VIVENDI UNIVERSAL
Form 20-F
June 29, 2005

As filed with the Securities and Exchange Commission on June 29, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2004

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 001-16301
VIVENDI UNIVERSAL, S.A.
(Exact name of Registrant as specified in its charter)

N/A	**Republic of France**
(Translation of Registrant s name into English)	*(Jurisdiction of incorporation or organization)*

42, avenue de Friedland
75380 Paris Cedex 08
France
(Address of principal executive offices)
Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Ordinary Shares, nominal value 5.50 per share	New York Stock Exchange*
American Depositary Shares (as evidenced by American Depositary Receipts), each representing one share, nominal value 5.50 per share	New York Stock Exchange

* Listed, not for trading or quotation purposes, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

American Depositary Shares	63,224,034
Ordinary Shares, nominal value 5.50 per share	1,072,624,363

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 o Item 18 þ

Table of Contents

PRESENTATION OF INFORMATION

This Annual Report on Form 20-F (referred to herein as this annual report or this document) has been filed with the US Securities and Exchange Commission (SEC).

Vivendi Universal refers to Vivendi Universal, S.A., a *société anonyme,* a form of stock corporation, organized under the laws of the Republic of France, and its direct and indirect subsidiaries. Vivendi refers to Vivendi, S.A., the predecessor company to Vivendi Universal. Unless the context requires otherwise, references to the Vivendi Universal group , we, us and our mean Vivendi Universal, S.A. and its subsidiaries or its predecessor company and its subsidiaries. Vivendi Universal Entertainment and VUE refer to Vivendi Universal Entertainment LLLP, a limited liability limited partnership organized under the laws of the State of Delaware. Vivendi Environnement changed its name pursuant to a shareholder resolution adopted on April 30, 2003 to Veolia Environnement (VE). Shares refers to the ordinary shares of Vivendi Universal. The principal trading market for the ordinary shares of Vivendi Universal is Euronext Paris S.A., or the Paris Bourse. ADSs or ADRs refers to the American Depositary Shares or Receipts, respectively, of Vivendi Universal which are listed on the New York Stock Exchange, or NYSE, each of which represents the right to receive one Vivendi Universal ordinary share.

This annual report includes Vivendi Universal s Consolidated Financial Statements for the years ended December 31, 2004, 2003 and 2002 and as at December 31, 2004, 2003 and 2002. Vivendi Universal s Consolidated Financial Statements, including the notes thereto, are included in Item 18 Financial Statements and have been prepared in accordance with generally accepted accounting principles in France, which we refer to in this annual report as French GAAP or GAAP . Unless otherwise noted, the financial information contained in this annual report is presented in accordance with French GAAP. French GAAP is based on requirements set forth in French law and in European regulations and differs significantly from generally accepted accounting principles in the United States, which we refer to in this annual report as US GAAP . See Item 18 Financial Statements Note 32 for a description of the significant differences between French GAAP and US GAAP and a reconciliation of net income, shareholders equity and other measures from French GAAP to US GAAP.

Various amounts in this document are shown in millions for presentation purposes. Such amounts have been rounded and, accordingly, may not total. Rounding differences may also exist for percentages.

CURRENCY TRANSLATION

Share capital in Vivendi Universal is represented by ordinary shares with a nominal value of 5.50 per share. Our shares are denominated in euros. Because we intend to pay cash dividends denominated in euros, exchange rate fluctuations will affect the US dollar amounts that shareholders will receive on conversion of dividends from euros to dollars.

We publish our Consolidated Financial Statements in euros. Unless noted otherwise, all amounts in this annual report are expressed in euros. The currency of the United States will be referred to as US dollars, US$, $ or dollars . For historical exchange rate information, refer to Item 3 Key Information Exchange Rate Information . For a discussion of the impact of foreign currency fluctuations on Vivendi Universal s financial condition and results of operations, see Item 5 Operating and Financial Review and Prospects .

FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, or Exchange Act. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to divestitures, acquisitions, working capital and capital requirements, available liquidity, maturity of debt obligations, business trends and other information that is not historical information. Forward-looking

statements can be identified by context. For example, when we use words such as estimate(s), aim(s), expect(s), feel(s), will, may, believe(s), anticipate(s) and similar expressions in this document, we are intending to identify those statements as forward-looking. All forward-looking statements, including, without limitation, the launching or prospective development of new business initiatives and products, anticipated music or motion picture releases, and anticipated cost savings from asset disposals and synergies are based upon our current expectations and various assumptions. Our expectations, beliefs, assumptions and projections are expressed in good faith, and we believe there is a reasonable basis for them. There can be no assurance, however, that management s expectations, beliefs and projections will be achieved. There are a number of risks and uncertainties that could cause our actual results to differ materially from our forward-looking statements. These include, among other things:

our ability to retain or obtain required licenses, permits, approvals and consents;

legal and regulatory requirements, and the outcome of legal proceedings and pending investigations;

the lack of commercial success of our product or services, particularly in the television, motion pictures and music markets;

challenges to, loss, infringement, or inability to enforce intellectual property rights;

lost sales due to piracy, particularly in the motion picture and music business;

downturn in the markets in which we operate, particularly the music market;

increased technical and commercial competition, particularly in the television market;

our ability to develop new technologies or introduce new products and services;

changes in our corporate rating or rating of Vivendi Universal s debt;

the availability and terms of financing;

changes in business strategy or development plans;

political instability in the jurisdictions in which we operate;

fluctuations in interest rates or foreign currency exchange rates and currency devaluations;

inflation and instability in the financial markets;

restrictions on the repatriation of capital;

natural disasters; and

war or acts of terrorism.

The foregoing list is not exhaustive; other factors may cause actual results to differ materially from the forward-looking statements. We urge you to review and consider carefully the various disclosures we make concerning the factors that may affect our business, including the disclosures made in Item 3 Key Information Risk Factors, Item 5 Operating and Financial Review and Prospects, and Item 11 Quantitative and Qualitative Disclosures About Market Risk . All forward-looking statements attributable to us or persons acting on our behalf speak only as of

the date they are made and are expressly qualified in their entirety by the cautionary statements. Vivendi Universal does not undertake to update any forward-looking statement.

TABLE OF CONTENTS

		Page
Item 1:	Identity of Directors, Senior Management and Advisers	1
Item 2:	Offer Statistics and Expected Timetable	1
Item 3:	Key Information	1
Item 4:	Information on the Company	7
Item 5:	Operating and Financial Review and Prospects	51
Item 6:	Directors, Senior Management and Employees	106
Item 7:	Major Shareholders and Related Party Transactions	123
Item 8:	Financial Information	123
Item 9:	The Offer and Listing	127
Item 10:	Additional Information	128
Item 11:	Quantitative and Qualitative Disclosures about Market Risk	141
Item 12:	Description of Securities Other than Equity Securities	143
Item 13:	Default, Dividend Arrearages and Delinquencies	143
Item 14:	Material Modifications to the Rights of Security Holders	143
Item 15:	Controls and Procedures	144
Item 16A:	Audit Committee Financial Expert	144
Item 16B:	Code of Ethics	144
Item 16C:	Principal Accountant Fees and Services	144
Item 16D:	Exemptions from the Listing Standards for Audit Committees	146
Item 16E:	Purchases of Equity Securities by the Issuer and Affiliated Purchasers	146
Item 17:	Financial Statements	147
Item 18:	Financial Statements	147
Item 19:	Exhibits	147

EX-1.1: BY LAWS
EX-8.1: LIST OF SUBSIDIARIES OF VIVENDI UNIVERSAL SA
EX-12.1: CERTIFICATION OF CHIEF EXECUTIVE OFFICER
EX-12.2: CERTIFICATION OF CHIEF FINANCIAL OFFICER
EX-13.1: CERTIFICATION OF CHIEF EXECUTIVE OFFICER
EX-13.2: CERTIFICATION OF CHIEF FINANCIAL OFFICER
EX-14.1: CONSENT
EX-15.1: IFRS 2004 TRANSITION

Table of Contents

PART I

Item 1: ***Identity of Directors, Senior Management and Advisers***

Not applicable.

Item 2: ***Offer Statistics and Expected Timetable***

Not applicable.

Item 3: ***Key Information***

Selected Financial Data

The selected consolidated financial data at year end and for each of the years in the three-year period ended December 31, 2004 have been derived from our Consolidated Financial Statements and the related notes appearing elsewhere in this annual report. The selected consolidated financial data at year end and for each of the years in the two-year period ended December 31, 2001 have been derived from our Consolidated Financial Statements not included in this annual report. You should read this section together with Item 5 Operating and Financial Review and Prospects and our Consolidated Financial Statements included in this annual report.

Our Consolidated Financial Statements have been prepared in accordance with French GAAP, which differs in certain significant respects from US GAAP. The principal differences between French GAAP and US GAAP, as they relate to us, are described in Item 18 Financial Statements Note 32 . For a discussion of significant transactions and accounting changes that affect the comparability of our Consolidated Financial Statements and the financial data presented below, refer to Item 4 Information on the Company Main Developments for 2004, 2003 and 2002 and the Notes to our Consolidated Financial Statements.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL DATA

	Year Ended December 31,						
	2004 as published	2003 as published	2002 with VE accounted for using the equity method(a)	2002 as published	2001 as published	2000 restated(b)	2000 as published
	(In millions of euros)						
STATEMENT OF INCOME							
Amounts in accordance with French GAAP							
Revenues	21,428	25,482	28,112	58,150	57,360	41,580	41,798
Operating income	3,476	3,309	1,877	3,788	3,795	1,823	2,571
Income (loss) before gain (loss) on businesses sold, net of provisions, income tax, equity affiliates, goodwill amortization and minority interests	2,774	2,102	(2,217)	(954)	1,867	1,061	1,938
Gain (loss) on businesses sold, net of provisions/exceptional items(b)	(140)	602	1,125	1,049	2,365	3,812	2,947
Goodwill amortization and impairment losses	(669)	(2,912)	(19,434)	(19,719)	(15,203)	(634)	(634)
Minority interests	(1,030)	(1,212)	(574)	(844)	(594)	(625)	(625)
Net income (loss)	754	(1,143)	(23,301)	(23,301)	(13,597)	2,299	2,299
Earnings (loss) per share basic	0.70	(1.07)	(21.43)	(21.43)	(13.53)	3.63	3.63
Earnings (loss) per share diluted	0.63	(1.07)	(21.43)	(21.43)	(13.53)	3.41	3.41
Amounts in accordance with US GAAP							
Revenues	21,254	25,321		40,062	51,733	34,276	34,276
Net income (loss)	2,921	(1,358)		(43,857)	(1,172)	1,908	1,908
Earnings (loss) per share basic	2.73	(1.27)		(40.35)	(1.19)	3.24	3.24
Earnings (loss) per share diluted	2.58	(1.27)		(40.35)	(1.19)	3.03	3.03
Dividend per share	0.0	0.0	1.0	1.0	1.0	1.0	1.0
Average share outstanding (millions)(c)	1,072.1	1,071.7	1,087.4	1,087.4	1,004.8	633.8	633.8
	1,072.6	1,071.5	1,068.6	1,068.6	1,085.8	1,080.8	1,080.8

Shares outstanding at year-end (millions)							
STATEMENT OF FINANCIAL POSITION							
Amounts in accordance with French GAAP							
Intangible assets, net (including goodwill, net)	23,195	29,567	34,768	34,768	60,919	67,313	67,313
Shareholders equity	13,621	11,923	14,020	14,020	36,748	56,675	56,675
Minority interests	2,959	4,929	5,497	5,497	10,208	9,787	9,787
Equity and quasi-equity(d)	17,580	17,852	20,517	20,517	46,956	66,462	66,462
Total assets	43,288	54,920	69,333	69,333	139,002	150,738	150,738
Financial net debt(e)	3,135	11,565	12,337	12,337	37,055	35,535	35,535
Amounts in accordance with US GAAP							
Shareholders equity	14,483	9,804		11,655	54,268	64,729	64,729
Total assets	44,061	54,696		69,790	151,139	151,818	151,818
STATEMENT OF CASH FLOWS							
Amounts in accordance with French GAAP							
Net cash provided by operating activities	4,798	3,886	2,795	4,670	4,500	2,514	2,514
Net cash provided by (used for) investing activities	2,986	(3,900)	4,109	405	4,340	(1,481)	(1,481)
Net cash (used for) provided by financing activities	(7,517)	(4,313)	(2,461)	(3,792)	(7,469)	(631)	(631)
Capital expenditures and purchases of investments	1,947	5,974	3,729	8,926	13,709	38,343	38,343

(a) This condensed French GAAP financial data presents Vivendi Universal s consolidation scope as of December 31, 2002. VE is accounted for using the equity method from January 1, 2002, instead of December 31, 2002.

(b) Restated to reflect changes in accounting policies and financial statement presentation adopted in 2001. As permitted by the *Comité de la Réglementation Comptable* (CRC) Rule 99.02 (§41), Vivendi Universal elected to present its Consolidated Statement of Income in a format that classifies income and expenses by function rather than by category, which was the format previously presented, and the definition of exceptional items was restricted to gain (loss) on businesses sold, net of provisions. Prior to 2001, Vivendi Universal adopted a broader definition of exceptional items, including restructuring costs, plant dismantling and closure costs and the effect of guarantees given when exercised, among others. These items are now included as a component of operating income or financing expense when they concern the impairment of financial assets.

(c) Excluding treasury shares recorded as a reduction of shareholders equity.

Table of Contents

(d) Including total shareholders equity, minority interests and other equity (notes mandatorily redeemable in new shares of Vivendi Universal), which are separate lines in the Consolidated Statement of Financial Position.

(e) Financial Net Debt, a non-GAAP measure, is defined as gross financial debt (sum of long-term debt, bank overdrafts and other short-term borrowings which are separate lines in the Consolidated Statement of Financial Position) less cash and cash equivalents, as presented in the Consolidated Statement of Financial Position. Until 2001, Vivendi Universal used a notion corresponding to Financial Net Debt less other marketable securities, short-term loans receivable, and net interest-bearing long-term loans receivable.

Exchange Rate Information

The following table sets forth, for the periods indicated, the end-of-period average, high and low noon buying rates in the City of New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise indicated, such rates are set forth as US dollars per euro. On June 23, 2005, the noon buying rate was 1.00 = $1.2066.

Month Ended	Period End	Average Rate(1)	High	Low
May 31, 2005	1.23	1.27	1.29	1.23
April 30, 2005	1.29	1.29	1.31	1.28
March 31, 2005	1.30	1.32	1.35	1.29
February 28, 2005	1.33	1.30	1.33	1.28
January 31, 2005	1.30	1.31	1.35	1.30
December 31, 2004	1.36	1.34	1.36	1.32

Year Ended	Period End	Average Rate(2)	High	Low
December 31, 2004	1.36	1.24	1.30	1.18
December 31, 2003	1.26	1.13	1.26	1.04
December 31, 2002	1.05	0.95	1.05	0.86
December 31, 2001	0.89	0.89	0.95	0.84
December 31, 2000	0.94	0.92	1.03	0.83

(1) The average of the exchange rates for all days during the applicable month.

(2) The average of the exchange rates on the last day of each month during the applicable year.

Dividends

The table below sets forth the total dividends paid per Vivendi Universal ordinary share and Vivendi Universal ADSs from 2000 through 2004. The amounts shown exclude the *avoir fiscal,* a French tax credit which was abolished as of January 1, 2005 (more information is provided under Item 10 Additional Information Taxation French Taxation of US Holders of Our Ordinary Shares or ADSs). We have rounded dividend amounts to the nearest cent.

	Dividend per Ordinary Share	Dividend per ADS

	(euros)	**(dollars)**(1)
2000(2)	1.00	0.89
2001	1.00	0.89
2002	1.00	0.91
2003		
2004(3)		

(1) Translated solely for convenience into US dollars at the noon buying rates on the respective dividend payment dates, or on the following business day if such date was not a business day in the US. The noon buying rate may differ from the rate that may be used by the depositary to convert euros to US dollars for the purpose of making payments to holders of ADSs.

(2) Prior to December 8, 2000, the date of the completion of the Vivendi S.A., The Seagram Company Ltd. and Canal Plus, S.A. merger transactions (described below under Item 4 Information on the Company History and Development of the Company), each

3

Vivendi ADS represented one-fifth of a Vivendi ordinary share, while each Vivendi Universal ADS now represents one Vivendi Universal ordinary share.

(3) The payment of a dividend of 0.60 per share for fiscal year 2004 was approved at the annual meeting of the shareholders held on April 28, 2005. This dividend was paid on May 4, 2005.

Risk Factors

You should carefully review the risk factors described below in addition to the other information presented in this document.

We are a party to numerous legal proceedings and investigations that could have a negative effect on us.

We are a party to lawsuits and investigations in France and in the US that could have a material adverse effect on us. In France, the *Autorité des Marchés Financiers* (AMF, formerly the *Commission des Opérations de Bourse*) commenced in July 2002, May 2004 and January 2005, separate investigations regarding, respectively, certain of our financial statements, certain of our share repurchases and movements in our share price at the time of the issuance of notes mandatorily redeemable for our shares in November 2002. We are also being investigated by the financial department of the *Parquet de Paris* (Office of the Public Prosecutor) regarding the publication of false or misleading information regarding our financial situation or prospects, as well as the publication of untrue or inaccurate financial statements (for financial years 2000 and 2001). In the US, we are a party to a number of suits and investigations concerning allegations challenging the accuracy of our financial statements and certain public statements made by us describing our financial condition from late 2000 through 2002. We are also involved in a dispute with the US Internal Revenue Service with respect to the tax treatment reported by the Seagram Company Limited with respect to the redemption of DuPont shares held by Seagram. In our opinion, the plaintiffs claims in the legal proceedings lack merit, and we intend to continue to defend against such claims vigorously. However, the outcome of any of these legal proceedings or investigations or any additional proceedings or investigations that may be initiated in the future could have a material adverse effect on us. For a more complete discussion of our legal proceedings and investigations, see Item 8 Financial Information Litigation .

We have a number of contingent liabilities that could cause us to make substantial payments.

