as of December 31, 2006 and December 31, 2005

As of December 31, 2006, Vivendi had effectively hedged approximately 96% (compared to 98% as of December 31, 2005) of its foreign currency cash flows as well as borrowing-related exposure. The principal currencies hedged were the US dollar and the Japanese yen. In 2006, firm commitment contracts and forecasted transactions were entirely hedged. In January 2007, forecasted transactions were hedged at 80% in accordance with Vivendi's internal procedures with respect to foreign currency hedging and will be reviewed as of June 30, 2007.

In addition, in order to protect its net investment in certain Japanese subsidiaries against a potential devaluation, Vivendi hedged its Japanese exposure by setting up forward contracts for a notional amount of €221 million. For accounting purposes, such derivative instruments are qualified as net investment hedge.

### 26.2.1. Sensitivity of operating indicators and indebtedness to the US dollar and the Moroccan dirham

An increase represents the appreciation of the euro against currency concerned.

Average exchange rate used over the year 2006	USD				MAD			
	1.25				11.02			
Change assumptions	+5%	-5%	+10%	-10%	+5%	-5%	+10%	-10%
Revenues	-0.6%	0.6%	-1.3%	1.3%	-0.5%	0.5%	-0.9%	1.1%
Earnings before interest and income taxes (EBIT)	-0.1%	0.1%	-0.3%	0.3%	-1.0%	1.1%	-1.9%	2.3%
Net cash provided by operating activities	0.3%	-0.4%	0.6%	-1.0%	-0.9%	1.0%	-1.7%	2.1%
Exchange rate used as at December 31, 2006	USD				MAD			
	1.32				11.14			
Change assumptions	+5%	-5%	+10%	-10%	+5%	-5%	+10%	-10%
Redemption value of borrowings	-0.1%	0.1%	-0.1%	0.1%	-0.3%	0.3%	-0.5%	0.6%
Cash and cash equivalents	0.0%	0.0%	-0.1%	0.1%	-0.4%	0.5%	-0.8%	0.9%

### 26.2.2. Characteristics of foreign currency risk management instruments

As of December 31, 2006, excluding the net position of borrowings denominated in Moroccan Dirham (MAD), Vivendi's foreign currency denominated borrowings were not material. Nonetheless, Vivendi uses derivative instruments to manage its foreign currency exposure to intercompany current accounts denominated in foreign currencies.

Details concerning these instruments are provided in the table below:

(in millions of euros)	December 31,	
	2006	2005
<b>Currency swaps</b>		
Notional amount	900	2,844
Sales against the euro	308	2,257
Sales against other currencies	8	132
Purchases against the euro	576	444
Purchases against other currencies	8	11
Maturity:		
Due within one year	900	2,844
<b>Forward contracts</b>		
Notional amount	278	43
Sales against the euro	236	-
Sales against other currencies	-	-
Purchases against the euro	27	-
Purchases against other currencies	15	43
Maturity:		
Due within one year	273	43
Due after one year and within five years	5	-

The following tables present the notional amount of currency to be delivered or received under currency instruments (currency swaps and forwards). Positive amounts indicate currency receivable and negative amounts currency deliverable.

The large reduction in US dollar, Canadian dollar and pound sterling currency instruments follows the simplification of the corporate structure of the US based activities, facilitated by the acquisition of

MEI's approximate 7.7% interest in Universal Studios Holding in February 2006. More specifically, this operation enabled a reduction of approximately US\$2.5 billion in the current account between Vivendi and Vivendi Holding I Corp. (the holding company for the US based businesses). Consequently, the currency swaps hedging this position were fully settled *via* the purchase of US dollars on the market during July 2006.

(in millions of euros)	December 31, 2006							
	EUR	USD	JPY	PLN	AUD	GBP	CAD	Other currencies
<b>Currency swaps</b>								
Sales against the euro	308	(230)	-	(5)	-	-	-	(73)
Sales against other currencies	-	8	-	-	-	-	-	(8)
Purchases against the euro	(576)	230	186	54	66	-	4	36
Purchases against other currencies	-	(8)	-	-	-	-	-	8
<b>Forward contracts</b>								
Sales against the euro	236	(5)	(221)	-	(3)	(7)	-	-
Sales against other currencies	-	-	-	-	-	-	-	-
Purchases against the euro	(27)	27	-	-	-	-	-	-
Purchases against other currencies	-	(15)	-	-	-	12	-	3
	<b>(59)</b>	<b>7</b>	<b>(35)</b>	<b>49</b>	<b>63</b>	<b>5</b>	<b>4</b>	<b>(34)</b>

(in millions of euros)	December 31, 2005							
	EUR	USD	JPY	PLN	AUD	GBP	CAD	Other currencies
<b>Currency swaps</b>								
Sales against the euro	2,257	(1,598)	-	(34)	-	(92)	(427)	(106)
Sales against other currencies	-	(113)	122	-	-	-	-	(9)
Purchases against the euro	(444)	316	23	-	56	14	1	34
Purchases against other currencies	-	(11)	-	-	-	2	-	9
<b>Forward contracts</b>								
Sales against the euro	-	-	-	-	-	-	-	-
Sales against other currencies	-	-	-	-	-	-	-	-
Purchases against the euro	-	-	-	-	-	-	-	-
Purchases against other currencies	20	21	-	(42)	-	1	-	-
	<b>1,833</b>	<b>(1,385)</b>	<b>145</b>	<b>(76)</b>	<b>56</b>	<b>(75)</b>	<b>(426)</b>	<b>(72)</b>

### 26.2.3. Group net balance sheet positions

The table below shows the group's net position in the main foreign currencies as of December 31, 2006:

(in millions of euros)	USD	GBP	JPY	AUD	PLN	Other
Assets	60	-	-	-	-	80
Liabilities	-	(187)	(164)	(58)	(57)	(21)
<b>Net balance before management</b>	<b>60</b>	<b>(187)</b>	<b>(164)</b>	<b>(58)</b>	<b>(57)</b>	<b>59</b>
Derivative financial instruments	(71)	182	185	57	49	(39)
<b>Net balance after management</b>	<b>(11)</b>	<b>(5)</b>	<b>21</b>	<b>(1)</b>	<b>(8)</b>	<b>20</b>

The position of the dirham (MAD) is not included in the table above due to local constraints associated with this currency.

A uniform decrease of 1% in exchange rates against all foreign currencies in position as of December 31, 2006 would have a cumulated negative impact of €0.7 million on net income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 26 Risk Management and Financial Derivative Instruments as of December 31, 2006 and December 31, 2005

## 26.3. Equity Market Risk Management

### 26.3.1. Available-for-sale securities

Vivendi's exposure to equity market risk primarily relates to available-for-sale securities. Before equity market risk management, a decrease of 10% of the stock prices of these securities would have a negative net impact on equity of €22 million (compared to €140 million as of December 31, 2005).

### 26.3.2. Vivendi shares

As of December 31, 2006, Vivendi held 1.4 million treasury shares (2.5 million as of December 31, 2005), representing a total net carrying amount of €33.4 million (€51.7 million as of December 31, 2005). As of

December 31, 2006, 79,114 treasury shares were held to hedge certain share purchase option plans granted to executives and employees, and 1,300,389 treasury shares were in the process of cancellation. Such cancellation, which will be completed in the beginning of 2007, is due to the conversion of ADS stock options into stock appreciation rights which are cash settled (please refer to Note 21 "Share-based compensation"). A 10% decrease in the trading value of Vivendi shares would have a negative impact of €4.1 million on the value of Vivendi treasury shares.

Vivendi purchased call options on its own stock in June 2001 and December 2002 in order to enable the group to deliver shares upon the exercise of share purchase options granted to employees. Based on the current stock price, no options are in the money.

	December 31,	
	2006	2005
<b>Call options purchased on Vivendi shares</b>		
Number of shares	27,642,512	29,824,619
Total strike price (in millions of euros)	2,001	2,149
Maturity	December 2008	December 2008

In 2006 and 2005, Vivendi also hedged certain equity-linked to Vivendi and Canal+ S.A. debts using indexed swaps.

	December 31,	
	2006	2005
<b>Equity-linked swaps</b>		
Notional amount (in millions of euros)	123	132
Maturity:		
Due within one year	-	9
Due between one and five years	123	123

### 26.3.3. Hedges of other commitments and bonds exchangeable for shares

Vivendi has entered into call option agreements and has acquired subscription warrants to hedge certain commitments and bonds exchangeable for shares:

	December 31,	
	2006	2005
<b>Veolia Environnement warrants (a)</b>		
Number of warrants	-	218,255,690
Total strike price (in millions of euros)	-	1,715
Maturity	-	March 2006

(a) These warrants, given in December 2001 to Veolia Environnement shareholders, allow their holders to subscribe for Veolia Environnement shares for €55 per share at a ratio of one share for seven warrants. These warrants would have allowed Vivendi to deliver Veolia Environnement shares at the initial maturity date (March 2006) of the exchangeable bonds issued in March 2001. This bond issue was redeemed in cash in March 2003 and, given the market price of the Veolia Environnement share in March 2006, these warrants matured in March 2006 and were not exercised.

The main call options sold on exchangeable bonds (embedded derivatives) are as follows:

	December 31,	
	2006	2005
<b>Embedded derivatives</b>		
Sogecable shares (a)		
Number of shares	7,611,615	8,340,850
Maturity	October 2008	October 2008

(a) As of December 31, 2006, Vivendi held 7.6 million Sogecable shares (compared to 8.3 million as of December 31, 2005) with a carrying amount of €206 million (compared to €282 million as of December 31, 2005), to hedge residual outstanding bonds exchangeable for shares (Please refer to Note 15.1 "Changes in available-for-sale securities"). On October 30, 2003, Vivendi issued bonds which are exchangeable for common shares of Sogecable and which mature on October 30, 2008 (please refer to Note 23.1 "Long-term borrowings and other financial liabilities". These bonds consist of a financial debt as well as a financial derivative instrument. The option granted to the bondholders is recorded as an embedded derivative for its fair value (€26 million as of December 31, 2006, compared to €50 million as of December 31, 2005). The debt component is recorded at amortized costs of €203 million and €213 million as of December 31, 2006, and 2005, respectively.

## 26.4. Credit and Investment Concentration Risk and Counter-party Risk

Vivendi minimizes the concentration of its credit and investment risk and counter-party risk by entering into credit and investment transactions only with highly rated commercial banks or financial institutions and by distributing the transactions among the selected institutions (rated at least A- by rating agencies).

Although Vivendi's credit risk is limited to the replacement cost at the present-estimated fair value of the instrument, management believes that the risk of incurring losses is remote and those losses, related to such risk if any, would not be material. The market risk on foreign exchange

hedging instruments should be offset by changes in the valuation of the underlying hedged items. Vivendi's receivables and investments do not represent a significant concentration of credit risk due to its wide customer base, the wide variety of customers and markets in which its products are sold, the geographic diversity of its reporting units and the diversification of its portfolio among instruments and issuers.

## 26.5. Liquidity Risk

Given the current level of indebtedness, associated with net cash provided by operating activities, the financial flexibility of the group is, in Vivendi management's opinion, fully restored.

## NOTE 27 CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

### 27.1. Adjustments

(in millions of euros)	Note	Year Ended December 31,	
		2006	2005
<b>Items related to operating activities with no cash impact</b>			
Amortization and depreciation of tangible and intangible assets	4.4	1,580	1,695
Change in provision, net		80	(165)
Gains (losses) on tangible and intangible assets		11	(7)
<b>Items related to investing and financing activities</b>			
Proceeds from sales of property, plant, equipment and intangibles assets		32	5
<b>Adjustments</b>		<b>1,703</b>	<b>1,528</b>

### 27.2. Investing and Financing Activities with no Impact on Vivendi's Cash Position

(in millions of euros)	Year Ended December 31,	
	2006	2005
Redemption of borrowings and other financial liabilities by issuing financial instruments other than cash and cash equivalents	21	363

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 28 Transactions with Related Parties

## NOTE 28 TRANSACTIONS WITH RELATED PARTIES

This note presents transactions with related parties performed during 2006 and 2005, which could impact results, activities or the financial position of the group in 2007 or thereafter. As of December 31, 2006, and to the best of the company's knowledge, no transactions with related parties presented hereunder are likely to have a material impact on the results, activities or financial position of the group.

Group related parties are those companies over which the group exercises control, joint control or significant influence (joint ventures and equity affiliates), shareholders exercising joint control over group joint ventures, minority shareholders exercising significant influence over group

subsidiaries, executive officers, group management and directors and companies over which the latter exercise control, joint control, significant influence or in which they hold significant voting rights.

## 28.1. Compensation of Directors and Officers

The table below is a breakdown of Vivendi's compensation costs (including social security contributions) as well as other benefits granted to Management Board and Supervisory Board members in accordance with the different categories required by paragraph 16 of IAS 24.

(in millions of euros)	December 31,	
	2006	2005
Short-term employee benefits (a)	25	27
Social security contributions	3	3
Pension and post-retirement bene (b)	3	3
Other long-term benefits	-	-
Termination benefits (c)	ns*	ns*
Share-based compensation	10	13
<b>Total</b>	<b>41</b>	<b>46</b>

\* ns: not significant.

(a) Includes fixed and variable compensation and related social security contributions, benefits in kind, as well as Supervisory Board attendance fees recognized over the period.

(b) Includes defined pension benefit plans.

(c) Corresponds to the provision recognized over the period with respect to conventional indemnities upon voluntary retirement.

## 28.2. Other Related Parties

## 28.2.1. Operations entered into during the normal course of business

In 2006 and 2005, most Vivendi related companies were equity affiliated (e.g., NBC Universal, Elektrim Telekomunikacija (until December 2005), Cegetel S.A.S. (from January 1, 2005 to August 22, 2005; please refer to Note 7 "Discontinued operations and assets held for sale"),

Neuf Cegetel (from August 22, 2005) and UGC (until December 15, 2005). Vivendi's related companies also include minority shareholders which exercise significant influence on group affiliates such as Vodafone, which owns 44% of SFR, the Kingdom of Morocco, which owns 34% of Maroc Telecom and Lagardère, which holds interests in CanalSatellite (please refer to Note 2.1 relating to Canal+ France, in which Lagardère holds a 20% interest after contributing its 34% interest in CanalSatellite to Canal+ France).

The main related party transactions and amounts outstanding by these companies or Vivendi are detailed hereunder:

(in millions of euros)	December 31, 2006	December 31, 2005
<b>Assets</b>		
Non-current content assets	66	21
Non-current financial assets	1	(a) 181
Inventories	-	21
Trade accounts receivable and other	218	166
<b>Liabilities</b>		
Trade accounts payable and other	14	12
Short-term borrowings and other financial liabilities	(b) 476	251
<b>Statement of earnings</b>		
Revenues	431	645
Operating expenses	(751)	(781)
	<b>(320)</b>	<b>(136)</b>

(a) Includes notes issued by Neuf Telecom for €180 million and redeemed in 2006.

(b) Includes the interim dividend to be paid by SFR to Vodafone with respect to fiscal year 2006 (€197 million).

The following developments represent additional information on some of the related party transactions listed above.

#### **UMG – Agreement with Vodafone for the delivery of music content (2005-2006)**

Universal Music Group signed an agreement with Vodafone in November 2005 for the supply of multimedia content to Vodafone *Live!* customers. This range of music content services will notably include ring-tones, audio and video downloads and video streaming.

#### **UMG – NBC Universal (2005-2006)**

UMG distributes NBCU's physical products, almost exclusively DVDs, primarily in the UK, on an arm's length basis.

#### **The Canal+ Group – Agreement for exclusive first-broadcasting rights to NBCU studio's production (2005-2006)**

In December 2004, the Canal+ Group and NBCU signed a long-term contract which gives the Canal+ Group exclusive first-broadcasting rights to NBCU studio's production. This deal is an extension of a previously signed commitment between these two groups.

As of December 2006, total off-balance sheet commitments given by the Canal+ Group to NBCU amounted to approximately €415 million compared to €410 million as of December 31, 2005. These commitments consist of: (i) broadcasting rights regarding NBCU programs broadcast on the Canal+ Group channels, (ii) NBCU channels broadcast on CanalSatellite, and (iii) a movie production and distribution agreement with Studio-Canal. Studio-Canal also entered into distribution agreements with Universal Television Distribution and Universal Pictures International (received commitments amounting to €33 million, compared to €38 million as of December 31, 2005).

In 2006, the Canal+ Group recorded revenues of €92 million (€123 million in 2005) and operating expenses of €77 million (€90 million in 2005) in respect of business with NBCU and its subsidiaries. As of December 2006, total receivables amounted to €48 million (compared to €35 million as of December 31, 2005) and total payables amounted to €10 million (compared to €34 million as of December 31, 2005). In addition, Studio Canal invested up to €66 million in co-production projects (compared to 21 million in 2005).

#### **SFR – Cooperation with Vodafone (2005-2006)**

Vodafone and SFR signed an agreement in 2003 to increase their cooperation and their joint economies of scale in a number of different areas through: coordination of their activities in the development and rollout of new products and services, including Vodafone *Live!*; development of operational synergies in procurement (including IT and technology) and best practice sharing. In 2006, SFR paid €60 million under this agreement.

#### **SFR – Cooperation with Cegetel S.A.S. (2005-2006)**

SFR, which contributed 100% of its interest in the share capital of Cegetel S.A.S. in exchange for 28.19% of Neuf Telecom in 2005, entered

into a commercial agreement, effective as of August 22, 2005, which gives Cegetel S.A.S. the right to carry a guaranteed volume of SFR calls at a predetermined price in 2006 and 2007.

#### **Maroc Telecom – Contract with Casanet (2005-2006)**

In 2003, Maroc Telecom and Casanet entered into several agreements regarding the maintenance and administration of the IAM Internet portal (Menara), the hosting and development of the IAM mobile portal, the hosting of the IAM El Manzil site, the maintenance of the Menara portal new WAP modules and the production of content linked to these modules and the sale of leased line internet access on behalf of IAM.

### **28.2.2. Other transactions**

#### **The Canal+ Group/Vivendi – Agreement with Lagardère (2006)**

In 2006, transactions occurred with Lagardère following the combination of Canal+ and TPS pay-TV activities in France. Please refer to Note 2.1 "Combination of the Canal+ France and TPS pay-TV activities in France".

#### **SFR – Put option granted to Neuf Cegetel on SHD (2006)**

Under the terms of the partnership agreement entered into in 2006, between SFR and Neuf Cegetel, SFR granted a put option to Neuf Cegetel on 34% of the capital of SHD (which holds WiMax licenses). The commitment to purchase this minority interest was recorded in borrowings and other financial liabilities for €12 million as of December 31, 2006.

#### **SFR – Put option granted to SNCF on 35% of the share capital of Cegetel S.A.S. (2005)**

Under the terms of the partnership agreement entered into 2003, between SFR and SNCF, SFR granted a put option to SNCF on 35% of the capital of Cegetel S.A.S. The commitment to purchase minority interest was recorded in borrowings and other financial liabilities for the present value of the purchase consideration, i.e. €304 million as of December 31, 2004. In August 2005, as part of the combination between Cegetel S.A.S. and Neuf Telecom, SFR acquired the stake held by SNCF for €401 million (please refer to Note 2.6. "Combination of Cegetel S.A.S. with Neuf Telecom on August 22, 2005").

#### **Maroc Telecom – Agreement with Al Akhawayn University (2005-2006)**

On December 21, 2004, the Supervisory Board authorized Maroc Telecom to sign an agreement with Al Akhawayn University (the President of this University was a member of Maroc Telecom's supervisory board until March 2005). The aim of the agreement is to establish a cooperation global framework in order to set up joint activities in scientific and technical fields where both entities share the same interests, in particular in the research and development and studies and consulting fields. The chairman of the management board of Maroc Telecom is still a member of the Board of Directors of the University.

**Vivendi S.A. – Loan agreement with SFR (2006)**

In December 2006, Vivendi and SFR entered into a loan agreement. In accordance with its terms, Vivendi committed to make available to SFR a € 700 million revolving credit facility over a 3 year period. It carries a 0.15% spread over the EURIBOR rate. The loan agreement was approved by Vivendi's Supervisory Board and by the board of SFR.

**Vivendi S.A. – Acquisition of an additional 16% of the share capital of Maroc Telecom from the Kingdom of Morocco (2005)**

Please refer to Note 2.5 "Acquisition of an additional 16% of the capital of Maroc Telecom by Vivendi on January 4, 2005".

**Vivendi S.A. – Divestiture of the stake in UGC to family shareholders (2005-2006)**

In December 2005, when the call was exercised by the family shareholders, Vivendi completed the divestiture of the 37.8% stake representing 40% of the voting interests, previously equity-accounted, held in UGC S.A.'s share capital for an amount of €89 million (including interest). Until 2006, the price was subject to adjustment depending on the date of an onward sale by UGC family shareholders within the different exercise periods of the call. This clause is no longer applicable.

During 2006, Vivendi received €6 million in cash (compared to €55 million in 2005), with the remaining balance of approximately €29 million due in 2007 and 2008. This transaction generated a capital gain of €10 million in 2005.

**Vivendi S.A. and Veolia Environnement (2005-2006)**

On December 20, 2002, Vivendi and Veolia Environnement entered into an agreement in order to complete the separation of the two companies, following Vivendi's divestiture of 20.4% of Veolia Environnement's capital stock. Pursuant to this agreement, guarantee and counter-guarantee agreements originally established in June 2000 were modified. This agreement is described in Note 29.4 "Contingent assets and liabilities subsequent to given or received commitments related to the divestiture or acquisition of shares".

**Vivendi S.A. – Agreement signed between the Company and one of the members of the Supervisory Board – services contracts (2005-2006)**

In accordance with the provisions of Article L. 225-86 of the French Commercial Code, the Supervisory Board's meeting held on June 7, 2005 approved the company's entering into a service contract with Conseil DG, chaired by Mr Andrzej Olechowski, a member of the Supervisory Board, for a period of one year, renewable annually. This contract mainly relates to the defense and the perpetuation of the economic interests held by the company in the Telecoms and TV domains in Poland. Pursuant to said contract, the fees have been set as follows: a total fixed fee of €60,000 (excluding tax), payable in monthly payments of €5,000 (excluding tax), and a fixed results fee of €1,000,000 (excluding tax), less any sums paid as fixed fees, in the event that a definite settlement of the court cases in Poland occurs during the contract. From June 8, 2005 to December 7, 2005, payments made by Vivendi under this contract amounted to €30,000 (excluding tax).

At a meeting held on June 7, 2006, Vivendi's Supervisory Board approved the renewal of the above-mentioned service contract with Conseil DG, for a period of one year. This contract is now automatically renewable for successive one-year terms. The other terms of the contract remained unchanged. For 2006, Vivendi paid €60,000 (excluding tax) under this contract.

## NOTE 29 CONTRACTUAL OBLIGATIONS AND CONTINGENT ASSETS AND LIABILITIES

Vivendi's contractual obligations and contingent assets and liabilities include:

- contracts related to operations such as content commitments (please refer to Note 10.2 "Contractual content commitments"), contractual obligations and commercial commitments recorded in the statement of financial position, including finance leases (please refer to Note 12 "Property, plant and equipment"), off balance sheet operating leases and subleases and off-balance sheet commercial commitments, such as long-term service contracts and purchase or investment commitments;
- commitments related to investments or divestitures such as share purchase or sale commitments, contingent assets and liabilities subsequent to given or received commitments related to the divestiture or acquisition of shares, commitments resulting from

shareholders' agreements and collateral and pledges granted to third parties over Vivendi's assets;

- contingent assets and liabilities linked to litigations in which Vivendi is either plaintiff or defendant (please refer to Note 30 "Litigations").

### 29.1. Contractual Obligations and Commercial Commitments Recorded in the Statement of Financial Position

Below is the summary of contractual obligations and commercial commitments recorded in the statement of financial position as of December 31, 2006 and December 31, 2005. Further information is provided in Notes 29.1.1 and 29.1.2 of the present document and in the notes mentioned in the table below.

