VIVENDI UNIVERSAL
Form 20-F
June 29, 2006

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As filed with the Securities and Exchange Commission on June 29, 2006

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, 2005

OR

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

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

Commission File Number: 001-16301
VIVENDI 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	1,153,477,321

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No þ

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Item 17 o Item 18 þ

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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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 is a *société anonyme,* a form of limited liability company, organized under the laws of the Republic of France. Our annual general meeting of shareholders of April 20, 2006 authorized the change of our name from Vivendi Universal to Vivendi. As used in this annual report, references to the Company , Vivendi , the Group , we, and our mean Vivendi SA and its consolidated subsidiaries or its predecessor company and its consolidated subsidiaries.

In this annual report, references to Shares mean to the ordinary shares of Vivendi. The principal trading market for the ordinary shares of Vivendi is the Eurolist of Euronext Paris SA. ADSs refers to the American Depositary Shares of Vivendi which are listed on the New York Stock Exchange, or NYSE, each of which represents the right to receive one Vivendi ordinary share and ADRs refers to the American Depositary Receipts evidencing titles to the ADSs.

This annual report includes Vivendi s Consolidated Financial Statements for the years ended December 31, 2005 and 2004, and as at December 31, 2005 and 2004. Vivendi s Consolidated Financial Statements, including the notes thereto, are included in Item 18. Financial Statements .

In accordance with European Regulation no. 1606/2002 of July 19, 2002, we have prepared our Consolidated Financial Statements for the year ended December 31, 2005 in accordance with the International Financial Reporting Standards decreed by the International Accounting Standards Board (the IASB) applicable as at December 31, 2005, as approved by the European Union, which we refer to in this annual report as IFRS . IFRS differs in certain significant respects from generally accepted accounting principles in the United States, which we refer to in this annual report as US GAAP . IFRS, as adopted by the European Union, differs in certain respects from the IFRS issued by the IASB. However, our Consolidated Financial Statements for the year presented in this document in accordance with IFRS would not be different if we had applied IFRS issued by the IASB. Until December 31, 2004, the Group s Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in France or French GAAP . We have therefore restated our consolidated financial information at and for the year ended December 31, 2004, in accordance with the provisions of IFRS 1 First Time Adoption of IFRS . As a result, financial information set forth in this Annual Report for the year ended December 31, 2004 may differ from information previously published. See Item 18. Financial Statements Note 34 for a description of the significant differences between IFRS and US GAAP and a reconciliation of net income, shareholders equity and other measures from IFRS 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 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. References to US dollars , US$, $ or dollars are to United States dollars and reference euro or are to euros.

This annual report contains translations of certain euro amounts into US dollars at specified rates. These translations should not be construed as representations that the converted amounts actually represent such US dollar amounts or that the original amounts could have been, or could be, converted into US dollars at the rates indicated or at any other rate. Unless otherwise stated, the translations of euro into US dollars have been made at the rate of $1.1842 per 1.00, or 0.8446 per $1.00, the noon buying rate in New York City for cable

transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on December 30, 2005. 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 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 or game 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 products or services, particularly in the television, motion pictures, music and game 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 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.

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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 does not undertake to update any forward-looking statement.

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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

In accordance with European Regulation no. 1606/2002 of July 19, 2002, we have prepared our Consolidated Financial Statements for the year ended December 31, 2005 in accordance with IFRS as approved by the European Union. As a result, comparative financial information for the year ended December 31, 2004 previously published under French GAAP has been adjusted to IFRS. For a summary of the material differences between IFRS and US GAAP that affect the reconciliation of our IFRS net income and shareholders equity to those under US GAAP, see Note 34 to our Consolidated Financial Statements.

The selected consolidated financial data under IFRS and US GAAP at and for the years ended December 31, 2005 and 2004 have been derived from our audited Consolidated Financial Statements and the related notes appearing elsewhere in this annual report. The selected consolidated financial data under US GAAP at and for the years ended December 31, 2003, 2002 and 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.

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Amounts in accordance with IFRS:

	Year Ended December 31,	
	2005	2004
	(In millions of euros, except per share data)	
CONSOLIDATED STATEMENT OF EARNINGS		
Revenues	19,484	17,883
Earnings from operations	3,746	3,233
Earnings from operations/Revenues (%)	19.2%	18.1%
Earnings from continuing operations before income taxes	4,378	4,338
Earnings on the divestiture of businesses or financial investments	668	1,738
Earnings from discontinued operations	92	777
Other charges from ordinary activities	(170)	(25)
Earnings	4,266	4,823
Attributable to:		
Equity holders of the parent	3,154	3,767
Minority interests	1,112	1,056
Earnings per share, attributable to the equity holders of the parent		
basic	2.74	3.29
diluted	2.72	3.27
Dividend per share	0.60	
Average share outstanding (millions)	1,149.6	1,144.4
Share outstanding at year end (millions)	1,153.5	1,072.6
CONSOLIDATED STATEMENT OF FINANCIAL POSITION		
Intangible assets (including goodwill and content assets)	18,195	17,762
Equity, attributable to equity holders of the parent	18,769	15,449
Minority interests	2,839	2,643
Total equity	21,608	18,092
Total assets	44,483	43,039
Financial net debt(a)	3,768	4,724
CONSOLIDATED STATEMENT OF CASH FLOWS		
Net cash provided by operating activities	3,558	4,238
Net cash provided by (used for) investing activities	(2,817)	3,744
Net cash provided by (used for) financing activities	(1,035)	(7,545)
Capital expenditures and purchases of investments	2,986	1,716