We have a number of significant contingent liabilities. These liabilities are generally described in Item 18 Financial Statements Note 28 . If we were forced to make a payment due to one or more of these contingent liabilities, it could have an adverse effect on our financial condition and our ability to make payments under our debt instruments.

Unfavorable currency exchange rate fluctuations could adversely affect our results of operations.

A significant portion of our assets, liabilities, revenues and costs are denominated in currencies other than euros. To prepare our Consolidated Financial Statements, we must translate those assets, liabilities, revenues and expenses 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 our Consolidated Financial Statements, even if their value has not changed in their original currency. These translations could result in significant changes to our results of operations from period to period. In addition, exchange rate fluctuations could cause our expenses to increase as a percentage of net sales, affecting our profitability and cash flows.

Our business operations in some countries are subject to additional risks.

We conduct business in markets around the world. The risks associated with conducting business internationally, and in particular in some countries outside Western Europe, the US and Canada, can include, among other risks:

fluctuations in currency exchange rates (particularly the US dollar-euro exchange rate) and currency devaluations;

restrictions on the repatriation of capital;

differences and unexpected changes in regulatory environments;

varying tax regimes which could adversely affect our results of operations or cash flows;

exposure to different legal standards and enforcement mechanisms and the associated cost of compliance therewith; and

tariffs, duties, export controls and other trade barriers.

We may not be able to insure or hedge against these risks and we may not be able to ensure compliance with all of the applicable regulations without incurring additional costs. Furthermore, financing may not be available in countries with less than investment-grade sovereign credit ratings. As a result, it may be difficult to create or maintain profit-making operations in developing markets.

We may suffer reduced profits or losses as a result of intense competition.

The majority of the industries in which we operate are highly competitive and require substantial human and capital resources. From time to time, our competitors may reduce their prices in an effort to expand market share, introduce new technologies or services, or improve the quality of their services. We may lose business if we are unable to match the prices, technologies or service quality offered by our competitors. In addition, television programs produced and distributed by us face intensified competition due to the expansion of digital cable and satellite broadcasting, which increases the number of competing channels and programs offered. Any of these competitive effects could have a material adverse effect on our business and financial performance.

We may not be successful in developing new technologies or introducing new products and services.

The industries in which we operate are subject to rapid and significant changes in technology and are characterized by the frequent introduction of new products and services. The pursuit of necessary technological advances may require substantial investments of time and resources, and we may not succeed in developing marketable technologies. Furthermore, we may not be able to identify and develop new product and service opportunities in a timely manner. Finally, technological advances may render our existing products obsolete, forcing us to write off investments and make substantial new investments.

We may not be able to retain or obtain required licenses, permits, approvals and consents.

We need to retain or obtain a variety of permits and approvals from regulatory authorities to conduct and expand our businesses. The process for obtaining or renewing these permits and approvals is often lengthy, complex, unpredictable and costly. If we are unable to retain or obtain the permits and approvals we need to conduct and expand our businesses at a reasonable cost and in a timely manner in particular, licenses to provide telecommunications services and broadcasting licenses our ability to achieve our strategic objectives could be impaired. In addition, any adverse changes in the regulatory environment in which our businesses operate could impose prohibitive costs on us and limit our revenue.

We may have difficulty enforcing our intellectual property rights.

The decreasing cost of electronic and computer equipment and related technology has made it easier to create unauthorized versions of audio and audiovisual products such as compact discs, videotapes and DVDs. Similarly, advances in Internet technology have increasingly made it possible for computer users to share audio and audiovisual information without the permission of the copyright owners and without paying royalties to holders of applicable intellectual property or other rights. A substantial portion of our revenue comes from the sale of audio and audiovisual products that are potentially subject to unauthorized copying and widespread, uncompensated dissemination on the Internet. If we fail to obtain appropriate relief or enforcement through the judicial process, or if we fail to develop effective means of protecting our entertainment-related intellectual property, our results of operations and financial position may suffer.

Our motion picture businesses may lose sales due to unauthorized copies and piracy.

Technological advances and the conversion of motion pictures into digital formats have made it easier to create, transmit and share high-quality unauthorized copies of motion pictures in theatrical release, on videotapes and DVDs, from pay-per-view through unauthorized set-top boxes and other devices and through unlicensed broadcasts on free TV and the Internet. Unauthorized copies and piracy of these products compete against legitimate sales of these products. A failure to obtain appropriate relief from unauthorized copying through the judicial process and legislation and an inability to curtail rampant piracy may have an adverse effect on our motion picture business.

Universal Music Group has been losing, and is likely to continue to lose, sales due to unauthorized copies and piracy.

Technological advances and the conversion of music into digital formats have made it easy to create, transmit and share high-quality unauthorized copies of music through pressed disc and CD-R piracy, home CD burning and the downloading of music from the Internet. Unauthorized copies and piracy both decrease the volume of legitimate sales and put pressure on the price at which legitimate sales can be made and have had, and we believe will continue to have, an adverse effect on Universal Music Group (UMG).

The recorded music market has been declining and may continue to decline.

Economic recession, CD-R piracy and illegal downloading of music from the Internet and growing competition for consumer discretionary spending and shelf space have all contributed to a declining recorded music market. Additionally, the period of growth in recorded music sales driven by the introduction and penetration of the CD format has ended and no profitable new format has emerged to take its place. Worldwide sales in the recorded music market have declined since 1999, with no assurances against continued decline. A declining recorded music market is likely to lead to the loss of revenue and operating income at UMG.

Our content assets in television, motion pictures and music may not be commercially successful.

A significant amount of our revenue comes from the production and distribution of content offerings such as feature films, television series and audio recordings. The success of content offerings depends primarily upon their acceptance by the public, which is difficult to predict. The market for these products is highly competitive and competing products are often released into the marketplace at the same time. The commercial success of a motion picture, television series or audio recording depends on several variable factors, including the quality and acceptance of competing offerings released into the marketplace at or near the same time and the availability of alternative forms of entertainment and leisure time activities. Our motion picture business is particularly dependent on the success of a limited number of releases, and the commercial failure of just a few of these motion pictures can have a significant adverse impact on results. Our failure to garner broad consumer appeal could materially harm our business, financial condition and prospects for growth.

Canal+ Group is subject to French and other European content and expenditure provisions that restrict its ability to conduct its business.

Canal+ Group is regulated by various statutes, regulations and orders. In particular, under its French broadcast authorization, the premium channel Canal+ is subject to, among others, the following regulations: (i) no more than 49% of its capital stock may be held by a single shareholder and (ii) 60% of the films broadcast by the channel must be European films and 40% must be French-language films. French regulations, as well as formal commitments to the French motion picture industry, also stipulate financing levels for European and French content. These regulations limit Canal+ s ability to choose content and could have an adverse effect on its operations and results.

Table of Contents

Item 4: *Information on the Company*

History and Development of the Company

The commercial name of our company is Vivendi Universal, and the legal name of our company is Vivendi Universal, S.A. Vivendi Universal is a *société anonyme,* a form of stock corporation, initially organized under the name Sofiée, S.A. on December 11, 1987, for a term of 99 years in accordance with the French Commercial Code. Our registered office is located at 42, avenue de Friedland, 75380 Paris Cedex 08, France, and the telephone number of our registered office is +33 1 71 71 1000. Our agent in the US is Vivendi Universal US Holding Co., located at 800 Third Avenue, 5th Floor, New York, New York 10022. All matters addressed to our agent should be to the attention of the Senior Vice President, Deputy General Counsel.

We were formed through the merger in December 2000 of Vivendi S.A., The Seagram Company Ltd. and Canal Plus, S.A., with Vivendi Universal continuing as the surviving parent entity (Merger Transactions). From our origins as a water company, we expanded our business rapidly in the 1990s and transformed ourselves into a media and telecommunications company with the December 2000 merger. Following the appointment of new management in July 2002, we commenced a significant asset divestiture program aimed at reducing the Vivendi Universal group s indebtedness, which we have almost completed. See Our Strategy and Main Developments for 2004, 2003 and 2002 below.

Our Strategy

Our focus is to grow our media and telecommunications businesses.

The media and telecommunications sectors grew twice as fast as the rest of the economy during the past thirty years, and we believe these sectors continue to have high growth potential. The penetration rate for media and telecommunications remains low in many geographic markets, and we expect the increase in the number of platforms and distribution formats, combined with the diversification of applications for the telecommunications networks, to contribute to organic growth across all of our businesses in all markets.

The revolution in digital distribution should create new opportunities where the media and telecommunications sectors intersect, which we expect will generate organic growth. Although our activities span across different markets, our operations complement each other in many ways. New technologies (including the increase in bandwidth, the rapid expansion and development of fixed and mobile networks, and the improvement of man-machine interfaces, screens and batteries) increase opportunities for our media and telecommunications businesses to bolster their offerings. Our businesses share and leverage key know-how, such as the digitization of content, subscription management, intellectual property management and research and development capacity.

We expect our businesses to capitalize on the anticipated growth opportunities in the media and telecommunications sectors:

Platforms: We have already implemented or have begun to develop the platforms on which we expect media content will be distributed in the future. The Canal+ Group currently broadcasts content across terrestrial, cable, satellite, ADSL, Digital Terrestrial Television (DTT) and UMTS (3G) platforms. UMG distributes content on CDs, DVDs, portable digital music players, other digital platforms and mobile telephony. Vivendi Universal Games (VU Games) develops products for various formats: CD-ROM, Internet, consoles and handheld devices.

Networks: We believe that quality content will drive the future success of telecommunications networks. We expect that growth of UMTS mobile telephony will rely on the availability of games, music, Internet, television and movie content. Similarly, we expect growth in fixed telephony and ADSL to be driven by the availability of music, television and video on demand.

Our ability to grow our principal businesses will be further strengthened by the substantial completion of our reorganization in 2004. Our reorganization effort resulted in the divestiture of a total of 24.6 billion worth of assets, and new investments totaling 24.1 billion to increase our stake in SFR Cegetel Group and Maroc Telecom and acquire a 20% interest in NBC, to create NBC Universal (NBCU).

Table of Contents

In 2004, we significantly improved our operating results and the cash flows generated by our businesses, as a result of the turnaround at Canal+ Group and UMG, the ongoing restructuring process of VU Games and the continued growth at SFR Cegetel Group and Maroc Telecom. We reduced our financial net debt to 3.1 billion as at the end of 2004 (significantly less than our 5 billion target), and regained our Investment Grade status in 2004. Our objectives are to focus on completing the turnaround efforts at Canal+ Group, UMG and VU Games and to strengthen each of our businesses.

Main Developments for 2004, 2003 and 2002

Over the last three years, the Vivendi Universal group has evolved considerably, by divesting almost 24.6 billion[(1)] in assets and investing approximately 24.1 billion[(2)] (including the acquisition of an additional 16% stake in Maroc Telecom in January 2005). The Vivendi Universal group s revenues were divided by 2.7, operating income remained almost stable and Financial Net Debt was divided by 11.8. Following this important reorganization, Vivendi Universal emerged as a major player in the Media and Telecommunications industries. In 2004, Vivendi Universal consolidated its position in its strategic businesses.

The divestitures completed since January 2002 reduced Financial Net Debt by 19.7 billion, including 16.7 billion with respect to the divestitures plan approved by the board of directors on September 25, 2002. As a result, Vivendi Universal exceeded the initial goal of 12.0 billion of reduction in Financial Net Debt within 18 months and the target for reduction in Financial Net Debt was increased to 16.0 billion in 2003. In particular, the combination of Vivendi Universal Entertainment LLLP (VUE) and National Broadcasting Company, Inc. (NBC) resulted, from an accounting standpoint, in the divestiture of 80% of VUE and the acquisition of 20% of NBC. An enterprise value of approximately 10.2 billion was attributed to VUE in this transaction, corresponding to the related reduction in Financial Net Debt (5.3 billion) and to the value of the 20% stake received in NBC (4.9 billion).

Divestitures completed were as follows:

For more details, please refer to 2004 Developments , 2003 Developments , and 2002 Developments .

Date	Assets	Cash and cash equivalents	Financial gross debt	Impact on financial net debt
		(In millions of euros)		
June/December 2002	Veolia Environnement(a)	3,335		3,335
June/July 2002	Vivendi Universal Publishing (VUP) Professional and Health divisions	894	37	931
June 2002	Canal+ Digital	264		264
July 2002	Interest in Lagardère	44		44
August 2002	Vizzavi	143		143
December 2002	Houghton Mifflin	1,195	372	1,567
December 2002	Interest in EchoStar	1,037		1,037
December 2002	VUP publishing activities in Europe	1,121	17	1,138
December 2002	Sithe Energies Inc.	319		319
	Other divestitures (including divestiture fees)	219		219
	Sales of investments in 2002 (excluding Veolia Environnement)	8,571	426	8,997

June 2002	Vinci shares(b)	291		291
	Total 2002(c)	8,862	426	9,288

(1) Represents the impact on the Financial Net Debt (19.7 billion) and the value of assets received as a result of the divestitures (4.9 billion).

(2) Represents the impact on the Financial Net Debt (12.3 billion) and the value of the exchanged stake (11.8 billion).

8

Date	Assets	Cash and cash equivalents	Financial gross debt	Impact on financial net debt
		(In millions of euros)		
February 2003	Consumer Press division	200		200
February 2003	Canal+ Technologies	191		191
February/June 2003	InterActiveCorp warrants	600		600
April 2003	Telepiù(d)	457	374	831
May 2003	Fixed-line telecommunication in Hungary(e)	10	305	315
May 2003	Comareg	135		135
May 2003	Interest in Vodafone Egypt	43		43
June 2003	Interest in Sithe International	40		40
October 2003	Canal+ Nordic(f)	48		48
	Other divestitures (including divestiture fees)	(316)	239	(77)
	Sales of investments in 2003	1,408	918	2,326
June 2003	VUE real estate(b)	276		276
	Total 2003	1,684	918	2,602
February 2004	Atica & Scipione	31	10	41
March 2004	Sportfive	274		274
May 2004	Vivendi Universal Entertainment(g)	2,312	2,984	5,296
May 2004	Kencell	190		190
June 2004	Monaco Telecom	169		169
June/August 2004	flux-divertissement (flow entertainment) businesses at StudioExpand and Canal+ Benelux	49	(7)	42
June 2004	Egée and Cèdre Towers	84		84
August 2004	Interest in VIVA Media	47		47
October 2004	UCI Cinemas	170		170
December 2004	15% of Veolia Environnement	1,497		1,497
	Other divestitures (including divestiture fees)	(118)	46	(72)
	Sales of investments in 2004	4,705	3,033	7,738
September 2004	Canal+ Group headquarters(b)	108		108
	Total 2004	4,813	3,033	7,846
	Total divestitures completed between 2002 and 2004	15,359	4,377	19,736
	including the divestiture plan decided by the board of directors	12,387	4,340	16,727

(between July 2002 and December 2004)

(a) This transaction led to the deconsolidation of Veolia Environnement debt (15.7 billion) and the accounting of Veolia Environnement using the equity method as of December 31, 2002.

(b) Divestiture of assets not included in the line sales of investments of the consolidated statement of cash flows but part of the divestiture plan approved by the board of directors on September 25, 2002.

(c) Includes the impact of 6,279 million on Financial Net Debt for the second half of 2002, excluding Veolia Environnement.

(d) Includes a 13 million adjustment corresponding to the reimbursement of accounts payable net of debt.

(e) Excludes the promissory note of 10 million received by Vivendi Universal in August 2004.

(f) Excludes a residual amount of approximately 7 million of deferred purchase consideration received in the first quarter of 2004 and excludes inter-company loans.

(g) Corresponds to gross cash proceeds of 3,073 million, net of transaction fees and other (107 million), Matsushita Electronic, Inc. (MEI) proceeds (40 million) and cash closing adjustments (614 million). Please refer to Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Net cash provided by (used for) investing and financing activities . From an accounting standpoint, the combination of NBC and VUE was recorded as the divestiture of 80% of Vivendi Universal s stake in VUE, and the concurrent acquisition of a 20% stake in NBC.

In addition, total acquisitions signed between January 2002 and December 2004 amounted to 24.1 billion, representing an increase of 12.3 billion in Financial Net Debt and 11.8 billion of exchange of interests.

Table of Contents

Acquisitions completed were as follows:

For more details, please refer to 2004 Developments , 2003 Developments , and 2002 Developments .

Date	Assets	Cash and cash equivalents	Financial gross debt	Impact on financial net debt	Exchange of interests	Total impact
			(In millions of euros)			
January 2002	EchoStar shares	1,699		1,699		1,699
January 2002	Interest in Sportfive	122		122		122
	Other	179		179		179
	Purchases of investments in 2002	2,000		2,000		2,000
May 2002	Entertainment assets of InterActiveCorp.	1,757	2,507	4,264	6,871(a)	11,135
	Total 2002	3,757	2,507	6,264	6,871	13,135
January 2003	Additional 26% interest in SFR (ex Cegetel Group S.A.)	4,011		4,011		4,011
March 2003	Closing of contractual guarantees to former Rondor shareholders	207		207		207
December 2003	Telecom Développement	56	162	218		218
	Other	148	(24)	124		124
	Purchases of investments in 2003	4,422	138	4,560		4,560
January 2004	DreamWorks(b)	94		94		94
March 2004	Sportfive exercise of put option by Jean-Claude Darmon	30		30		30
May 2004	VUE exercise of call option on Barry Diller s stake (1.5%)	226		226		226
May 2004	VUE acquisition of 20% interest in NBC				4,929(c)	4,929
	Other	57	(6)	51		51
	Purchases of investments in 2004	407	(6)	401	4,929	5,330
	Total completed between 2002 and 2004	8,586	2,639	11,225	11,800	23,025
November 2004		1,100		1,100		1,100

Additional 16% interest in Maroc Telecom (estimation)(d)					
Total acquisitions signed between January 2002 and December 2004	9,686	2,639	12,325	11,800	24,125

(a) Contribution of 320.9 million USANi LLC shares held by Vivendi Universal and stakes of 5.44% and 1.5% in VUE issued to InterActiveCorp (IAC, formerly known as USA Interactive and prior thereto as USA Networks, Inc.) and to Barry Diller, respectively, and after deduction of IAC warrants received by Vivendi Universal.