(in millions of euros)	Note	Total as at December 31, 2006	Payments due in			Total as at December 31, 2005
			2007	2008-2011	After 2011	
Long-term borrowings and other financial liabilities	23	4,714	-	2,831	1,883	4,545
<i>including finance leases</i>		247	-	70	177	362
Short-term borrowings and other financial liabilities	24	2,601	2,601	-	-	2,215
<i>including short term finance leases</i>		10	10	-	-	1
Contractual content commitments	10.2	2,151	1,907	208	36	2,218
<b>Subtotal – recorded in the Consolidated Statement of Financial Position</b>		<b>9,466</b>	<b>4,508</b>	<b>3,039</b>	<b>1,919</b>	<b>8,978</b>
Operating leases	29.1.1	1,382	236	729	417	1,449
Contractual content commitments	10.2	4,252	1,891	1,710	651	4,560
Other purchase obligations	29.1.2	1,438	541	679	218	1,058
<b>Subtotal – not recorded in the Consolidated Statement of Financial Position</b>		<b>7,072</b>	<b>2,668</b>	<b>3,118</b>	<b>1,286</b>	<b>7,067</b>
<b>Total contractual obligations</b>		<b>16,538</b>	<b>7,176</b>	<b>6,157</b>	<b>3,205</b>	<b>16,045</b>

Commitments specific to risk management are presented in Note 26.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 29 Contractual Obligations and Contingent Assets and Liabilities

## 29.1.1. Off balance sheet operating leases and subleases

(in millions of euros)	Future minimum lease payments December 31, 2006	Payments due in			Future minimum lease payments December 31, 2005
		2007	2008-2011	After 2011	
Buildings (a)	1,401	231	751	419	1,475
Other	29	15	14	-	31
<b>Leases</b>	<b>1,430</b>	<b>246</b>	<b>765</b>	<b>419</b>	<b>1,506</b>
Buildings (a)	(48)	(10)	(36)	(2)	(57)
<b>Subleases</b>	<b>(48)</b>	<b>(10)</b>	<b>(36)</b>	<b>(2)</b>	<b>(57)</b>
<b>Net total</b>	<b>1,382</b>	<b>236</b>	<b>729</b>	<b>417</b>	<b>1,449</b>

(a) Mainly relates to offices and technical premises.

As of December 31, 2006, €20 million of provisions were recorded in the statement of financial position with respect to operating leases (compared to €30 million as of December 31, 2005).

In 2006, net expense recorded in the statement of earnings with respect to operating leases amounted to €351 million compared to €302 million in 2005.

## 29.1.2. Off balance sheet commercial commitments

(in millions of euros)	Future minimum payments December 31, 2006	Payments due in			Future minimum payments December 31, 2005
		2007	2008-2011	After 2011	
Satellite transponders (a)	774	139	424	211	883
Investment commitments (b)	(c) 561	366	190	5	183
Other	141	54	81	6	121
<b>Given commitments</b>	<b>1,476</b>	<b>559</b>	<b>695</b>	<b>222</b>	<b>1,187</b>
Satellite transponders	(38)	(18)	(16)	(4)	(47)
Other	-	-	-	-	(6)
<b>Received commitments</b>	<b>(38)</b>	<b>(18)</b>	<b>(16)</b>	<b>(4)</b>	<b>(53)</b>
<b>Net total</b>	<b>1,438</b>	<b>541</b>	<b>679</b>	<b>218</b>	<b>1,134</b>

(a) Please refer to Note 32 "Subsequent events".

(b) Mainly relates to SFR and Maroc Telecom.

(c) In 2006, Maroc Telecom entered into an agreement with the government of the Kingdom of Morocco pursuant to which Maroc Telecom committed to carrying out a capital expenditure program for a total amount of MAD 7.4 billion and to create 150 new jobs between 2006 and 2009. In return, the Moroccan government agreed to exempt Maroc Telecom from paying customs' duties on capex-related imports. As of December 31, 2006, approximately MAD 4.6 billion (€410 million, at this time) of the capital expenditure program had yet to be spent. If Maroc Telecom does not make these investments, it will have to pay the unpaid customs' duties plus interest for late payment.

## 29.2. Other Given and Received Commitments Relating to Operations

References	Nature of the commitment	Amount of the commitment	Expiry
	<b>Contingent liabilities</b>		
	Credit line not used as of February 27, 2007 (given the amount of treasury bond issued on that day)	€4,288 million	2011-2012
(a)	SFR – UMTS license for France (assigned in August 2001)	1% of revenues earned	August 2021
(a)	SFR – GSM license for France (renewed in March 2006)	1% of revenues earned	March 2021
(b)	Maroc Telecom – Contribution to the provision of universal service	2% of Maroc Telecom annual revenues, net of interconnection costs	-
(c)	Obligations related to the permission to use the Consolidated Global Profit System	Creation of 600 jobs connected with the group's businesses (449 jobs were created as of December 31, 2006)	End of 2007
		Payment of €5 million annually for 5 years (€10 million already paid as at December 31, 2006)	End of 2009
	Individual entitlement to training to French employees	Approximately 437,000 hours as at December 31, 2006	-
(d)	Obligations in connection with pension plans and post-retirement benefits	Please refer to Note 20 "Employee benefits"	-
(e)	Various other miscellaneous guarantees given	€112 million	-
	<b>Contingent assets</b>		
(a)	SFR – Licenses for SFR networks and for the supply of telecommunications services in France: GSM (March 2006-March 2021) and UMTS (August 2001-August 2021)	-	2021
(f)	Maroc Telecom – Licenses for networks and for the supply of telecommunications services in Morocco (2006-2031)	-	2031
	Various other miscellaneous guarantees received	€116 million	-

- (a) SFR holds licenses for its networks, and for the supply of its telecommunications services in France for a period of 15 years for GSM (March 2006-March 2021), and 20 years for UMTS (August 2001-August 2021). In March 2006, the French Government authorized SFR to continue using its GSM license over the next 15 years (between April 1, 2006 and March 31, 2021), for an annual payment comprised of a fixed portion in an amount of €25 million (capitalized over the period for its present value of €278 million, please refer to Note 11 "Other intangible assets" for more details) and a variable portion equal to 1% of the yearly revenues generated by the 2G technology. Since the variable portion cannot be reliably determined in order for it to be capitalized, it has not been recorded as a liability in the statement of financial position. Upon the acquisition of the UMTS license, the fixed amount paid, i.e. €619 million was recorded as an intangible asset (please refer to Note 11 "Other intangible assets" for more details). Since the variable part of the fee (equal to 1% of GSM revenues) cannot reliably be determined, it is not recorded in the statement of financial position. It is recorded as an expense when incurred.
- (b) Maroc Telecom is required to contribute to the provision of universal service in the amount of 2% of its annual revenues, net of interconnection costs. This contribution to the universal service fund may be reduced by costs incurred directly by Maroc Telecom in this respect, subject to approval of the expenditure program by the Universal Service Management Committee of the ANRT (Moroccan National Telecommunications Regulatory Agency).
- (c) Under the terms of the permission to use the Consolidated Global Profit Tax System, Vivendi has undertaken to create 600 jobs connected with the group's businesses. Vivendi is committed to creating a minimum of 100 jobs by the end of 2005, 400 jobs by the end of 2006 and 600 jobs by the end of 2007. As of December 31, 2006, 449 jobs had been effectively created. In addition, Vivendi has undertaken to provide financial support for the creation of jobs not connected with the group's businesses in regions in difficulty selected by the French State. Vivendi's financial commitment involves an annual payment of €5 million to specialist companies over a 5-year period commencing January 1, 2005. The objective is the creation of 1,000 jobs over 3 years and 1,500 jobs over 5 years. As of December 31, 2006, 806 jobs had been effectively created. The undertakings are regularly monitored by a National Monitoring and Orientation Committee comprising representatives of each of the parties concerned. As of December 31, 2006, Vivendi is in full compliance with its commitments and intends to continue to act in accordance with the terms of its undertaking.
- (d) Vivendi has obligations in connection with pension plans and post-retirement benefits. As these obligations are not contractually fixed as to timing and amount, they have not been included in this disclosure.
- (e) Including a guarantee capped at €19 million that would be reimbursed in approximately 3 years, if it were to be called. In addition, Vivendi grants guarantees in various forms to financial institutions on behalf of its subsidiaries in the pursuit of their operations.
- (f) In July 2006, Maroc Telecom was awarded a 3G mobile license by the ANRT (the Moroccan National Telecommunications Regulatory Agency) for 25 years (July 2006 – July 2031) for a fixed fee of MAD 300 million (approximately €27 million, excluding tax, paid in the fourth quarter of 2006).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 29 Contractual Obligations and Contingent Assets and Liabilities

## 29.3. Share Purchase and Sale Commitments

References	Nature of the commitment	Amount of the commitment	Expiry
	<b>Contingent liabilities</b>		
	Other	€4 million	-
	<b>Contingent assets</b>		
(a)	NBC-Universal transaction (May 2004), amendments in June 2005 and December 2006	Ability to sell NBC Universal shares on the market between November 2007 and November 2016 (up to \$4 billion)	2016
		Put option to General Electric under certain circumstances	2016
		General Electric call option exercisable from May 11, 2011 until May 11, 2017	2017
(b)	Acquisition of BMGP from Bertelsmann AG (transaction not completed as of December 31, 2006)	Commitment to deliver BMGP shares to UMG on approval of the competition authorities	-
	Other	€ 5 million	2008

(a) As part of the NBC-Universal transaction which was completed in May 2004, Vivendi received certain liquidity commitments and guarantees from General Electric (GE) which were subsequently amended. As part of the amended agreement that governs Vivendi's exit from NBCU, Vivendi is entitled to sell its stake in NBCU under mechanisms providing for exits at fair market value. Vivendi has the right to notify GE of its intent to sell in the public market between \$1 billion and \$4 billion of its NBCU shares in November of each year between 2007 and 2016, which could lead to the public offering of a portion of Vivendi's stake the following year. GE has the right to pre-empt any of Vivendi's sale to the market.

Under certain circumstances, if Vivendi exercises its right to sell its NBCU shares in the market and if GE does not exercise its preemptive right, Vivendi will be able to exercise a put option to GE for those shares. Lastly, for the period between May 11, 2011 and May 11, 2017, GE will have the right to call either (i) all of Vivendi's NBCU shares or (ii) \$4 billion of Vivendi's NBCU shares, in each case at the greater of their market value at the time the call is exercised or their value as determined at the time of the NBC Universal transaction (i.e., \$8.3 billion), which value is increased by the US Consumer Price Index annually beginning in May 2009. If GE calls \$4 billion, but not all, of Vivendi's NBCU shares, GE must call the remaining NBCU shares held by Vivendi by the end of the 12-month period commencing on the date GE exercises its call option.

(b) On September 6, 2006, Universal Music Group (UMG) entered into an agreement with Bertelsmann AG to purchase 100% of BMG Music Publishing (BMGP). The gross purchase price is €1,639 million. A deposit representing the net amount was paid in cash on December 15, 2006 and included an adjustment for cash generated by BMGP during the period comprised between July 1, 2006 and that day and for interest capitalized over this period. The transaction price included an adjustment for cash generated by BMGP during the period comprised between December 16, 2006 and the closing date. This transaction is subject to the regulatory approvals of the competition authorities in the relevant countries. Such approval has been obtained in the United States. However, the European Commission announced on December 8, 2006 that the transaction will be subject to a Phase II inquiry. Until the closing date and the consolidation of BMGP by UMG, the cash outlay is recorded as a non-current financial asset (please refer to Note 15 "Financial assets").

## Commitments related to operations underway as of December 31, 2006

A detailed description is provided in Note 2.1 with respect to the combination of Canal+ France and TPS pay-TV activities in France completed on January 4, 2007. In particular, TF1 and M6 were granted by Groupe Canal+ a put option on their shares in Canal+ France and Lagardère was granted a call option on a number of shares that would allow Lagardère to increase its ownership interest in Canal+ France to 34%, subject to certain conditions.

In addition, Vivendi was involved in the acquisition of various companies or assets, the completion of which is subject to the approval of

competition authorities or to consultation with the relevant labor relations and employee representative committees. These companies or assets mainly include the fixed telephony and broadband activities of Télé2 France. On October 2, 2006, SFR signed an agreement with the Télé2 AB Group to acquire the fixed telephony and broadband activities of Télé2 France for an enterprise value of €375 million, which value could be adjusted following earn out clause as included in the agreement. This transaction is subject to the approval of antitrust authorities.

## 29.4. Contingent Assets and Liabilities Subsequent to Given or Received Commitments Related to the Divestiture or Acquisition of Shares

Reference	Nature of the commitment	Amount of the commitment	Expiry
	<b>Contingent liabilities</b>		
(a)	NBC-Universal transaction (May 2004), amendments in June 2005 and December 2006	Breaches of obligations relating to retained businesses and liabilities, and the divestiture of certain businesses	-
		Breaches of tax representations	2010
		Obligation to cover the Most Favored Nation provisions limited to 50% of every dollar of loss up to \$50 million and to 100% of all losses in excess for \$50 million	-
		Violation of environmental laws and remedial actions: indemnification of aggregate losses stemming from VUE operations. \$325 million deductible (\$10 million de minimis exclusion) capped at \$2,088 million	2014
(b)	Acquisition of the MEI stake in USHI (February 2006)	Adjustment to the purchase price in the event of a sale by Vivendi of its NBCU equity interest	2008
	Acquisition of Vale and GVM by UMG (October 2006)	Commitment capped at €22 million to pay wages upon conditions (€11 million of provisions corresponding to the present value were accrued as of December 31, 2006)	2011
(c)	Divestiture of PSG (June 2006)	Customary guarantees capped at €18 million given to Colfim	2008
		Specific guarantee	2018
	Divestiture of UMG supply and distribution operations (May 2005)	Supply and distribution contracts signed with the buyer EDC.	2015
	Divestiture of UMG's UK manufacturing facilities (2002)	Supply contract signed with the buyer for €2 million	2007
	Commitment to the Royalty Services LLP starting in 2007	Use of their services for the management of royalties to artists and repertoire owners for a seven-year period starting at the setting of the special purpose software	2014
	Acquisition of games companies	Commitment capped at €17 million to pay wages of certain game developers (€2 million of provisions were accrued as of December 31, 2006)	2009
(d)	Divestiture of Canal+ Nordic (October 2003)	Specific guarantee capped at €50 million	2010
	Divestitures of Canal+ Technologies (January 2003), Canal+ Belgique and Canal+ N.V. (December 2003) and Canal+ Pays-Bas (August 2004)	Customary and specific guarantees capped at a cumulated €21 million. €12 million provisioned	2016
	Divestiture of the StudioExpand animation and entertainment operations, some of MultiThématiques assets (2004) and Régie Outremer (June 2005)	Customary guarantees capped at a cumulated €19 million	2014
(e)	Divestiture of Sportfive (2004)	Guarantees renegotiated to €17 million excluding tax guarantee. €1 million provisioned	2007
(f)	Divestiture of NC Numéricâble (March 2005)	Specific guarantees capped at €241 million (including tax and social risks) counter-guaranteed by France Telecom up to €151 million. €13 million of provisions	2014
(g)	Divestiture of Xfera (2003)	Counter-guarantee of €55 million to banks in connection with Spanish UMTS frequency spectrum fees (provisioned up to €74 million, including late interest payment)	-
(h)	Guarantees given by Veolia Environnement subsidiaries counter-guaranteed by Veolia Environnement	€13 million counter-guaranteed by Veolia Environnement	-
	Divestiture of fixed-line telecommunications in Hungary (May 2003)	Guarantees of tax nature capped at €20 million	-
	Divestiture of Monaco Telecom (June 2004)	Specific guarantees capped at €20 million	2009
(i)	Divestiture of Houghton Mifflin (December 2002)	Guarantees relating to the environment, to tax and employee matters and to share ownership	2007
	Divestiture of 50% stake in Vizzavi (August 2002)	Customary guarantees	-
	Dismantling of MP3 operations (2003)	Guarantees to insurers	-
(j)	Divestiture of Sithe (December 2000)	Guarantees capped at \$480 million	-
(k)	Sale of real estate assets (June 2002)	Vendor warranties	2007
		Autonomous first demand guarantees capped at €150 million total	2017

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 29 Contractual Obligations and Contingent Assets and Liabilities

Reference	Nature of the commitment	Amount of the commitment	Expiry
	<b>Contingent liabilities (end)</b>		
(l)	Divestiture of UCI (October 2004, May and October 2005)	Customary guarantees capped at €135 million	2007-2009
	Other	€4 million	2007
	<b>Contingent assets</b>		
(c)	Divestiture of the Paris Saint-Germain soccer club (June 2006)	Commitment to pay upon conditions additional consideration based on any possible transfers of the club's players	
	Divestiture of UMG supply and distribution operations (May 2005)	Future \$17 million rebates granted by the buyer related to the US businesses	2009
		Future €12 million rebates granted by the buyer related to the European businesses	2014
(f)	Guarantees on divestiture of NC Numéricable (March 2005)	€151 million counter-guaranteed by France Telecom	2014
(f)	Divestiture of Ypso (20%)	Potential earn-out upon conditions	
	Acquisition of several companies within MultiThématiques and Expand	Guarantees from the sellers for approximately €7 million	2007
	Various other miscellaneous contingent assets	€3 million	-

The accompanying notes are an integral part of the contingent assets and liabilities described above.

- (a) As part of the NBC-Universal transaction which occurred in May 2004, Vivendi and General Electric (GE) gave certain reciprocal commitments customary for this type of transaction and Vivendi retained certain liabilities relating to taxes and excluded assets. Vivendi and GE undertook to indemnify each other against losses stemming from among other things any breach of their respective representations, warranties and covenants.

Neither party will have any indemnification obligations for losses arising as a result of any breach of representations and warranties (i) for any individual item where the loss is less than \$10 million and (ii) in respect of each individual item where the loss is equal to or greater than \$10 million except where the aggregate amount of all losses exceeds \$325 million. In that event, the liable party will be required to pay the amount of losses which exceeds \$325 million, but in no event will the aggregate indemnification payable exceed \$2,088 million.

In addition, Vivendi will have indemnification liabilities for 50% of every US dollar of loss up to \$50 million and for all losses in excess for \$50 million relating to liabilities arising out of the most favored nation provisions set forth in certain contracts.

As part of the unwinding of IACI's interest in VUE on June 7, 2005, Vivendi's commitments with regard to environmental matters were amended and Vivendi's liability is now subject to a de minimis exception of \$10 million and a payment basket of \$325 million.

The representations and warranties other than those regarding authorization, capitalization and tax representations terminated on August 11, 2005. Notices of claims for indemnity for environmental matters must be made by May 11, 2009, except for remediation claims which must be brought by May 11, 2014. Other claims, including those related to taxes, will be subject to applicable statutes of limitations.

- (b) In connection with the purchase of the approximate 7.7% stake held by Matsushita Electric Industrial Co, Ltd (MEI) in Universal Studios Holding I Corp. on February 7, 2006, if Vivendi were to sell any of its NBCU interests, Vivendi agreed to pay MEI a pro rata share of the proceeds exceeding \$7 billion as follows: if the divestiture of NBCU shares occurs in 2007, Vivendi shall pay to MEI 66.66% of its share of the sale proceeds exceeding \$7 billion; this share shall be reduced to 33.33% if the divestiture occurs in 2008.
- (c) As part of the divestiture of the Paris Saint-Germain soccer club, finalized on June 20, 2006, Canal+ Group granted to the buyer, Colfilm, customary warranties capped at €18 million which will expire on June 30, 2008, and specific variable warranties with an unlimited amount. The Canal+ Group paid €2 million to the buyer in the second half of 2006 with respect to the specific warranties. The buyer agreed to pay additional consideration to Canal+ Group based on any possible transfers of the club's players.
- (d) In connection with the divestiture of Canal+ Nordic in October 2003, Vivendi granted certain customary guarantees to the acquirers up to €22 million, which expired in 2005. A specific guarantee was also granted up to €50 million, expiring in April 2010. Its application could be extended under certain conditions. Two guarantees given to American studios on output deals retained by Canal+ Group, amounting to a maximum of €20 million and \$15 million, respectively, over the life of the contracts. These guarantees are covered by a back-to-back agreement by the buyers. The Canal+ Group has also retained distribution guarantees in favor of Canal Digital and Telenor Broadcast Holding on behalf of its former subsidiary. These guarantees are covered by a back-to-back agreement by the buyers.
- (e) In connection with the divestiture of Sportfive in 2004, both sellers, i.e., RTL Group and Canal+, granted customary guarantees and specific guarantees related to the collection of certain receivables as well as several litigations, expiring on December 31, 2006. The guarantees are capped at €100 million for the sellers (€7 million threshold), i.e., €50 million for Canal+ Group. The sellers also granted customary tax guarantees with no limit as to amount. As of December 31, 2006, as a result of an additional transaction with the buyers, the amount of the commitment of the Canal+ Group which expires in 2007, was reduced to €17 million (for which €1 million of provisions were accrued as of December 31, 2006).
- (f) As part of the divestiture of NC Numéricable on March 31, 2005, the Canal+ Group granted specific guarantees with a €241 million cap (including tax and social risks), for which €13 million of provisions were accrued as of December 31, 2006. Specific risks related to cable networks used by NC Numéricable are included in this maximum amount and are counter-guaranteed by France Telecom up to €151 million. In addition, Canal+ Group received in January 2006, as part of the final divestiture of its 20% stake in Ypso, a potential earn-out, that was not valued in the off-balance sheet accounts.
- (g) Following the unfavorable decision of the Spanish constitutional court concerning the payment by Xfera of UMTS frequency spectrum fees in Spain, which decision is open to appeal, Vivendi recognized an additional provision of €54 million in respect of guarantees granted following

the sale of its stake in Xfera in 2003. The provision stands at €74 million as of December 31, 2006 (including late payment interest), compared to €20 million as of December 31, 2005.

- (h) As of December 31, 2006, Vivendi continued to guarantee commitments given by Veolia Environnement subsidiaries for a total amount of approximately €13 million, mainly relating to performance guarantees given to local authorities (New Bedford). All of these commitments are being progressively transferred to Veolia Environnement and have been counter-guaranteed by the latter.
- (i) Under the terms of the agreement governing the sale of Houghton-Mifflin shares in December 2002, all the guarantees granted by Vivendi expired on June 30, 2004, except those relating to intellectual property which expired at the end of December 2005, guarantees relating to the environment which expire in December 2007, guarantees relating to tax and employee matters subject to statutes of limitation and guarantees relating to share ownership which are unlimited in time.
- (j) In connection with the sale of its 49.9% interest in Sithe to Exelon in December 2000, Vivendi granted guarantees on its own representations and those of Sithe. Claims, other than those made in relation to foreign subsidiary commitments, are capped at \$480 million. In addition, claims must exceed \$15 million, except if they relate to foreign subsidiaries or the divestiture of certain electrical stations to Reliant in February 2000. Some of these guarantees expired on December 18, 2005.
- (k) As part of the sale of real estate assets in June 2002 to Nexity, Vivendi granted two autonomous first demand guarantees, one for €40 million and one for €110 million to several subsidiaries of Nexity (SAS Nexim 1 to 6). The guarantees are effective until June 30, 2017. These autonomous guarantees are in addition to the vendor warranties granted by Sig 35, Vivendi's subsidiary, to SAS Nexim 1 to 6 in connection with guarantee contracts dated June 28, 2002. The vendor warranties are valid for a period of 5 years, from June 28, 2002, except those relating to litigation (valid until the end of the proceedings), tax, custom, and employee related liabilities (statute of limitations plus 3 months) and the decennial guarantee applicable to real estate.
- (l) In connection with the divestiture of its 50% stake in UCI in October 2004, Vivendi granted customary guarantees to the buyer capped at €135 million. These guarantees expired on April 28, 2006, except for guarantees relating to environmental matters which expire on April 28, 2007 and guarantees relating to tax matters which expire at the end of the applicable statute of limitations period. Vivendi continues to provide guarantees in respect of UCI rent commitments to owners of cinema theaters in Germany of approximately €107 million as of December 31, 2006. It received counter-guarantees in this respect from the purchaser of its 50% stake. In addition, as part of the separate disposal of the group's 50% stake in UCI Brazil in October 2005, Vivendi granted guarantees covering lease and operational matters similar to those described above capped at \$14 million and expiring October 12, 2008.

Several guarantees issued in 2006 and in prior years in connection with asset acquisitions or disposals have expired. The statute of limitations of certain guarantees relating to employee and tax liabilities or linked to share ownership has not yet run out. To the best of our knowledge no material claims have been made to date.

#### Relevant commitments closed in 2006

**Early redemption of rental guarantees of the Berlin building Quartier 207 in June 2006.** An annual rental guarantee which amounted to €240 million as of December 31, 2005, was granted by Vivendi to the buyer of the Berlin building Quartier 207 in 1996. In June 2006, Vivendi terminated the residual guarantee by paying €52 million resulting in a decrease in off balance sheet commitments of €240 million following the termination of the rental guarantee without any impact on net income. The building and the debt used for its acquisition were not consolidated by Vivendi in accordance with SIC interpretation 12.