(b) Includes the purchase of the music rights catalog as well as the advance on the film rights distribution agreement.

(c) From an accounting standpoint, the combination of NBC and VUE is recorded as the divestiture of 80% of Vivendi Universal s stake in VUE, and the concurrent acquisition of a 20% stake in NBC.

(d) Signed on November 18, 2004 and completed on January 4, 2005.

Subsequent Developments in 2005 Purchase of IAC s Equity Interests in VUE

On June 7, 2005, Vivendi Universal, NBCU and InterActiveCorp (IAC) unwound IAC s interests in VUE through the purchase by NBCU of IAC s common and preferred interests in VUE. The unwinding of IAC s interests was funded in part through (i) the sale of treasuries applied for the defeasance of the covenants of the VUE Class A preferred interests, (ii) the exchange of 56.6 million shares of IAC stock securing the put/call rights relating to the VUE Class B preferred interests and (iii) capital contributions of $160 million by Vivendi Universal, through its subsidiary Universal Studios Holding. As a result of the unwinding of IAC s interests, Vivendi Universal 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 Universal Parks and Resorts were eliminated. As part of the

Table of Contents

unwinding, Vivendi Universal and IAC also agreed to terminate their pending tax dispute. In addition, Vivendi Universal and GE agreed to defer by one year, to January 2007 and May 2010, respectively, the dates on which Vivendi Universal may first exercise its rights to monetize its equity interest in NBCU over time at fair market value, and on which GE may exercise its call right on Vivendi Universal s equity interest in NBCU. For more information on the formation of NBCU, please refer to Combination of VUE and NBC to form NBC Universal (NBC-Universal transaction) May 2004 .

2004 Developments

In 2004, Vivendi Universal achieved its main goals: the finalization of the strategic alliance between VUE and NBC to form NBCU (20% controlled and 18.5% owned by Vivendi Universal); the divestiture of 15% out of the 20.3% stake held in VE; the conclusion of an agreement with the Kingdom of Morocco in order to acquire an additional 16% interest in Maroc Telecom to increase Vivendi Universal s stake to 51%; and the admission of Vivendi Universal to the French Consolidated Global Profit Tax System, which should generate maximum tax savings of approximately 3.8 billion. The finalization of the divestiture program contributed to the reduction in Financial Net Debt, which totaled 3,135 million as of December 31, 2004. Given the current level of debt, associated with the decrease in financing expense following the debt rating upgrades (back to Investment Grade by the three rating agencies) and the redemption of the High Yield Notes, Vivendi Universal management views the financial flexibility of the Vivendi Universal group as fully restored (please refer to Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources).

In addition, the actions taken in 2004 reflect the priority given to the management of the Vivendi Universal group s businesses in order to reinforce its position among the main European players in Media and Telecommunications. In particular, Canal+ Group won exclusive rights to the French National Football League 1 for three seasons (2005-2008), signed an agreement for exclusive first broadcasts of all of the movies produced by Twentieth Century Fox and signed many agreements in order to reinforce its partnership with the French movie industry and to improve its supply of movies. UMG continued its restructuring efforts and its actions to fight against piracy and counterfeiting. A new management team was put in place in January 2004 at VU Games in order to set up an efficient international organization. SFR Cegetel launched France s first public 3G offer (UMTS) on June 16, 2004 and became the first operator to commercialize 3G telephone services to the general public in France at the beginning of November 2004. Lastly, Maroc Telecom continued, notably, to develop the penetration and use of mobile telecommunications in order to stimulate growth in the market in which it operates.

Combination of VUE and NBC to form NBC Universal (NBC-Universal transaction) May 2004

On October 8, 2003, Vivendi Universal and GE announced the signing of a definitive agreement[3] for the combination of the respective businesses of NBC and VUE. This transaction, which was completed on May 11, 2004, resulted, from an accounting standpoint, on the one hand, in the divestiture of 80% of Vivendi Universal s interest in VUE for an amount of 8,002 million (corresponding to gross cash proceeds of 3,073 million and value of interests received in NBC of 4,929 million, before Universal Studios Holding Corp. minority interests) and, on the other hand, in the concurrent acquisition of a 20% interest in NBC (for 4,929 million). The new company, called NBC Universal, is 80% owned and controlled by GE, with 18.5%

[3] The main shareholder agreements entered into with GE relating to the NBC-Universal transaction are available at http://finance.vivendiuniversal.com.

Table of Contents

owned and 20% controlled by Vivendi Universal (through its subsidiary, Universal Studios Holding Corp.) as presented in the following organizational chart:

* Before the closing of the NBC-Universal transaction, Vivendi Universal exercised the call option on Barry Diller s 1.5% stake in VUE for $275 million (226 million).

NBCU s assets mainly include: the NBC Television Network, Universal Pictures studios, television production studios (NBC Studios and Universal Television), a portfolio of cable networks, 14 NBC local stations, Spanish-language TV broadcaster Telemundo and its 15 Telemundo local stations, and interests in five theme parks.

As part of the NBC-Universal transaction, GE paid at closing $3.65 billion (3.073 billion) of cash consideration to Universal Studios Holding Corp. In addition, as a result of this transaction,Vivendi Universal transferred approximately $4.3 billion (3.6 billion) of VUE s consolidated gross financial debt to NBCU and thus reduced its Financial Net Debt by approximately $6.3 billion (5.3 billion), after cash adjustments (please refer to Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Consolidated Cash Flows).

Under the terms of the NBC-Universal transaction, Vivendi Universal (i) was responsible for the cost of the defeasance of covenants of the VUE Class A preferred interests (657 million; or 607 million after minority interests), (ii) is responsible for the net costs of the dividends of 3.6% per annum on the VUE Class B preferred interests (298 million; or 275 million after minority interests) and (iii) will receive from NBCU, when certain put/call rights relating to the VUE Class B preferred interests are exercised, the potential after-tax economic benefit related to the divestiture of the 56.6 million shares of IAC stock transferred to NBCU as part of the NBC-Universal transaction (above $40.82 per share). Vivendi Universal also has certain contingent obligations in connection with the NBC-Universal transaction relating to taxes, retained businesses and liabilities, the divestiture of certain businesses and other matters customary for a transaction of this type. On June 7, 2005, Vivendi Universal, NBCU and IAC unwound IAC s interests in VUE through the purchase by NBCU of IAC s common and preferred interests in VUE. As a result, Vivendi Universal 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 Universal Parks and Resorts were eliminated.

Table of Contents

Vivendi Universal is entitled to sell its stake in NBCU under mechanisms providing for exits at fair market value, the timing of which has been deferred by one year as part of the June 2005 VUE unwinding. As a result, Vivendi Universal will be able to sell its shares on the market beginning in 2007, for an amount up to $3 billion in 2007 and $4 billion in 2008 and each year thereafter. GE will have the right to pre-empt any of Vivendi Universal s sales to the market. Under certain circumstances, if Vivendi Universal does exercise its right to sell its shares on the market and if GE does not exercise its pre-emption right, Vivendi Universal will be able to exercise a put option to GE. Lastly, for a 12-month period commencing on May 11, 2010, GE will have the right to call either (i) all of Vivendi Universal s NBCU shares or (ii) $4 billion of Vivendi Universal 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. If GE calls $4 billion, but not all, of Vivendi Universal s NBCU shares, GE must call the remaining NBCU shares held by Vivendi Universal by the end of the 12-month period commencing on May 11, 2011. Please also refer to Subsequent Developments in 2005 Purchase of IAC s Equity Interests in VUE .

In addition to the exit rights described above, as part of the agreements with GE, Vivendi Universal has certain veto, board designation, information and consent rights in NBCU. Vivendi Universal initially holds three out of 15 seats on the board of directors of NBCU. Vivendi Universal s governance rights in NBCU may terminate, under certain circumstances, upon a change in control of Vivendi Universal.

For 2004, the impact of the NBC-Universal transaction on Vivendi Universal s earnings corresponded to a 1,793 million capital loss, which can be analyzed as follows:

- a capital gain of $653 million, before a $290 million tax impact, resulting in an after-tax profit of $363 million (312 million). The carrying value in dollars of disposed assets did not exceed the transaction value in dollars; and

- a - 2,105 million foreign currency translation adjustment (with no impact on cash position or on shareholders equity), as Vivendi Universal reclassified to net income 80% of a cumulative foreign currency translation adjustment related to VUE (previously recorded as a reduction of shareholders equity and resulting from the depreciation of the dollar versus the euro since VUE s acquisition date).

In addition, in the context of the NBC-Universal transaction, Vivendi Universal has expanded VUE s relationship with DreamWorks Pictures for seven years, and UMG acquired DreamWorks Records for 94 million in January 2004. The label s roster and catalog are comprised of rock and pop, country, urban, film scores and soundtracks, and Broadway cast recordings.

Please refer to Subsequent Developments in 2005 Purchase of IAC s Equity Interests in VUE and Item 18 Financial Statements Note 3.1 for further information.

Divestiture of 15% of Veolia Environnement, Part of Vivendi Universal s 20.3% Stake December 2004

In December 2004, Vivendi Universal disposed of 15% of VE, part of its 20.3% stake in VE, through three transactions: (i) 10% was placed under an accelerated book building procedure for total proceeds of 997 million (24.65 per share) on December 9, (ii) 2% was sold to VE for 195 million (23.97 per share) and (iii) 3% was sold to Société Générale for 305 million (24.65 per share).

The last two transactions were carried out following the non-exercise of the call options granted by Vivendi Universal in November 2002 to certain institutional shareholders of VE relative to Vivendi Universal s stake in VE. The exercise price was 26.50 per share. As these options expired on December 23, 2004, the related premium recorded as a deferred income in the amount of 173 million in December 2002 was recognized in *Other financial expenses, net of provisions* on their expiry date.

Overall, Vivendi Universal received a total amount of 1,497 million in these transactions, generating an after-tax capital gain of 1,485 million. From a tax standpoint, the associated capital gain of 477 million was offset by Vivendi Universal s current capital losses and, therefore, did not result in any cash capital gain tax.

13

Table of Contents

VE, which was fully consolidated until December 31, 2002 and accounted for using the equity method thereafter, was fully deconsolidated on December 9, 2004. Currently, Vivendi Universal retains 5.3% of VE subject to a lock-up period of 180 days starting on December 9, 2004.

In addition, Vivendi Universal and Société Générale entered into a three-year derivative transaction that enables Vivendi Universal to benefit from any potential capital gains on 5% of VE over a price of 23.91 per share. This derivative may be settled by Vivendi Universal at any time from December 9, 2005, exclusively in cash. The premium due by Vivendi Universal to Société Générale is recorded in *Portfolio Investments Other* at its net present value (68 million as of December 31, 2004) and is payable in thirds for three years, starting January 10, 2005.

At the same time, in order to finalize the financial separation from its former subsidiary, Vivendi Universal decided to substitute a third party in its guarantee commitments with respect to network renewal costs, granted to VE in June 2000 and in December 2002. For this purpose, on December 21, 2004, Vivendi Universal signed a contract of perfect delegation with VE and a third party to transfer all its residual obligations towards VE. As a result, Vivendi Universal paid the third party a balance of 194 million corresponding to the present value on that day of the maximum exposure until 2011 (including 2004 renewal costs of 35 million). The costs for 2004 were accounted for as an operating expense. The remaining balance was recorded as a loss on businesses sold, net of provisions.

Please refer to Item 18 Financial Statements Note 3.2 for further information.

Maroc Telecom in 2004: Listing on the Casablanca and Paris Stock Exchanges and Execution of an Agreement for the Acquisition of 16% of the Capital

Listing of Maroc Telecom on the Casablanca and Paris Stock Exchanges. The shares of the historical telecommunications operator in the Kingdom of Morocco have traded on the Casablanca Stock Exchange and the Euronext Paris S.A. Premier Marché since December 13, 2004. The introduction price was fixed at MAD 68.25 per share (6.16 per share based on the dirham/euro exchange rate as of December 10, 2004). At December 31, 2004, the market price was 8.41 per share. 130,985,210 shares were sold by the Kingdom of Morocco as part of the offer, representing 14.9% of Maroc Telecom s share capital.

Acquisition of an Additional 16% Stake in Maroc Telecom. The Kingdom of Morocco and Vivendi Universal agreed, on November 18, 2004, to the acquisition by Vivendi Universal of an additional 16% stake in Maroc Telecom, indirectly via a wholly-owned subsidiary (Société de Participation dans les Télécommunications). This acquisition, which was completed on January 4, 2005, enables Vivendi Universal, a strategic partner that has held operating control of Maroc Telecom since the beginning of 2001, to increase its stake from 35% to 51%, thereby perpetuating its control over the company. By virtue of the Maroc Telecom shareholders agreements, Vivendi Universal holds the majority of voting rights at shareholder meetings and on the Supervisory Board until December 30, 2005. After this acquisition, Vivendi Universal s control is now assured by the direct holding, unlimited in time, of the majority of voting rights at shareholder meetings and by the entitlement to appoint, by virtue of shareholder agreements and the Company bylaws, three of the five members of the Management Board and five of the eight members of the Supervisory Board. This acquisition marks a new and decisive milestone in the strategic partnership between the Kingdom of Morocco and Vivendi Universal. The deal price was set at MAD 12.4 billion, or approximately 1.1 billion, and includes a premium for continuing control. Payment was made on January 4, 2005 and was financed 50% by long-term debt issued in Morocco of MAD 6 billion, or approximately 537 million (please refer to Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources). For Vivendi Universal, from an economic standpoint, this transaction will be accretive to net income as of 2005, taking into account, notably, a cost of financing that is lower than the yield of the investment. In addition, from an accounting standpoint, the accretion from this transaction will improve as a result of the absence of goodwill amortization under the International Financial Reporting Standards (IFRS), which is applicable as of January 1, 2005.

Full Consolidation of Mauritel by Maroc Telecom since July 1, 2004. Mauritel, previously accounted for using the equity method, has been fully consolidated by Maroc Telecom since July 1, 2004. For the second

half of 2004, Mauritel generated revenues and operating income of 34 million and 11 million, respectively. For more details, please refer to Item 18 Financial Statements Note 30 .

Consolidated Global Profit Tax System since January 1, 2004

On December 23, 2003, Vivendi Universal applied to the 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. This period may be extended. Vivendi Universal is thus 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 Universal 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 (UMG), VU Games, CanalSatellite and SFR. The 2004 Finance Act authorized the unlimited carry forward of existing ordinary losses as of December 31, 2003, which, combined with Vivendi Universal s permission to use the Consolidated Global Profit Tax System, enables Vivendi Universal to maintain its capacity to maximize the value of ordinary losses carried forward.

In the absolute, with Vivendi Universal S.A. reporting ordinary losses of 11.8 billion as of December 31, 2004, as the head of the tax group, Vivendi Universal could realize maximum tax savings of approximately 3.8 billion (undiscounted value), at current income tax rates (excluding additional contributions) by the end of the loss relief period. Nonetheless, the period during which losses will be applied cannot currently be determined with sufficient precision given the uncertainty associated with any economic activity. As such, at the December 31, 2004 year-end, Vivendi Universal recognized in its 2004 income tax the expected tax savings relating to the current year (464 million) and a deferred tax asset in the amount of expected tax savings in 2005 (492 million) based on budget forecasts.

Overall, receipt of authorization to use the Consolidated Global Profit Tax System generated a tax saving of 956 million in 2004. Vivendi Universal s first tax return in respect of 2004 consolidated net income must be filed with the tax authorities by November 30, 2005 at the latest.

Reinforcement of the Program Offerings of Canal+ Group

In 2004, Canal+ Group was involved in many discussions to enhance program offerings for subscribers. As a result, in December 2004, Canal+ Group won exclusive rights to the French National Football League 1 matches for three seasons (2005-2008) for an average cost of approximately 600 million per year. Also, to improve its film offerings, Canal+ (i) signed, in May 2004, several agreements to reinforce its partnership with the French film industry (covering the period 2005-2009), (ii) extended, in November 2004, an agreement for first broadcast of all Twentieth Century Fox film features, (iii) extended, in January 2005, a long-term agreement for exclusive first broadcast rights to all future productions of NBCU s studio, (iv) extended, in February 2005, its exclusivity contract with DreamWorks for its next 40 movies, and (v) extended, in April 2005, its exclusivity contract with Spyglass Entertainment until December 2009. In addition, on February 11, 2005, Canal+ Group and Lagardère Group ended their participation in MultiThématiques (that is now owned 100% by Canal+ Group) and Lagardère Thématiques. This development enabled Canal+ Group to present itself under optimal conditions at the May 2005 selection launched by the Conseil Supérieur de l Audiovisuel (CSA) for the attribution of DTT frequencies.

Elektrim Telekomunikacja Sp. z.o.o (Elektrim Telekomunikacja) in 2004

Since December 1999, Vivendi Universal has held a 49% interest in Elektrim Telekomunikacja, with Elektrim S.A. (Elektrim) holding the remaining 51% until September 3, 2001. On that date, the Luxembourg investment company, Ymer, acquired a 2% equity interest in Elektrim Telekomunikacja from Elektrim. Vivendi Universal indirectly bears the economic risk associated with the assets held by Ymer, but does not have legal control over such assets. Ymer is a company independent of Vivendi Universal, which does not own or control Ymer, directly or indirectly. Vivendi Universal is not entitled to exercise the voting rights held by

Table of Contents

Ymer in Elektrim Telekomunikacja. In return for the economic risk borne by Vivendi Universal, the transfer by Elektrim to Ymer of a 2% equity interest in Elektrim Telekomunikacja enabled Vivendi Universal to limit the risk of sale of the controlling interest in Elektrim Telekomunikacja by Elektrim to a third party and, thereby, protect the value of its investment in Elektrim Telekomunikacja. Vivendi Universal accounts for its investment in Elektrim Telekomunikacja using the equity method. Please refer to Item 18 Financial Statements Note 7.3 .