## 29.5. Shareholder Agreements

Under existing shareholder agreements (including SFR, Maroc Telecom, CanalSatellite, as well as Canal+ France (since January 4, 2007)), Vivendi has obtained certain rights (such as preemptive rights and priority rights) which enable it to control the capital structure of consolidated companies owned partially by other shareholders. Conversely, Vivendi has granted similar rights to the other shareholders in the event that it sells its interests to third parties.

In addition, pursuant to other shareholder agreements or provisions of the bylaws of consolidated entities, equity affiliates or unconsolidated interests (including NBC Universal, Elektrim Telekomunikacija, Neuf Cegetel and

Amp'd), Vivendi has given or received certain rights (preemptive and other rights) enabling it to protect its shareholder's rights.

The Canal+ Group and Lagardère shareholders' agreement entered into on July 11, 2000 (following Lagardère's investment in the share capital of CanalSatellite), as amended on November 21, 2000, grants the Canal+ Group or Lagardère the right to exercise contingent call or put options on their respective stakes in CanalSatellite under certain conditions (including in the event of a deadlock or a change of control) which rights terminated following the strategic alliance entered into on January 4, 2007 by Vivendi, Groupe Canal+, Lagardère and Lagardère Active to create Canal+ France. Please refer to Note 2.1.

On September 13, 2006, SFR and Louis Dreyfus signed a new shareholders' agreement. This agreement came into effect on October 24, 2006, date of the initial public offering of Neuf Cegetel, and has an initial term of six years, renewable automatically for periods of three years in the absence of a decision to the contrary by the parties. The agreement provides notably for pre-emptive rights in favor of each of the parties in the event of the transfer of their Neuf Cegetel shares to a third party, subject to certain exceptions. The provisions of this new shareholders' agreement do not impact the governance of Neuf Cegetel and do not call into question the equity accounting of Neuf Cegetel by SFR. Please refer to Note 2.3.

Pursuant to Article L. 225-100-3 of the French Commercial Code, some rights and obligations of Vivendi resulting from shareholders' agreements (SFR, Maroc Telecom, NBC Universal and Cyfra+) could be amended or terminated in the event of a change of control of Vivendi or a tender offer being made on Vivendi. These shareholders' agreements are subject to confidentiality provisions.

## 29.6. Collaterals and Pledges as of December 31, 2006 and December 31, 2005

Nature of assets collateralized or pledged	Note	Inception Date	Maturity	December 31, 2006			December 31, 2005
				Amount of asset pledged (In million of euros)	Total recorded in the Consolidated Statement of Financial Position (In million of euros)	Corresponding percentage	Amount of asset pledged (In million of euros)
<b>Given</b>							
On financial assets							
Pledges on other financial assets	15	1997	2016	50	3,164	2%	49
On cash and cash equivalents							
Miscellaneous cash collaterals		2004	nd*	1	2,400	ns**	1
<b>Total</b>				<b>51</b>	<b>na***</b>	<b>na***</b>	<b>50</b>
<b>Received</b>							
On financial assets							
Receivable on UGC shares held by family shareholders (a)	15	2005	2008	29	3,997	1%	35
On other assets		nd*	nd*	13	na***	na***	12
<b>Total</b>				<b>42</b>	<b>na***</b>	<b>na***</b>	<b>47</b>

\* nd: not determined; \*\* ns: not significant; \*\*\* na: not applicable.

(a) Vivendi has a first rank security on UGC shares held by family shareholders to guarantee the payment of its loan to the latter following the divestiture of its 37.8% stake in UGC in December 2005

## NOTE 30 LITIGATIONS

Vivendi is subject to various litigations, arbitrations or administrative proceedings in the normal course of its business.

The expenses which may result from these proceedings are only recognized as a provision when they become likely and when their amount can either be quantified or estimated on a reasonable basis. In the last case, the amount of the provision represents Vivendi's best estimate of the risk. The amount of the provision recognized is calculated based on an appraisal of the level of the risk, bearing in mind that the occurrence of an ongoing event may lead, at any time, to a reappraisal of the risk. As of December 31, 2006, provisions recorded by Vivendi for all claims and litigations amounted to €230 million.

To the company's knowledge, there are no legal or arbitration proceedings or any facts of an exceptional nature which may have or have had in the recent past a significant effect on the company and on its group's financial position, profit, business and property.

The situation of proceedings disclosed hereunder is described as of February 27, 2007, day of the Management Board meeting held to approve Vivendi's financial statements for the Year Ended December 31, 2006.

## COB/AMF investigation opened in July 2002

On September 12, 2003, following the investigation opened by *Autorités des Marchés Financiers* (AMF) (formerly the *Commission des Opérations de Bourse* (COB)) on July 4, 2002, the AMF notified Vivendi

of facts which, in its view, could result in an administrative penalty for non-compliance with sections 1, 2, 3 and 4 of COB Regulation 98-07.

The charges complained of took place prior to the changes made in the management of Vivendi in July 2002. First, they related to the financial information derived from the methods of consolidation of Cegetel, Maroc Telecom and Elektrim Telekomunikacija in accordance with French accounting standards, and second, to other items of financial information.

Vivendi challenged these allegations, taking the view, shared by its auditors, that the method of consolidation of these companies, which had been applied over the period subject to the COB's investigation, were in accordance with the applicable accounting regulations.

Pursuant to a decision of the AMF Sanction Commission, notified to Vivendi on December 7, 2004, Vivendi was ordered to pay a financial penalty of €1 million. On February 4, 2005, Vivendi appealed the decision of the AMF Sanctions Commission before the Paris Court of Appeal. On June 28, 2005, the Paris Court of Appeal partially overturned the decision of the AMF's Sanctions Commission, validated Vivendi's accounting treatment and reduced the amount of Vivendi's penalty from €1 million to €300,000.

On August 25, 2005, the AMF appealed against this decision before the French Supreme Court (*Cour de Cassation*).

On December 19, 2006, the Commercial Chamber of the French Supreme Court (*Cour de Cassation*) partially reversed the Paris Court of Appeal's decision. In its decision, the Commercial Chamber of the French Supreme Court ruled that the statements made orally by Jean-Marie Messier regarding Vivendi's financial condition at the Company's 2002 Annual Shareholders Meeting were binding on Vivendi, regardless of whether such statements were accurate or complete, due to the fact that he made the statements while performing his duties as the company's chief executive officer.

However, the French Supreme Court confirmed the accuracy and appropriateness of the method applied by Vivendi for the consolidation of Elektrim Telekomunikacja. The case has been remanded to the Paris Court of Appeal in a different composition.

#### **AMF investigation of the Company's share repurchases opened in May 2002**

On May 4, 2004, the AMF commenced an investigation into Vivendi's purchase of its own shares between September 1, 2001 and December 31, 2001. The AMF's investigation report has not been submitted to the "*Commission des sanctions*". However, on June 6, 2005 the AMF submitted this report to the *Parquet de Paris* (the public prosecutor's office) which led to additional prosecution's charges joined to the investigation already underway by the financial department of the *Parquet de Paris* (see below).

#### **AMF investigation in connection with the issuance of mandatorily redeemable notes (ORA) in November 2002**

On January 18, 2005, Vivendi was served with a notice of complaint issued by the AMF following the inquiry made into observed movements in the Vivendi share price at the time of the issuance of notes mandatorily redeemable for new shares of Vivendi in November 2002.

Vivendi challenged the allegations before the Sanctions Commission of the AMF (Commission des Sanctions).

#### **Investigation by the Financial Department of the Parquet de Paris**

The investigation initiated in July 2002 by the financial department of the *Parquet de Paris* for the publication of false or misleading information regarding the financial situation or forecasts of Vivendi, as well as the publication of untrue or inaccurate financial statements (for financial years 2000, and 2001) is ongoing. The application for Vivendi to be joined as a civil party was definitively granted by an order of the Court of Appeal dated June 25, 2003.

#### **PSG Transfers**

An investigation entrusted to a Judge has been opened in connection with the terms of transfer of PSG football players and the remuneration of intermediaries between 1998 and 2002.

#### **DuPont tax litigation**

At the beginning of June 2006, Vivendi reached an agreement with the United States Internal Revenue Service (IRS) ending their dispute concerning the amount of tax due on the redemption of DuPont shares from Seagram in April 1995. The agreement reached with the IRS provided for Vivendi to pay a total of approximately \$671 million (€521 million), including tax \$284 million and interest of \$387 million, to settle this dispute.

Subsequently, at the end of June 2006, in accordance with the agreement with the IRS, Vivendi sold all of the 16.4 million freely transferable DuPont shares that it had held since its merger with Seagram for a total amount of 671 million dollars (534 million euros).

#### **Securities class action in the United States**

Since July 18, 2002, sixteen claims have been filed against Vivendi, Messrs. Jean-Marie Messier and Guillaume Hannezo in the United States District Court for the Southern District of New York and in the United States District Court for the Central District of California. On September 30, 2002, the New York court decided to consolidate these claims in a single action under its jurisdiction entitled *In re Vivendi Universal S.A. Securities Litigation*. The plaintiffs allege that, between October 30, 2000 and August 14, 2002, the defendants violated certain provisions of the US Securities Act of 1933 and US Securities Exchange Act of 1934. On January 7, 2003, they filed a consolidated class action suit that may benefit potential groups of shareholders. Damages of unspecified amount are claimed. Vivendi contests these allegations.

The proceedings are currently in the stage of discovery in which the plaintiffs have to prove a violation that caused a loss to the shareholders.

In parallel with these proceedings, the procedure for certification of the potential claimants as a class with standing to act on behalf of all shareholders ("class certification") is ongoing. The judgment on the class certification is expected in the course of 2007.

#### **Elektrim Telekomunikacja**

Since the purchase on December 12, 2005 of 2% of the companies Elektrim Telekomunikacja Sp. z o.o (Telco) and Carcom Warszawa (Carcom) held by Ymer, Vivendi is a 51% shareholder in each of Telco and Carcom, companies organized and existing under the laws of Poland which own, either directly or indirectly, 51% of the capital of Polska Telefonia Cyfrowa Sp. z o.o (PTC), one of the primary mobile telephone operators in Poland. These shareholdings are the subject of several litigation proceedings the most important of which are described below.

### Arbitral Award Rendered in Vienna on 26 November 2004 (the “Vienna Award”)

In December 2000, Deutsche Telekom (DT) initiated arbitration proceedings in Vienna against Elektrim S.A. (“Elektrim”) and Telco in order to challenge the validity of the contribution of 48% of the capital of PTC made in 1999 by Elektrim to Telco.

In the Vienna Award, notified to the parties on December 13, 2004, it was held that:

- the Telco transfer is ineffective and the PTC shares which were the subject of this transfer remained Elektrim’s property at all material times;
- the transfer of the PTC shares to Telco by Elektrim does not as such qualify as a Material Breach under Article 16.1 of the Shareholders Agreement, but it would do so if Elektrim did not recover the shares from Telco within two months from the notification of the award;
- DT’s Economic Impairment Claim is dismissed; and
- the arbitral tribunal has no jurisdiction over Telco and DT’s claims against Telco cannot be entertained in this Arbitration.

On August 3, 2005, the Vienna arbitral tribunal rendered its final award with respect to costs, thereby concluding these proceedings. Telco was not submitted to any costs and was granted reimbursement of its costs.

Since the arbitral tribunal held that it had no jurisdiction over Telco, Vivendi considers that the Vienna Award is not enforceable against Telco.

### Exequatur Proceedings of the Vienna Award before Polish Courts

On February 2, 2005, Elektrim and DT obtained from the Warsaw Court (Regional Court-Civil Division) a partial *exequatur* of the first three points of the Vienna Award’s provisions, excluding the point on the lack of jurisdiction of the arbitral tribunal over Telco. Telco appealed this partial *exequatur* decision for having violated the terms of the New York Convention of June 10, 1958 on the recognition and execution of foreign arbitral awards and its right to a fair hearing. On March 29, 2006, the Warsaw Court of Appeal confirmed the partial *exequatur* obtained on February 2, 2005, ruling that the Vienna Award was enforceable against Telco. On January 18, 2007, following the appeal filed by Telco, the Polish Supreme Court overturned the Warsaw Court of Appeal’s decision for procedural reasons without examining the merits of the case, and ordered that the case be reheard by the court of first instance.

### Declaratory Proceedings before the Polish Courts

In December 2004, following the Vienna Award, Telco initiated proceedings on the merits with the intention of obtaining a declaratory judgment confirming that it is the rightful owner of the PTC shares.

### Proceedings before the Trade and Companies Registry of Warsaw

Following the decision of March 29, 2006 of the Warsaw Court of Appeal (see above), the Warsaw court responsible for the Trade and Companies Registry (KRS) re-registered Elektrim as shareholder of PTC on July 13, 2006. Telco has appealed this decision.

### Proceedings for the annulment of the Vienna Award before the Austrian Courts

On December 20, 2005, the Vienna Commercial Court at Telco’s request annulled the first sub-paragraph of the Vienna Award which deemed that the contribution of the PTC shares made by Elektrim to Telco in 1999 had been ineffective and that the PTC shares which are the subject of the said transfer had never left Elektrim’s ownership. All the other rulings of the Vienna Award were left unchanged, including the ruling which referred to the absence of jurisdiction of the arbitral tribunal with respect to Telco. The Vienna Commercial Court in particular considered that the arbitral tribunal, after having declared non-jurisdiction with respect to Telco, had contradicted itself by rendering a decision which was likely to affect Telco’s rights.

On October 10, 2006, the Vienna Court of Appeal overturned the December 20, 2005 decision on the basis that Telco had no legal right to request the annulment of the Vienna Award since such award could not have any binding effect on Telco. This decision confirms Vivendi’s interpretation of the Vienna Award.

On December 18, 2006, the Austrian Supreme Court confirmed that Telco was not a party to the arbitration held in Vienna between DT and Elektrim and that the Vienna Award could therefore have no effect on Telco’s rights regarding the PTC shares.

### DT’s Call Option

On June 6, 2006 and October 2, 2006, an arbitral tribunal in Vienna rendered two partial awards deciding that DT had exercised a call option over the shares that Elektrim owns in PTC. Neither Vivendi nor Telco are parties to this arbitration proceeding which is between Elektrim and DT. In its decisions, the arbitral tribunal further ruled that the price of the call option would be the current book value of the PTC shares plus an additional amount to be determined by the tribunal at a later date. The tribunal has nonetheless recognized that uncertainty continues to exist as to the number of PTC shares owned by Elektrim.

### Arbitration Proceedings before the London Court of International Arbitration (LCIA)

On August 22, 2003, Vivendi and Vivendi Telecom International (VTI) lodged an arbitration claim with an arbitration court under the auspices of the London Court of International Arbitration (LCIA) against Elektrim, Telco and Carcom. This request for arbitration relates to the *Third Amended and Restated Investment Agreement* of September 3, 2001, entered into by and among Elektrim, Telco, Carcom, Vivendi and VTI (the “TIA”). The purpose of the TIA, amongst other things, is to govern

relations between Vivendi and Elektrim within Telco. The subject matter of the dispute mainly relates to the validity of the TIA (contested by Elektrim) and alleged breaches of the TIA by Vivendi and Elektrim.

On May 22, 2006, the LCIA Arbitral Tribunal, in a partial award, confirmed the validity of the TIA. The next hearings on the alleged breaches of the TIA are scheduled for March 2007.

### **Vivendi's case against the Polish State**

On August 10, 2006, Vivendi and VTI served the Republic of Poland with a request for arbitration on the basis of the treaty signed on February 14, 1989, between France and Poland relating to the reciprocal encouragement and protection of investments. In its request, Vivendi claimed that the Republic of Poland failed to comply with its obligations to protect and fairly treat foreign investors under such treaty.

### **Proceedings against DT before the Paris Commercial Court**

In April 2005, Vivendi summoned DT before the Paris Commercial Court for wrongful termination of negotiations. In September 2004, DT ended, without prior notice and without legitimate justification, tri-party negotiations with Elektrim and Vivendi which had begun one year earlier in relation to the transfer of 51% of PTC to DT. Vivendi considers that this abrupt withdrawal was motivated by DT's wish to appropriate the PTC shareholding at a lower cost by maneuvers which Vivendi considers to be illegal. Vivendi is claiming compensation from DT, corresponding to the harm suffered as a result of DT's acts.

### **Arbitral proceedings in Geneva under the aegis of the International Chamber of Commerce**

Intensive discussions took place in February and March 2006, between Vivendi, Elektrim and DT as a result of which the parties agreed to settle all pending litigation on the ownership of the PTC shares and to put in place a new joint-venture between Vivendi and DT concerning PTC. This agreement could not be implemented because DT, following the announcement of the decision of the Warsaw Court of Appeal of March 29, 2006, abruptly decided not to sign the relevant documents. Vivendi believes that the agreement, which is subject to Swiss law, had been validly concluded by the parties and, therefore, on April 13, 2006, it initiated arbitration proceedings in Geneva under the aegis of the International Chamber of Commerce against DT and Elektrim to enforce its rights thereunder. The next hearings will take place in September 2008.

### **Proceedings against DT before the federal court in the State of Washington (USA)**

On October 23, 2006, Vivendi filed a civil Racketeer Influenced and Corrupt Organizations Act (RICO) complaint in federal court in the State of Washington, claiming that T-Mobile had illegally appropriated

Vivendi's investment in PTC through a pattern of fraud and racketeering. Named in the complaint are T-Mobile USA, Inc., T-Mobile Deutschland GmbH Deutsche Telekom AG and Mr Zygmunt Solorz-Zak, Elektrim's main shareholder.

### **Tort Claim against Vivendi before the Warsaw District Court**

Elektrim started a tort action against Vivendi before the Warsaw District Court on October 4, 2006, claiming that Vivendi prevented Elektrim from recovering the PTC shares following the Vienna Award. Elektrim claims compensation for approximately €2.2 billion corresponding to the difference between the fair market value of 48% of PTC and the price paid by DT to Elektrim as a result of the exercise of its call option.

### **Vienna arbitration between DT and Elektrim Autoinvest**

On January 10, 2007, DT lodged an arbitration claim against Elektrim Autoinvest, a 51% indirect subsidiary of Vivendi which owns 1.1% of the share capital of PTC. DT alleges that it has a call option on Elektrim Autoinvest's stake in PTC, which call option results from the breach of the PTC shareholders agreement by Elektrim Autoinvest.

### **French Competition Council – mobile telephone market**

On December 1, 2005, the French Competition Council issued an order against French mobile telephone operators in respect of the operation of the mobile telephone market, principally during the period 2000-2002. The resulting fine paid by SFR, amounted to €220 million and was entered in SFR's accounts as an expense and was paid during the 2005 fiscal year. On February 9, 2006, SFR appealed this order. The hearings before the Court of Appeal were held on September 12, 2006. On December 12, 2006, the Paris Court of Appeal confirmed the French Competition Council's order and dismissed the claim brought by the UFC-QUE CHOISIR association's to have the case submitted to the Public Prosecutor. On January 11, 2007, SFR, as well as Bouygues Telecom and Orange, appealed this decision before the French Supreme Court (*Cour de Cassation*).

SFR is involved in contentious proceedings connected with this order brought by customers and consumer associations before the Commercial Court of Paris. Since SFR is challenging the merits of these proceedings, it is not in a position to determine the potential impact of their outcome.

Furthermore, SFR is involved in other contentious proceedings commenced in connection with competition law, proceedings which are often common with other telephone operators. The management of SFR is not in a position to determine the potential impact of the outcome of these proceedings and, consequently, has made no provision in its accounts in this respect.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 31 Major Consolidated Entities as of December 31, 2006 and December 31, 2005

## Universal Music Group

## Investigations into prices in the online music distribution market

In December 2005, the New York State Attorney General opened an investigation into matters concerning the pricing of digital downloads. In February 2006, the United States Justice Department commenced a similar investigation. In connection with those inquiries, both the New York State Attorney General and the Department of Justice served subpoenas on the four major record companies. UMG is currently in the process of responding to those subpoenas.

## Brazilian Tax Dispute

The State of Sao Paulo, Brazil Tax Authority filed an action disputing certain deductions taken by a UMG company in Brazil for sales tax payments on account of copyright and neighbouring rights payments for domestic Brazilian repertoire.

## NOTE 31 MAJOR CONSOLIDATED ENTITIES AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

As of December 31, 2006, approximately 400 entities were consolidated or accounted for using the equity method.

Note	Country	December 31, 2006			December 31, 2005		
		Accounting Method	Voting Interest	Ownership Interest	Accounting Method	Voting Interest	Ownership Interest
<b>Vivendi S.A.</b>	France	Parent company			Parent company		
<b>Universal Music Group</b>	2.2						
Universal Studios Holding I Corp. (a)	USA	-	-	-	C	92%	92%
PolyGram Holding, Inc.	USA	C	100%	100%	C	100%	92%
Universal Music Group, Inc.	USA	C	100%	100%	C	100%	92%
UMG Recordings, Inc.	USA	C	100%	100%	C	100%	92%
Centenary Holding B.V.	Netherlands	C	100%	100%	C	100%	92%
Universal International Music B.V.	Netherlands	C	100%	100%	C	100%	92%
Universal Entertainment GmbH	Germany	C	100%	100%	C	100%	92%
Universal Music K.K.	Japan	C	100%	100%	C	100%	92%
Universal Music France S.A.S.	France	C	100%	100%	C	100%	92%
Centenary Music Holdings Limited	UK	C	100%	100%	C	100%	92%
Universal Music (UK) Holdings Limited	UK	C	100%	100%	C	100%	92%
<b>Vivendi Games</b>	2.2						
Blizzard Entertainment, Inc	USA	C	100%	100%	C	100%	99%
	USA	C	100%	100%	C	100%	99%
<b>Canal+ Group</b>							
Groupe Canal+ S.A.	France	C	100%	100%	C	100%	100%
Canal+ France (b)	2.1	C	90%	90%	-	-	-
Canal+ S.A. (c)	France	C	49%	44%	C	49%	49%
CanalSatellite S.A.	France	C	66%	59%	C	66%	66%
MultiThématiques	France	C	100%	90%	C	100%	100%
Media Overseas	France	C	100%	90%	C	100%	100%
StudioCanal S.A.	France	C	100%	100%	C	100%	100%
Cyfra+	Poland	C	75%	75%	C	75%	75%
<b>SFR</b>							
SFR (d)	France	C	56%	56%	C	56%	56%
Neuf Cegetel S.A.	2.3	E	40%	23%	E	28%	16%
Cegetel S.A.S.	France	-	-	-	-	-	-
<b>Maroc Telecom S.A.</b>	Morocco	C	51%	51%	C	51%	51%
Mauritel	Mauritania	C	51%	21%	C	51%	21%

	Note	Country	December 31, 2006			December 31, 2005		
			Accounting Method	Voting Interest	Ownership Interest	Accounting Method	Voting Interest	Ownership Interest
<b>NBC Universal</b>	2.2							
Universal Studios Holding I Corp. (a)		USA	-	-	-	C	92%	92%
NBC Universal		USA	E	20%	20%	E	20%	18%
<b>Other</b>								
Vivendi Telecom International S.A.		France	C	100%	100%	C	100%	100%
Elektrim Telekomunikacja	2.4	Poland	C	51%	51%	C	51%	51%
Polska Telefonica Cyfrowa (e)	2.4	Poland	-	-	-	NC	51%	26%
Vivendi Universal Publishing S.A.		France	C	100%	100%	C	100%	100%

C: Consolidated; E: Equity; NC: Not Consolidated.

- (a) Following the acquisition of the minority interests held by Matsushita Electric Industrial (MEI) in Universal Studios Holding I Corp., Vivendi was able to simplify its North American corporate structure and consequently, this company was liquidated. Please refer to Note 2.2 "Purchase of the 7.7% stake held by Matsushita Electric Industrial Co, Ltd (MEI) in Universal Studios Holding I Corp."
- (b) During the fourth quarter, the Canal+ Group transferred to Canal+ France (100% held) its pay-TV publishing and service distribution activities (including overseas departments and territories) in France and other Francophone countries. On December 19, 2006, in satisfaction of a condition precedent to the combination of Canal+ and TPS, Groupe Canal+ transferred 9.82% of the share capital of Canal+ France to Lagardère Active. As of December 31, 2006, the Canal+ Group held 90% of Canal+ France. Following the combination of Canal+ and TPS on January 4, 2007, the Canal+ Group held 65% in Canal+ France. Please refer to Note 2.1. "Combination of Canal+ and TPS pay-TV activities in France".
- (c) This company is consolidated because Vivendi (i) has majority control over the board of directors, (ii) no other shareholder or shareholder group is in a position to exercise substantive participating rights that would allow them to veto or block decisions taken by Vivendi and (iii) it assumes the majority of risks and benefits pursuant to an agreement between Canal+ S.A. and Canal+ Distribution, a wholly-owned subsidiary of Vivendi. Under the terms of this agreement, Canal+ Distribution guarantees Canal+ S.A. results in return for exclusive commercial rights to the Canal+ S.A. subscriber base.
- (d) SFR is 56% owned by Vivendi and 44% owned by Vodafone. Under the terms of the shareholders' agreement, Vivendi has management control of SFR, majority control over the board of directors and appoints the chairman and CEO, has majority control over shareholders' general meetings, and no other shareholder or shareholder group is in a position to exercise substantive participating rights that would allow them to veto or block decisions taken by Vivendi.
- (e) Due to the legal disputes surrounding the ownership of Telco's stake in PTC which prevents Telco/Carcom from exercising joint control over PTC, as provided in the bylaws of PTC, Vivendi has not consolidated its stake in PTC (please refer to Note 2.4 "Stake in PTC").

## NOTE 32 SUBSEQUENT EVENTS

The main events that occurred since December 31, 2006, were as follows:

- **combination of the Canal+ France and TPS pay-TV activities in France on January 4, 2007.** Please refer to Section 2.1 for further details;
- **voluntary redundancy plan at the Canal+ Group level.** In March 2006, management and trade union representatives of UES Canal+ signed a procedural agreement defining the Works Council information/consultation phases and setting out a strict timetable for the implementation of the plan. After the UES Canal+ Works Council issued its opinion on October 24, 2006 on the legal aspects of the Canal+ and TPS merger, followed on December 21, 2006, by its opinion on the initial focus of the functional reorganization plan for the new group, management and trade union representatives of UES Canal+ and TPS signed a method agreement on January 12, 2007, framing the Works Council information/consultation phases for the reorganization of the new group and its employee-related consequences (Books IV and III of the French Employment Code). Elected representatives were informed in mid-January of the

management's reorganization plan, which involves the elimination of 364 jobs. Given the existence of a number of vacant positions within Canal+ and TPS, the plan could result in 171 employees leaving the company. Pursuant to the method agreement, the Works Council will issue its opinion no later than April 6, 2007;

- **new satellite capacity contract.** The Canal+ Group decided, following a bidding process, to retain Astra as the future sole operator carrying its television by satellite services in France. This decision provides the Canal+ Group with long-term access to the satellite capacity it requires, with favorable price conditions, to expand the number of channels it offers and accelerate the roll-out of High Definition by satellite in France. This new contract represents an additional overall commitment of €230 million over 10 years. TPS subscribers will continue to receive their channels via Eutelsat before being invited to migrate to Astra. This transfer will take place progressively commencing in the second half of 2007;
- **on February 9, 2007, Maroc Telecom acquired a 51% stake in Gabon Telecom S.A.,** the incumbent telecommunications operator of Gabon, for an amount of €61 million.

## 2006 Statutory Financial Statements of Vivendi SA (summarized)

### 1 Presentation of the Vivendi SA 2006 Statutory Financial Statements

#### 1. STATEMENT OF EARNINGS

##### Earnings from operations

Vivendi SA reports a net loss from operations of €90.2 million for 2006, compared to a loss of €98.3 million for 2005.

##### Revenues

Revenues total €113.8 million for 2006 compared to €104.7 million in 2005 and include, in addition to €4.7 million, billed in 2006 under the water distribution contract not yet legally transferred to Veolia Eau, assistance to subsidiaries and domiciliation services, amounts billed to subsidiaries in respect of option plans and rebilled expenses.

Other income of €41.7 million (€21.4 million in 2005) includes insurance repayments of €36.3 million in respect of the Securities class action litigation in the United States (€8.7 million in 2005).

##### Operating expenses

Operating expenses total €245.7 million compared to €224.4 million in 2005 and notably comprise:

- Commission and professional fees of €95.0 million, including €45.3 million in respect of the Securities class action litigation in the United States, compared to €69.2 million in 2005 (including €29.9 million in respect of the Securities class action litigation);
- Wages, salaries and social security contributions of €48.7 million, compared to €45.9 million in 2005;
- Duties and taxes other than income tax of €23.3 million (including withholding tax of €14.4 million on transactions with Canadian and US subsidiaries pursuant to the simplification of the group's corporate structure), compared to €7.9 million in 2005.

##### Net financial income/(loss)

Net financial income for the year is €3,009.7 million, compared to €5,783.2 million in 2005 and breaks down as follows:

- income from subsidiaries and affiliates, primarily consisting of dividends of €927.5 million (€1,188.7 million in 2005) and notably SFR dividends of €852.0 million (€902.1 million in 2005);
- a decrease in the external net financing cost from €186.3 in 2005 to €118.5 million in 2006 notably following the €1 billion partial redemption in November 2005 of the November 2002 bond issue redeemable in Vivendi shares and a decrease in average external net debt (excluding bonds redeemable in shares) from €2.5 billion in 2005 to €1.7 billion in 2006 (mainly due to the sale of Vivendi's residual interest in Veolia Environnement in July for €0.9 billion);
- movements in financial provisions presenting a net reversal of €2,055.3 million, including:
  - the reversal of the provision for SPC shares in the amount of €2,335.2 million (holding company at the head of certain US Group assets, Universal Music and Vivendi Games), in line with valuations obtained for impairment test purposes and resulting notably from the positive impact of the resolution of the tax dispute concerning DuPont shares and the divestiture of the DuPont shares, the valuation of the intrinsic value of US assets and, conversely, the negative impact of the fall in the US dollar exchange rate in 2006,
  - the reversal of the provision for Vivendi Telecom International shares in the amount of €451.0 million, following an increase in the Maroc Telecom share price,
  - an additional charge to provisions of €442.0 million reducing to nil the total value of shares and receivables relating to Vivendi's investment in mobile telephony in Poland,
  - a charge to provisions of €300.0 million in respect of NBC Universal shares following the fall in the US dollar exchange rate in 2006.

In 2005, the net reversal of financial provisions of €4,605.9 million included €3,135.7 million in respect of SPC shares and €1,163.2 million in respect of Canal+ Group shares.

## Net exceptional items

Net exceptional income is €752.7 million in 2006 compared to €458.9 million in 2005 and breaks down as follows:

- a capital gain of €492.1 million on the sale of the 5.3% residual interest in Veolia Environnement;
- an internal capital gain of €203.9 million on the sale of Vivendi Universal Holding II shares, as part of the simplification of the corporate structure of North American activities;
- a capital gain of €32.1 million on the contribution of the Sogecable shares (TIAP) to the Prisa takeover bid.

## Income tax expense / (credit)

Vivendi recorded a tax group credit of €139.0 million, compared to €13.7 million in 2005, including €116.5 million in respect of the taxation at 8% of long-term capital gains recognized in Canal+ Group.

The company also recorded a tax credit of €603.8 million in respect of the Consolidated Global Profit Tax System (€506.9 million in 2005 before deduction of €2.3 million in 2006 on the effective receipt of the receivable).

## Earnings for the year

Earnings for the year are €4,412.4 million, compared to €6,675.2 million in 2005.

## 2. STATEMENT OF FINANCIAL POSITION

The Vivendi SA Statement of Financial Position reports net assets of €41.2 billion as at December 31, 2006, compared to €37.6 billion as at December 31, 2005.

### Non-current assets

Long-term investments increased from €30,420.5 million net as at December 31, 2005 to €35,780.6 million net as at December 31, 2006. This increase was the result of the following transactions:

- the simplification of the corporate structure of the group's activities in the USA and Canada, launched in 2005, was continued in 2006 and was reflected in the Vivendi SA statutory financial statements by the inclusion of NBC Universal shares in the amount of €6,360.0 million, previously held by a US entity and representing 20% of the share capital of the company;
- the creation of Vivendi Finance Co, the US company which financed the acquisition from Bertelsmann of BMG Publishing in December, by a contribution of €1,661.5 million (US\$2.2 billion);
- the divestiture of the residual interest in Veolia Environnement with a book value of €368.9 million.

### Equity

Vivendi SA net equity, before the appropriation of 2006 earnings, is €33.3 billion compared to €29.7 billion at the end of 2005 and takes into account the dividend distribution of €1,147.4 million in April 2006.

### Borrowings

Borrowings total €7,167.5 million, compared to €5,162.4 million at the end of 2005.

Bond issues total €3,692.5 million, including accrued interest and comprise two new bond issues of €700 million and €500 million with maturities of 5 and 7 years respectively.

The average maturity of Group medium-term debt is 3 years, compared to 3.3 years as at December 31, 2005, excluding revolving credit lines.

Borrowings maturing after more than one year total €2,956.8 million, compared to €2,506.2 million as at December 31, 2005.

## 2

## 2006 Statutory Financial Statements

## 1. STATEMENT OF EARNINGS

<i>(in millions of euros)</i>	2006	2005	2004
<b>Operating income</b>			
Income from water distribution activities	4.7	7.8	7.6
Other income	109.1	96.9	87.4
<b>Total revenues (A)</b>	<b>113.8</b>	<b>104.7</b>	<b>95.0</b>
Reversal of provisions and expense reclassifications	39.5	18.5	39.8
Other income	2.2	2.9	3.4
<b>Total (B)</b>	<b>41.7</b>	<b>21.4</b>	<b>43.2</b>
<b>TOTAL I (A + B)</b>	<b>155.5</b>	<b>126.1</b>	<b>138.2</b>
<b>Operating expenses</b>			
Other purchases and external charges	161.5	132.3	221.0
Duties and taxes other than income tax	23.3	7.9	10.5
Wages and salaries	35.5	33.8	40.8
Social security contributions	13.2	12.1	15.4
Depreciation, amortization and charges to provisions:			
On intangible assets and PP&E: amortization and depreciation	9.5	35.6	114.1
On current assets: charges to provisions	1.3	1.7	
For contingencies and losses: charges to provisions			
Other expenses	1.4	1.0	1.3
<b>TOTAL II</b>	<b>245.7</b>	<b>224.4</b>	<b>403.1</b>
<b>Earnings from operations (I-II)</b>	<b>(90.2)</b>	<b>(98.3)</b>	<b>(264.9)</b>

## STATEMENT OF EARNINGS (contd.)

(in millions of euros)	2006	2005	2004
<b>Financial income</b>			
From subsidiaries and affiliates	927.5	1,188.9	2,001.9
From other securities and long-term receivables	134.3	53.8	44.7
Other interest and similar income	145.2	363.9	388.1
Reversal of provisions and expense reclassifications	2,918.0	4,868.6	1,476.6
Foreign exchange gains	1,289.3	1,954.3	1,852.1
Net proceeds from the sale of marketable securities	32.1	112.6	5.6
<b>TOTAL III</b>	<b>5,446.4</b>	<b>8,542.1</b>	<b>5,769.0</b>
<b>Financial expenses</b>			
Amortization and charges to financial provisions	862.7	262.7	3,288.9
Interest and similar charges	276.9	650.2	979.3
Foreign exchange losses	1,283.1	1,721.2	1,699.3
Net expenses on the sale of marketable securities	14.0	124.8	0.1
<b>TOTAL IV</b>	<b>2,436.7</b>	<b>2,758.9</b>	<b>5,967.6</b>
<b>Net financial income/(loss) (III - IV)</b>	<b>3,009.7</b>	<b>5,783.2</b>	<b>(198.6)</b>
<b>Earnings from ordinary activities before tax (I - II + III - IV)</b>	<b>2,919.5</b>	<b>5,684.9</b>	<b>(463.5)</b>
Exceptional income			
From non-capital transactions	18.1	15.4	81.8
From capital transactions	9,915.1	1,785.4	7,175.9
Reversals of provisions and expense reclassifications	168.3	1,597.5	2,690.1
<b>TOTAL V</b>	<b>10,101.5</b>	<b>3,398.3</b>	<b>9,947.8</b>
Exceptional expenses			
On non-capital transactions	115.9	102.6	371.5
On capital transactions	9,225.0	2,794.1	8,268.0
Exceptional depreciation, amortization and charges to provisions	7.9	42.7	131.1
<b>TOTAL VI</b>	<b>9,348.8</b>	<b>2,939.4</b>	<b>8,770.6</b>
<b>Net exceptional items (V - VI)</b>	<b>752.7</b>	<b>458.9</b>	<b>1,177.2</b>
<b>Employee profit-sharing (VII)</b>			
<b>Income tax (VIII) (credit)</b>	<b>740.2</b>	<b>531.4</b>	<b>513.6</b>
<b>TOTAL INCOME (I + III + V + VIII)</b>	<b>16,443.6</b>	<b>12,598.0</b>	<b>16,368.6</b>
<b>TOTAL EXPENSES (II + IV + VI + VII)</b>	<b>12,031.2</b>	<b>5,922.8</b>	<b>15,141.3</b>
<b>Earnings for the year</b>	<b>4,412.4</b>	<b>6,675.2</b>	<b>1,227.3</b>

## 2006 STATUTORY FINANCIAL STATEMENTS (SUMMARIZED)

2006 Statutory Financial Statements

## 2. STATEMENT OF FINANCIAL POSITION

Assets (in millions of euros)	Gross	Depreciation, amortization and provisions	Net		
			2006	2005	2004
<b>Non-current assets</b>					
<b>Intangible assets</b>	<b>13.4</b>	<b>11.8</b>	<b>1.6</b>	<b>4.9</b>	<b>5.4</b>
Preliminary expenses					
Concessions and similar rights				2.6	3.2
Other intangible assets	13.4	11.8	1.6	2.3	2.2
<b>Property, plant and equipment</b>	<b>61.1</b>	<b>51.4</b>	<b>9.7</b>	<b>14.7</b>	<b>19.4</b>
Land				0.3	0.3
Buildings and improvements	0.1	0.1	0.0	0.2	0.3
Industrial and technical plant	0.4	0.3	0.1	0.3	0.3
Other PP&E	58.9	49.9	9.0	13.2	17.9
PP&E under construction				0.2	
Concession PP&E	1.7	1.1	0.6	0.5	0.6
<b>Long-term investments (1)</b>	<b>51,802.0</b>	<b>16,021.4</b>	<b>35,780.6</b>	<b>30,420.5</b>	<b>28,535.7</b>
Investments in affiliates	49,348.4	15,245.8	34,102.6	29,195.9	27,605.2
Long-term portfolio securities	164.6		164.6	69.2	128.3
Loans to subsidiaries and affiliates	1,419.3	665.4	753.9	859.1	368.2
Other long-term investment securities	141.9	109.6	32.3	115.7	112.9
Loans	21.5		21.5	178.5	319.0
Other	706.3	0.6	705.7	2.1	2.1
<b>TOTAL I</b>	<b>51,876.5</b>	<b>16,084.6</b>	<b>35,791.9</b>	<b>30,440.1</b>	<b>28,560.5</b>
Current assets					
<b>Inventories and WIP</b>					
<b>Receivables (2)</b>	<b>3,259.5</b>	<b>210.1</b>	<b>3,049.4</b>	<b>4,685.8</b>	<b>5,845.3</b>
Trade accounts receivable and related accounts	14.5	1.5	13.0	7.9	31.1
Other receivables	3,245.0	208.6	3,036.4	4,677.9	5,814.2
<b>Marketable securities</b>	<b>1,731.4</b>	<b>2.6</b>	<b>1,728.8</b>	<b>2,075.8</b>	<b>1,846.6</b>
Treasury shares	1.9		1.9	38.4	9.1
Other securities	1,729.5	2.6	1,726.9	2,037.4	1,837.5
Cash at bank and in hand	323.5		323.5	137.1	273.3
Prepayments (2)	249.2		249.2	252.5	405.7
<b>TOTAL II</b>	<b>5,563.6</b>	<b>212.7</b>	<b>5,350.9</b>	<b>7,151.2</b>	<b>8,370.9</b>
<b>Deferred charges (III)</b>	<b>7.2</b>		<b>7.2</b>	<b>6.5</b>	<b>30.7</b>
<b>Unrealized foreign exchange losses (IV)</b>	<b>44.6</b>		<b>44.6</b>	<b>0.1</b>	<b>45.9</b>
<b>TOTAL ASSETS (I + II + III + IV)</b>	<b>57,491.9</b>	<b>16,297.3</b>	<b>41,194.6</b>	<b>37,597.9</b>	<b>37,008.0</b>
(1) Portion due within less than one year			730.5	23.1	7.0
(2) Portion due within more than one year			243.5	269.7	327.7

## STATEMENT OF FINANCIAL POSITION (contd.)

Equity and liabilities (in millions of euros)	2006	2005	2004
<b>Equity</b>			
Share capital	6,363.7	6,344.1	5,899.4
Additional paid-in capital	11,529.6	11,210.8	10,585.0
Reserves			
Legal reserve	634.4	385.5	324.2
Tax-driven reserves			3.2
Blocked reserves			
Other reserves	3.2	3.2	
Retained earnings	10,389.7	5,110.8	4,597.8
Earnings for the year	4,412.4	6,675.2	1,227.3
<b>Net equity</b>	<b>33,333.0</b>	<b>29,729.6</b>	<b>22,636.9</b>
Tax-driven provisions			
<b>TOTAL I</b>	<b>33,333.0</b>	<b>29,729.6</b>	<b>22,636.9</b>
Equity equivalents			
Bonds redeemable in shares		1,892.0	3,130.9
<b>TOTAL II</b>		<b>1,892.0</b>	<b>3,130.9</b>
Provisions			
Provisions	610.1	700.9	941.5
<b>TOTAL III</b>	<b>610.1</b>	<b>700.9</b>	<b>941.5</b>
<b>Liabilities (1)</b>			
Convertible and other bond issues	3,692.5	2,851.2	3,051.4
Bank borrowings (2)	665.9	415.6	1,259.5
Other borrowings	2,809.1	1,895.6	5,556.2
Payments received on account for work-in-progress			0.2
Trade accounts payable and related accounts	36.5	28.6	97.5
Tax and employee-related liabilities	36.9	38.0	35.6
Amounts payable in respect of PP&E and related accounts		3.1	
Other liabilities	5.5	35.7	72.8
Deferred income	5.1	7.6	3.2
<b>TOTAL IV</b>	<b>7,251.5</b>	<b>5,275.4</b>	<b>10,076.4</b>
<b>Unrealized foreign exchange gains (V)</b>			<b>222.3</b>
<b>TOTAL EQUITY AND LIABILITIES (I + II + III + IV + V)</b>	<b>41,194.6</b>	<b>37,597.9</b>	<b>37,008.0</b>
(1) Portion due within more than one year	2,956.8	2,506.2	4,691.1
Portion due within less than one year	4,294.7	2,769.2	5,385.3
(2) Including current bank facilities and overdrafts	323.5	132.2	275.2

## 2006 STATUTORY FINANCIAL STATEMENTS (SUMMARIZED)

2006 Statutory Financial Statements

## 3. STATEMENT OF CASH FLOWS

<i>(in millions of euros)</i>	2006	2005 (2)
Earnings for the year	4,412.4	6,675.2
Elimination of non-cash income and expenses		
Charges to depreciation and amortization	9.5	35.5
Charges to provisions net of reversals		
Operating	1.0	(3.4)
Financial	(2,037.5)	(4,542.8)
Exceptional	(160.4)	(1,543.6)
Capital gains and losses	(688.6)	265.6
Merger and liquidation gains/deficits	0.4	752.0
<b>Operating cash flows before changes in working capital</b>	<b>1,536.8</b>	<b>1,638.5</b>
Changes in working capital	(488.6)	55.1
<b>Net cash provided by operating activities</b>	<b>1,048.2</b>	<b>1,693.6</b>
Capital expenditure	(1.5)	(1.6)
Purchases of investments in affiliates and securities	(1,760.9)	(470.0)
(Increase) decrease in loans to subsidiaries and affiliates	(190.3)	(526.8)
Advances and cash deposits in respect of the Canal+/TPS combination	(623.5)	
Receivables on the sale of non-current assets and other financial receivables	(73.9)	(30.4)
Proceeds from sales of intangible assets and PP&E	4.6	2.0
Proceeds from sales of investments in affiliates and securities	1,036.2	1,751.6
Increase in deferred charges relating to financial instruments	(3.0)	(4.6)
<b>Net cash provided by/(used in) investing activities</b>	<b>(1,612.3)</b>	<b>720.2</b>
Net proceeds from issuance of shares	60.3	36.5
Dividends paid	(1,147.4)	(639.1)
Equity equivalents (bonds redeemable in shares)		
New long-term borrowings secured	1,204.7	1,241.7
Principal payments on long-term borrowings	(342.3)	(3,452.4)
Increase (decrease) in short-term borrowings	250.3	(842.6)
Change in net current accounts	398.3	1,366.5
Treasury shares	16.1	(60.7)
<b>Net cash provided by/(used in) financing activities</b>	<b>440.0</b>	<b>(2,350.1)</b>
Change in cash	(124.1)	63.7
Opening net cash (1)	2,174.5	2,110.8
<b>Closing net cash (1)</b>	<b>2,050.4</b>	<b>2,174.5</b>

(1) Cash and marketable securities net of provisions.

(2) Amendment in 2005: the redemption in shares of bonds redeemable in shares and the cancellation of bonds redeemable in shares via current accounts are excluded from the Statement of Cash Flows.

### 3 Subsidiaries and Affiliates

(in thousands of euros, unless otherwise stated)	Share capital	Equity excl. share capital	% share capital held	Book value of investments		Out-standing loans and advances granted by Vivendi (2)	Guarantees and endorsements granted by Vivendi	2005 Revenues	2006 Revenues	2005 Earnings	2006 Earnings	Dividends received by Vivendi during 2006	Comments
				Gross	Net								
Groupe Canal+ SA * (3) 1, place du Spectacle 92130 Issy les Moulineaux	100,000	1,530,417	100,00	5,198,133	5,198,133		15,000	195,895	349,501	(54,309)	1,064,261		
NBC Universal Inc. (4) 30 Rockefeller Plaza New York, NY 10112		US\$ 23,288 million	20.00	6,359,963	6,059,963			US\$ 14,216 million	US\$ 15,383 million	US\$ 2,301 million	US\$ 1,899 million		
Other subsidiaries and affiliates (Summary information)				21,875	21,875	14,664							prov. for advances 4,647

(1) Including earnings of the year.

(2) Including current account advances.

(3) Company holding 49% of Canal+ SA and all other assets transferred by Canal Plus on the Vivendi-Canal Plus-Seagram merger on December 8, 2000.

(4) Consolidated figures.

\* This company is primarily a holding company. The amounts presented in the «Revenues» columns comprise operating income and financial income from investments.

## 2006 STATUTORY FINANCIAL STATEMENTS (SUMMARIZED)

## Subsidiaries and Affiliates

(in thousands of euros, unless otherwise stated)	Share capital	Equity excl. share capital	% share capital held	Book value of investments		Out-standing loans and advances granted by Vivendi (2)	Guarantees and endorse- ments granted by Vivendi	2005 Revenues	2006 Revenues	2005 Earnings	2006 Earnings	Dividends received by Vivendi during 2006	Comments
				Gross	Net								
Société Française du Radiotéléphone 42, avenue de Friedland 75008 PARIS	1,343,455	810,300	55.96	9,807,026	9,807,026			8,400,552	8,466,428	1,599,382	1,605,979	851,974	
Vivendi Telecom International * (3) 42, avenue de Friedland 75008 PARIS	1,190,647	(603 720)	100.00	1,190,905	1,190,905	1,546,057	55,200	5,837	4,019	2,653 (65,976)	(132 889)		
Elektrim Telekomunikacja * (4) Al. Jana Pawła II 00- 828 Warsaw Poland	10,008,090 thousand zlotys (5)	(8,273,595) thousand zlotys (5)	47.07	1,117,080	0	621,199		230 thousand zlotys (5)	60 thousand zlotys (5)	(205,575) thousand zlotys (5)			prov. for advances 621,199
Other subsidiaries and affiliates (Summary information)				196,905	53,559	357,914	366 300 (7)						prov. for advances 17,781

(1) Including earnings of the year.

(2) Including current account advances.

(3) Company carrying Group telephony investments in Morocco and Poland.

(4) Elektrim Telekomunikacja (held 3.93% by Vivendi Telecom International) and Carcom Warszawa (held 51% by Vivendi) hold 51% of the share capital of PTC, the leading mobile phone operator in Poland.

(5) As at December 31, 2006, 1 euro = 3.8310 zlotys.

(6) Compared with provisional losses of 46,880 thousand zlotys reported in the 2005 annual report.