As of December 31, 2004, Elektrim Telekomunikacja s only major asset was a 48% stake in the Polish mobile telecommunications company Polska Telefonia Cyfrowa (PTC), alongside Carcom Warszawa (Carcom) (3%) and Deutsche Telekom (DT) (49%). Carcom is owned 50% by Vivendi Universal, 49% by Elektrim and 1% by Ymer. A chart of the PTC ownership structure is presented below:

As of December 31, 2004, Vivendi Universal has invested approximately 1.8 billion in Elektrim Telekomunikacja (capital of 1.2 billion and shareholder advances of 0.6 billion). The capital investment is fully impaired since December 31, 2002. The net book value of shareholder advances totaled 379 million as of December 31, 2004.

In December 2000, DT commenced an arbitration proceeding in Vienna against Elektrim and Elektrim Telekomunikacja. DT asked the arbitration tribunal to declare invalid the transfer by Elektrim to Elektrim Telekomunikacja of 48% of the PTC shares owned by Elektrim.

In its award (the Award), which was served on the parties on December 13, 2004, the arbitration tribunal held that:

1. The transfer by Elektrim to Elektrim Telekomunikacja of the PTC shares was ineffective, and the PTC shares were to be considered as never having ceased to form part of the assets of Elektrim;

2. The said sale did not constitute a material breach of Article 16.1 of the shareholders agreement between DT and Elektrim, but such a material breach would occur if Elektrim did not recover the shares concerned within two months of service of the Award;

3. The Tribunal dismissed DT s claim for a declaration that an Economic Impairment on the part of Elektrim existed; and

4. The Tribunal did not have jurisdiction over Elektrim Telekomunikacja, and the claims concerning Elektrim Telekomunikacja could not be entertained in the context of the arbitration.

DT withdrew its claim concerning its financial loss.

On February 2, 2005, the Award was partially recognized by a Warsaw tribunal (Regional Court Civil Division) with regard to the first three points described above. In February, 2005, Elektrim Telekomunikacja appealed against this partial *exequatur* for breach of the provisions of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, dated June 10, 1958. The decision was also appealed by the Public Prosecutor.

In the context of proceedings launched by Elektrim Telekomunikacja concerning ownership of the PTC shares and notified to PTC on December 10, 2004, the Warsaw Tribunal (Regional Court Commercial Division) issued an injunction on December 30, 2004, upon Elektrim Telekomunikacja s request prohibiting any amendment of the company register held by PTC. This injunction is currently the subject of an appeal by DT and Elektrim.

In parallel with these proceedings, Elektrim attempted twice to unilaterally obtain from the Warsaw Registry Court an amendment of the registration of ownership of the PTC shares allocated to Elektrim Telekomunikacja, in its favor. In its decision rendered on February 10, 2005, the Warsaw Registry Court considered the claims to be unjustified with regard to aforesaid injunction awarded on December 30, 2004 and dismissed the proceedings. Nevertheless, on February 25, 2005, the Warsaw Registry Court has, based on PTC shareholders lists and deliberations by the Boards drawn up and produced by DT and Elektrim in conditions considered to be fraudulent by Elektrim Telekomunikacja, authorized the registration of Elektrim as a shareholder of PTC in lieu of Elektrim Telekomunikacja. Elektrim Telekomunikacja has commenced proceedings in order to rectify the register and filed a complaint before the Warsaw Public Prosecutor.

For these reasons, Vivendi Universal considers that the legal uncertainty surrounding ownership of the PTC shares held by Elektrim Telekomunikacja represents severe long-term restrictions on Elektrim Telekomunikacja s ability to exercise joint control and influence over PTC. As a result, Vivendi Universal has accounted for Elektrim Telekomunikacja, using the equity method based on financial statements in which the PTC investment is no longer consolidated from January 1, 2004. Please refer to Item 8 Financial Information Litigation and Item 18 Financial Statements Note 7.3 .

Vivendi Universal Disposed of Approximately 1.1 Billion in Assets (Not Including the NBC-Universal and Veolia Environnement Transactions) in 2004

Canal+ Group

Sportfive. In March 2004, RTL Group and Canal+ Group signed an agreement with Advent International for the divestiture of their interests in Sportfive. Before signing the agreement, Canal+ Group and RTL Group acquired on March 31, 2004, Jean Claude Darmon s approximate 4.9% stake in Sportfive for a total of 60 million (including a price adjustment of 5 million). The sale to Advent International of the 48.85% stake in Sportfive held by Canal+ Group, for which the group received 274 million in cash, was completed on June 25, 2004. This divestiture generated a gain of 44 million (including a 22 million provision reversal).

Canal+ Group finalized, among other things, the divestiture of the companies of StudioExpand s flux-divertissement business in June 2004 and Canal+ Benelux in August 2004 for a total amount of 42 million (the deconsolidation of the cash held by these companies, as well as the payment of a litigation had a 26 million unfavorable impact on Financial Net Debt). These divestitures generated a gain of 66 million (including a provision reversal of 24 million).

Quai André Citroën Headquarters. In September 2004, Canal+ Group finalized the divestiture of its former headquarters at Quai André Citroën for 108 million. This divestiture generated a capital gain of 13 million.

Divestiture of NC Numéricâble. In December 2004, Canal+ Group and France Telecom announced that they had signed an agreement for the divestiture of their cable operations to the Cinven investment fund and to Altice Multiple Service Operator. Canal+ Group will retain an interest of approximately 20% in the new operator for an estimated amount of 37 million (corresponding to its share in equity). Canal+ Group proceeds from the divestiture are estimated at 87 million (before potential adjustments to the number of

Table of Contents

networks actually transferred). This transaction, subject to regulatory approvals, was finalized on March 31, 2005. A 56 million provision accrual was recorded in 2004.

Non-core operations

Vivendi Telecom International (VTI)

Kencell. In May 2004, Vivendi Universal sold its 60% stake in Kencell, Kenya s No. 2 mobile phone operator, for a cash amount of $230 million (190 million). The stake was sold to Sameer Group, the owner of the remaining 40% stake, after it exercised its pre-emptive rights. This divestiture generated a gain of 38 million (net of a 7 million provision accrual).

Monaco Telecom. In June 2004, Vivendi Universal sold to Cable & Wireless its 55% stake in Monaco Telecom for a total consideration of 169 million in cash (including a 7 million dividend distribution). This divestiture generated a gain of 21 million (net of a 5 million provision accrual).

Finalization of the Total Withdrawal from Publishing Operations: Divestiture of Brazilian Publishing Operations February 2004

Vivendi Universal divested its interest in Atica & Scipione, publishing operations in Brazil, for a total consideration of 41 million. This divestiture generated a loss of 8 million.

Divestiture of United Cinema International (UCI) October 2004

Vivendi Universal and Viacom finalized the divestiture of their respective 50% stakes in European operations of the UCI Cinemas group to Terra Firma. In addition, UCI Group divested its 50% stake in UCI Japan to Sumitomo Corporation (50% of transaction proceeds were paid by UCI Cinemas to Vivendi Universal). As part of these transactions, Vivendi Universal received 170 million. These transactions generated a capital gain of 64 million.

Other 2004 transactions

UMG. In August 2004, UMG sold its stake of approximately 15% in VIVA Media to Viacom for a total consideration of 47 million. This divestiture generated a gain of 26 million.

Divestiture of two Philip Morris Towers. In June 2004, the divestiture of the Cèdre (27,000 m^2) and the Egée (55,000 m^2) towers located at La Défense, Paris, resulted in a reduction in Vivendi Universal s off balance sheet commitments related to the long-term leases signed with Philip Morris in 1996, by 270 million.

In addition, the reimbursement of the different participating loans and/or guarantees granted by Vivendi Universal led to a net cash inflow of 84 million.

2003 Developments

In 2003, Vivendi Universal invested 6.0 billion, including 1.6 billion of capital expenditures in its core businesses and 4 billion to purchase BT Group s 26% interest in SFR Cegetel (for more details, please refer to Item 5 Operating and Financial Review and Prospects Consolidated Cash Flows). In addition, in 2003, Vivendi Universal formed a strategic alliance between VUE and NBC. Vivendi Universal also refocused, restructured, and recapitalized Canal+ Group for close to 3 billion, eliminated major cash drains, divested non-strategic assets with proceeds of approximately 3 billion and refinanced its debt.

SFR Cegetel: Vivendi Universal Invested 4 Billion in January 2003 to Strengthen its Position in SFR Cegetel

In January 2003, Vivendi Universal purchased BT Group s 26% interest in Cegetel Groupe S.A. for 4 billion, thereby increasing its voting interest in the French telecommunications operator from 59% to 85% and its ownership interest from 44% to 70% (approximately 56% ownership interest in SFR, its mobile

subsidiary). The acquisition of this interest from BT Group was made through *Société d investissement pour la téléphonie* (SIT), as follows:

a. SIT, wholly owned, controlled and consolidated by Vivendi Universal, was initially the legal owner of the 26% shareholding at an acquisition cost of 4 billion.
b. SIT financed this acquisition by a 2.7 billion cash contribution from Vivendi Universal (in turn financed partly by the 1 billion bond issue completed in November 2002 and redeemable in Vivendi Universal new shares on November 25, 2005) and by a non-recourse loan of 1.3 billion with a scheduled maturity of June 30, 2004. Debt service on this loan, which was drawn on January 23, 2003, was to be provided by dividends paid in respect of its 26% shareholding in Cegetel Groupe S.A. This loan was repaid in July 2003 out of the proceeds of the issuance of five-year High Yield Notes. Following the repayment of its credit facility, SIT merged with Vivendi Universal, allowing the Vivendi Universal group to simplify the ownership structure of the 26% stake in Cegetel Groupe S.A. acquired in January 2003, and thereby increase its access to dividends from Cegetel Groupe S.A.

As a result of this transaction, Cegetel Groupe S.A., which was consolidated by Vivendi Universal with a 44% ownership interest, has been consolidated with a 70% ownership interest since January 23, 2003 (approximately 56% ownership interest in SFR, its mobile subsidiary).

During 2003, Vivendi Universal signed with Vodafone Group Plc a number of agreements designed to further improve the performance of SFR Cegetel, as well as optimize cash flows between SFR Cegetel and its shareholders:

Vodafone and SFR signed an agreement 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!, and development of operational synergies in procurement (including IT and technology), and best practice sharing.

On December 18, 2003, the extraordinary shareholders meeting of Cegetel Groupe S.A. approved the simplification of the group s structure through the merger of Transtel, Cofira and SFR into Cegetel Groupe S.A. holding company.

The new company resulting from the merger, which is both a mobile phone operator and the holding company of the group, was renamed SFR. It is owned 55.8% by Vivendi Universal, 43.9% by Vodafone, and 0.3% by individual shareholders. In connection with this simplification, an amendment to the Cegetel shareholders agreement was signed in order to include the specific provisions of the SFR shareholders agreement (this document is available at: http://www.vivendiuniversal.com). The group, comprised of SFR and its subsidiaries and the fixed line operator Cegetel, became SFR Cegetel.

In 2004, SFR decided to implement a dividend distribution plan, which will in part involve the distribution of premiums and reserves and the introduction of quarterly advance dividend payments. Please refer to Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources .

In parallel, in December 2003, SFR (formerly known as Cegetel Group) and SNCF (the French National Railway Company) decided to merge their fixed line business and approved the merger of Cegetel S.A. (fixed line operator, subsidiary of SFR) and Telecom Développement (network operator, subsidiary of SNCF, in which SFR had a minority interest). This entity is named Cegetel S.A.S. and the capital is held 65% by SFR and 35% by SNCF.

Table of Contents

As a result of these transactions, the structure of SFR Cegetel is as follows:

* Stake acquired by Vodafone in 2003

Canal+ Group: recovery efforts in 2003

Canal+ made significant progress in its turnaround efforts. It refocused on its core pay-TV activities in France and the activities of StudioCanal. It launched a number of initiatives to restructure and reposition these activities. It exited most of its non-core activities, which often represented significant cash drains (see 2003 Divestitures: Vivendi Universal divested about 3 billion of assets below).

Also, on December 18, 2003, following Canal+ Group s extraordinary shareholders meeting, Vivendi Universal recapitalized Canal+ Group for 3 billion through the conversion of an inter-company loan into equity, with no cash impact. This transaction was approved by Vivendi Universal s board of directors on September 23, 2003.

As a result of this recapitalization, the performance of Canal+ Group in 2003 and divestitures of non-core assets, Canal+ Group s Financial Net Debt was close to 1 billion at the end of 2003 versus approximately 5 billion on June 30, 2003. In February 2004, Canal+ Group Financial Net Debt was reduced to approximately 500 million.

Cash drains in 2003

Vivendi Universal continued its efforts to eliminate its major cash drains. It essentially shut down its Internet operations, which had generated approximately 2.5 billion in losses since 2000, divested a number of businesses that had previously generated significant losses (see 2003 Divestitures: Vivendi Universal divested about 3 billion of assets below) and refocused and restructured its headquarter activities (see Reorganization of Vivendi Universal Headquarters in 2002 below).

2003 Divestitures: Vivendi Universal divested about 3 billion of assets

Canal+ Group

Canal+ Technologies. The sale of Vivendi Universal s 89% stake in Canal+ Technologies to Thomson Multimedia was completed on January 31, 2003 for 191 million in cash. Given the previous impairment loss recorded against this investment, the divestiture generated a capital gain of 21 million.

Telepiù. In April 2003, Vivendi Universal, Canal+ Group, News Corporation and Télécom Italia completed the sale of Telepiù, the Italian pay-TV platform. The consideration for this transaction amounted to

831 million, comprising debt of 374 million (after a capital contribution of 100 million) and 457 million in cash.
The cash payment included a 13 million adjustment relating to the reimbursement of accounts payable net of the debt adjustment. This transaction generated a capital gain of 215 million, after the reversal of a 352 million provision, resulting from unanticipated improvements in working capital registered by Telepiù in the first quarter of 2003.

Dilution in Sogecable. In connection with its merger with ViaDigital, a Telefonica subsidiary, Sogecable performed a capital increase in July 2003 subscribed to in full by Telefonica. As a consequence, Canal+ Group s ownership interest in Sogecable decreased from 21.27% to 16.38%. Following termination of the shareholders agreement governing Sogecable on September 29, 2003, Vivendi Universal ceased to account for Sogecable on an equity basis on October 1, 2003. This transaction generated a dilution profit of 71 million. In addition, the three principal shareholders (Canal+ Group, Prisa and Telefonica) granted a 50 million loan to Sogecable that will mature in 10 years time. In February 2004, the 20,637,730 Sogecable shares held by Canal+ Group, as well as the 50 million loan, were transferred to Vivendi Universal.

Canal+ Nordic. In October 2003, Vivendi Universal and Canal+ Group sold the subsidiaries of Canal+ Nordic, the company in charge of its pay-TV channel activities in the Nordic region, to an investment fund consortium comprising Baker Capital and Nordic Capital. The transaction contributed approximately 55 million to the Vivendi Universal group s debt reduction (including 7 million received in the first quarter of 2004), principally due to loan relinquishment. This transaction generated a capital gain of 17 million.

Canal+ Benelux. In December 2003, Canal+ Group sold its Flemish operations to Telenet, and sold Canal+ Belgique S.A. to Deficom, for a total consideration of 32 million. These transactions generated a capital gain of 33 million.

Vivendi Universal Entertainment in 2003

Spencer Gifts. On May 30, 2003, Vivendi Universal (through VUE) sold Spencer Gifts, a novelty and gift store chain operating in the US, Canada and the UK, to an investor group led by privately held Gordon Brothers Group and Palladin Capital Group Inc. for consideration of approximately $100 million. This operation generated no capital gain.

Non-core operations in 2003

Vivendi Universal Publishing (VUP) in 2003

Consumer Press. Vivendi Universal completed the sale of the Consumer Press Division (*Groupe Express-Expansion Groupe l Etudiant*) to the Socpresse Group in February 2003, for an aggregate consideration of 200 million. This transaction generated a capital gain of 104 million.

Comareg. In May 2003, Vivendi Universal completed the sale of Comareg to the *France Antilles* group. The consideration received from this transaction was 135 million. Given the previous impairment loss recorded against this investment, this transaction generated a capital gain of 42 million.

Vivendi Telecom International in 2003

Vivendi Telecom Hungary. In May 2003, Vivendi Universal concluded the divestiture of its fixed-line telephony activities in Hungary (Vivendi Telecom Hungary) to a consortium led by AIG Emerging Europe Infrastructure Fund and GMT Communications Partners Ltd. The amount of the transaction was 325 million in enterprise value, including the issuance of a 10 million promissory note received by Vivendi Universal in August 2004. Given the previous impairment loss recorded against this investment, the divestiture generated a capital gain of 15 million in 2003.

Xfera. In August 2003, Vivendi Universal sold its 26.3% interest in Xfera for a nominal 1 to the other members of the Xfera consortium. This transaction generated a capital gain of 16 million, after a 75 million provision accrual.

Table of Contents

Elektrim Telekomunikacja. In 2003, Vivendi Universal pursued a strategy to divest its stake in Elektrim Telekomunikacja. On January 8, 2003, Vivendi Universal signed a letter of intent with Polsat Media S.A. (Polsat) involving the sale to Polsat of Vivendi Universal s stake in Elektrim Telekomunikacja and Elektrim for a total consideration of 550 million. However, Polsat was subsequently unable to meet the closing conditions of this transaction. On September 2, 2003, Vivendi Universal s board of directors approved the decision to propose to the supervisory board of Elektrim Telekomunikacja, which is 49% owned by Vivendi Universal, to accept the tender offer for PTC, the Polish mobile telecommunications operator, from DT. On September 14, 2003, DT, Vivendi Universal, Elektrim (in agreement with bondholder representatives on the management board) and Ymer Finance announced an agreement in principle on DT s offer to increase its shareholding in PTC from 49% to 100% for a total revised cash offer of 1.1 billion. This agreement did not close because Elektrim could not obtain the required consent of bondholders.

Other 2003 transactions

InterActiveCorp Warrants. In 2003, Vivendi Universal sold in two steps 60.47 million warrants of IAC for consideration totaling 600 million. These warrants were initially acquired in connection with the acquisition of the entertainment assets of IAC. These transactions generated a loss of 329 million, which was offset by the reversal of the related provision of 454 million, which corresponded to a downside mark-to-market adjustment registered as of December 31, 2002.

Unwinding of the Total Return Swap in connection with Time Warner Inc. (formerly known as AOL Time Warner Inc.) Call Options. In April 2003, Time Warner Inc. exercised its call options on the AOL Europe shares held by LineInvest for a cash consideration of $813 million received in May 2003. The provision of $100 million (97 million) recorded by Vivendi Universal in 2002 (in order to cover the market risk under the terms of the total return swap if Time Warner Inc. had opted for payment in its own shares) was consequently reversed in 2003.

Modification of the Structure of UGC S.A. s share capital. On December 31, 2003, Vivendi Universal and the family shareholders of the UGC Group signed an agreement modifying the structure of UGC S.A. s share capital. Under the terms of the agreement:

Vivendi Universal holds 37.8% of UGC S.A. s share capital. After the elimination of the UGC S.A. treasury shares, Vivendi Universal will hold only 40% of UGC S.A. s share capital, and the family shareholders stake will be 56.20%. Vivendi Universal holds five of the 14 seats on the UGC board of directors.

Vivendi Universal has been released from the put option previously granted to the family shareholders, thereby removing a significant off-balance-sheet commitment for Vivendi Universal.

Vivendi Universal also granted a call option to the family shareholders for its UGC S.A. shares at a price of 80 million until December 31, 2005. The price may be adjusted in the case of an onward sale by UGC family shareholders at a later date (within one year of exercise of the call) with an increase in value.

Closing of Contractual Guarantees to Former Rondor Shareholders. Finally, in connection with the purchase of Rondor Music International in 2000, there existed a contingent purchase price adjustment based on the market value of Vivendi Universal shares. The contingent purchase price adjustment was triggered in April 2002 when the share price of Vivendi Universal fell below $37.50 for 10 consecutive days and the former shareholders of Rondor requested early settlement. A liability for this adjustment was recorded in the Consolidated Statement of Financial Position of Vivendi Universal at December 31, 2002 for an estimated amount of 223 million (approximately $230 million). On March 3, 2003, this liability was settled and the former shareholders of Rondor received 8.8 million shares of Vivendi Universal, then representing 0.8% of share capital and a cash amount of $100 million (93 million).

Table of Contents

2002 Developments

While the beginning of 2002 was marked by the completion of the acquisition of the entertainment assets of IAC, the rest of the year was focused on solving Vivendi Universal s liquidity issue, refinancing its debt, initiating a comprehensive divestiture program, and initiating cost-cutting measures at Vivendi Universal s headquarters.

Acquisition of the Entertainment Assets of InterActiveCorp for 11,135 million May 2002

These assets were transferred to NBCU in May 2004 (please refer to Combination of VUE and NBC to form NBC Universal (NBC-Universal transaction) May 2004 and Subsequent Developments in 2005 Purchase of IAC s Equity Interests in VUE).

On May 7, 2002, Vivendi Universal consummated its acquisition of the entertainment assets of IAC through the limited liability limited partnership VUE, in which Vivendi Universal then had an approximate 93% voting interest and an approximate 86% economic interest (due to the minority stake of MEI). As part of the transaction, Vivendi Universal and its affiliates surrendered 320.9 million shares of USANi LLC previously exchangeable into shares of IAC stock. In addition, Vivendi Universal transferred 27.6 million treasury shares to Liberty Media Corporation in exchange for (i) 38.7 million USANi LLC shares (which were among the 320.9 million surrendered) and (ii) 25 million shares of IAC common stock, which were retained by Vivendi Universal.

As consideration for the transaction, IAC received a $1.62 billion cash payment from VUE, a 5.44% common interest in VUE and Class A and Class B preferred interests in VUE with initial face values of $750 million and $1.75 billion, respectively. The Class B preferred interests were subject to put/call provisions at any time after May 2022 for a number of IAC shares having a market value equal to the accreted face value of the Class B preferred interests at such time, subject to a maximum of 56.6 million shares of IAC common stock.

In addition, Mr. Diller, IAC s chairman and chief executive officer, received a 1.5% common interest in VUE in return for agreeing to specific non-competition provisions for a minimum of 18 months, for informally agreeing to serve as VUE s chairman and chief executive officer (Mr. Diller terminated his temporary assignment as chief executive officer in March 2003) and as consideration for his agreement not to exercise his veto right over this transaction. In connection with the NBC-Universal transaction, Universal Studios elected to purchase Mr. Diller s common interest for $275 million pursuant to the terms of the VUE partnership agreement.

In connection with the acquisition of the entertainment assets of IAC, Vivendi Universal received approximately 60.5 million warrants to purchase common stock of IAC, with exercise prices ranging from $27.50 to $37.50 per share. All of the warrants were sold in 2003.

The entertainment assets acquired by Vivendi Universal were IAC s television programming, cable networks and film businesses, including USA Films, Studios USA and USA Cable. These assets, combined with the film, television and theme park assets of the Universal Studios Group, formed the new entertainment group, VUE controlled at 93% and owned at approximately 86% by Vivendi Universal.

The acquisition cost of the IAC entertainment assets amounted to 11,135 million and was determined with the assistance of an independent third-party valuation firm. Vivendi Universal sold all of its interests in VUE and the IAC common stock to NBC on May 11, 2004. Subsequently, on June 7, 2005, VUE was restructured through the purchase by NBCU of all of IAC s preferred and common interests in VUE in exchange for 56.6 million shares of IAC common stock and cash. For more information, see 2004 Developments and Subsequent Developments in 2005 Purchase of IAC s Equity Interests in VUE .

In connection with the sale of its shares in IAC, Liberty Media transferred to Vivendi Universal its 27.4% share in the European cable television company, MultiThématiques, and its current account balances in exchange for 9.7 million Vivendi Universal shares. The share value was based on the average closing price of Vivendi Universal shares during a reference period before and after December 16, 2001, the date the

agreement was announced. Following this acquisition, Vivendi Universal held, directly and indirectly, 63.9% of MultiThématiques share capital. The additional goodwill resulting from Vivendi Universal taking a controlling stake in this company, which had been consolidated until March 31, 2002 using the equity method and fully consolidated thereafter, amounted to 542 million.

2002 Divestitures: 9.3 billion in 2002

Vivendi Universal initiated a comprehensive divestiture program aimed at reducing its debt and refocusing the company. The following transactions were completed in 2002.

Veolia Environnement. Following a decision taken by its board of directors on June 17, 2002, Vivendi Universal reduced its ownership interest in VE in three steps. Prior to taking these steps, Vivendi Universal entered into an agreement with Mrs. Esther Koplowitz by which she agreed not to exercise the call option on VE s participation in Fomento de Construcciones y Contratas (FCC), which otherwise would have been exercisable once Vivendi Universal s ownership interest in VE fell below 50%.

The first step occurred on June 28, 2002, when 53.8 million VE shares were sold on the market (approximately 15.5% of the share capital before the capital increase). The shares were sold by a financial institution that had held the shares since June 12, 2002 following a repurchase transaction (known in France as a *pension livrée*) carried out with Vivendi Universal. In parallel, in order to make it possible for the financial institution to return the same number of shares to Vivendi Universal at the maturity of the repurchase agreement on December 27, 2002, Vivendi Universal entered into a forward sale for the same number of shares to this financial institution at the price of the investment. As a result, Vivendi Universal reduced its debt by 1,479 million and held 47.7% of the share capital of VE.

In the second step, on August 2, 2002, VE increased its share capital by 1,529 million, following the issuance and the sale of approximately 58 million new shares (14.3% of the share capital after the capital increase) to a group of investors. Vivendi Universal had previously sold its preferential subscription rights to the group of investors pursuant to an agreement dated June 24, 2002. Following this second transaction, Vivendi Universal owned 40.8% of VE s share capital, and VE continued to be consolidated using the full consolidation method in accordance with GAAP.

The third step occurred on December 24, 2002, a month after the banks that managed the June transaction and a group of new investors entered into an amendment to the June 24, 2002 agreement. Under the terms of the amended agreement, Vivendi Universal agreed to sell 82.5 million shares of VE, representing 20.4% of VE s share capital as at December 24, 2002, and the new investors agreed to become subject to the lock-up on disposals of these shares previously agreed to by Vivendi Universal for the remaining term of that lock-up agreement; i.e., until December 21, 2003. Each of these shares of VE included a call option that entitles these investors to acquire additional VE shares at any time until December 23, 2004 at an exercise price of 26.50 per share. On December 24, 2002, Vivendi Universal received, in exchange for the shares and the call options, 1,856 million. The call options on the VE shares are recorded as deferred items in liabilities for an amount of 173 million. As of December 23, 2004, the call options had not been exercised (see Divestiture of 15% of Veolia Environnement, Part of Vivendi Universal s 20.3% Stake December 2004).

Following this transaction, Vivendi Universal held 82.5 million shares, or 20.4%, of VE s share capital as of December 31, 2002, which were held in an escrow account to cover the call options. From December 31, 2002 to December 9, 2004, this investment was accounted for using the equity method (please refer to Divestiture of 15% of Veolia Environnement, Part of Vivendi Universal s 20.3% Stake December 2004).

Vivendi Universal recorded a 1,419 million capital gain in respect of these transactions in 2002.

Vivendi Universal Publishing. In April 2002, VUP signed a definitive agreement pursuant to which the Cinven, Carlyle and Apax investment funds acquired 100% of the professional and health information divisions of VUP. The transaction completed in July 2002 and reduced profit before tax by 298 million.

In December 2002, Vivendi Universal sold both VUP s European activities and Houghton Mifflin. The European publishing activities were acquired by Editis (formerly known as Investima 10), a company wholly owned by Natexis Banques Populaires, for Lagardère. The gross proceeds from the sale amounted to 1,198 million. This transaction generated a pre-tax gain of 329 million. A purchase price adjustment of 17 million was paid to Editis in December 2003.

Houghton Mifflin was sold to an investment fund consortium comprised of Thomas H. Lee and Bain Capital on December 30, 2002. The purchase price was approximately 1.6 billion, including a cash payment of 1.2 billion. As a result of this transaction, Vivendi Universal recognized a capital loss of 822 million before tax, including a foreign currency translation loss of 236 million.

Vizzavi Europe. In August 2002, Vivendi Universal sold to Vodafone its 50% stake in Vizzavi Europe. As a result, Vivendi Universal received 143 million in cash. As part of the transaction, Vivendi Universal took over 100% of Vizzavi France. This transaction generated a capital gain of 90 million.

EchoStar Communications Corporation (EchoStar). In December 2002, Vivendi Universal sold its entire stake in EchoStar, consisting of 57.6 million Class A common shares, back to EchoStar. Total net proceeds of the sale were $1,066 million, generating a capital loss of 674 million before tax. Vivendi Universal held these Class A common shares following the conversion of the 5.8 million EchoStar Class D preferred stock acquired in January 2002 for $1.5 billion. Each Class D preferred stock was convertible into 10 EchoStar Class A common shares.

Sithe. In December 2002, Vivendi Universal sold its remaining 34% stake in Sithe to Apollo Energy LLC. Net cash proceeds from this transaction were 319 million, generating a capital loss of 232 million before tax. Under the terms of this transaction, Vivendi Universal retained ownership of certain minor assets in Asia. These Asian assets were transferred to Marubeni for $47 million on June 11, 2003.

Vinci. In June 2002, Vivendi Universal sold 5.3 million Vinci shares for a total of 344 million, thereby generating a pre-tax capital gain of 153 million. At the same time, Vivendi Universal bought call options on 5.3 million shares at 88.81 for 53 million allowing the Vivendi Universal group to cover the 527 million principal amount of bonds exchangeable for Vinci shares issued in March 2001.

Settlement of the Total Return Swap in Connection with the Divestiture of Vivendi Universal s Investment in BSkyB plc in October 2001. In order to comply with the conditions imposed by the European Commission in October 2001 on the merger of Vivendi, Seagram and Canal+, Vivendi Universal sold 96% (approximately 400 million common shares) of its investment in BSkyB s common shares and 81 million of money market securities to two qualifying special purpose entities (QSPEs). Concurrently, Vivendi Universal entered into a total rate of return swap with the same financial institution that held all of the beneficial interests in the QSPEs, thus allowing Vivendi Universal to maintain its exposure to fluctuations in the price of BSkyB shares until October 2005.

In December 2001, the financial institution controlling the beneficial interest of the QSPEs issued 150 million equity certificates repayable in BSkyB shares, at 700 pence per share. As a result, Vivendi Universal and the financial institution were able to reduce the nominal amount of the swap by 37% and thus fix a value of 150 million BSkyB shares and generate a capital gain of 647 million after-tax and expenses.

In May 2002, this financial institution sold the remaining 250 million BSkyB shares held by the QSPEs, and, concurrently, Vivendi Universal and the financial institution terminated the total return swap on those shares, which were settled at approximately 670 pence per share, before payment by Vivendi Universal of related costs. As a result of this transaction, Vivendi Universal recognized a pre-tax gain of approximately 1.6 billion, net of expenses, and was able to reduce gross financial debt by 3.9 billion.

In addition, in February 2002, Vivendi Universal sold 14.4 million shares in BSkyB following the exercise of its option to exchange a convertible bond for BSkyB shares issued by Pathé that came into Vivendi Universal s possession when it acquired Pathé in 1999. The redemption date was fixed on March 6, 2002, at a redemption price of 100% of the principal amount plus accrued interest to that date. Holders of the bonds were

entitled to convert them into 188.5236 shares of BSkyB per FFr10,000 principal amount of bonds through and including February 26, 2002.

Reorganization of Vivendi Universal Headquarters in 2002

In October 2002, Vivendi Universal initiated a reorganization plan for its headquarters in Paris, as well as its locations outside France. It aimed to redefine and refocus the headquarters tasks on holding company activities, concentrating all those tasks in Paris and turning New York into a representative office for the company; to sell moveable property and real estate assets held by the holding company (such as three planes and the New York art collection, both sold in 2003 for 84 million); and to achieve full-year savings generated by a very significant cut in non-payroll costs (fees for external services, in particular), as well as a reduction in the number of employees at all headquarters sites. As a result, the number of employees at all headquarters sites was reduced from 507 at the end of 2002 to 288 at the end of 2003 and Holding & Corporate operating losses were reduced by one half from 665 million in 2002 to 330 million in 2003, including 125 million costs savings from operating expenses at the holding company level.

Other 2002 Transactions

Repurchase program. The company initiated a share repurchase program through:

Treasury Shares: Transactions related to treasury shares are detailed in Item 18 Financial Statements Note 11.1 . The cumulative impact of treasury share cancellation on shareholders equity between 2000 and December 2002 was a reduction of approximately 4.6 billion.

Sale of Put Options on Vivendi Universal Shares: Vivendi Universal sold put options on its own shares, by which it agreed to buy its own shares on specified dates at specified exercise prices. As of December 31, 2002 and December 31, 2001, Vivendi Universal had outstanding obligations on 3.1 million and 22.8 million shares, respectively. The average exercise prices were 50.5 and 70, respectively, resulting in a potential commitment of 154 million and 1,597 million, respectively. These put options were only exercisable on their exercise dates and expired during the first quarter of 2003. The losses incurred by Vivendi Universal during 2002 resulting from option holders exercising their rights was 589 million, representing the net premium paid on cash settlement of the difference between the market price and the exercise price. At the end of December 2002, Vivendi Universal then marked to market put options with a specific future exercise date. This resulted in a provision of 104 million, corresponding to the premium paid by Vivendi Universal in connection with cash settlements of these options during the first quarter of 2003. The cumulative cash impact of these transactions was 951 million.

Acquisition of Additional Interest in UGC December 2002. Following the exercise by BNP Paribas of the put granted by Vivendi Universal in July 1997, Vivendi Universal acquired, for a total consideration of 59.3 million, 5.3 million of UGC shares, representing 16% of UGC share capital. Vivendi Universal s 58% interest in UGC did not provide operational control of the company due to a shareholders agreement. Accordingly, this investment was still accounted for using the equity method. On December 31, 2003, Vivendi Universal and the family shareholders of the UGC Group signed an agreement modifying the structure of UGC S.A. s share capital. For more details, please refer to 2003 Developments .

Settlement Agreement with Pernod Ricard-Diageo August 2002. Vivendi Universal, Pernod Ricard and Diageo reached a global settlement of outstanding claims relating to post-closing adjustments arising from the acquisition of Seagram s spirits and wine division, concluded in December 2000 and closed in December 2001. As a result, Vivendi Universal received $127 million in cash.

Waiver by Convertible Bondholders of the Guarantee Agreed by Vivendi Universal September 2002. Holders of 1.50% 1999-2005 VE bonds exchangeable for new or existing Vivendi Universal shares held a general meeting on August 20, 2002. At this meeting, the bondholders waived, effective September 1, 2002, all rights to the guarantee provided by Vivendi Universal in respect of VE s obligations under these bonds and, as a consequence, waived certain rights under the liability clause in the event of default by Vivendi Universal. In

Table of Contents

exchange, the nominal interest rate was increased by 0.75%, from 1.50% to 2.25%. For more details, please refer to Item 18 Financial Statements Note 11.4 .

Business Overview

General

We are a leading Media and Telecommunications company. Our media business is comprised of the Canal+ Group, UMG and VU Games. On May 11, 2004, we completed the NBC-Universal transaction and currently have an approximate 20% interest in NBCU. Our telecommunications business is comprised of the SFR Cegetel Group and Maroc Telecom. We also maintain other non-core operations and investments.