(7) Guarantee given to the Moroccan bank Attijariwafa in respect of a loan granted in January 2005 to Société de Participation dans les Télécommunications to finance the acquisition of 16% of the share capital of Maroc Télécom.

\* This company is primarily a holding company. The amounts presented in the «Revenues» column comprise operating income and financial income from investments.

(in thousands of euros, unless otherwise stated)	Share capital	Equity excl. share capital	% share capital held	Book value of investments		Out-standing loans and advances granted by Vivendi (2)	Guarantees and endorse- ments granted by Vivendi	2005 Revenues	2006 Revenues	2005 Earnings	2006 Earnings	Dividends received by Vivendi during 2006	Comments
				Gross	Net								
<b>Holding companies and non-core activities</b>													
I - Holding companies													
SPC * (3)													
42, avenue de Friedland 75008 Paris	19,612,555	(13,302,260)	100,00	19,748,105	6,310,805					3,135,239 (7)	2,284,457 (8)		
Vivendi Finance Company (4)													
Corporation Trust Center 1209, Orange Street Wilmington, 19801 County of New Castle Delaware, U.S.A.	US\$ 2,207,452 thousand	US\$ 7,398 thousand	100,00	1,661,488	1,661,488						US\$ 7,398 thousand		
Vivendi Holding 1 Corporation (5) *		US\$ 13,875,498 thousand	(5)	397,962	397,962	57,188			US\$ 4,138,210 thousand (9)	US\$ (247,907) thousand (9)	US\$ 4,075,983 thousand (9)		
800 Third Avenue New York, New York 10022													
Vivendi Holdings Company (6)													
Summit Place - 1601 Lower Water Street Halifax - Nova Scotia B3J 2V1 Canada	CAD 27,278,858 thousand	CAD (23,167,742) thousand	(6)	2,565,251	2,565,251	412,981				CAD (485,306) thousand	CAD (6,243) thousand		
Centenary SGPS Rua Calouste Gulbenkian 52 Edifício Mota Galiza Freguesia de Massaleros Concelho do Porto Portugal	880	145,859	100.00	146,621	146,621					(121)	4,173		fiscal year 07/01/05 to 06/30/06
Other subsidiaries and affiliates (Summary information)				77,068	77,068	87,865							

(1) Including earnings of the year.

(2) Including current account advances.

(3) Company holding, indirectly, the group's stakes in Universal Music and Vivendi Games.

(4) Company created on the acquisition of BMG Publishing in December 2006.

(5) Company included in the corporate structure of the group's US assets (excl. NBC Universal), indirectly wholly owned by Vivendi (via SPC).

(6) Company included in the corporate structure of the group's US assets (excl. NBC Universal), indirectly wholly owned by Vivendi (via SPC). Vivendi holds preferred shares of €2.6 billion.

(7) Including a reversal of provisions of €3,135.7 million against securities representing Group US assets.

(8) Including a reversal of provisions of €2,284.2 million against securities representing Group US assets.

(9) Including a dividend of US\$4,055 million from Universal Music Group.

\* This company is primarily a holding company. The amounts presented in the «Revenues» columns comprise operating income and financial income from investments.

## 2006 STATUTORY FINANCIAL STATEMENTS (SUMMARIZED)

Subsidiaries and Affiliates

(in thousands of euros, unless otherwise stated)	Share capital	Equity excl. share capital	% share capital held	Book value of investments		Out-standing loans and advances granted by Vivendi (2)	Guarantees and endorse-ments granted by Vivendi	2005 Revenues	2006 Revenues	2005 Earnings	2006 Earnings	Dividends received by Vivendi during 2006	Comments
				Gross	Net								
<b>II - Non-core activities</b>													
Energies USA * L'Aquarène 1, place Montgolfier 94417 Saint-Maurice	80,941	85,974	100.00	143,362	143,362					1,950	24,356		
Société d'Investissements et de Gestions 35 (3) * 1, Terrasse Bellini - 92919 Paris La Défense Cedex	2,274	46,350	99,64	181,188	48,623	971		3,170	2,340	171,267	46,122	28,313	
Société Nouvelle d'Etudes et de Gestion (SNEGE) * 59 bis, avenue Hoche 75008 Paris	263,951	19,343	100,00	263,951	263,951					3,429	6,556		
RE-ASCOP 59 bis, avenue Hoche 75008 Paris	77,749	5,814	97,06	79,083	79,083					886	1,933		
Other subsidiaries and affiliates (Summary information)				192,391	76,844	258,200						44,340	prov. on advances 218,359
<b>TOTAL</b>				<b>49,348,359</b>	<b>34,102,521</b>	<b>3,357,039</b>	<b>436,500</b>					<b>924,627</b>	

(1) Including earnings of the year.

(2) Including current account advances.

(3) Real estate sector lead company retained by Vivendi.

\* This company is primarily a holding company. The amounts presented in the «Revenues» columns comprise operating income and financial income from investments.



# 5

## Recent Events Outlook

- 1 Recent Events** **p.286**
- 2 Outlook** **p.286**
- 3 Statutory Auditors' Report on  
the Forecasts of Adjusted Net Income  
Group Share** **p.288**

## 1 Recent Events

All significant subsequent events which took place between December 31, 2006 and the date of the filing of this document with the Autorité des Marchés Financiers (AMF, the French exchange regulation authority) are described in the following chapters of this document:

- Chapter 2: "Highlights", "Description of the Group and its Businesses" and "Litigation",
- Chapter 4: "Annual Financial Report" and "Consolidated Financial Statements".

## 2 Outlook

In 2007, Vivendi will focus its efforts on:

- combining Canal+ and TPS,
- finalizing the acquisition of BMG's music publishing business and Tele2 France,
- ensuring the balanced development of Vivendi Games amongst online, console and mobile games,
- integrating the entities acquired by Maroc Telecom (Onatel and Gabon Telecom),
- continuing to invest in growth opportunities, primarily in the group's businesses,
- resolving its dispute with Elektrim and Deutsche Telekom in order to assert the rights of Elektrim Telekomunikacja with regard to its 51% equity interest in Polska Telefonica Cyfrowa (PTC).

Vivendi forecasts its 2007 adjusted net income, group share, to be at least of €2.7 billion, despite the exceptional charges associated with the creation of Canal+ France and the negative impact of French regulations on the mobile telecommunications sector. In 2007, Vivendi also expects to have a dividend distribution rate of at least 50% of the adjusted net income, group share.

In addition, Vivendi also confirms its target of adjusted net income, group share, ranging between €3.5 billion and €4 billion in 2011, including the assumption that all losses carried forward will have been utilized by the end of 2010. Vivendi also confirms its target of a dividend distribution rate in 2011 of at least 50% of adjusted net income, group share.

The 2007 outlook includes the impact of the acquisition of TPS and the agreement with Lagardère regarding Canal+ France, as well as, assuming that Vivendi has obtained the clearance from European competition authorities, the consolidation of Tele2 France and, in the

second half, of BMG's music publishing business. This outlook does not include any other potential external growth operations. It is based on an exchange rate assumption of €1 for \$1.25. However, on the basis of an exchange rate of €1 for \$1.32 as of December 31, 2006, the sensitivity of forecasts to changes in the exchange rate represents no more than 1% of the adjusted net income, group share. In addition, these forecasts have been prepared on the basis of the financial targets of each business unit for 2007:

- UMG: at constant perimeter, excluding BMG's music publishing business, revenues are expected to remain stable or in slight growth at constant currency, despite a difficult market. A strong release schedule and digital sales growth are expected. A slight decline in EBITA is expected as 2006 benefited from several non-recurring items,
- Canal+ Group: revenues are expected to be between €4,350 million and €4,450 million and EBITA to be above €350 million, before the transition costs linked to the TPS merger (approximately €150 million in 2007),
- SFR: revenues for mobile are expected to be in slight decline, despite the strong regulated price cut (21% cut of voice termination rates). EBITDA margin rate for mobile is expected to remain stable (reminder: 39.9% in 2006 and 36.9% in 2005). EBITDA will include the operating losses related to development and launch costs of the DSL offer. EBITA margin is expected to be in slight decline also, due to the increase in depreciation. Cash flow from operations (CFFO) is expected to be stable,
- Maroc Telecom: at constant perimeter, excluding Onatel and Gabon Telecom, revenues are expected to grow by more than 6% and EBITA by more than 10%,
- Vivendi Games: growth of revenues of at least 20% and even faster increase of EBITA than revenue growth,

- Holding and Corporate: 2006 benefited from several non-recurring items which are expected to be partially offset by the continuation of the cost-cutting plan.

The 2011 target includes the impact of the acquisition of TPS and the exercise by TF1/M6 of their put option on 15% of Canal+ France in 2009, and does not include any other potential external growth operations. It is based on an exchange rate assumption of €1 for \$1.25. In addition, this target has been prepared on the basis of the financial targets of each business unit over the 2006-2011 period:

- each of the group's businesses is expected to enjoy robust growth in operations and profits, and each business unit will be able to benefit from all the capital expenditure required by its development,
- the main growth factors will come from consumer demand for mobility and broadband and from the launch of innovative digital services,

- all of the group's business units should contribute to this growth, in particular pay-TV in France and games, which will benefit noticeably from the investments made in the last few years.

The 2007 outlook and 2011 target regarding adjusted net income, group share, revenues, EBITA and EBITA margin rate, EBITDA and EBITDA margin rate, cash flow from operations (CFFO) are based on data, assumptions and estimates considered as reasonable by Vivendi management. They are subject to change or modifications due to uncertainties related notably to the economic, financial, competitive and/or regulatory environment. Moreover, the materialization of certain risks described in Chapter 2 of this document could have an impact on the group's operations and its capacity to achieve its forecasts for 2007 and reach its target for 2011.

## 3

## Statutory Auditors' Report on the Forecasts of Adjusted Net Income Group Share

In our capacity as statutory auditors and in accordance with Commission Regulation (EC) No 809/2004, we have prepared this report on the 2007 forecasts of adjusted net income, group share, included in part 5 of its annual report dated March 28, 2007.

These forecasts and underlying significant assumptions were prepared under the responsibility of the Management Board of Vivendi, in accordance with the provisions of Commission Regulation (EC) No 809/2004 and the CESR advice on forecasts.

It is our responsibility to express, in accordance with the terms required by Annex I, item 13.3 of Commission Regulation (EC) No 809/2004, our conclusions on the appropriateness of the preparation of such forecasts.

We conducted our work in accordance with professional auditing standards generally accepted in France. Our work included an assessment of the procedures implemented by management to prepare the forecasts, as well as the performance of procedures to obtain assurance about whether the accounting methods used are consistent with those used for the preparation of historical data of Vivendi. They

also involved collecting data and explanations we deemed necessary in order to obtain reasonable assurance about whether the forecasts are appropriately prepared on the basis of the specified assumptions.

We remind you that, as this concerns forecasts, which are uncertain by nature, actual results may differ significantly from the forecasts presented and so, we do not express any conclusion as to the potential realisation of such forecasts.

In our opinion:

- The forecasts have been appropriately prepared on the basis indicated,
- The accounting basis used for the purposes of these forecasts is consistent with the accounting methods used by Vivendi.

This report is issued for the sole purpose of publication of these forecasts in the 2006 annual report and may not be used in any other context.

Paris-La Défense and Neuilly-sur-Seine, March 7, 2007

The Statutory Auditors

SALUSTRO REYDEL  
Member of KPMG International

Benoît Lebrun  
*Partner*

Marie Guillemot  
*Partner*

ERNST & YOUNG et Autres

Dominique Thouvenin  
*Partner*



# 6

## Audit of the Financial Statements

### 1 Firms Responsible for the Audit of the Financial Statements

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#### 1.1. Statutory Auditors

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Ernst & Young et Autres

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Salustro Reydel

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#### 1.2. Alternate Statutory Auditors

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Mr. Jean-Claude Reydel

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Société Auditex

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## 1

# Firms Responsible for the Audit of the Financial Statements

## 1.1. STATUTORY AUDITORS

### Ernst & Young et Autres

41, rue Ybry – 92576 Neuilly-sur-Seine – France

represented by Mr. Dominique Thouvenin,

appointed at the Shareholders' Meeting held on June 15, 2000.

Last renewal: Combined Shareholders' Meeting held on April 20, 2006, for a six-year period expiring following the Shareholders' Meeting held to approve the financial statements for fiscal year 2011.

### Salustro Reydel

Member of KPMG International

1, cours Valmy – 92923 Paris La Défense Cedex – France

represented by Mrs. Marie Guillemot and Mr. Benoît Lebrun,

appointed at the Shareholders' Meeting held on June 15, 1993.

Last renewal: Combined Shareholders' Meeting held on April 28, 2005, for a six-year period expiring following the Shareholders' Meeting held to approve the financial statements for fiscal year 2010.

## 1.2. ALTERNATE STATUTORY AUDITORS

### Mr. Jean-Claude Reydel

1, cours Valmy – 92923 Paris La Défense Cedex – France,

appointed at the Shareholders' Meeting held on April 28, 2005, for a six-year period expiring following the Shareholders' Meeting held to approve the financial statements for fiscal year 2010.

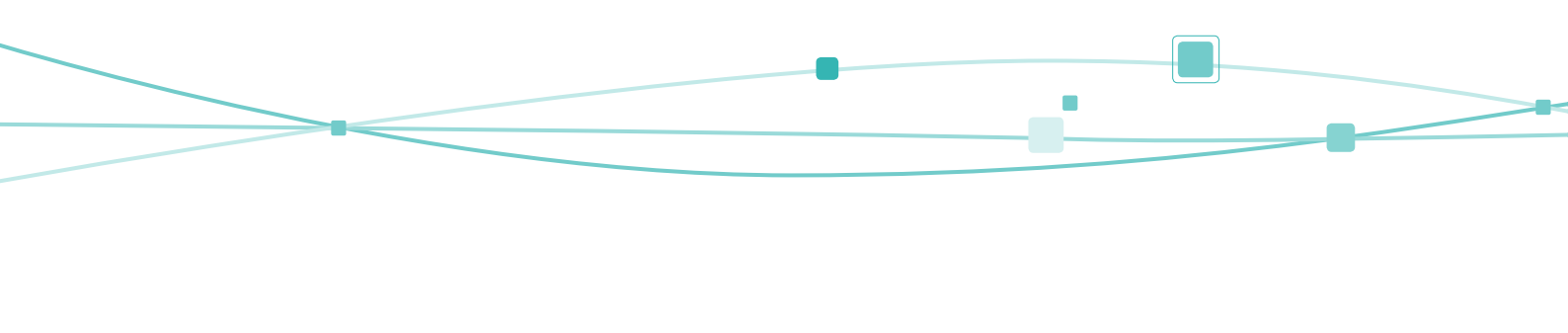
### Société Auditex

11, allée de l'Arche – Faubourg de l'Arche – 92400 Courbevoie – France,

appointed at the Shareholders' Meeting held on April 20, 2006, for a six-year period expiring following the Shareholders' Meeting held to approve the financial statements for fiscal year 2011.

# Appendix - Combined Ordinary and Extraordinary General Meeting of April 19, 2007

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	Extraordinary Shareholders' Meeting	p.293		Part II: Share Capital – Shares	p.304
<b>2</b>	<b>Management Board Report</b>	<b>p.294</b>		Part III: Supervisory Board	p.304
	2.1. Approval of the financial statements (1 <sup>st</sup> to 4 <sup>th</sup> ordinary resolutions)	p.294		Part IV: Management Board	p.306
	2.2. Ratification of the appointment of a new member of the Supervisory Board (5 <sup>th</sup> ordinary resolution)	p.294		Part V: Auditing of the Company	p.307
	2.3. Delegations of authority to the Management Board and financial authorizations (7 <sup>th</sup> to 10 <sup>th</sup> extraordinary resolutions)	p.295		Part VI: Shareholders' Meetings	p.307
	2.4. Authorization for the Company to purchase its own shares and, if necessary, to cancel them (6 <sup>th</sup> ordinary resolution and 11 <sup>th</sup> extraordinary resolution)	p.295		Part VII: Financial Statements – Allocation and Distribution of Net Income	p.308
	2.5. Harmonization of and amendments to the Company's by-laws (12 <sup>th</sup> to 16 <sup>th</sup> extraordinary resolutions)	p.296		Part VIII: Extension – Dissolution – Disputes	p.309
	2.6. Powers to carry out legal formalities (17 <sup>th</sup> resolution)	p.296	<b>6</b>	<b>Statutory Auditors' Report on the Financial Statements (fiscal year ended December 31, 2006)</b>	<b>p.310</b>
<b>3</b>	<b>Report of the Supervisory Board</b>	<b>p.297</b>		6.1. Opinion on the Financial Statements	p.310
<b>4</b>	<b>Proposed Resolutions</b>	<b>p.297</b>		6.2. Justification of our Assessments	p.310
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				7.1. Agreements Entered Into During the Year	p.312
				7.2. Agreements Approved During Previous Years Which Were Applicable During the Period	p.312

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- 8** Statutory Auditors' Report on the Increase of Share Capital Through the Issue of any and all Marketable Securities Giving Rights to Ordinary Shares **p.315**
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- 9** Statutory Auditors' Report on the Increase of Share Capital Through the Issue of Ordinary Shares or any and all Marketable Securities Giving Rights to Ordinary Shares with Cancellation of Preferential Subscription Rights **p.316**
- 
- 10** Statutory Auditors' Report on the Increase of Share Capital Reserved for Employees and Pension Schemes of the Company and the Vivendi Group Companies that are Members of the Group Savings Plan, with Cancellation of Preferential Subscription Rights **p.317**
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- 11** Statutory Auditors' Report on the Capital Reduction through the Cancellation of Shares **p.318**
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- 12** Additional Report of the Management Board on the 2007 Share Capital Increase Reserved for Employees and Retired Employees of the Company and Companies in the Group Participating in the Group's Savings Plan **p.319**
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- 13** Statutory Auditors' Additional Report on the Capital Increase with Cancellation of Preferential Subscription Rights **p.320**
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# 1 Agenda

## ORDINARY SHAREHOLDERS' MEETING

1. Approval of Statutory Reports and Statutory Financial Statements for the fiscal year 2006.
2. Approval of Reports and Consolidated Financial Statements for the fiscal year 2006.
3. Approval of regulated related-party agreements and commitments covered by the Statutory Auditors' special report.
4. Allocation of net income and determination of the dividend amount and payment date for the fiscal year 2006.
5. Ratification of the appointment of Mr. Mehdi Dazi as Member of the Supervisory Board.
6. Authorization granted to the Management Board for the Company to purchase its own shares.

## EXTRAORDINARY SHAREHOLDERS' MEETING

7. Delegation of authority to the Management Board to increase the share capital of the Company by issuing ordinary shares, or marketable securities giving access to the share capital, with preferential subscription rights for shareholders.
8. Delegation of authority to the Management Board to increase the share capital of the Company by issuing ordinary shares, or marketable securities giving rights to ordinary shares, without preferential subscription rights for shareholders.
9. Delegation of authority to the Management Board to increase the share capital of the Company by incorporating premiums, reserves, income or other items.
10. Delegation of authority to the Management Board for the purpose of conducting share capital increases reserved for employees and retired employees of the Company and companies in the Group participating in the Group's savings plan.
11. Authorization granted to the Management Board to decrease the share capital of the Company through the cancellation of treasury shares.
12. Update of Article 8 of the Company's by-laws: "Member of the Supervisory Board elected by the employees".
13. Update of Articles 10 and 14 of the Company's by-laws: "Organization of the Supervisory Board" and "Organization of the Management Board".
14. Update of Article 16 of the Company's by-laws: "Shareholders' Meetings".
15. Amendment of Article 5 of the Company's by-laws: "Shares".
16. Update of Article 17 of the Company's by-laws: "Voting Rights".
17. Authorization granted to carry out legal formalities.

## 2 Management Board Report

Dear Shareholders

We have convened this Combined Ordinary and Extraordinary Shareholders' Meeting in order to submit for your approval the following proposed resolutions:

- the approval of the annual statutory and consolidated financial statements for the fiscal year ended December 31, 2006, the determination of the dividend to be paid for fiscal year 2006 and the approval of the regulated related-party agreements and commitments covered by the Special Report of the Statutory Auditors (I);
- the ratification of the appointment made by your Supervisory Board of a new member of the Supervisory Board (II);
- the renewal of the authorities delegated to and authorizations granted to the Management Board for share capital increases (III);
- the renewal of the authorization concerning the share repurchase program and the authorization to cancel such shares (IV); and
- the harmonization of the Company's by-laws with recent legal developments and statutory provisions, the amendment to the Company's by-laws regarding the notification deadline for holdings crossing certain percentage thresholds and the voting rights conferred upon the usufruct holders (usufruitiers) and the legal owner of title (nu-propriétaires) (V).

### 2.1. APPROVAL OF THE FINANCIAL STATEMENTS (1<sup>ST</sup> TO 4<sup>TH</sup> ORDINARY RESOLUTIONS)

The first items on the agenda relate to the approval of the statutory annual financial statements and reports (first resolution) and the consolidated annual financial statements (second resolution), and of the regulated related-party agreements and commitments entered into during previous fiscal years as well as those entered into during the 2006 fiscal year (third resolution). All of these agreements and commitments are described in the Statutory Auditors' special report. The new agreement authorized by the Supervisory Board in 2006 relates to the opening of a renewable line of credit of €700 million for the benefit of SFR, giving SFR the ability to finance itself without using external debt. The financial conditions of this 3-year line of credit match those SFR would find on the market, all other things being equal (0.15% margin). It may be drawn on in minimum tranches of €50 million for varying periods of 1, 3, 6 or 12 months.

For Vivendi, it contains certain protection clauses identical to those contained in banking loans (in the event of default, in the event of cross default, accelerated redemption under certain circumstances).

We propose that you approve the allocation of the net income for the fiscal year 2006 (fourth resolution). Your Management Board also proposes that you approve the payment of a dividend of €1.20 per share, representing an overall distribution of €1.4 billion, i.e., a 20% increase compared to last year. This dividend would be paid beginning April 26, 2007.

### 2.2. RATIFICATION OF THE APPOINTMENT OF A NEW MEMBER OF THE SUPERVISORY BOARD (5<sup>TH</sup> ORDINARY RESOLUTION)

We propose that you ratify the appointment, made by your Supervisory Board at its meeting held on March 6, 2007, of Mr. Mehdi Dazi as member of the Supervisory Board (fifth resolution).

## 2.3. DELEGATIONS OF AUTHORITY TO THE MANAGEMENT BOARD AND FINANCIAL AUTHORIZATIONS (7<sup>TH</sup> TO 10<sup>TH</sup> EXTRAORDINARY RESOLUTIONS)

The authorizations or delegations of authority granted to your Management Board at the Shareholders' Meeting held on April 28, 2005, shall expire in June 2007.

We propose that you renew them in the same form, allowing your Management Board, by issuing ordinary shares or marketable securities, to choose, in the most appropriate way, according to the market conditions, the measures most suited to finance the Group's development, and that you delegate to your Management Board the authority to:

- increase the share capital of the Company by issuing ordinary shares, or marketable securities giving access to the share capital, with preferential subscription rights for shareholders up to a maximum nominal amount of €1 billion, which is identical to the amount authorized in 2005 and which represents a maximum of 15.7% of the current share capital (seventh resolution);
- increase the share capital of the Company by issuing ordinary shares, or marketable securities giving access to the share capital, without preferential subscription rights for shareholders up to a maximum nominal amount of €500 million, which is identical to the amount authorized in 2005 and which represents a maximum of 7.8% of the current share capital. This amount shall be charged against the maximum aggregate nominal amount of €1 billion, as set forth in the seventh resolution (eighth resolution);

It is anticipated that the subscription price for the ordinary shares to be issued, or for the issue of marketable securities giving access to the share capital, will be set based on the weighted-average of the prices of the shares on the Paris stock exchange in the three trading days immediately preceding the issuance date, reduced, if necessary, by the discount provided for by law. It is anticipated that priority rights may be granted to shareholders so they can subscribe to such ordinary shares before the public (eighth resolution).