Segment Data

The contribution of our business segments to our consolidated revenues for each of 2004, 2003 and 2002, in each case after the elimination of intersegment transactions, is as follows:

	Year ended December 31,				
	As published			On a comparable basis(a)	
	2004	2003	2002	2004	2003
	(In millions of euros)				
Canal+ Group	3,580	4,158	4,833	3,470	3,339
Universal Music Group	4,993	4,974	6,276	4,993	4,974
Vivendi Universal Games	475	571	794	475	571
Media	9,048	9,703	11,903	8,938	8,884
SFR Cegetel	8,317	7,574	7,067	8,317	7,537
Maroc Telecom	1,627	1,471	1,487	1,658	1,523
Telecom	9,944	9,045	8,554	9,975	9,060
Non-core operations and elimination of intercompany transactions(b)	109	584	813	(20)	28
Total Vivendi Universal (Excluding VUE, VE and VUP assets sold in 2003)	19,101	19,332	21,270	18,893	17,972
Vivendi Universal Entertainment(c)	2,327	6,022	6,270		
VUP assets sold in 2003(d)		128	572		
Veolia Environnement			30,038		
Total Vivendi Universal	21,428	25,482	58,150	18,893	17,972

(a) Comparable basis essentially illustrates the effect of the divestiture of VUE, the divestitures at Canal+ Group (Telepiù, Canal+ Nordic, Canal+ Benelux, etc.), the divestitures of VUP (Comareg and Atica & Scipione), Vivendi Telecom Hungary, Kencell and Monaco Telecom and the abandonment of Internet operations, and includes the full consolidation of Telecom Développement at SFR Cegetel and of Mauritel at Maroc Telecom as if these transactions had occurred at the beginning of 2003. In addition, comparable basis takes into consideration a change

in presentation adopted as of December 31, 2004: in order to standardize the accounting treatments of sales of services provided to customers on behalf of content providers (mainly toll numbers), following the consolidation of Telecom Développement, sales of services to customers, managed by SFR Cegetel and Maroc Telecom on behalf of content providers, previously presented on a gross basis in SFR and Telecom Développement s revenues, are presented net of the related expenses. This change in presentation has no impact on operating income. At SFR Cegetel, it reduced revenues by 168 million in 2004. At Maroc Telecom, the impact was immaterial.

(b) Corresponds to VUP activities in Brazil (Atica & Scipione) deconsolidated since January 1, 2004, Internet operations abandoned since January 1, 2004, VTI, Vivendi Valorisation and other non-core businesses.

(c) VUE was deconsolidated as of May 11, 2004 as a result of the divestiture (from an accounting standpoint) of 80% of Vivendi Universal s interest in this company.

Table of Contents

(d) Corresponds to Consumer Press Division sold in February 2003, which was deconsolidated as of January 1, 2003, and Comareg sold in May 2003.

Geographic Data

The contribution of selected geographic markets to our consolidated revenue for each of 2004, 2003 and 2002 is as follows:

	Year ended December 31,		
	2004	2003	2002
	(In millions of euros)		
France	12,075	11,515	26,391
Rest of Europe	2,749	4,359	15,092
United States of America	3,704	6,238	10,810
Rest of world	2,900	3,370	5,857
Total	21,428	25,482	58,150

Our Segments

Media

Canal+ Group

The Canal+ Group has two principal lines of business:

Pay-TV channel production in France, which includes the Canal+ premium channel and theme channels such as Sport+, i>Télé, CinéCinéma channels, Planète channels, Jimmy, Seasons, Comédie! and Cuisine TV; and

Pay-TV channel distribution terrestrially, via satellite, cable or ADSL, which includes CanalSatellite (renamed CanalSat in May 2005), CanalSatDSL, NC Numéricâble and Media Overseas.

The Canal+ Group also engages in the production and distribution of films through StudioCanal, a major European studio involved in the production, co-production, acquisition and distribution of feature films.

Vivendi Universal owns 100% of Canal+ Group, which in turn owns 49% of Canal+ S.A. (premium channel) and 66% of CanalSatellite.

Pay-TV France

Canal+ Group s pay-TV operations in France are centered on the Canal+ premium channel and theme channels, which provide subscribers with exclusive, high-quality content.

The Canal+ Premium Channel

The Canal+ premium channel, which celebrated its 20th anniversary in November 2004, is a pioneer in pay-TV in Europe. Canal+ is broadcast terrestrially, via satellite, cable and, since March 2004, via ADSL. Since March 5, 2005, Canal+ s digital subscribers have had access to the Canal+ Le Bouquet offering, the first premium multi-channel digital package offer in France, which provides premium content channels (Canal+, Canal+ Cinéma, Canal+ Sport, Canal+ Décalé, with their own programs and identities, and Canal+ Hi-Tech). Since November 2004, Canal+ is the only French channel to broadcast movies with Dolby Digital 5.1 sound on its dedicated wide screen (16/9) channel.

Canal+ offers a unique programming format featuring exclusive first-run movies, various sports events, news, documentaries and original entertainment shows.

Canal+ broadcasts approximately 400 films a year, 320 of which are exclusive first runs. Each month nearly 30 French or international movies are shown for the first time, excluding pay-per-view. The channel

Table of Contents

features all film genres, as well as exclusive broadcasts of such major events as the Cannes film festival, France s César Awards and Hollywood s Academy Awards. In 2004, Canal+ also invested more than 131 million to acquire French-language productions. The channel holds exclusive first-run rights to movies produced by major US studios such as Twentieth Century Fox, NBCU, Sony/ Columbia, DreamWorks, New Line, Miramax and Spyglass. Canal+ also has a special agreement with Walt Disney and Pixar covering exclusive broadcasting rights to recent feature-length animated films. In January 2005, the channel renewed its agreement with Luc Besson s EuropaCorp for a three-year period. In April 2005, Canal+ Group extended its agreement with Spyglass Entertainment for a four-year period.

In May 2004, Canal+ and representatives of the French film industry entered into an agreement to strengthen their partnership and to offer Canal+ subscribers an enhanced movie offering. The five-year agreement, which reflects changes in the regulatory environment, came into effect on January 1, 2005 (for further information on this agreement, see Regulatory Environment).

Canal+ offers premium sports coverage, with exclusive commercial-free broadcasts, and pre-game, half-time and post-game reports.

On December 10, 2004, the French soccer league granted Canal+ Group exclusive rights to broadcast all French National League 1 games, France s top soccer league, for three seasons (2005-2008).

Canal+ is France s leading pay-TV channel, with 4.95 million subscriptions (in mainland France and its overseas territories) at December 31, 2004, a net increase of 48,000 as compared to 2003. During 2004, Canal+ gained 550,000 new subscriptions and achieved a 2 percentage point decrease in its churn rate, which fell below 11%.

Theme Channels

Canal+ s theme channels include: i>Télé, a 24-hour news channel, Sport+, a sports channel, Jimmy, a channel dedicated to TV series, Seasons, a dedicated hunting and fishing channel, Comédie!, a comedy channel, Cuisine TV, a cooking channel, CinéCinéma s seven-channel package and the four documentary channels from the Planète package.

On January 3, 2005, Canal+ Group and Lagardère Group signed an agreement under which Lagardère sold its entire stake in MultiThématiques to Canal+ Group. In return, Canal+ Group sold its entire interest in Lagardère Thématiques to Lagardère. Now that the transactions have been completed, Canal+ Group wholly owns MultiThématiques and its subsidiaries, and no longer holds any shares or voting rights in Lagardère Thématiques and its subsidiaries.

Pay-TV Distribution

CanalSatellite

Canal+ Group owns 66% of CanalSatellite, the leading French digital satellite pay-TV provider. In 2004, CanalSatellite continued to grow significantly to reach nearly three million subscriptions at the end of December 2004 (a net increase of 238,000 subscriptions as compared to 2003), and a 0.5 percentage point decrease in its churn rate to 8.6%. CanalSatellite offers over 290 channels and services, about 65 of which are satellite exclusives. CanalSatellite s revenues are comprised mainly of subscription fees.

CanalSatellite diversified its package in 2004 by offering ten additional TV channels dedicated to discovery and entertainment, including the French debut and satellite exclusive of the Discovery Channel (a world leader in factual entertainment), w TV (Filles TV, the first channel aimed at girls aged 11 to 17), E! Entertainment (another satellite exclusive), Pink TV (the first general-interest channel dedicated to the gay community), Planète Choc (devoted to documentaries), CinéCinéma Famiz (which offers comedies, adventure films and animated features), Jetix (dedicated to 4 to 14-year-olds) and BBC Prime (international programs).

CanalSatellite also offers more than 40 interactive services, which generate nearly 1.5 million connections a month.

Table of Contents

Since March 2003, CanalSatellite has offered a new-generation digital set-top box equipped with a hard drive and a double tuner and based on the new international standards in interactive TV (DVB-MHP). This personal video recorder (PVR), called Pilotime, can record up to 40 hours of programs in digital quality, record a program while another program is being watched at the same time, and pause or repeat a live transmission within a timeframe of 30 minutes. Approximately 75,000 Pilotime set-top boxes are currently in use.

NC Numéricâble

Canal+ Group, which owned, as at December 31, 2004, 100% of the French cable operator NC Numéricâble, signed a memorandum of understanding with France Telecom, reflecting the parties aims to combine their respective cable activities and networks in March 2004. In December 2004, Canal+ Group and France Telecom Group entered into an agreement to sell their cable activities to the private equity firm Cinven and the cable operator Altice. This transaction closed on March 31, 2005. Canal+ Group now holds approximately 20% of the new company created through the combination of NC Numéricâble and France Telecom Câble.

Media Overseas

Media Overseas, a wholly owned subsidiary of Canal+ Group, is the operator for Canal+ and CanalSatellite in France s overseas territories and outside of France. Media Overseas also owns over 50% of four overseas operators (Africa, Caribbean, Indian Ocean and Pacific) and manages Canal+ Group s Polish platform.

With over 640,000 subscriptions in French overseas territories and in Africa, MediaOverseas is the third largest French satellite operator and the only French network abroad. As a developer of platforms for French-speaking channels with direct reception via satellite, MediaOverseas fulfills its purpose to promote French culture and the French language abroad.

ADSL TV

Since the first quarter of 2004, with the launch of the digital version of Canal+ via ADSL and CanalSatDSL, Canal+ Group offers ADSL TV distribution as part of its strategy to reach as many homes as possible. Canal+ Group s offerings Canal+ Le Bouquet and CanalSatDSL (80 channels and services) have been available through Neuf Telecom since March 2004, France Telecom since the end of June 2004 and Free since November 2004.

Digital Terrestrial Television (DTT)

On January 17, 2005, Canal+ Group became the first operator to broadcast a full program (Canal+) over DTT. On March 31, 2005, Canal+ began broadcasting unscrambled programs as part of the launch of free DTT services. Canal+ expects to introduce scrambled programs in accordance with the government s timetable for pay-TV via DTT.

Video On Demand (VOD)

On April 30, 2004, Canal+ Group acquired Moviesystem (renamed Canal+ Active), the leading developer and operator of video-on-demand services in France as well as in several other European countries.

StudioCanal

Through StudioCanal, Canal+ Group is also a major player in the production, co-production, acquisition and distribution of European and French films. StudioCanal has one of the largest film libraries in the world, with over 5,000 French, British and American feature film titles, including *Terminator 2*, *Basic Instinct, Cliffhanger, The Graduate, The Producers, The Third Man, Breathless, Chicken Run, Billy Elliot, Grand*

Table of Contents

Illusion, The Spanish Apartment (L Auberge espagnole), *The Pianist, Bridget Jones Diary* and *Bridget Jones: The Edge Of Reason*.

In December 2003, StudioCanal signed a four-year agreement with Universal Pictures with respect to Working Title, the British film studio that produced *Four Weddings and a Funeral, Notting Hill* and *Bridget Jones*. Under the terms of this agreement, StudioCanal will be the minority co-producer, with Universal Studios, of films produced by Working Title and the distributor of these films in French-speaking countries.

In 2004, StudioCanal co-produced five of the 11 French films that sold over 1.5 million box-office tickets in France, including Yann Moix s *Podium,* Olivier Dahan s *Les Rivières Pourpres 2*, and Valérie Guignabodet s *Mariages!*. StudioCanal acquired the French rights to Michael Moore s *Fahrenheit 9/11*, which was awarded the Palme d Or at the 2004 Cannes Film Festival, and co-produced Mike Leigh s *Vera Drake,* which won the Golden Lion and the Coppa Volpi for Best Actress at the Venice International Film Festival. In 2004, StudioCanal was once again the top seller of videos in France with its comedy DVDs, *De Caunes/ Garcia* and *L Intégrule 2*.

Other Activities

Cyfra+ (Poland)

In Poland, Canal+ Group is a significant pay-TV operator through the Canal+ premium channel and theme channels, as well as the Cyfra+ digital package. Cyfra+ offers 56 TV and radio channels, 51 of which are in Polish, as well as approximately 100 additional unscrambled channels accessible via satellite. Cyfra+ is the leading pay-TV package in Poland with approximately 700,000 subscribers. Canal+ Group directly holds 49% of Cyfra+ and controls Polcom, which in turn holds 26% of Cyfra+.

Paris Saint-Germain (PSG)

Canal+ Group has a 98.5% stake in PSG, a leading soccer club in France and the only French National League 1 soccer club in Paris. At the end of the 2004/2005 season, PSG ranked number 9 in the League 1 soccer championship.

Seasonality

Canal+ Group revenues are mainly derived from subscriptions which provide Canal+ Group s pay television activity with regular monthly revenues and good visibility in terms of income due to the duration of subscriber contracts. Canal+ Group is, therefore, less affected by seasonal variances other than with respect to new subscriptions, more than 50% of which are usually generated in the last quarter of each year.

Competition

Competition in the pay-TV sector remains largely national due to language and cultural factors specific to each country. In France, pay-TV has a penetration rate of nearly 37%, compared with 42% in the UK. Satellite TV dominates the French market and therefore cable TV s penetration is weak compared to North America and certain other European countries. Canal+ Group s main pay-TV competitors in France for the distribution of TV channels are TPS (which offers its package via satellite and ADSL) and cable operators. Since 2004, telecommunications providers have also developed television via ADSL offers (which include Canal+ Group channels). New participants are entering the pay-TV industry as digital technology (including DTT in several European countries) expands broadcasting options. The development of new distribution media also increases competition for premium channels such as Canal+, particularly with the release of certain films on DVD before they are broadcast on pay-TV channels.

Competition for theme channels is more international than in the traditional pay-TV sector. In a move initiated by US-based media companies and studios, labels are expanding internationally on the model of MTV and Disney Channel. In the film industry, StudioCanal s main competitors are other film studios from the US, Europe and France.

Table of Contents

We also face competition from piracy, which the Canal+ Group actively combats to protect its commercial interests as well as those of copyright owners. In December 2003, Canal+ Group implemented an over-encryption system for some of its signals that ended the piracy of its satellite broadcasts, which was particularly prevalent in North African countries. The latest version of the Mediaguard conditional access control software, used by CanalSatellite, Canal+ s digital offering and NC Numéricâble, was implemented in 2002. Canal+ Group is currently developing a new version of Mediaguard.

In order to fight piracy, Canal+ Group has created CK2 Security, a subsidiary dedicated to technological monitoring and research that employs approximately 15 people. Canal+ Group and CK2 are actively working on encryption security for the DTT system.

In an agreement signed in 2003, Canal+ Group renewed its relationship with Nagra+ as supplier of the conditional access system used for analog broadcasting of the Canal+ premium channel in France. This agreement allowed Canal+ Group to change all the analog keys in February 2005 to further enhance the security of the system.

In 2004, the Canal+ Group continued to seek legal remedies in criminal proceedings against pirates.

Regulatory Environment

Our broadcast operations are subject to national laws and regulations overseen by such authorities as France s CSA. These authorities generally grant broadcasting licenses for specific time periods. Canal+ Group owns 49% of Canal+ S.A., a company listed under Compartment B of Eurolist by Euronext Paris™, which holds the broadcasting license to broadcast the Canal+ premium channel terrestrially, by satellite and by cable that was renewed in December 2000 for five years.

Under its broadcasting license in France, Canal+ S.A. is subject to the following requirements: (i) a single shareholder may not own more than 49% of its capital; (ii) 60% of the films broadcast by the channel must be European films; and (iii) 40% of the films broadcast must be French-language films. Canal+ is also required to invest 4.5% of its revenues in television productions such as made-for-TV movies and original drama.

In May 2004, Canal+ entered into a five-year agreement, which became effective on January 1, 2005, with organizations of the French film industry. Pursuant to the agreement, Canal+:

- gained more flexibility in the scheduling and programming of movies on the Canal+ channel and other Canal+ related channels;

- agreed to allocate 17% of its obligation to acquire French-language movies to films with a budget of 4 million or less as part of a more ambitious and diverse film acquisition policy;

- renewed its financial commitment to support all film industry segments and will continue to allocate at least 9% (up to 12.5% in certain circumstances) of its revenues to the acquisition of French-language films, as part of its obligation to devote 12% of its revenues to the acquisition of European movies; and

- agreed to continue to invest 80% of its French-language film obligation in films prior to the first day of filming.

Our operations are also subject to the French Electronic Communications and Audiovisual Communication Services Act of July 9, 2004, which amended the Audiovisual Communications Act of September 30, 1986 regarding freedom of communications. The new Act confirms and harmonizes the must carry system that requires distributors of services via cable, satellite, ADSL and other networks that do not use terrestrial frequencies assigned by the CSA to provide public access to unused frequencies and increases from five to seven the number of licenses a single person may hold, directly or indirectly, for national digital services broadcast terrestrially.

In October 2004, the French Administrative Supreme Court cancelled the DTT authorizations (for a discussion of DTT services see Digital Terrestrial Television (DTT) above) granted in June 2003 by the CSA to Canal+, i>Télé, Sport+, CinéCinéma Premier and Planète. Canal+ s DTT authorization was not

affected by this decision. In March 2005, Canal+ Group applied to the CSA for the allocation of six DTT channels in addition to the one already allocated to Canal+: i> Télé, as a free-access channel, and Canal+ Cinéma, Canal+ Sport, CinéCinéma Premier, Sport+ and Planète as pay-TV channels. In May 2005, the CSA allocated four DTT channel authorizations to Canal+ Group (out of the eight DTT channel authorizations that were allocated): i> Télé, as a free access channel, and Canal+ Cinéma, Canal+ Sport and Planète as pay-TV channels.

Our broadcast operations are also subject to European Union legislation such as the Television Without Frontiers directive and other directives with respect to intellectual property, e-commerce, data protection and telecommunications.