Pursuant to Article L. 225-135-1 of the French Commercial Code, the seventh and the eighth resolutions would authorize your Management Board to increase, if necessary, the number of shares, or marketable securities to be issued as part of a share capital increase, with or without preferential subscription rights for shareholders, in order to satisfy potential additional subscription requests, up to a limit of 15% of the initial issuance at the same price as that offered in the initial issuance:

- increase the share capital of the Company by incorporating premiums, reserves, income or other items, up to a maximum nominal amount of €500 million. This amount shall be charged against the maximum aggregate nominal amount of €1 billion, as set forth in the seventh resolution (ninth resolution);
- increase the share capital of the Company reserved for employees and retired employees of the Company and companies of the Vivendi Group participating in the Group's Savings Plan, up to a maximum account of 1.5% of the share capital on the date such authority is exercised. This amount is the same amount approved in 2005. The amount of share capital increases to be implemented pursuant to such delegated authority shall be charged against the maximum aggregate nominal amount of €1 billion, as set forth in the seventh resolution (tenth resolution);

All of these delegations of authority, submitted for your approval, are to be granted for a period of 26 months commencing on the date of your Meeting. They are summarized in a table appended hereto and shall supersede all authorizations and delegations of authority previously granted to the same effect.

Your Management Board and your Statutory Auditors will issue an additional report in the event that these delegations of authority are exercised. You will be informed of such events at each year's Shareholders' Meeting.

## 2.4. AUTHORIZATION FOR THE COMPANY TO PURCHASE ITS OWN SHARES AND, IF NECESSARY, TO CANCEL THEM (6<sup>TH</sup> ORDINARY RESOLUTION AND 11<sup>TH</sup> EXTRAORDINARY RESOLUTION)

In accordance with Article L. 225-209 et seq. of the French Commercial Code, we propose that you authorize your Management Board, which may sub-delegate such authority to its Chairman, to acquire the Company's own shares, in accordance with applicable law, on one or more occasion over an 18-month period beginning on the date of this Meeting. Such purchases may be made on the market or otherwise by purchasing Company shares or by using derivative financial instruments in order to place such shares in the Company's reserves, to deliver such shares for exchange pursuant to the issuance of securities or in relation to external growth transactions or otherwise, to create a

market for the shares pursuant to a liquidity agreement in compliance with the code of ethics of the Association Française des Entreprises d'Investissement (AFEI), or in order to sell or grant shares to employees or directors (sixth resolution) or during a 26-month period to cancel them up to the maximum legal limit of 10% of the share capital per each 24-month period (eleventh resolution).

We propose that you set the maximum purchase price for the Company's acquisition of its own shares at €45 per share. This share repurchase

program, at the time of its implementation by the Management Board, will be accompanied by a notification and explanatory description.

This authorization, once exercised by the Management Board, supersedes the previous authorization granted to the Management Board by the Combined Shareholders' Meeting held on April 20, 2006.

Your Company did not purchase any of its own shares in 2006. As at December 31, 2006, Vivendi held 1,379,503 of its own shares, each having a nominal value of €5.50, representing 0.12% of the share capital of the Company, including 79,114 shares for the hedging of stock option plans and 1,300,389 shares which were recorded as other investment securities standing for cancellation. As at December 31, 2006, the book value of shares held by the Company amounted to €33.4 million, representing a market value of €40.8 million.

On January 3, 2005, your Company entered into a liquidity agreement with Rothschild & Cie Banque, established in conformity with the professional code of ethics of the AFEI. The term of this agreement is one year renewable by tacit agreement. Vivendi allocated €76 million to implement this agreement.

In 2006, 12,189,263 shares were repurchased for €333.7 million and a total number of 12,389,263 shares were sold for an amount of €339 million pursuant to the implementation of this liquidity agreement.

In connection with this liquidity agreement, as at December 31, 2006, the following resources were held in the liquidity account of the Company: zero shares and €85.606 million.

## 2.5. HARMONIZATION OF AND AMENDMENTS TO THE COMPANY'S BY-LAWS (12<sup>TH</sup> TO 16<sup>TH</sup> EXTRAORDINARY RESOLUTIONS)

We propose that you approve the harmonization of the Company's by-laws with the new provisions of Decree n°67-236 dated March 23, 1967, amended by the Decree dated December 11, 2006, and the provisions of Article L. 225-71 of the French Commercial Code, amended by Law n°2006-1770 dated December 30, 2006, and that you approve the amendments to the by-laws related to the deadline for notifying the Company for the crossing of certain statutory percentage thresholds, as set forth in the Company's by-laws, and the provisions relating to the capacity of the holders of voting rights during Ordinary and Extraordinary Shareholders' Meetings.

As such, it is proposed that you approve the following modifications to the by-law articles:

- Article 8 "Member of the Supervisory Board appointed by employees" (twelfth resolution) to harmonize the by-laws, pursuant to new legal provisions, the terms and conditions for the election of members representing employee shareholders;
- Articles 10 and 14 "Organization of the Supervisory Board" and "Organization of the Management Board" (thirteenth resolution) to allow participation in meetings of the Supervisory Board and the Management Board by means of telecommunication, as set forth by new statutory provisions;
- Article 16 "Shareholders' Meetings" (fourteenth resolution) to comply with legislative changes favoring the participation in Shareholders' Meetings following the elimination of the non-transferability of shares requirement and to introduce an accounting record date fixed at three working days prior to the Shareholders' Meeting;
- Article 5 "Shares" (fifteenth resolution) to amend the deadline for notifying the Company of the crossing of certain statutory percentage thresholds, as set forth in the Company's by-laws from 15 calendar days to 5 trading days, as provided for in Article 247-1 of the Decree dated March 23, 1967, pursuant to Article L. 233-7 of the French Commercial Code for the crossing of legal thresholds, i.e., five trading days;
- Article 17 "Voting Rights" (sixteenth resolution) to apply general rules on voting rights belonging to usufruct holders (*usufruitiers*) to vote in Ordinary Shareholders' Meetings and to the legal owners of title (*nu-propriétaires*) in Extraordinary Shareholders' Meetings in accordance with Article L. 225-110 sub-paragraph 1 of the French Commercial Code. This amendment is due to the consolidation, at the end of 2006, of all of your Company's previously deconsolidated shares resulting from the issuance of exchangeable shares in Canada in December 2000 in connection with the Vivendi/Seagram merger transactions.

## 2.6. POWERS TO CARRY OUT LEGAL FORMALITIES (17<sup>TH</sup> RESOLUTION)

Finally, the seventeenth resolution proposed is intended to confer the authorization necessary for the performance of legal formalities subsequent to your Shareholders' Meeting.

The Management Board

## 3 Report of the Supervisory Board

Further to the Article L. 225-68 of the French Commercial Code, the Supervisory Board considers that it has no comment to express regarding both the Management Board's operating and financial review and prospects and the financial statements for fiscal year ended

on December 31, 2006 and recommends the Shareholders' Meeting to adopt all the resolutions submitted to its approval by the Management Board.

## 4 Proposed Resolutions

### 4.1. ORDINARY SHAREHOLDERS' MEETING

#### **First resolution (Approval of Statutory Reports and Statutory Financial Statements for the fiscal year 2006)**

The Shareholders' Meeting, having reviewed the Management Board's Report, noting the absence of comments on the Management Board's Report and on the Financial Statements from the Supervisory Board, and the report of the Statutory Auditors on the Financial Statements, for the fiscal year 2006, approves the financial statements for said fiscal year with a reported net income of €4,412,354,584.59, as well as the transactions presented in these financial statements or summarized in such reports.

#### **Second resolution (Approval of Reports and Consolidated Financial Statements for the fiscal year 2006)**

The Shareholders' Meeting, having reviewed the Management Board's Report, noting the absence of comments on the Management Board's

Report and on the Consolidated Financial Statements from the Supervisory Board, and the report of the Statutory Auditors on the Financial Statements, for the fiscal year 2006, approves the consolidated financial statements for said fiscal year as well as the transactions presented in these financial statements or summarized in such reports.

#### **Third resolution (Approval of regulated related-party agreements and commitments covered by the Statutory Auditors' special report)**

The Shareholders' Meeting, having reviewed the Statutory Auditors' special report, prepared in accordance with Article L. 225-88 of the French Commercial Code, approves such report and the regulated related-party agreements and commitments described therein.

## Fourth resolution (Allocation of net income and dividend payment, beginning April 26, 2007, of €1.20 per share for the fiscal year 2006)

The Shareholders' Meeting approves the Management Board's proposal to allocate net income for the 2006 fiscal year as follows:

Sources	(in euros)
■ 2006 net income	4,412,354,584.59
■ Balance carried forward	10,389,661,400.91
<b>Total</b>	<b>14,802,015,985.50</b>
Allocation:	
■ Statutory reserve	1,956,028.25
■ Total dividend*	1,386,784,539.60
■ Other reserves	11,213,275,417.65
■ Balance carried forward*	2,200,000,000.00
<b>Total</b>	<b>14,802,015,985.50</b>

(\*) This amount takes into account the number of treasury shares held as of December 31, 2006, and will be adjusted based on the effective ownership of shares as of the dividend payment date.

Therefore, the Shareholders' Meeting sets the dividend at €1.20 per share based on shares issued and outstanding on the record date. The dividend shall be paid beginning April 26, 2007. The dividend shall qualify for the 40% tax credit provided by Article 158-3 2nd of the French General Tax Code for private persons having their tax residence in France.

In accordance with applicable law, the Shareholders' Meeting acknowledges that the dividends distributed for the last three fiscal years were as follows:

(in millions of euros)	2003	2004	2005
Number of shares*	1,071,518,691	1,065,235,399	1,147,440,213
Dividend per share	-	€0.60**	€1***
Overall distribution	-	639.141	1,147.440

(\*) Number of shares entitled to a dividend from January 1<sup>st</sup>, after deduction of treasury shares and stripped shares on the dividend payment date.

(\*\*) This dividend qualified for a 50% tax credit applicable to private persons having their tax residence in France as from January 1, 2005.

(\*\*\*) This dividend qualified for a 40% tax credit applicable to private persons having their tax residence in France as from January 1, 2006.

## Fifth resolution (Ratification of the appointment of Mr. Mehdi Dazi as Member of the Supervisory Board)

The Shareholders' Meeting ratifies the co-optation of Mr. Mehdi Dazi, appointed by the Supervisory Board at its meeting held on March 6, 2007, as Member of the Supervisory Board, effective until the conclusion of the Shareholders' Meeting to be held to approve the financial statements for the 2007 fiscal year.

## Sixth resolution (Authorization granted to the Management Board for the Company to purchase its own shares for an 18-month period. Maximum purchase price of €45, within the legal limit of 10%)

The Shareholders' Meeting, having reviewed the Management Board's Report and in accordance with Articles L. 225-209 *et seq.* of the French Commercial Code, authorizes the Management Board, with authority

to sub-delegate such authority to its Chairman, to acquire the Company's own shares in accordance with applicable law on one or more occasions over an 18-month period beginning on the date of this Shareholders' Meeting. Such share purchases may be made on the market or otherwise by purchasing Company shares or by using derivative financial instruments in order to place such shares in the Company's reserves, to deliver such shares for exchange pursuant to the issuance of securities or in relation to external growth transactions or otherwise, to create a market for the shares pursuant to a liquidity agreement in compliance with the code of ethics of the Association Française des Entreprises d'Investissement (AFEI), or in order to sell or grant shares to employees or directors or to cancel them, subject in such case, to the adoption of the eleventh resolution by this Shareholders' Meeting.

During this period, the Management Board shall observe the following rules:

- Maximum purchase price: €45 per share.

The cumulative amount of purchases, based on an average price of €35 per share, may not exceed €4 billion.

The Shareholders' Meeting grants the Management Board full authority, with authorization to sub-delegate, to place any orders, execute any assignments or transfers, enter into any agreements, liquidity contracts or option contracts, and to make any declarations or accomplish any formalities required in connection with the foregoing.

The Shareholders' Meeting resolves that this authorization, once exercised by the Management Board, shall supersede the authorization granted to the Management Board by the Combined Shareholders' Meeting held on April 20, 2006 (tenth resolution).

## 4.2. EXTRAORDINARY SHAREHOLDERS' MEETING

### **Seventh resolution (Delegation of authority to the Management Board to increase the share capital of the Company by issuing ordinary shares, or marketable securities giving access to the share capital, with preferential subscription rights for shareholders)**

The Shareholders' Meeting, having satisfied the quorum and majority requirements for Extraordinary Shareholders' Meetings and having reviewed the Management Board's Report and the special report of the Statutory Auditors and in accordance with Articles L. 225-129, L. 225-129-2, L. 228-91 and L. 228-92 of the French Commercial Code:

1° Delegates to the Management Board the authority to issue ordinary shares of the Company or marketable securities giving access, by any means, immediately and/or in the future, to ordinary shares of the Company, on one or more occasions, in France or abroad. Such shares or marketable securities may be issued either in euros or in foreign currency or in any monetary unit composed of several foreign currencies, in exchange for consideration or not.

This authority shall be valid for a 26-month period commencing on the date of this Shareholders' Meeting.

2° Resolves that the total increase in the share capital, to be carried out immediately and/or in the future, shall not exceed a maximum aggregate nominal amount of €1 billion, and may be increased, if necessary, by the additional value of shares required to be issued in order to preserve the rights of holders of marketable securities giving access to shares, in accordance with applicable laws.

3° Resolves that the shareholders shall have preferential subscription rights, in proportion to the value of their shares, to the marketable securities issued pursuant to this resolution.

4° Resolves that the number of securities to be issued pursuant to this resolution can be increased in accordance with Article L. 225-135-1 of the French Commercial Code and within the limit of the maximum amount set forth in this resolution.

5° Resolves that, in the event the exercise of rights to subscribe new shares and, if applicable, applications made for available shares, fails to absorb an entire issue of shares or marketable securities as defined above, the Management Board may offer some or all of the remaining unsubscribed securities to the public.

6° Resolves that the Management Board may, if necessary, charge fees or commissions related to the issuance of shares against the amount of the corresponding premiums and deduct therefrom the amount required to fund the legal reserve.

7° Formally notes that this authority supersedes any previous authority delegated to the same effect and in particular the authority previously granted by the Shareholders' Meeting held on April 28, 2005 (seventh resolution).

### **Eighth resolution (Delegation of authority to the Management Board to increase the share capital of the Company by issuing ordinary shares, or marketable securities giving rights to ordinary shares, without preferential subscription rights for shareholders)**

The Shareholders' Meeting, having satisfied the quorum and majority requirements for Extraordinary Shareholders' Meetings and having reviewed the Management Board's Report and the special report of the Statutory Auditors and in accordance with Articles L. 225-129, L. 225-129-2, L. 225-135 et seq., L. 228-91 and L. 228-92 of the French Commercial Code:

1° Delegates to the Management Board, the authority to issue ordinary shares of the Company or of marketable securities giving access, by any means, immediately and/or in the future, to ordinary shares of the Company, on one or more occasions, in France or abroad. Such shares or marketable securities may be issued either in euros or in foreign currency, or in any monetary unit used to refer to several foreign currencies, in exchange for consideration or not.

This authority shall be valid for a period of 26 months commencing on the date of this Shareholders' Meeting.

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2° Resolves that the total increase in the share capital, to be carried out immediately and/or in the future, shall not exceed a nominal value of €500 million, and that the amount be charged against the maximum aggregate nominal amount set forth in the seventh resolution.

3° Resolves to waive the preferential rights of shareholders to these securities, which shall be issued in accordance with applicable law, and to confer upon the Management Board the power to grant a priority subscription for the benefit of shareholders pursuant to Article L. 225-135 of the French Commercial Code.

4° Resolves that the number of shares or marketable securities to be issued pursuant to this resolution can be increased in accordance with Article L. 225-135-1 of the French Commercial Code and within the limit of the maximum amount set forth in this resolution.

5° Resolves that the subscription price for the shares shall be at least equal to the weighted-average of the price of the shares on the Paris stock exchange for the three trading days immediately preceding the date on which such subscription price is set, less, if necessary, the discount provided by law.

6° The Shareholders' Meeting authorizes the Management Board, during the same 26-month term, to decide, pursuant to the report of the independent appraiser, to effect one or more capital increases, up to the limit of 10% of the outstanding share capital of the Company, in order to settle payments in kind made to the Company, comprised of equity securities, or marketable securities giving access to the share capital, when the provisions of Article L. 225-148 of the French Commercial Code are not applicable.

7° The Shareholders' Meeting further resolves that this authority can be used to effect a capital increase in consideration of securities tendered into an exchange offer for securities made in accordance with Article L. 225-148 of the French Commercial Code.

8° Resolves that the Management Board, may, if necessary, charge the fees or commissions related to the issuance against the amount of the corresponding premiums and deduct therefrom the amounts required to fund the legal reserve.

9° Formally notes that this authority supersedes any previous delegation of authority to the same effect and in particular the authority delegated by the Shareholders' Meeting held on April 28, 2005 (eighth resolution).

In all cases, the total amount of share capital increases carried out pursuant to this resolution shall be charged against the maximum aggregate nominal amount set forth in the seventh resolution.

### **Ninth resolution (Delegation of authority to the Management Board to increase the share capital of the Company by incorporating premiums, reserves, income or other items)**

The Shareholders' Meeting, having satisfied the quorum and majority requirements set forth in Article L. 225-130 of the French Commercial Code, having reviewed the Management Board's Report and in accordance with Articles L. 225-129, L. 225-129-2 and L. 225-130 of the French Commercial Code:

1° Delegates authority to the Management Board, for a 26-month period commencing on the date of this Shareholders' Meeting, to effect one or more share capital increases, carried out pursuant to the Company's by-laws and in accordance with other applicable laws, through the incorporation of premiums, reserves, income or other items, by the grant of restricted stock, for no consideration, or by causing an increase in the nominal value of the shares.

2° Resolves that the total increase in the share capital to be carried out immediately and/or in the future shall not exceed a nominal value of €500 million.

3° Resolves that the total increase in the share capital to be carried out may be increased by the amount required to preserve the rights of holders of marketable securities giving access to ordinary shares, in accordance with applicable law, irrespective of the maximum limit set forth in sub-paragraph 2 of this resolution.

4° In the event that the Management Board uses this authority, the Shareholders' Meeting further resolves that, in accordance with Article L. 225-130 of the French Commercial Code, any rights to fractional shares shall be non-negotiable and that the corresponding securities shall be sold; the proceeds from such a sale shall be allocated to the holders of such rights within the time period stipulated by the rules and regulations in effect.

5° Formally notes that this authority shall supersede any previous delegation of authority to the same effect and in particular the authority delegated by the Shareholders' Meeting held on April 28, 2005 (tenth resolution).

In all cases, the total amount of share capital increases carried out by virtue of this resolution shall be charged against the maximum aggregate nominal amount set forth in the seventh resolution.

### **Tenth resolution (Delegation of authority to the Management Board for the purpose of conducting share capital increases reserved for employees and retired employees of the Company and companies in the Group participating in the Group's savings plan)**

The Shareholders' Meeting, having satisfied the quorum and majority requirements for Extraordinary Shareholders' Meetings and having reviewed the Management Board's Report and the special report of

the Statutory Auditors and in accordance with the legislative and statutory provisions in force, in particular the provisions of Articles L. 225-138-1 and L. 225-129-6 of the French Commercial Code and Article L. 443-5 of the French Labor Code:

1° Delegates to the Management Board the authority to increase the Company's share capital, on one or more occasions, within a 26-month period from the date of this Shareholders' Meeting, through the issuance of shares to be settled for with cash, and reserves the subscription for the entire issuance to the employees of the Company and of its French or foreign affiliates within the meaning of Article L. 225-180 of the French Commercial Code which are included in the scope of consolidation of the Company, provided that such employees participate in the Group's savings plan or in a voluntary employee pension plan.

2° Resolves that the total number of shares that may be issued by virtue of this resolution shall be less than 1.5% of the share capital outstanding on the date of the Management Board's decision.

3° Resolves that the offering price for the new shares will neither be higher than the average of the opening market price of the Company's shares over the 20 trading sessions immediately preceding the day of the Management Board's decision fixing the opening date for the subscriptions of shares, nor lower than this average after reduction by the maximum discount provided by law on the date of the Management Board's decision.

4° Resolves to waive the preferential subscription rights of shareholders, in favor of employees, for whom the capital increase is reserved.

5° Grants full power to the Management Board to determine the terms and conditions applicable to these transactions, and in particular:

- to set forth the terms and conditions for subscription to the Group's savings plan, and to establish or modify the corresponding rules;
- to set forth the special conditions required to be satisfied by the Group's affiliates within the meaning of the aforementioned Article L. 225-180 and within the scope of consolidation of the Company;
- to set forth the seniority conditions to be adhered to by the beneficiaries of new shares resulting from any capital increases under this resolution;
- to determine whether to effect subscriptions through a mutual fund intermediary, a voluntary employee pension plan, or directly;
- to grant a grace period to afford employees time to release their shares;
- to fix the subscription opening and closing dates and the share offering price;
- to determine the number of new shares to be issued;
- to certify the completion of share capital increases; carry out any actions or formalities resulting from such increases, directly or

through a representative; modify the Company's by-laws accordingly and, more generally, accomplish whatever is deemed relevant and necessary pursuant to applicable legislation and regulations.

6° Resolves that the Management Board may sub-delegate the authority required to carry out share capital increases, or to postpone such increases, within the limits and according to the conditions it may decide to introduce.

7° Formally notes that this authority shall supersede any previous delegation of authority to the same effect and in particular the authority delegated by the Shareholders' Meeting held on April 28, 2005 (eleventh resolution).

In all cases, the amount of share capital increases carried out pursuant to this resolution shall be charged against the maximum aggregate nominal amount set forth in the seventh resolution.

### **Eleventh resolution (Authorization granted to the Management Board to decrease the share capital of the Company by cancellation of treasury shares within limits set forth by law)**

The Shareholders' Meeting, having satisfied the quorum and majority requirements for Extraordinary Shareholders' Meetings and having reviewed the Management Board's Report and the special report of the Statutory Auditors, authorizes the Management Board, in accordance with Article L. 225-209 of the French Commercial Code, to cancel, at its sole discretion, the shares acquired the Company over a period of 26 months beginning from the date of this Shareholders' Meeting, on one or more occasions, up to a maximum amount of 10% of the outstanding share capital, over a 24-month period, and to decrease the share capital accordingly.

The Shareholders' Meeting grants the Management Board full authority, which may be sub-delegated, in order to carry out any and all actions, formalities or declarations necessary to effect the share capital reductions which may be effected under this authorization and to make the necessary amendments to the Company's by-laws.

The Shareholders' Meeting formally notes that this authorization shall supersede any previous authorization to the same effect and in particular the authorization granted by the Shareholders' Meeting held on April 20, 2006 (eleventh resolution).

### **Twelfth resolution (Update of Article 8 of the Company's by-laws "Member of the Supervisory Board elected by the Employees")**

The Shareholders' Meeting, having satisfied the quorum and majority requirements for Extraordinary Shareholders' Meetings, upon proposal of the Management Board and pursuant to the provisions of Article L. 225-71 of the French Commercial Code, as amended by Law

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n°2006-1770 dated December 30, 2006, resolves to update Article 8 of the company's by-laws "Member of the Supervisory Board appointed by the Employees" as follows:

"1. If the percentage of share capital held by employees and retired employees of the Company and its subsidiaries under the Group's Savings Plan established by the Company represents more than 3% of the Company's share capital, a Member of the Supervisory Board of the Company shall be elected from among the employees who are members of the Supervisory Board of the Company's mutual funds of which at least 90% of the assets are comprised of Company shares. The Member of the Supervisory Board representing the employee shareholders shall not be taken into account when calculating the maximum number of Members of the Supervisory Board set forth in Article 7.

An employees' representative may be elected as a Member of the Supervisory Board by an Ordinary Shareholders' Meeting, upon proposal from the Chairman of the Management Board, provided that his/her mandate ends automatically upon the election of a Member of the Supervisory Board pursuant to the provisions set forth in the previous sub-paragraph.

2. If for any reason the Member of the Supervisory Board elected by the Shareholders' Meeting under sub-paragraph 1 above ceases to be an employee of the Company or one of its subsidiaries, said Member shall be deemed to have resigned one month from the date of his or her termination of employment;

3. Prior to the Ordinary Shareholders' Meeting held to elect a Member of the Supervisory Board representing the employee shareholders pursuant to sub-paragraph 1, said member shall be appointed according to the following procedure:

- the candidate shall be elected by the members of the Supervisory Board of the Company's mutual funds representing the employees holding units of such funds. Voters shall comprise unit holders of funds and employees holding shares through direct subscription in connection with employee savings mechanisms;
- the election shall be recorded in the meeting minutes, which shall list the number of votes cast in favor of each candidate as well as the name of the candidate elected by the aforementioned conditions who received the highest number of votes.

4. Each Member of the Supervisory Board representing employee shareholders shall be the owner of one share through a mutual fund as described in sub-paragraph 1 of Article 8, or of an equivalent number of units of said fund. If the Member does not hold one share or an equivalent number of units of the fund on the date of his appointment, or if he or she ceases to do so during his/her term in office, he or she shall be deemed to have resigned notwithstanding the fact that he or she remains an employee of the Company."

## Thirteenth resolution (Update of Articles 10 and 14 of the Company's by-laws "Organization of the Supervisory Board" and "Organization of the Management Board")

The Shareholders' Meeting having met the quorum and majority requirements for Extraordinary Shareholders' Meetings and upon proposal of the Management Board, resolves, pursuant to Articles 84-1 and 108-1 of the Decree n°67-236 dated March 23, 1967, as amended by the Decree dated December 11, 2006, to update sub-paragraph 4 *in fine* of Article 10 of the company's by-laws, "Organization of the Supervisory Board", and sub-paragraph 3 *in fine* of Article 14 of the company's by-laws, "Organization of the Management Board", by adding the words "*by telecommunication*".

The other provisions of Articles 10 and 14 remain unchanged.

## Fourteenth resolution (Update of Article 16 of the Company's by-laws: "Shareholders' Meetings")

The Shareholders' Meeting, having satisfied the quorum and majority requirements for Extraordinary Shareholders' Meetings, upon proposal of the Management Board and pursuant to the provisions of Article 136 of the Decree n°67-236 dated March 23, 1967, as amended by the Decree dated December 11, 2006, resolves to update Article 16 of the company's by-laws, "Shareholders' Meetings," as follows:

"4. Regardless of the number of shares held, any shareholder has the right, upon providing proof of his/her identity and capacity, to take part in Shareholders' Meetings, subject to a list of holders of record as at 0:00 am (Paris time) three working days prior to the Shareholders' Meeting, whereby:

- registered shareholders shall constitute those identified in the nominative shares register on file with the Company;
- bearer shareholders shall constitute those identified as holders of record in the bearer shares register on file with the authorized intermediary;
- and, if necessary, to provide the Company with any document required to prove such shareholder's identity in accordance with applicable law.

The registration or census of holders of record in the bearer shares register on file with the authorized intermediary is authenticated by a certificate furnished by the financial intermediary in accordance with legal and statutory provisions."

The other provisions of the Article remain unchanged.

## Fifteenth resolution (Amendment of Article 5 of the Company's by-laws "Share")

The Shareholders' Meeting, having satisfied the quorum and majority requirements for Extraordinary Shareholders' Meetings and upon

proposal of the Management Board, resolves to amend the fifteen day notification deadline, applicable to notification requirements upon holdings crossing each of the statutory thresholds, as set forth in sub-paragraph 3 of Article 5 of the company's by-laws, "Shares", to five trading days.

The other provisions of the Article remain unchanged.

### Sixteenth resolution (Amendment of Article 17 of the Company's by-laws: "Voting Rights")

The Shareholders' Meeting, having satisfied the quorum and majority requirements for Extraordinary Shareholders' Meetings and upon proposal of the Management Board, resolves to amend sub-paragraphs 1 and 2 of Article 17 of the company's by-laws, "Voting Rights", as follows:

"1. Voting rights shall belong to the usufruct holder (*usufruitier*) in Ordinary Shareholders' Meetings and to the legal owner of title (*nu-propriétaire*) in Extraordinary Shareholders' Meetings, unless otherwise agreed between both parties, provided that the Company is notified of such agreement;

2. In accordance with applicable law and regulations, shareholders shall be entitled to send their proxy and voting forms for any Shareholders' Meeting, whether in paper form or, by decision of the Management Board as published in the meeting notice, by fax. Proxy forms and votes thus transmitted must be received by the Company by 3:00 pm (Paris time) on the day preceding the Shareholders' Meeting.

The proxy voting form may, if necessary, contain shareholders' electronic signatures, authenticated via a reliable security process, in order to identify the shareholder and his or her vote."

The other provisions of the Article remain unchanged.

### Seventeenth resolution (Authorization granted to carry out legal formalities)

The Shareholders' Meeting grants full power to the bearer of a certified copy or excerpt of the minutes of this Meeting to perform any formalities required by law.

## 5 Draft Update of the Company's By-laws

### PART I: LEGAL FORM – PURPOSE – REGISTERED OFFICE

#### Article 1 - Legal Form – Corporate Name – Legislation – Term

The Company, which is called Vivendi, is a company established under French law and formed in Paris by a deed dated December 11, 1987, and which, by decision of the Shareholders' Meeting of April 28, 2005, has adopted the legal form of a *Société Anonyme à Directoire et Conseil de Surveillance* (company with Management Board and Supervisory Board), governed by current and future legislative and regulatory provisions as well as by these By-laws.

The term of the Company shall expire on December 17, 2086, except in the event of an early dissolution or an extension to be decided by an Extraordinary Shareholders' Meeting.

#### Article 2 - Purpose

The Company's main purpose is, directly and indirectly, in France and in all countries:

- to provide any direct or indirect telecommunications and media/entertainment activities, and any interactive services, to individual, business and public-sector customers;

- to market any products and services related to the foregoing;
- any commercial, industrial, financial, stock, share and real-estate transactions directly or indirectly related to the aforementioned purpose or to any similar or related purposes, or contributing to the fulfilment of these purposes;
- and more generally, the management and acquisition, by way of subscription, purchase, contribution, exchange or through any other means, of shares, bonds and any other securities of companies already existing or to be formed and the right to sell such securities.

#### Article 3 - Registered Office

The Company's registered office is located at 42, avenue de Friedland, 75008 Paris.

The registered office may be transferred to any other place in accordance with the legislative and regulatory provisions in force.

## PART II: SHARE CAPITAL – SHARES

### Article 4 - Share Capital

The Company's share capital is 6,363,685,548 euros, divided into 1,157,033,736 shares having a face value of 5.50 euros, all of the same class and fully paid up.

The share capital may be increased, reduced, amortized or divided by decision of the competent Shareholders' Meeting.

### Article 5 - Shares

1. The shares may take the form of registered shares or bearer shares, in the absence of legal provisions to the contrary.

2. The Company may at any time, in accordance with applicable law and regulations, request from the central institution responsible for keeping the Company's share issuance account information relating to shares of the Company which confer a voting right at its Shareholders' Meetings, whether immediately or in the future.

Failure by shareholders or intermediaries to comply with their obligation to provide the aforementioned information may lead to the suspension or suppression of dividend and/or voting rights, as permitted by law.

3. Any person, acting alone or in concert, who directly or indirectly holds a fraction of the capital, voting rights or securities subsequently convertible into shares of the Company, which is equal to or in excess of 0.5% or a multiple of this fraction, shall notify the Company, by registered letter with acknowledgment of receipt, within five exchange days of exceeding any of these thresholds, of the total number of shares, voting rights or securities subsequently convertible into shares,

which that person directly or indirectly holds, whether alone or in concert.

Failure to comply with this provision shall be penalized in accordance with legal provisions, at the request, recorded in the minutes of the Shareholders' Meeting, of one or more Shareholders holding at least 0.5% of the Company's share capital.

Any person, acting alone or in concert, shall also inform the Company within fifteen days if the percentage of share capital or voting rights which it holds falls below any of the thresholds mentioned in the first sub-paragraph of this paragraph 3.

### Article 6 - Rights and Obligations Attached to Shares

1. Each share carries a right of ownership of the Company's assets and liquidation surplus in proportion to the fraction of the authorized share capital which it represents.

2. Whenever it is required to hold a certain number of shares in order to exercise a right, Shareholders who do not own the said number of shares shall be responsible, if necessary, for grouping the shares corresponding to the required quantity.

3. The subscription right attached to shares belongs to the beneficial owner.

4. Ownership of a share implies acceptance of these By-laws and of decisions made by Shareholders' Meetings and by the Management Board acting on powers delegated by the Shareholders' Meeting.

## PART III: SUPERVISORY BOARD

### Article 7 - Composition of the Supervisory Board

1. The Supervisory Board is composed of a minimum of three Members, and a maximum of 18 Members, subject to the temporary exception set forth by law in the event of a merger.

The Members are appointed by the Ordinary Shareholders' Meeting, which may dismiss them at any time.

2. Each Member of the Supervisory Board must hold at least 1,000 shares in the Company.

3. The Members of the Supervisory Board are appointed for a four-year term, expiring at the end of the Ordinary Shareholders' Meeting called to approve the accounts for the financial year ended, and which is held the year during which the term of office expires. They may be re-elected for additional terms.

At the end of each Annual Shareholders' Meeting, the number of Members of the Supervisory Board who have reached the legally

defined age on the closing date of the fiscal year whose accounts are approved by the meeting, shall not be more than one-third of the number of Members in office. When this limit is exceeded, the oldest Members shall be deemed to have resigned at the end of the said Shareholders' Meeting until the requirement set forth herein is met.

In the event of a vacancy of one or more board seats due to death or resignation, and provided that the number of Members of the Supervisory Board does not fall below the minimum set forth in the first paragraph of this Article 7, the Supervisory Board may make provisional appointments between two Shareholders' Meetings which shall be subject to ratification by the next Ordinary Shareholders' Meeting.

### Article 8 - Member of the Supervisory Board appointed by the employees

1. If the percentage of share capital held by employees and retired employees of the Company and its subsidiaries under the Group's Savings Plan established by the Company, represents more than 3%

of the Company's share capital, a Member of the Supervisory Board of the Company shall be elected from among the employees who are members of the Supervisory Board of the Company's mutual funds of which at least 90% of the assets comprise Company shares. The Member of the Supervisory Board representing the employee shareholders shall not be taken into account when calculating the maximum number of members of the Supervisory Board set forth in Article 7.

An employees' representative may be elected as a Member of the Supervisory Board by an Ordinary Shareholders' Meeting, upon proposal from the Chairman of the Management Board, provided that his/her mandate ends automatically upon the election of a Member of the Supervisory Board pursuant to the provisions of the previous sub-paragraph.

2. If, for any reason the Member of the Supervisory Board elected by the Shareholders' Meeting under the sub-paragraph 1 above ceases to be an employee of the Company or one of its subsidiaries, said Member shall be deemed to have resigned one month from the date of his or her termination of employment.

3. Prior to the Ordinary Shareholders' Meeting held to elect a Member of the Supervisory Board representing the employee shareholders pursuant to sub-paragraph 1, said member shall be appointed according to the following procedure:

- the candidate shall be elected by the members of the Supervisory Board of the Company's mutual funds representing the employees holding units of such funds. Voters shall comprise unit holders of funds and employees holding shares through direct subscription in connection with employee savings mechanisms;
- the election shall be recorded in the meeting minutes, which shall list the number of votes cast in favor of each candidate as well as the name of the candidate elected by the abovementioned conditions who received the highest number of votes.

4. Each Member of the Supervisory Board representing employee shareholders shall be the owner of one share through a mutual fund as described in sub-paragraph 1 of this Article 8, or of an equivalent number of units of said fund. If the Member does not hold one share or an equivalent number of units of the fund on the date of his appointment, or if he or she ceases to do so during his/her term of office, he or she shall be deemed to have resigned notwithstanding the fact that he or she remains an employee of the Company.

### Article 9 - Mission of the Supervisory Board

1. The Supervisory Board continuously monitors the Company's management by the Management Board as required by law. At any time of the year, it may carry out any verifications or controls which it deems necessary and may demand any documents which it deems useful to the fulfilment of its mission.

In addition, the Supervisory Board grants the Management Board permission to carry out the operations stated in Article 13, for which its prior authorization is required.

2. The Supervisory Board may decide to create committees to study questions submitted by the Supervisory Board or its Chairman; the Supervisory Board shall define their composition, their terms of reference and, if applicable, the remuneration of their Members.

### Article 10 - Organization of the Supervisory Board

1. From among its Members, the Supervisory Board shall elect a Chairman and a Vice-Chairman who must be natural persons and who shall be responsible for convening the Supervisory Board and chairing its debates. The Supervisory Board shall set the terms of office of the Chairman and Vice-Chairman, which shall not exceed their terms as Members of the Supervisory Board.

The Supervisory Board appoints a Secretary who is also the secretary of the Management Board.

2. The Supervisory Board shall meet as often as the Company's interests require.

The Supervisory Board may be convened by the Chairman or the Vice-Chairman by any means, even verbally. The meetings shall be held either at the Company's registered office, or in any other place indicated in the Notice of Meeting.

The Chairman shall convene the Supervisory Board within fifteen days of a request being made to this effect by at least one Member of the Management Board or by at least one-third of the Members of the Supervisory Board. Should this request remain without effect, its authors may themselves convene the Supervisory Board, stating the meeting's agenda.

3. A register of attendance shall be kept which shall be signed by the Members of the Supervisory Board attending the meeting.

4. A minimum presence of 50% of the Members of the Supervisory Board is required for the deliberations to be valid.

Decisions are made by majority vote of the Members present or represented, each Member present or represented having one vote and each Member present having only one proxy granted in writing and transmitted by any means. The session Chairman shall have the casting vote in the event of a tie.

To the extent provided by law, Members who attend the meetings by way of videoconference, telecommunication or by any other mean allowed by law, shall be deemed to be present for the purposes of calculating the quorum and majority.

5. The deliberations of the Supervisory Board are recorded in minutes drawn up by the secretary of the Supervisory Board in a special register kept at the Company's registered office.

## Article 11 - Remuneration of members of the Supervisory Board

1. To the Members of the Supervisory Board, the Shareholders' Meeting may award a total annual sum as Directors' fees.

The Supervisory Board shall distribute the overall sum awarded among its Members.

In addition, the remuneration of the Chairman and Vice-Chairman is determined by the Supervisory Board.

2. The Supervisory Board may award exceptional remuneration for specific assignments or mandates entrusted to the Chairman, to the Vice-Chairman or to any one of the Members of the Supervisory Board. In this case, the said remuneration shall be paid independently of the directors' fees, and pursuant to the conditions set forth by law.

## PART IV: MANAGEMENT BOARD

### Article 12 - Composition of the Management Board

1. The Company is managed by a Management Board composed of a minimum of two Members and a maximum of seven Members.

Members of the Management Board, who must be natural persons, are not required to be shareholders.

They are appointed for a four-year term by the Supervisory Board which also appoints one of them Chairman. The Supervisory Board determines their remuneration.

If a seat becomes vacant, the Supervisory Board shall, within two months, either fill it or simply take note of such vacancy.

Any Member of the Management Board may be reappointed. He may be dismissed at any time either by the Supervisory Board or by the Shareholders' Meeting.

2. The Chairman of the Management Board represents the Company in its relations with third parties.

From among the Members of the Management Board, the Supervisory Board may appoint one or more Members with power of representation in relation to third parties.

3. The term of office of a Member of the Management Board shall expire, at the latest, at the end of the Shareholders' Meeting called to approve the accounts for the financial year in which he reaches the age of 68. However, when a Member of the Management Board reaches that age, the Supervisory Board may, on one or more occasions, prolong his term for a total period which may not exceed two years.

### Article 13 - Powers and Obligations of the Management Board

1. The Management Board shall be invested, with respect to third parties, with the broadest powers to act in all circumstances on behalf of the Company, subject to the powers specifically granted by law to the Supervisory Board and to Shareholders' Meetings and within the limitations of the Company's purpose and the matters that require the prior authorization of the Supervisory Board, as set forth below.

2. With the authorization of the Supervisory Board, the Members of the Management Board may allocate management tasks amongst

themselves. In this case, such an allocation of tasks shall not exempt the Management Board from meeting and deliberating on major issues relating to the Company's management, nor shall it be invoked as grounds for exemption from the obligation to supervise the general conduct of corporate activities, which is incumbent on each Member of the Management Board, and for which the Members have joint and several liability.

The Management Board may appoint one or more of its Members, or any person chosen from outside its ranks, to effect any permanent or temporary special missions, which it may determine, delegating to such persons, for one or more specific purposes, any powers it may deem appropriate, with or without the right to further delegate such powers.

3. Within the limit of an overall sum which it shall define, the Supervisory Board may authorize the Management Board to grant deposits, sureties or guarantees on behalf of the Company. The term of such an authorization may not exceed one year, regardless of the term of the commitments guaranteed. On behalf of the Company, the Management Board may be authorized to give deposits, sureties or guarantees of an unlimited amount to the tax or customs authorities.

If any deposits, sureties or guarantees are given, in a total amount in excess of the limit previously determined for the current period, the amount of any excess portion may not be used to avoid payment obligations due to third parties who were not aware of the applicable limitation.

4. Within the limit of an amount which it shall set for each type of transaction, the Supervisory Board may authorize the Management Board to transfer real property in kind, to transfer assets in part or in full and to constitute pledges. When a transaction exceeds the amount so defined, the authorization of the Supervisory Board shall be required in each case.

The absence of authorization concerning the operations mentioned in the preceding paragraph may not be used to avoid payment obligations due to third parties, unless the Company can prove that these third parties were aware of the absence of authorization or could not be unaware of it.

5. In addition, the Management Board may not take the following actions without the prior authorization of the Supervisory Board:

- any transactions that could substantially affect the Group's scope of activity;
- the admission of the Company's securities to trading on a regulated market;
- any investment commitments or acquisitions of assets exceeding the amounts set by the Supervisory Board;
- the issuance of marketable securities of any kind as authorized by the Extraordinary Shareholders' Meeting in accordance with Articles L. 225-129-2 et sequitur of the French Commercial Code;
- the issuance of bond loans as provided for in Article L. 228-40 of the French Commercial Code, or credit facilities, for a term or for a sum exceeding those laid down by the Supervisory Board;
- the issuance of stock options, or the grant of restricted stock or any similar product, to employees or certain categories of employees;
- the signature of any agreements and transactions, arbitrations, and the acceptance of any settlements exceeding the sums set by the Supervisory Board;
- the signature of any draft agreements relating to a merger, a spin-off or a partial transfer of assets exceeding the thresholds set by the Supervisory Board.

Where a transaction exceeds the limits or the amount determined, the authorization of the Supervisory Board shall be required in each case.

#### Article 14 - Organization of the Management Board

1. The Management Board shall meet as often as the Company's interests require, upon convocation by its Chairman or by a minimum of 50% of its Members, either at the Company's registered office, or in any other place specified in the Notice of Meeting. The meeting may be convened by any means, even verbally.

The Management Board appoints a Secretary who is also the Secretary of the Supervisory Board.

2. For decisions to be valid, the attendance of a minimum of 50% of the Members is required. If the Management Board is composed of only two Members, the attendance of both Members is required.

3. Decisions shall be made by majority vote. Votes may not be cast by proxy within the Management Board. In the event of a tie, the casting vote shall be decided by the Chairman of the Management Board, or by a session Chairman appointed by the Chairman of the Management Board in the event of his absence or capacity.

Members who attend the meetings by way of videoconference, telecommunication or by any other mean allowed by law, shall be deemed to be present for the purposes of calculating the quorum and majority.

4. The Management Board shall submit a written and oral Report to the Supervisory Board on a regular basis and at least quarterly, to report on the major acts or events that occurred in connection with the management of the Company.

Within three months of the closing of each fiscal year, the Management Board shall be responsible for the closing of the accounts and the preparation of the financial statements and submit them to the Supervisory Board for verification and audit. The Management Board shall also propose the allocation of earnings for the prior fiscal year.

The Management Board shall examine and present the quarterly and bi-annual financial statements to the Supervisory Board.

5. The deliberations are to be recorded in minutes signed by the Chairman of the Board.

The minutes are to be recorded in a special register. Copies and excerpts of these minutes are certified by the Chairman of the Management Board, one of its Members, the Secretary of the Management Board or by any other person designated by the Management Board.

## PART V: AUDITING OF THE COMPANY

#### Article 15 - Statutory Auditors

The Company is audited by Statutory Auditors who are appointed and fulfil their duties in accordance with applicable law.

## PART VI: SHAREHOLDERS' MEETINGS

#### Article 16 - Shareholders' Meetings

1. Shareholders' Meetings are convened and held in accordance with applicable law.

2. Shareholders' Meetings shall take place at the Company's registered office, or in any other location specified in the Notice of Meeting. When convening the meetings, the Management Board may decide to publicly

## APPENDIX - COMBINED ORDINARY AND EXTRAORDINARY GENERAL MEETING OF APRIL 19, 2007

Draft Update of the Company's By-laws

broadcast the Shareholders' Meeting in full, via videoconference and/or tele-transmission. If applicable, this decision shall be indicated in the Notice of Meeting.

3. Two Members of the Workers' Committee, appointed by the said committee, may also attend Shareholders' Meetings. The Chairman of the Management Board or any other authorized person shall provide notice to the Workers' Committee by any means possible of the date and location of any Shareholders' Meetings.

4. Regardless of the number of shares held, any shareholder has the right, upon providing proof of his/her identity and capacity, to take part in Shareholders' Meetings, subject to a list of holders of record as at 0:00 am (Paris time) three working days prior to the Shareholders' Meeting:

- registered shareholders shall constitute those identified in the nominative shares register on file with the Company;
- bearer shareholders shall constitute those identified as holders of record in the bearer shares register on file with the authorized intermediary;

and, if necessary, to provide the Company with any document required to prove such shareholder's identity in accordance with applicable law.

The registration or census of holders of record in the bearer shares register on file with the authorized intermediary is authenticated by a certificate furnished by the financial intermediary in accordance with legal and statutory provisions.

5. Shareholders' Meetings shall be chaired by the Chairman of the Supervisory Board; or, in his absence, by the Vice-Chairman; or in the absence of both, by a Member of the Supervisory Board specially delegated to do so by the Chairman of the Supervisory Board; failing this, the Shareholders' Meeting itself shall elect a Chairman.

The two Members of the Shareholders' Meeting who accept and represent the largest number of votes shall act as returning officers.

6. The Presiding Committee of the Shareholders' Meeting shall appoint the Secretary, who is not required to be a shareholder. A register of attendance shall be kept in accordance with applicable law.

7. Copies or excerpts from the Minutes of Shareholders' Meetings are validly certified and available upon request, in accordance with applicable law.

### Article 17 - Voting Rights

1. Voting rights shall belong to the usufruct holder (usufruitier) in Ordinary Shareholders' Meetings and to the legal owner of title (nu-propriétaire) in Extraordinary Shareholders' Meetings, unless otherwise agreed between both parties, provided that the Company is notified such agreement.

2. In accordance with applicable law and regulations, shareholders shall be entitled to send their proxy and voting forms for any Shareholders' Meeting, whether in paper form or, by decision of the Management Board published in the Notice of Meeting, by fax. Proxy forms and votes thus transmitted must be received by the Company by 3:00 pm (Paris time) on the day preceding the Shareholders' Meeting.

The proxy voting form may, if necessary, contain shareholders' electronic signature, authenticated via a reliable security process, in order to identify the shareholder and his or her vote.

The Management Board may also decide that shareholders may participate and vote in any Shareholders' Meetings by videoconference and/or tele-transmission, in accordance with applicable law. In this case, shareholders participating in the Shareholders' Meeting by videoconference or by any other means of telecommunication, in accordance with applicable law, shall be deemed to be present for the purposes of calculating the quorum and majority.

3. Each shareholder shall have a number of votes equal to the number of shares he owns or represents.

## PART VII: FINANCIAL STATEMENTS – ALLOCATION AND DISTRIBUTION OF NET INCOME

### Article 18 - Annual Accounts

1. The Company's fiscal year shall commence on January 1 and end on December 31.

2. At the end of each fiscal year, the Management Board shall be responsible for the closing of the accounts and the preparation of the annual financial statements as required by law.

### Article 19 - Allocation and Distribution of Net Income

1. The statement of income shows revenues and expenses for the fiscal year, expressing net income for the year as the difference between the two, after deducting amortization, depreciation and provisions.

No less than 5% of the fiscal year's earnings, less losses sustained in earlier years, where applicable, shall be deducted to create the legal reserve fund. This deduction shall cease to be mandatory when the reserve fund becomes equal to 10% of the share capital. Such deductions shall be resumed if, for any reason, the legal reserve falls below one-tenth of the share capital.

The Shareholders' Meeting may set apart such amounts as the Management Board shall see fit, for transfer to contingency funds or to ordinary or extraordinary revenue reserves, or to retained earnings, or for distribution.

2. The distributable profit is composed of the net income for the fiscal year, less losses sustained in earlier years and amounts that must be allocated to reserves in accordance with applicable law or these By-laws, and may be increased by retained earnings.

Dividends shall be paid out of earnings from the fiscal year.

Except in the event of a reduction in capital, no dividends may be distributed to shareholders when shareholders' equity is, or would become as a result of such distribution, less than the amount of the capital plus reserves, the distribution of which is not permitted by applicable law or these By-laws.