Research and Development

In 2004, as in 2003, the Canal+ Group did not incur significant research and development costs; most of its expenditure in 2002 (51 million) was related to Canal+ Technologies, a subsidiary which was divested in January 2003.

Raw Materials

Canal+ Group does not rely on raw materials in a material way. Raw materials are primarily comprised of celluloid for the production of films, polycarbonate for the production of DVDs, and paper for packaging. Canal+ Group s operations do not rely on raw materials which are subject to price fluctuations that could have a material impact on Canal+ Group s business.

Property, Plant and Equipment

Canal+ Group s main assets recorded as property, plant and equipment are: PVRs and set-top boxes (Pilotime, Mediasat, Syster), which are either lent or rented to subscribers; broadcasting related assets: including Canal+ s control room/ Playout, CanalSatellite s new broadcasting center, and NC Numéricâble s cable networks (divested in March 2005).

Universal Music Group

Our music business is operated through UMG, in which we hold a 92% interest. UMG is the largest recorded music company in the world in terms of revenues (according to management estimates for 2004 and the International Federation of the Phonographic Industry for 2003). In 2004, UMG held an estimated 24.7% of the global music market (according to management estimates). UMG acquires, manufactures, markets and distributes recorded music through a network of subsidiaries, joint ventures and licensees in 77 countries. UMG also manufactures, sells and distributes music video and DVD products, and licenses recordings. UMG participates in and encourages online electronic music distribution by making a significant amount of its content available online. UMG also invests resources through a variety of independent initiatives and strategic alliances in the technology and electronic commerce areas to allow the music business to be conducted over the Internet and over cellular, cable and satellite networks. UMG is not dependent on any single artist. UMG s top 15 album releases accounted for 13% of unit volume in 2004 (10% in 2003).

UMG is also active in the music publishing market. UMG 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. We believe that UMG is the number three global music publishing company with over one million owned or administered titles.

The key to UMG s success has been its ability to consistently identify, attract and retain successful artists and market them effectively. We believe this is primarily attributable to:

The stability of the management team compared to UMG s major competitors, which allowed UMG to have a consistent strategy to respond effectively to industry and social trends and challenges;

Table of Contents

UMG s size and strength in marketing and distribution, which builds on itself by attracting established artists;

UMG s large catalog of prior hit releases that provide a stable and profitable revenue stream, accounting for approximately 30% of sales, without significant additional investment;

UMG s diverse array of labels in the major markets and local representation across the globe complement each other through their focus on different genres, sub-genres and music segments, and thereby mitigate the effect of changes in consumer tastes; and

Multi-album and multi-year contracts, which secure long-term relationships with some of the most important artists and talent finders in the industry.

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 A&M Records, Geffen Records, Lost Highway Records, MCA Nashville, Mercury Nashville, DreamWorks 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 2004 included new releases from Eminem, U2 and Nelly and carryover sales from 2003 releases from Black Eyed Peas, Hoobastank and greatest hits collections from Shania Twain, Guns N Roses and George Strait. Other major sellers were the debut releases from several new artists including Ashlee Simpson, Kanye West, JoJo and Lloyd Banks. In the UK, UMG enjoyed an exceptional year for breaking new artists with the debut releases from Scissor Sisters and Keane, also the best-selling titles in that market in 2004. Local artists continued to make a significant contribution to sales, and regional best-sellers included: Rammstein, Rosenstoltz, The Rasmus, Calogero and Michel Sardou (Europe); Hikaru Utada, Kou Shibasaki and Moriyama Naotaro (Japan); and Ivete Sangalo and Juanes (Latin America).

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, Bee Gees, 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. UMG coordinates television and radio appearances and may provide financing for concert tours by some artists. 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 in May 2005 of UMG s manufacturing and distribution facilities in the United States and Germany to Glenayre Technologies, the parent company of Entertainment Distribution Corporation (EDC), UMG has outsourced the bulk of its manufacturing and distribution requirements to third parties or joint ventures with other record companies. UMG retains distribution facilities in the U.K. and France.

Table of Contents

E-Commerce and Electronic Delivery

Legal digital distribution of music continued to boom in 2004, evolving into a significant revenue stream. Revenue growth was driven by several factors, including:

- growth of download offerings in the US;
- expansion of download offerings in Europe; and
- growth of mobile offerings in Europe, Asia and the US.

Retail sales of UMG s US digital downloads increased from approximately 14 million in 2003 to approximately 71 million in 2004. This growth was driven primarily by Apple s iTunes and other US digital download retailers, such as Napster, Real Networks and Musicmatch. Many US digital retailers launched in Europe in 2004, including iTunes and Napster, joining Europe s local competitors in growing the legal digital marketplace. The emergence of new competitors and the increased focus on the European download market led to strong growth in that market. Retail sales of UMG s European digital downloads increased from 500,000 in December 2003 to over 2 million in December 2004.

Mirroring the growth in music downloads, UMG sold over 10 million master ring tones in the US in 2004 (from 0 in 2003) and began selling ringback tones through one US carrier, with more carriers expected to rollout this product in 2005. In Asia and Europe, UMG s already established mobile business grew strongly, selling a range of digitized products including videos and images in addition to music.

In 2004, UMG maintained its leadership position in digital distribution, achieving an industry-leading market share of 32%, in the US, higher than our market share of 30% for retail distribution. UMG s market share in digital distribution is primarily due to the fact that UMG offers the largest digital distribution catalog, delivers new releases to digital retailers upon release and collaborates with digital retailers to promote its products. UMG continues to innovate by improving its download offerings with, among other enhancements, digital CD booklet artwork, more flexible pricing and promotional offerings.

In 2005, UMG anticipates continued strong growth in US and European download sales as key partners such as Microsoft and Napster begin to market their services more aggressively and as portable music players continue to proliferate. Mobile master ring tones, ring backs and other ancillary mobile products should continue to drive growth in mobile revenue in the US, Europe and Asia. Additionally, we expect that the music subscription market (currently less than 15% of US digital music revenue and insignificant in Europe) will benefit from new technology that enables rented downloads to be transferred to compatible portable devices.

Music Publishing

Music publishing involves the acquisition of rights to, and 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 we may license the compositions for use in sound recordings, films, videos, commercials and by way of live performances and broadcasting. We also license compositions for use in printed sheet music and song folios. We generally seek to acquire rights, but also administer musical compositions on behalf of third-party owners such as other music publishers and composers and authors who have retained or re-acquired rights. In 2004, the copyrights related to the VUE film and television catalog were transferred to NBCU, as part of the NBC-Universal transaction. We simultaneously negotiated an agreement to continue to administer these 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 American Pie , Strangers in the Night , Girl from Ipanema , Good Vibrations Want to Hold Your Hand , Candle in the Wind , I Will Survive and Sitting on the Dock of the Bay , among many other Among the significant artists and songwriters represented are ABBA, Avril Lavigne, 50-Cent, The Beach Boys, Mary J. Blige, Bon Jovi, The Corrs, Gloria Estefan, No Doubt, Prince, Michel Sardou, Paul Simon, Andre Rieu, Shania Twain, Andrew Lloyd Webber and U2. Legendary composers represented include Leonard Bernstein, Elton John and Bernie Taupin, and

Henry Mancini. Acquisitions in 2004 included the Trema (Art Music) catalog, as well as compositions by Mariah Carey, Diana Krall, Ludacris, Franz Ferdinand, BOSS (Joey Starr and Dadoo), Twista, The Killers, Dave Grohl (Foo Fighters) and Clarence Avant (Bill Withers).

Seasonality

Music sales are weighted towards the last quarter of the calendar year when approximately one-third of annual revenues are generated.

Competition

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.

Sony BMG Entertainment was created in August 2004 when Sony Corporation and Bertelsmann AG combined their global recorded music businesses. The new company does not include the parent companies businesses in music publishing, physical distribution and manufacturing, or Sony Corporation s recorded music business in Japan, SMEJ.

The music industry also competes for consumer discretionary spending with other entertainment products such as video games and motion pictures. UMG is also 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. According to the International Federation of the Phonographic Industry (IFPI), the worldwide music market for sales of physical formats decreased slightly by 1.3% in value and 0.4% in volume in 2004, and sales of pirated music amounted to $4.5 billion in 2003 (most recent available data) as compared to $4.6 billion in 2002 and $4.3 billion in 2001 (the slight decrease in pirated sales value is a result of the lower prices of pirated products). IFPI further estimates that sales of pirated products represented 15% of the world market of legal music sales in 2003, up from 11% in 1999, and that the global pirate market for recorded music totaled 1.7 billion units in 2003.

Online music services continue to be developed to offer consumers a viable, legal, 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 participating in industry legislative efforts, public relations and education, and technical countermeasures while offering consumers new products and services (for further information, see E-Commerce and Electronic Delivery above).

Regulatory Environment

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 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 Federal Trade Commission 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 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.

Research and Development

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 defenses against piracy and new physical formats such as DVD-Audio and HD DVD. Research and development costs incurred by UMG are immaterial.

Raw Materials

The raw materials utilized by UMG s businesses are polycarbonate, for the production of CDs, and paper for packaging. Fluctuations in the price of these raw materials would not have a material impact on UMG s business.

Property, Plant and Equipment

Following the sale in May 2005 of UMG s manufacturing and distribution facilities in the United States and Germany to Glenayre Technologies, 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 U.K. and France and the properties housing the manufacturing and distribution facilities in Germany sold to EDC. UMG generally leases office buildings although a small number are owned.

Vivendi Universal Games

Vivendi Universal Games (VU Games) is a global developer, publisher and distributor of multi-platform interactive games. VU Games development studios and publishing labels include Blizzard Entertainment, Radical Entertainment, Sierra Entertainment and Massive Entertainment. VU Games is a leader in the subscription-based Massively Multi-player Online (MMO) games category and also holds leading positions in the PC and console games markets.

VU Games library contains over 700 titles, many of which were developed in-house and for which VU Games holds the intellectual property rights, including *Warcraft, StarCraft, Diablo* and *World of Warcraft* from Blizzard; *Crash Bandicoot, Spyro, Empire Earth, Leisure Suit Larry, Ground Control* and *Tribes*. VU Games also maintains commercial relationships with strategic partners such as NBCU and Twentieth Century Fox. VU Games owns certain of the technologies used in its PC and console games and also maintains relationships with top-tier external developers. External developer relationships are generally based on long-term, multiple product contracts in order to leverage the developed technology in sequels and spin-offs. Typically, the developer owns the underlying technology that it brings at the beginning of the development process. By using existing technology, VU Games reduces technical risks at the beginning of a project.

In 2004, VU Games became the market leader in the subscription-based MMO games market with Blizzard Entertainment s *World of Warcraft,* which was launched in North America, Australia and New Zealand in November of that year. *World of Warcraft* became the largest MMO in North America during its first week of sales and was the region s fastest-growing MMO. The game was also launched in Korea in mid-January 2005 and became the most successful 100-day launch ever for an MMO role-playing game in the country. *World of Warcraft* was released in Europe in February 2005 and posted excellent first weekend sales and, as at March 2005, there were 500,000 active subscribers. As at June 2005, *World of Warcraft* had more than 2 million subscribers worldwide. The strong results of *World of Warcraft* are expected to have a positive impact on VU Games results in 2005.

VU Games strong performance in the PC games category was led by *Half-Life 2*, launched globally in November 2004, with an estimated 2.3 million units sold at retail as at April 2005. Other top-selling PC titles

in 2004 included *Counter-Strike: Condition Zero, The Chronicles of Riddick: Escape from Butcher Bay, Men of Valor* and *Tribes: Vengeance*.

In the console games market, VU Games publishes titles for Sony s Playstation 2, Microsoft s Xbox and Nintendo s GameCube. In 2004, VU Games best performers in this segment included titles based on content licensed from Universal Studios (*The Chronicles of Riddick: Escape from Butcher Bay* and *Van Helsing*), as well as proprietary games (*Crash Twinsanity, Spyro: A Hero s Tail* and *Leisure Suit Larry: Magna Cum Laude*). *The Simpsons: Hit & Run,* which was originally released by VU Games in 2003, continued to achieve strong sales in 2004.

VU Games 2005 release schedule includes a *World of Warcraft* launch in China and launches of console and PC titles, such as *50 Cent: Bulletproof, Robots, Empire Earth 2*, *F.E.A.R.*, *SWAT 4*, *Crash Bandicoot: Tag Team Racing* and *The Incredible Hulk: Ultimate Destruction*.

VU Games is also intensifying its development efforts for the next generation of consoles from Sony, Microsoft and Nintendo, which are expected to launch commercially in late 2005 or early 2006. VU Games expects to release its next-generation products in 2006. In preparation for the next generation consoles, VU Games entered into an exclusive development agreement with Vancouver-based Radical Entertainment. In March 2005, VU Games completed the acquisition of Radical Entertainment.

Seasonality

PC and console software sales are historically higher during the last quarter of the year. In 2005, VU Games plans to release PC and console games during all quarters to capture revenues throughout the entire year.

The MMO games business provides a consistent revenue stream throughout the year, as consumers are required to pay a monthly subscription fee in order to play games. The continuous revenue flow from *World of Warcraft* should reduce the seasonality of VU Games revenues.

Competition

VU Games main competitors are global publishers with products for multiple platforms and genres. The worldwide leader is Electronic Arts with an approximate 22% market share. The combined worldwide market share of the top ten game publishers is approximately 75%. VU Games is the ninth largest global publisher of interactive games, which comprises PC games and video game software. VU Games share of the European and US markets is approximately 4.7%.

VU Games is the second-largest publisher of PC game software in North America and Europe, with a market share of 12.6%. VU Games holds top market share positions in key regions: number two in the US and Germany, and number three in France, the UK and Spain (source: NPD Funworld, PC Data, Chart-Track, GFK. Data as of December 2004).

In the console and handheld games market, VU Games is the eleventh largest publisher in North America and Europe with a combined 3.7% market share. VU Games rankings in key markets are as follows: number 12 in the US, number 11 in Germany and France, number six in the UK and number eight in Spain. (Source: The NPD Group, Chart-Track, GFK. Data as of November 2004).

Piracy

Piracy is a serious concern for game publishers generally, and one that VU Games anti-piracy department combats directly (e.g., via investigation, litigation, and criminal referrals) and in collaboration with third parties such as other publishers and trade associations. The Interactive Software Federation of Europe estimates that the entertainment software industry lost 2.5 billion to piracy in 2003. The Entertainment Software Association reported that worldwide piracy cost publishers based in the US more than $3 billion last year. With the advent of file sharing software, large pirated games files, which previously were cumbersome to download, now proliferate over the Internet. VU Games continuously updates its internal

security measures and copy protection technology in an effort to prevent and reduce the infringement of its intellectual property. VU Games has also pursued emerging business models, such as MMO role-playing games, which embrace the Internet while at the same time utilizing technology to prevent piracy. VU Games recent release of the Blizzard title, *World of Warcraft,* incorporated online CD-Key authentication for subscription-based play, which has greatly reduced traditional piracy levels. Significant recent international property rights enforcement victories for VU Games include prevailing in litigation against the architects of an unauthorized server project known as bnetd (which circumvented Blizzard s security protections) and, along with Atari, Inc. and Electronic Arts, Inc., against 321 Studios, Inc. which published software for illegally copying game software.

Regulatory Environment

VU Games voluntarily participates in self-regulatory ratings systems established by various industry organizations around the world. In the US, VU Games adheres to ratings, advertising guidelines and online privacy principles adopted by the Entertainment Software Association and the Entertainment Software Rating Board. Pursuant to these guidelines, VU Games displays on its product packaging and advertising the age group for which a particular product is intended and provides a brief description of the product s content. VU Games must also comply with advertising standards and privacy principles for on-line gaming.

In Europe and the Asia-Pacific region, VU Games complies with local legal requirements applicable to computer games and video games, as well as with local statutory rating systems.

MMO games, such as Blizzard s *World of Warcraft,* require the involvement of extensive teams to manage the game. VU Games and Blizzard have developed a specific training program for game masters who manage and monitor *World of Warcraft* players during online gameplay. In addition to providing online service and support, game masters regularly monitor chat rooms and the players online behavior; players who behave inappropriately are immediately expelled.

Research and Development

Research and development costs include development costs incurred prior to the technological feasibility study of a project. Research and development expenses were 158 million in 2004, 112 million in 2003 and 122 million in 2002.

Raw Materials

Raw materials do not constitute a significant amount in the total economics of a game. The raw materials utilized by VU Games are polycarbonate, for the production of CDs and DVDs, and paper for packaging. These raw materials are not subject to price fluctuations that could have a material impact on VU Games business.

Property, Plant and Equipment

In the US, VU Games operates an assembling and distribution facility which it leases in Fresno, CA; all property and equipment in the building are owned by VU Games. In Europe, VU Games uses external partners for manufacturing and physical distribution. VU Games leases its offices (major offices are located in Los Angeles, CA, Irvine, CA, Seoul, South Korea, and Vélizy, France).

Telecommunications

SFR Cegetel Group

The SFR Cegetel Group is the second-largest mobile and fixed-line telecommunications operator in France with approximately 18 million customers at December 31, 2004, an 8% increase as compared to 2003 on a comparable basis. The SFR Cegetel Group is the only private telecommunications operator in France operating in both the mobile and fixed telephony sectors.

The SFR Cegetel Group operates in the mobile telephony sector through SFR, in which Vivendi Universal holds 55.8% of the share capital (the remaining 43.9% and 0.3% of SFR s share capital are held by Vodafone and individual shareholders, respectively) and in the fixed telephony sector (voice, data transmission and Internet) through Cegetel, a 65%-owned subsidiary of SFR. The SFR Cegetel Group s customer base includes residential, professional and corporate customers, as well as operators and Internet service providers. The infrastructure of SFR Cegetel s network as well as the handsets and SIM cards which its sells to its clients are purchased from different sources.