Revaluation surpluses may not be distributed, but may be capitalized in full or in part.

The Shareholders' Meeting may decide to distribute amounts from available reserves by specifically indicating the reserve items from which the said amounts shall be deducted.

The terms of payment of dividends shall be determined by the Shareholders' Meeting, or, failing such determination, by the Management Board. Dividends must be paid no later than nine months after the end of the fiscal year, unless an extension is granted by court order.

The Annual Shareholders' Meeting may grant each shareholder the right to choose from payment in cash, shares or an in-kind payment, in respect of all or part of the interim or final dividend distributed.

Dividends remaining unclaimed for a term of five years after the declaration date are no longer distributable under applicable statutes of limitation

## **PART VIII: EXTENSION – DISSOLUTION – DISPUTES**

### **Article 20 - Extension – Dissolution – Liquidation**

1. No later than one year before the end of the term of the Company, the Management Board shall convene an Extraordinary Shareholders' Meeting in order to decide whether the term of the Company is to be extended.

2. Except in the event of judicial dissolution prescribed by law, the Company shall be dissolved upon the expiration of the term set forth by the Company's By-laws or by decision of the Shareholders' Meeting.

3. The Shareholders' Meeting shall determine the liquidation procedures and shall appoint one or more liquidators whose powers it shall determine.

### **Article 21 - Disputes**

All disputes which may arise during the term of the Company or during its liquidation, whether between the shareholders and the Company or between shareholders themselves, in respect of corporate matters, shall be subject to the jurisdiction of the competent courts.

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# Statutory Auditors' Report on the Financial Statements (fiscal year ended December 31, 2006)

To the shareholders,

In compliance with the assignment entrusted to us at your General Meetings, we hereby report to you, for the year ended December 31, 2006, on:

- the audit of the accompanying financial statements of Vivendi SA;

- the justification of our assessments;

- the specific verifications and information required by law.

These financial statements have been approved by your Management Board. Our role is to express an opinion on these financial statements based on our audit.

## 6.1. OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in compliance with the auditing standards generally accepted in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 the management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities as of December 31, 2006, and of the results of its operations for the year then ended in accordance with the accounting principles generally accepted in France.

Without qualifying our opinion, we draw attention to the point concerning the change in presentation of the statement of cash flows, as described in note 1 to the financial statements.

## 6.2. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L. 823-9 of the French Commercial Code relating to the justification of our assessments, we draw attention to the following matters:

### Accounting Policies

Note 1 to the financial statements describes the accounting policies relating to the change in presentation of the statement of cash flows.

As part of our assessment of the accounting policies implemented by your Company, we verified that the information presented in the notes to the financial statements was appropriate to the Company's circumstances and consistently applied.

### Accounting Estimates

Note 1 to the financial statements also describes the accounting policies relating to financial assets and the valuation of long-term assets. Your Company recognizes provisions for impairment loss when the carrying amount of its financial assets exceeds their value in use. The value in use is defined as the estimate of the future economic benefits that will be generated by using the asset or selling it. Based on the information available at the date of this Report, we have assessed and examined on a test basis the accounting principles used by your Company. We have also assessed the significant estimates and have ensured that the assumptions and the subsequent judgements made by your management are reasonable.

Our assessments were an integral part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion expressed in the first part of this Report.

### 6.3. SPECIFIC VERIFICATIONS AND INFORMATION

In accordance with the auditing standards generally accepted in France, we have also performed the specific verifications required by law.

We have no matters to report regarding:

- the fair presentation and the conformity with the financial statements of the information given in the 2006 Annual Report – Registration Statement, and in the documents addressed to the shareholders with respect to the financial position and the financial statements;

- the fair presentation of the information disclosed in the 2006 Annual Report – Registration Statement regarding the compensation and benefits granted to certain executive officers and the commitments given to them when they are appointed, or retire or change post.

In accordance with French law, we have ascertained that the information relating to the identity of the shareholders has been included in the 2006 Annual Report – Registration Statement.

Paris-La Défense and Neuilly-sur-Seine, March 7, 2007

The Statutory Auditors

SALUSTRO REYDEL  
Member of KPMG International

Benoît Lebrun  
*Partner*

Marie Guillemot  
*Partner*

ERNST & YOUNG et Autres

Dominique Thouvenin  
*Partner*

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## Statutory Auditors' Special Report on Regulated Third-Party Agreements and Commitments (fiscal year ended December 31, 2006)

To the shareholders,

As Statutory Auditors of Vivendi, we hereby present our Report on regulated third-party agreements and commitments.

### 7.1. AGREEMENTS ENTERED INTO DURING THE YEAR

Pursuant to Article L. 225-88 of the French Commercial Code, we have been informed of the agreements authorized by your Supervisory Board.

We are not required to identify any other agreements, but to inform you, based on the information provided to us, of the principal terms and conditions of those agreements. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, pursuant to Article 117 of the Decree of 23 March 1967, to assess the merit of these agreements with a view to approving them.

We conducted our work in accordance with the auditing standards generally accepted in France. Those standards require that we plan and perform our work to enable us to verify that the information we have been given is consistent with the documents from which it is derived.

#### 7.1.1 Revolving Credit Line

Persons involved: Frank Esser, Jean-Bernard Lévy, Jacques Espinasse, Bertrand Meheut and Vivendi SA, represented par Jean-François Dubos.

During its meeting on December 13, 2006, your Supervisory Board authorized your Management Board to provide SFR with a revolving credit line of €700 million, for a three-year period.

The credit line agreement was signed with SFR on December 19, 2006. Under this agreement, minimum tranches of €50 million may be drawn for variable periods of 1, 3, 6 and 12 months, with interest payable at the EURIBOR rate for the period +0.15%.

As of December 31, 2006, no amounts had been drawn.

### 7.2. AGREEMENTS APPROVED DURING PREVIOUS YEARS WHICH WERE APPLICABLE DURING THE PERIOD

In addition, in accordance with the Decree of March 23, 1967, we have been informed of the following agreements, which were approved during previous years, and were applicable during the period.

#### 7.2.1. Service Contract with the Firm Conseil DG

During its meeting on June 7, 2005, your Supervisory Board authorized your Management Board to negotiate and sign a service contract with the firm Conseil DG, chaired by Mr. Andrzej Olechowski.

The contract became effective as of June 8, 2005 for a one-year renewable period. During its meeting on June 7, 2006, as the ongoing disputes between Deutsche Telekom, Elektrim, Telco and your Company over the ownership of shares in PTC had not been settled, your

Supervisory Board renewed its contract for a one-year period, and provided for further renewal of the contract by tacit agreement.

Your Company agreed to pay fixed consulting fees of €60,000 before tax in monthly instalments of €5,000 before tax. It also agreed to pay a one-off success fee of €1,000,000 before tax, in the event of a final settlement of the ongoing disputes in Poland during the contract term, from which the fixed consulting fees would be deducted. The firm Conseil DG received fees amounting to €60,000 before tax from your Company in 2006.

### 7.2.2. Agreement on the Additional Pension Plan

At its meeting on March 9, 2005, your Board of Directors decided in principle to introduce an additional pension plan for senior executives, including the Members of the Management Board holding an employment contract with your Company, and to recognize the seniority of the Chairman of the Management Board.

Your Supervisory Board authorized the establishment of this additional pension plan and recognized seven years of seniority for the Chairman of the Management Board.

The principal terms and conditions of the additional pension plan are as follows: a minimum of three years in office, the progressive acquisition of rights according to seniority (over a period of 20 years); a reference salary for the calculation of the pension equal to the average of the last three years; dual upper limit: reference salary capped at 60 times the social security limit, acquisition of rights limited to 30% of the reference salary; application of the Fillon Act (rights maintained in the event of retirement at the initiative of the employer after the age of 55); and payment of 60% in the event of the beneficiary's death. The benefits are lost in the event of a departure from the Company, for any reason, before the age of 55.

The provisional amount recognized in the financial statements for the year ended December 31, 2006 for the additional retirement benefits for Management Board Members was €2,542,281.

### 7.2.3. Agreement to Waiver Interest on the Amounts Due from Subsidiaries

In the treasury agreements between your Company and its subsidiaries such as VTI, and companies with internet-related business (Ad2One, Scoot Europe NV), the latter were granted advances bearing interest at the one-month Euribor rate plus a 2.5% margin, capitalized on a quarterly basis.

Your Company agreed to waive the interest due on these amounts. The waiver became effective as of April 1, 2003 for VTI, and as of July 1, 2003 for the subsidiaries with internet-related business. It will be implemented until the companies recover a stable financial position by selling off assets or increasing capital, or until the companies are liquidated.

The Company Ad2One, which had benefited from the waiver, recovered a stable financial position during the year. Consequently this agreement no longer applied to it as of December 31, 2006.

With regard to the other companies, amounts owed to Company as of December 31, 2006 were €145.8 million by Scoot Europe NV and, €1,546.1 million by VTI.

Outstanding interest due to your Company in 2006 totalled €64.8 million.

### 7.2.4. Support Agreement

Your Company signed a support agreement with its subsidiary SFR for a five year period. In consideration, SFR pays your Company an annual flat rate fee of €6 million and 0.3% of revenue from January 1 2006, excluding revenues derived from equipment sales.

The income received by your Company in 2006 relating to this agreement amounted to €32.05 million.

### 7.2.5. Agreements Related to the Restructuring of UGC

In connection with the agreements signed in 2003 between your Company and the family shareholders of UGC concerning the restructuring of UGC, your Company granted a promise to sell to the family shareholders for €80 million (plus interest at 3.5% from August 25, 2003). The promise to sell provided for a supplementary payment in the event of the sale by the family shareholders of UGC shares with capital gains.

On November 24, 2005, your Company signed an additional clause to the promise to sell of December 2003 with the family shareholders of UGC, setting forth the conditions governing the exercise of the option.

On December 15, 2005, the family shareholders of UGC exercised their promise to buy UGC shares from your Company for a principal amount of €80 million (€89 million including interest). An initial payment of €54 million was made to your Company in 2005. In 2006 Vivendi received €6 million in cash. The remaining balance will be paid by December 31, 2008 at the latest.

### 7.2.6. Agreements with Veolia Environnement

#### 7.2.6.1. Agreements Related to the Initial Public Offering of Veolia Environnement

In connection with the initial public offering of Veolia Environnement, the parties signed various agreements setting forth their business relations. The only agreements still implemented in 2006 were those concerning counter-guarantees.

Your Company granted various types of guarantees to Veolia Environnement subsidiaries, mainly in relation to calls for tender, the transfer of contracts to Veolia Water, the implementation of bank financing and the sale of subsidiaries.

Given the contract amendments and probable renegotiation costs, it did not appear appropriate at the time for your Company to transfer those guarantees to Veolia Environnement. In consideration, Veolia Environnement agreed to cover all the fees or damages incurred by your Company as a result of those commitments.

## APPENDIX - COMBINED ORDINARY AND EXTRAORDINARY GENERAL MEETING OF APRIL 19, 2007

Statutory Auditors' Special Report on Regulated Third-Party Agreements and Commitments (fiscal year ended December 31 2006)

To prepare for the separation of the two companies, a new clause was added to the agreement signed on December 20, 2002, redefining the guarantees that would be transferred from your Company to Veolia Environnement or, if they could not be transferred, would be counter-guaranteed by Veolia Environnement.

During 2003 and 2004, your Company received USD5,000,000 from Veolia Environnement, with "better fortune" clauses, to counter-guarantee the commitments amounting to USD5,764,792 paid by your Company to Aguas de Argentinas.

Details of the counter-guarantees granted by Veolia Environnement to your Company as of December 31, 2006, are shown in the table below:

Dossier	Beneficiary	Amounts & currency
AWT - City of New Bedford guarantee	US Filter	USD10,000,000
Rentokil guarantee	Dalkia	€5,030,818
Superior	CGEA Onyx	Not quantifiable

i) Directors' and Officers' Insurance.

ii) Compensation to certain employees in the event of a change of control (particularly 2 employment contracts).

### 7.2.6.2. Consequences of the Separation of Vivendi and Veolia Environnement

While the separation of Vivendi and Veolia Environnement was underway, the agreements previously signed and approved continued to be implemented during 2006:

#### Cardif

Your Company will support all the URSSAF payments (social security collection fund) or tax adjustments due, current, previous or post December 31, 2002, relating to the contributions paid into the defined benefits fund entitled Grand Cardif.

This agreement had no impact in 2006.

### 7.2.7. Agreement with Vinci

As of December 30, 1998, your Company, Vinci and Compagnie Générale de Bâtiment et de Construction (CBC) signed an additional clause to the agreement signed on June 30, 1997 concerning the sale of CBC shares to Vinci, along with the associated guarantees and "better fortune" clauses.

In 2006, your Company did not receive any credit or payments related to this agreement.

Paris-La Défense and Neuilly-sur-Seine, March 7, 2007

The Statutory Auditors

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## Statutory Auditors' Report on the Increase of Share Capital Through the Issue of any and all Marketable Securities Giving Rights to Ordinary Shares

To the shareholders,

In our capacity as Statutory Auditors of your Company and in compliance with Article L. 228-92 of French Commercial Code (*Code de Commerce*), we hereby report to you on the proposed increase of share capital through the issue of any and all marketable securities giving rights to ordinary shares, for a maximum amount of €1 billion, upon which you are called to vote.

This amount may be increased by 15% under the conditions provided for in the seventh resolution.

Your Management Board proposes that, in accordance with Article L. 225-129-2 and, on the basis of its Report, it be empowered for a period of 26 months to decide on this operation and to determine the conditions for the share issue.

We conducted our work in accordance with French professional standards. These standards require that we perform the necessary procedures to verify the methods used for determining the issue price.

The Management Board Report does not specify the calculation factors used in determining the issue price of the capital shares to be issued in the conditions provided for in the seventh resolution. Accordingly, we cannot give an opinion neither on the choice of calculation factors nor on the issue price.

In accordance with Article 155-2 of the law of March 23, 1967, we will issue a further Report when the increase in capital has been performed by your Management Board.

Paris-La Défense and Neuilly-sur-Seine, March 7, 2007

The Statutory Auditors

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APPENDIX - COMBINED ORDINARY  
AND EXTRAORDINARY GENERAL MEETING OF APRIL 19, 2007

Statutory Auditors' Report on the Increase of Share Capital Through the Issue of Ordinary Shares or any and all Marketable Securities Giving Rights to Ordinary Shares with Cancellation of Preferential Subscription Rights

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## Statutory Auditors' Report on the Increase of Share Capital Through the Issue of Ordinary Shares or any and all Marketable Securities Giving Rights to Ordinary Shares with Cancellation of Preferential Subscription Rights

To the shareholders,

In our capacity as Statutory Auditors of your Company, and in compliance with Articles L. 225-135 et seq. and L. 228-92 of French Commercial Code (*Code de Commerce*), we hereby report to you on the proposed issue of ordinary shares or any and all marketable securities giving rights to ordinary shares with cancellation of preferential subscription rights, for a maximum amount of €500 million, upon which you are called to vote. Such amount shall be applied against the aggregate global limit set forth in the seventh resolution.

This amount may be increased by 15% under the conditions provided for in the eighth resolution.

Your Management Board proposes that, in accordance with Article L. 225-129-2 and, on the basis of its Report, it be empowered for a period of 26 months to decide on this operation and to determine the conditions for the share issue, and, to cancel your preferential subscription rights.

We conducted our work in accordance with French professional standards. These standards require that we perform the necessary procedures to verify the methods used for determining the issue price.

Subject to a subsequent examination of the conditions for the proposed increase in capital, we have nothing to report on the methods used for determining the share price provided in the Management Board's Report.

As the issue price has not yet been determined, we do not express a conclusion on the final conditions for the increase in capital, and, consequently, on the proposed cancellation of preferential subscription rights, the principle of which is, however, inherent to the operation submitted for your approval.

In accordance with Article 155-2 of the law of March 23, 1967, we will issue a further Report when the increase in capital has been performed by your Management Board.

Paris-La Défense and Neuilly-sur-Seine, March 7, 2007

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## Statutory Auditors' Report on the Increase of Share Capital Reserved for Employees and Pension Schemes of the Company and the Vivendi Group Companies that are Members of the Group Savings Plan, with Cancellation of Preferential Subscription Rights

To the shareholders,

In our capacity as the Statutory Auditors of your Company and in compliance with Articles L. 225-135 et seq. of French Commercial Code (*Code de Commerce*), we hereby report to you on the proposal to delegate to the Management Board the authority to decide a capital increase through the issuance of ordinary shares with cancellation of preferential subscription rights, for up to 1.5% of the share capital, reserved for employees and pension schemes of the Company and the Company's French and foreign affiliates within the meaning of Article L. 255-180 of French Commercial Code (*Code de Commerce*), which in addition come within the Company's consolidation perimeter, and are Members of the savings plan of the Vivendi group or a voluntary employee pension plan, upon which you are called to vote. Such amount shall be applied against the 1 billion euros aggregate global limit set forth in the seventh resolution.

This capital increase is being submitted for your approval pursuant to the provisions of Articles L. 225-129-6 of French Commercial Code (*Code de Commerce*) and L. 443-5 of French Labor Code.

Your Management Board proposes that, on the basis of its Report, it be empowered for a period of 26 months to decide one or several capital increases, and, to cancel your preferential subscription rights. If needed, the Management Board shall determine the final conditions of issue in respect of this operation.

Your Management Board shall be responsible for preparing a Report in accordance with Articles 154 and 155 of the law of March 23, 1967. Our responsibility is to express an opinion regarding the fair presentation of the figures drawn from the accounts, the proposal to cancel preferential subscription rights and certain other information concerning the issue contained in this Report.

We have conducted our work in accordance with French professional standards. These standards require that we perform the necessary procedures to verify the content of the Management Board's Report relating to this operation and the methods used for determining the issue price.

Subject to a subsequent examination of the conditions of the capital increases that would be decided, we have nothing to report on the methods used for determining the share price provided in the Management Board's Report.

As the issue price has not yet been determined, we do not express a conclusion on the final conditions for the increases in capital, and, consequently, on the proposed cancellation of preferential subscription rights.

In accordance with Article 155-2 of the law of March 23, 1967, we will issue a further Report, if needed, when such authorization has been used by your Management Board.

Paris-La Défense and Neuilly-sur-Seine, March 7, 2007

The Statutory Auditors

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## Statutory Auditors' Report on the Capital Reduction through the Cancellation of Shares

To the shareholders,

As Statutory Auditors of Vivendi and in accordance with the assignment entrusted to us under Article L. 225-209, al. 7 of the French Commercial Code concerning the capital reduction through the cancellation of shares, we hereby present our Report on the causes and terms of the proposed capital reduction.

We conducted our work in accordance with the auditing standards generally accepted in France. Those standards require that we plan and perform our work to determine whether the causes and terms of the capital reduction are appropriate.

This operation is part of the repurchase by Vivendi of up to 10% of its own share capital, in accordance with the conditions stipulated in

Article L. 225-209 of the French Commercial Code. The share repurchase has been submitted to your Shareholders' Meeting for approval in the sixth resolution, and would be granted for a period of 18-month period.

Your Management Board has requested that you grant it the power, for a 26-month period, in connection with your Company's authorization to repurchase its own shares, to cancel the treasury shares repurchased within the limit of 10% of the Company's share capital per 24-month period.

We have no matters to report regarding the causes and terms of the proposed capital reduction, which may only be performed if you approve the repurchase by your Company of your own shares.

Paris-La Défense and Neuilly-sur-Seine, March 7, 2007

The Statutory Auditors

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## 12 Additional Report of the Management Board on the 2007 Share Capital Increase Reserved for Employees and Retired Employees of the Company and Companies in the Group Participating in the Group's Savings Plan

March 6, 2007,

At the Combined Shareholders' Meeting held on April 28, 2005, you authorized your Management Board to increase the company's share capital, on or more occasions, within a 26-month period, reserved to the employees and retired employees of the company and companies in the group participating in the Vivendi Group's Savings Plan (eleventh resolution).

The Management Board decided to exercise this authorization on February 27, 2007, by issuing 2,500,000 new shares with a par nominal value of €5.50. These shares could only be subscribed through the mutual fund "Groupe Vivendi Relais 5" set up for the purpose of this share capital increase, under the following terms and conditions:

- the subscription date is set on July 18, 2007;
- the share capital increase will be equivalent to the number of shares subscribed by the mutual fund "Groupe Vivendi Relais 5";
- the subscription price has been set on March 6, 2007, pursuant to the schedule in connection with the approval application to the AMF of the "Relais 5" fund, based on average of the opening price of the Company's shares over the 20 trading sessions preceding March 6, 2007, with a 20% discount, in accordance with legal provisions and terms adopted by the Shareholders' Meeting. It is set at €24.60 representing a €5.50 nominal value and a €19.10 issue premium.

The shares subscribed by the mutual fund "Groupe Vivendi Relais 5" will be fully paid up at the subscription, recorded in a nominative account and bear rights as at January 1, 2007.

In accordance with the resolution of the Extraordinary Shareholders' Meeting, the number of shares to be proposed to the subscription is lower than 1.5% of the share capital.

The consequence of a maximum issue of 2,500,000 new shares for a shareholder holding 1% of the share capital of Vivendi and not taking part in the share capital increase would be as follows:

	Stake of the shareholder in %
Before issue	1%
After issue of a maximum number of 2,500,000 new shares	0.998%

In addition, the consequences of this issue on the equity, attributable to the equity holders of the parent, as at December 31, 2006, for a shareholder holding one Vivendi share and not taking part in the share capital increase would be as follows:

	Equity, attributable to the equity holders of the parent as at December 31, 2006
Before issue	€17.21
After issue of a maximum number of 2,500,000 new shares	€17.23

Considering the issue price and the number, the share capital increase would not have a significant impact on the share price.

The Management Board

## 13 Statutory Auditors' Additional Report on the Capital Increase with Cancellation of Preferential Subscription Rights

To the shareholders,

As Statutory Auditors of your Company and in accordance with Article 155-2 of the Decree of 23 March 1967, we hereby present an additional Report to our Report of March 17, 2005 on the share issue with cancellation of preferential subscription rights decided by you at your Combined Ordinary and Extraordinary Shareholders' Meeting of April 28, 2005, in accordance with the provisions of Article L. 225-129-6 of the French Commercial Code and Article L. 443.5 of the French Labour Code.

During this meeting you granted your Management Board the authorization to arrange and implement the terms and conditions of this operation.

Your Management Board thus decided on February 27, 2007, to increase share capital to a maximum of €13,750,000 by issuing 2,500,000 new shares with a par value of €5.5. The shares could only be subscribed by the mutual trust fund "Groupe Vivendi Relais 5" set up for the purpose of the operation, under the following terms and conditions:

- subscription date: July 18, 2007;
- the increase in share capital will be equivalent to the total number of shares subscribed by the mutual fund "Groupe Vivendi Relais 5";
- the subscription price has been set on March 6, 2007, in conformity with the Management Board decision of February 27, 2007, based upon the average of the twenty open quotes preceding March 6, 2007, with a 20% rebate. The subscription price has thus been set at €24.60 per share, comprising €5.5 par value and €19.10 issue premium.

It is the responsibility of your Management Board to establish a Report in accordance with Articles 155-1 and 155-2 of the French Commercial Code related to the Decree dated March 23, 1967. It is our responsibility to express an opinion on the fair information derived from the financial statements, the proposal of cancellation of preferential subscription

right, and on certain information with regard to the issuance as described in this Report.

We conducted our work in accordance with the auditing standards generally accepted in France. Those standards require that we perform the necessary procedures to verify:

- the fair presentation of the information derived from the annual statutory and consolidated financial statements approved by the Management Board. We audited those financial statements in accordance with the auditing standards generally accepted in France;
- the conformity of the terms and conditions of the operation arranged under the delegated authorization granted by the Shareholders' Meeting and the fair presentation of the information contained in the Management Board's additional Report with regard to the choice of components used to calculate and set the issue price.

We have no comments to make on:

- the fair presentation of the figures derived from the Company's financial statements in the Management Board's additional Report dated March 6, 2007, that have not been approved yet by the Shareholders' Meeting;
- the conformity of the terms and conditions of the operation arranged under the authorization of the Extraordinary Shareholders' Meeting of April 28, 2005 and the information given therein;
- the proposal to cancel the preferential subscription right, which you have approved, the choice of components used to calculate and set the issue price;
- the presentation of the impact of the issue on shareholders' position (and your Company's securities) in relation to shareholders' equity and share price.

Paris-La Défense and Neuilly-sur-Seine, March 7, 2007

The Statutory Auditors

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