In May 2005, Cegetel and French fixed-line and Internet service provider, Neuf Telecom, announced their merger plan to set up a new group called Neuf Cegetel that would become the largest alternative fixed telecommunications operator in France. This merger plan is subject to approval from personnel representatives of both Cegetel and Neuf Telecom, and from competition and regulatory authorities. Upon completion of the merger the two reference shareholders of the new Neuf Cegetel, SFR and Louis Dreyfus S.A.S., will have an equal stake of 28% each. The remaining 44% will be held by current shareholders of Neuf Telecom.

Mobile Telephony

SFR offers mobile telephony services both on a subscription (post-paid) and a prepaid basis, with or without handsets, for residential, professional and corporate customers in mainland France and in the French overseas territories, Réunion and Mayotte, through its wholly-owned affiliate *Société Réunionnaise du Radiotéléphone* (SRR). As at December 31, 2004, SFR (including SRR) had 15.82 million customers, representing 35.5% of the total mobile telephony market in France as compared to 35.3% in 2003 and 35.1% in 2002 (source: French telecommunications regulatory authority (ARCEP formerly ART)). In 2004, SFR s customer base increased by almost 1.1 million, from 14.72 million to 15.82 million, a 7% increase. In 2004, for the second year in a row, SFR held the highest market share by net sales (38.2%) in France according to the ARCEP. In 2004, SFR s average revenue per user (ARPU) reached 432, a 2% increase as compared to 2003 on a comparable basis.

In 2004, SFR strengthened its position in mobile multimedia services by becoming the first operator to offer third-generation (3G or UMTS-Universal Mobile Telecommunications System) services in France for the corporate market in June and the consumer market in early November. The success of the Vodafone *live!* mobile multimedia services portal continued in 2004 with more than 2.2 million customers at the end of 2004. This success contributed to a sharp increase in data services usage with more than 4.5 billion text messages (SMS) and 37 million multimedia messages (MMS) sent by SFR customers in 2004, against 3.4 billion and 6 million, respectively, in 2003.

Network

SFR s mobile services operate through a GSM (Global System for Mobile Communication) license the international standard for mobile communications and the dominant digital standard in Europe or through a UMTS license. SFR s GSM network covers 98% of the French population and its GSM/ GPRS (General Packet Radio Service) network covers 87% of France s territory. At the end of 2004, the UMTS network covered 38% of the French population, and 64 of the 104 French cities with more than 50,000 inhabitants. UMTS coverage in 2005 should reach 58% of the French population as a result of a significant capital expenditure program in 2005.

SFR has signed roaming agreements covering over 170 countries for GSM/ GPRS and 12 countries for UMTS.

SFR s GSM license was renewed by the French government for a further 15 years from March 25, 2006 for an annual fee of 25 million and 1% of SFR s turnover generated by the GSM network.

In 2001, SFR was granted a UMTS license by the French government for a period of 20 years (2001-2021) in return for a one-time payment of 619 million and an annual fee equal to 1% of SFR s future turnover generated by the UMTS network. The UMTS system is a third-generation mobile radio system which generates additional capacity, enables broadband media applications and high-speed Internet access.

Table of Contents

SFR will continue to invest in the development of its UMTS network in the coming years. Through its partnership with Vodafone, SFR will benefit from the experience of other European operators.

SFR s network was ranked first or first ex-aequo for quality on 53 out of the 57 criteria used by the ARCEP in its annual audit on the quality of mobile networks. SFR continues to invest in its GSM/ GPRS network in order to maintain a high quality of service and to increase the capacity of the network. At the end of 2004, SFR s mobile network comprised 14,680 GSM/ GPRS sites in mainland France.

Fixed Telephony, Data and Internet

The fixed telephony, data and Internet businesses are operated through Cegetel S.A.S., which was created as a result of the merger of Cegetel and Télécom Développement in December 2003. Cegetel is the second largest fixed telecommunications operator in France, with 1.7 million active residential customers, and more than 25,000 corporate customers at the end of 2004.

In March 2004, Cegetel launched its high-speed Internet access offer for residential and professional customers. At the end of 2004, Cegetel had 699,000 DSL customer lines, including 244,000 retail customer lines.

Cegetel also simplified its telecommunications offerings with the introduction of single rates for local and domestic calls and calls from fixed-line phones to mobile phones on all mobile phone networks.

In October 2004, Cegetel was awarded the largest contract in its history, with EDF-GDF (the French national gas and electricity provider). At the end of 2004, Cegetel had over 27,300 customer sites, a 34% increase as compared to 2003.

In 2004, Cegetel launched packages combining high-speed Internet access and unlimited domestic phone communications, WiFi packages, the first ADSL packages in France offering download speeds of up to four megabytes, and ADSL packages offering download speeds of up to eight megabytes.

Cegetel s fixed telephony network, which comprises 22,918 kilometers of fiber optic cable, is the most extensive private telecommunications network infrastructure in France. The network carried more than 42 billion minutes in 2004, a 5% increase as compared to 2003.

In 2004, one of Cegetel s priorities was to develop a broadband Internet network, with the investment of 150 million in unbundling and the installation of 600 DSLAM (Digital Subscriber Line Access Multiplexer). This equipment was installed in record time, which enabled Cegetel to be the provider (at benchmark quality) of more than 21% of the unbundled ADSL lines in France at the end of 2004. Using the latest technology, Cegetel s DSL platform is modular and compatible with the most advanced DSL features (video on ADSL, ADSL 2+). As a result, the Internet access services currently offered will be supplemented with IP telephony and TV/video on ADSL from 2005.

Seasonality

The SFR Cegetel Group s sales (acquisition of new customers) are generally higher at year end, particularly for mobile activity.

Competition

The SFR Cegetel Group faces strong competition in both the mobile and fixed telephony markets.

SFR s principal competitors are Orange France (a subsidiary of France Telecom, France s incumbent operator) and Bouygues Telecom. According to the ARCEP, the penetration rate of mobile telephony increased by 4.8 percentage points in 2004 to reach 73.9% at year-end as compared to 69.1% at the end of 2003. According to the ARCEP, at the end of 2004, the market share of Orange France and Bouygues Telecom was 47.7% and 16.8%, respectively, and 35.5% for SFR. In the UMTS market, SFR faces competition from Orange France, which launched its UMTS services on December 6, 2004, and Bouygues

Telecom, which indicated that it will launch UMTS services in 2007. In December 2001, the French government offered to grant a fourth UMTS license; there has been no candidate for this license to date.

In June 2004, SFR signed the first MVNO (Mobile Virtual Network Operator) agreement in France with Debitel. Under the terms of this agreement, Debitel can offer a mobile telephony service under its own brand and to its own customers using the resources of SFR s network. This agreement currently covers GSM services only; however, it will be extended to UMTS services during 2005. SFR also signed MVNO agreements with NRJ Mobile in February 2005 for the consumer market and, for the professional market, with Futur Telecom in February 2005, as well as Cegetel and Neuf Telecom in March 2005. Orange France has signed a similar agreement with The Phone House (a French mobile telephony retail outlet), which has set up Breizh Mobile for this purpose.

In the fixed-line telephony and broadband Internet market, Cegetel s main competitors are, in addition to France Telecom and its Internet access subsidiary Wanadoo, Tele2, Neuf Telecom, Free (Groupe Iliad), Completel, AOL, Club Internet and Tiscali. The SFR Cegetel Group also faces indirect competition from the providers of other telecommunications services in France.

Competitive pressures have led to a decrease in rates and an increase in customer retention costs as operators seek to control customer churn rates.

Regulatory Environment

Our telecommunications operations are subject to national laws and regulations overseen by such authorities as France s ARCEP. Since 2004, new telecommunications operators are not required to hold a license to operate a fixed or mobile telecommunications network in France; they must, however, make a declaration to the ARCEP. This sector remains heavily regulated. SFR s GSM license was renewed by the French government for a further 15 years from March 25, 2006 for an annual fee of 25 million and 1% of SFR s turnover generated by the GSM network.

In 2004, a series of European directives known as the Telecoms Package were transposed into French law to encourage competition within the French telecommunications market. As a result, the ARCEP will study 18 different markets identified as relevant by the European Commission and in each case, the ARCEP must, on the basis of the position of the participants in such markets, determine if it is appropriate to allow the normal rules of competition to prevail or if the regulator needs to intervene and impose specific measures designed to re-establish a competitive balance. The ARCEP may notify European Community authorities of its intention to define additional relevant markets in France if it deems this is necessary. These provisions apply to both fixed and mobile telecommunications operators.

The sector-specific measures that the regulator can adopt in the relevant markets include: obligation to provide access, pricing controls (including wholesale cost pricing) and accounting separation. These measures could enhance the development of virtual operators (MVNO) in the mobile telephony market or force France Telecom to offer wholesale resale of telephone services to its competitors.

Within this new regulatory framework, the ARCEP has been granted wider powers and is responsible for studying the competitive conditions within each relevant market. It is responsible for allocating frequencies and phone numbers and is also authorized to settle disputes relating to interconnection and access.

In July 2003, the French government, the association of French mayors (*Association des Maires de France*), the Association of French departments, the ARCEP and the three French mobile telecommunications operators launched a two-phase program to extend mobile services to 3,000 cities which do not have access to mobile services by 2007 (so called white zones). The second phase of this program, which is entirely financed by the mobile operators, was launched in July 2004 and aims to cover approximately 1,200 cities.

SFR complies with the regulations (Decree of May 3, 2002) concerning the limitation of public exposure to electromagnetic fields and endeavors to keep the public, local authorities and its landlords informed about the latest developments and regulations on this issue. SFR has also taken an active part in the work of the

Table of Contents

French mobile operators association (*Association Française des Opérateurs Mobiles* AFOM) in order to enhance the dialog and transparency on this issue. In April 2004, AFOM and the association of French mayors agreed to a best practices guide for the installation of mobile phone masts, which anticipated most of the requirements of the July 2004 law on public health.

The rapid growth of mobile telephony in recent years has led to an international debate on the potential health risks caused by electromagnetic waves. At the end of 2000, SFR set up a dedicated management team, as well as a team of scientific advisers including an epidemiologist and a sociologist, in order to monitor research on this issue, understand the expectations of the various interested parties and take appropriate measures if necessary.

Both within France and outside of France, expert opinion is generally of the view that mobile phone masts do not pose a health risk. The latest report published by the French environmental health agency, the *Agence Française de Sécurité Sanitaire Environnementale* in April 2003, which is due to be updated in 2005, concluded that the waves emitted by base stations do not have an adverse effect on health .

Similarly, scientific research carried out on mobile phones over the last decade has not shown any risk to the health of users. Certain results have, however, raised questions which merit further investigation, and research in this field is still on-going. In particular, the International Cancer Research Center, authorized by the World Health Organization, conducted a large-scale epidemiological study, the conclusions of which are expected to be published in 2005. SFR, in association with the French Ministry for Research and other companies, created a foundation to study radio frequencies and health in January 2005.

Research and Development

The SFR Cegetel Group s research and development effort focuses on standard components and the development of next-generation technologies. The SFR Cegetel Group s research and development costs totaled 37 million in 2004, as compared to 58 million in 2003 and 59 million in 2002.

Raw Materials

As a service operator, the SFR Cegetel Group s operations do not rely on raw materials.

Property, Plant and Equipment

SFR and Cegetel own the telecommunications equipment which is used to operate their networks. This equipment is either located in premises rented from third parties (principally through long-term lease agreements) or owned by the SFR Cegetel Group itself. In some cases equipment is located in premises shared with other telecommunications operators. Most of the administrative buildings are rented. The SFR Cegetel Group uses external partners for the storage and distribution of its products such as mobile handsets or modems.

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 leading telecommunications operator in both the fixed-line and the fast-growing mobile business. Maroc Telecom also controls 51% of Mauritel, the national telecommunications operator in Mauritania, together with a group of local investors.

Vivendi Universal 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. Pursuant to a shareholders agreement entered into at the time of the acquisition of the 35% interest, Vivendi Universal controlled Maroc Telecom. The Moroccan government continued the process of privatizing Maroc Telecom by selling us 16% of Maroc Telecom s capital in November 2004 (this transaction closed in January 2005) and by conducting an equity offering of 14.9% of Maroc Telecom s share capital in December 2004 (which led to the simultaneous listing of Maroc Telecom on the Casablanca and Paris stock

exchanges). As a result of these transactions, Vivendi Universal now holds 51% of Maroc Telecom s share capital and the remaining 34.1% and 14.9% of Maroc Telecom s share capital are held by the Kingdom of Morocco and the public, respectively.

Mobile Telephony

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

At the end of 2004, the penetration rate of mobile telephony was 31.2% and Maroc Telecom held a 67.5% market share (source: *Agence Nationale de Réglementation des Télécommunications* National Telecommunications Regulation Agency (ANRT)). In 2004, Maroc Telecom s mobile customer base increased by more than 1.1 million, up 22%, to reach nearly 6.4 million customers, 96% of which were prepaid.

During 2004, Maroc Telecom continued to improve its commercial offer and introduced new services, a more comprehensive handset range, increased its plan offerings with capped-fee plans and continued the development of its loyalty program.

The churn rate, which has been declining steadily for the past three years, was 15.6% at the end of 2004 for post-paid customers compared to 20% at the end of 2003. The churn rate of prepaid customers was 11.4% at the end of 2004, compared to 12% at the end of 2003.

The policy to develop the pre-paid customer base, combined with increased prepaid customer usage, contributed to the slight increase in ARPU, which reached MAD 123 in 2004 (11.04), compared to MAD 122 (10.95) in 2003.

Maroc Telecom remains the benchmark for the SMS and MMS market in Morocco and, until October 2004, was the only operator to offer MMS and GPRS services. In 2004, Maroc Telecom maintained its leadership by offering MMS roaming to its prepaid customers and GPRS roaming to postpaid customers.

Fixed-line Telephony, Data and Internet

Maroc Telecom is the sole holder of a fixed-line telephony license and is the leading data provider in Morocco.

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

- telephony services;
- interconnection services with national and international operators;
- data transmission services to professional markets and to Internet service providers, as well as to other telecoms operators; and
- Internet services which include Internet access services and related services such as hosting.

After declining for three years, the number of fixed lines increased in 2003, driven by the growth of residential and public telephony. This trend continued in 2004 with a total of more than 1.3 million customers at December 31, 2004, up 7% as compared to 2003.

The residential customer base was nearly 890,000 lines at the end of 2004, a 2% increase over 2003. The growth of this segment since 2003 is primarily due to the success of a new line of products, under the El Manzil brand, which includes calling plans, packages and capped-fee plans with refill options.

The number of professional and corporate users reached 283,000 at the end of 2004, representing an 11% increase as compared to 2003.

Public telephony is comprised of a network of public booths and an extensive network of phone shops, which are managed by private entrepreneurs who lease, on average, four lines per shop. Phone shops generate a revenue equal to the difference between the retail price (determined by Maroc Telecom) and the rate charged by Maroc Telecom. This activity grew significantly in 2004, largely as a result of the termination in

October 2004 of the chaining requirement imposing a minimum distance of 200 meters between phone shops. The termination of the chaining requirement enabled a more concentrated phone shop network. The number of lines reached 136,000, a 48% increase as compared to 2003.

Maroc Telecom provides companies with data transmission solutions including X25, Frame relay, digital and analog lease lines, and IP VPN links.

Maroc Telecom s Internet offer consists of Internet access packages under the Menara brand provided to residential and professional customers. The launch of ADSL services in October 2003 has helped to increase Maroc Telecom s Internet customer base. At year-end 2004, Maroc Telecom had nearly 105,000 subscribers to its Internet access services, more than 57% of whom were ADSL subscribers.

Distribution

Maroc Telecom has an extensive distribution network with a direct and indirect network comprising nearly 30,000 points-of-sale and subject to distribution agreements with local resellers or with national retailers.

At December 31, 2004, the various distribution channels were as follows:

- the direct network, composed of 269 sales agencies;
- the local indirect network, comprised of independent shops subject to exclusive agreements, which are managed by the closest Maroc Telecom commercial agency. A significant part of these resellers also have a phone shop;
- an independent local network, primarily dedicated to mobile telephony, managed by GSM Al Maghrib, a company in which Maroc Telecom has held a 35% stake since July 2003; and
- retailers with nationwide networks whose main business is not in telecommunications (supermarkets, newspaper and magazine retailers, tobacco shops or Moroccan post offices).

Network

Maroc Telecom s fixed-telephony and data transmission network has a switching capacity of nearly 1.9 million lines and provides national coverage, as a result of its 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. The international Internet bandwidth has been gradually extended to reach 1,395 Mbits/s.

In mobile telephony, Maroc Telecom has focused on growing both population and geographic coverage. At year-end 2004, Maroc Telecom had nearly 3,750 GSM sites (compared to 3,300 in 2003 and 600 in 1999). Maroc Telecom covers 97% of the Moroccan population. At December 31, 2004, Maroc Telecom had entered into a total of 327 roaming agreements (more than 275 of which are operational) with operators in 184 countries.

Mauritel Group

Maroc Telecom holds 80% of the share capital of Compagnie Mauritanienne de Communications (CMC), which in turn holds 51% of the share capital of Mauritel SA. The remaining 20% of the share capital of CMC is held by Mauritanian investors.

The Mauritel Group is comprised of Mauritel SA, the only fixed-line telephony operator in Mauritania, which provides both fixed-line telephony (voice and data) and Internet access services and Mauritel SA s wholly-owned subsidiary Mauritel Mobiles, the leading mobile phone operator in Mauritania with an estimated 70% percent market share. At the end of 2004, Mauritel had approximately 39,000 fixed lines (a 1% penetration rate) and Mauritel Mobiles had 330,000 clients (a 15% penetration rate).

Table of Contents

Seasonality

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 the second day of February in 2004), while the month of Ramadan (from mid-October to mid-November in 2004) is a low point in consumption for both fixed-line and mobile telephony.

Competition

Twelve telecommunications operator licenses have been allocated in Morocco: a public fixed telecommunications network operator license (Maroc Telecom), two GSM operator licenses (Maroc Telecom and Médi Télécom (Méditel)), four licenses for GMPCS-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.

Third generation (UMTS) licenses will be granted in 2005 and a third GSM mobile license could be allocated by 2007.

Fixed-line Telephony