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Amounts in accordance with US GAAP:

	Year Ended December 31,				
	2005	2004 restated (b)	2003	2002	2001
	(In millions of euros, except per share data)				
CONSOLIDATED STATEMENT OF EARNINGS					
Revenues	20,156	21,208	25,321	40,062	51,733
Earnings, attributable to equity holders of the parent	2,571	2,921	(1,358)	(43,857)	(1,172)
Earnings (loss) per share basic	2.39	2.73	(1.27)	(40.35)	(1.19)
Earnings (loss) per share diluted	2.28	2.61	(1.27)	(40.35)	(1.19)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
Shareholders equity	17,830	14,212	9,804	11,655	54,268
Total assets	43,772	43,104	54,696	69,790	151,139

(a) Vivendi believes that Financial Net Debt, a non-GAAP financial measure, is an important indicator measuring Vivendi s indebtedness. Financial Net Debt is calculated as the sum of long-term and short-term borrowings and other long-term and short-term financial liabilities (including commitments to purchase minority interests) less cash and cash equivalents all as reported on the Consolidated Statement of Financial Position, as well as derivative financial instruments recorded as assets and cash deposits backing borrowings (included in the Consolidated Statement of Financial Position under non-current financial assets). A reconciliation of this measure to the Consolidated Statement of Financial Position items is presented in Item 5. Operating and Financial Review and Prospects .

(b) The Company s shareholder s equity under US GAAP as at December 31, 2004 has been restated to reflect certain adjustments relating to Consolidated Financial Statements for the year ended December 31, 2002 under primary GAAP. These adjustments resulted in a decrease in the previously reported shareholder s equity as at December 31, 2004 of 271 million. Please refer to Item 18. Financial Statements Note 34 .

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 27, 2006, the noon buying rate was 1.00 = $1.26.

Month Ended	Period End	Average Rate(1)	High	Low
May 31, 2006	1.28	1.28	1.30	1.26
April 30, 2006	1.26	1.23	1.26	1.20
March 31, 2006	1.21	1.20	1.22	1.19
February 28, 2006	1.19	1.19	1.22	1.18
January 31, 2006	1.22	1.21	1.23	1.18

December 31, 2005	1.18	1.19	1.21	1.17

Year Ended	**Period End**	**Average Rate(2)**	**High**	**Low**
December 31, 2005	1.28	1.24	1.36	1.16
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

(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.

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Dividends

The table below sets forth the total dividends paid per Vivendi ordinary share and per Vivendi ADS from 2001 through 2005. 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 (euros)	Dividend per ADS (dollars)(1)
2001	1.00	0.89
2002	1.00	0.91
2003		
2004	0.60	0.77
2005(2)	1.00	1.27

(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) The payment of a dividend of 1.00 per share for fiscal year 2005 was approved at the annual meeting of the shareholders held on April 20, 2006. This dividend was paid on May 4, 2006 to the holders of ordinary shares and May 25, 2006 to the holders of ADSs.

Risk Factors

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

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

Currency exchange rate fluctuations may negatively affect our earnings from operations

A significant portion of our assets and liabilities, as well as part of our sales and costs, are denominated in a variety of foreign currencies. Our Consolidated Financial Statements are presented in euro. Therefore, when we

prepare our Consolidated Financial Statements, we must translate our assets, liabilities, income and expenses in currencies other than the euro into euros at applicable exchange rates. As a result, increases and decreases in the value of the euro will affect the value of these items in our Consolidated Financial Statements, even if their value has not changed in their original currency. Therefore, significant currency fluctuations may have an adverse effect on our results of operations. Furthermore, many of our expenses as

part of our operations are not denominated in the same currency as that of the corresponding income. These expenses may represent a higher percentage of the sales figure as a result of exchange rate fluctuations and may therefore affect our profitability and cash flows.

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

The industries in which we operate are highly competitive and 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.

Our content assets in television, motion pictures, audio recordings and interactive games 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, audio recordings and interactive games. The success of content offerings depends primarily upon their acceptance by the public, which is difficult to predict. The commercial success of a particular content offering depends on several variable factors, including the availability of alternative forms of entertainment and leisure time activities and the general economic situation. In addition, we distribute third party contents. Our operations in these businesses are subject to increasingly competitive markets and there can be no certainty that third parties will continue to transfer their rights under conditions that are commercially viable or that there will be no increase in the cost for obtaining these rights. These events could have a negative effect on our business, results of operations and financial condition.

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. In addition, a substantial portion of our operations is heavily dependent on intellectual property rights that we own or for which we hold a license. If we fail to develop effective means of protecting our intellectual property, our results of operations and financial position may suffer.

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. 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 s (UMG) revenue and operating income.

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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 unauthorized copies of motion pictures. Unauthorized copies and piracy of these products compete against legitimate sales of these products. The continuous difficulty in passing and applying appropriate legislations and in enforcing court rulings in certain countries where piracy is endemic constitutes a threat for the film industry. 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.

Item 4: *Information on the Company*

History and Development of the Company

The commercial name of our company is Vivendi and the legal name of our company is Vivendi SA. Our prior name, Vivendi Universal, was changed to Vivendi upon authorization from our shareholders at our annual meeting of shareholders held on April 20, 2006.

Vivendi is a *société anonyme,* a form of limited liability company, organized under the laws of the Republic of France. We are governed by the French Commercial Code (*Code de Commerce*) and Decree no. 67-236 of March 23, 1967. Vivendi was initially organized under the name Sofiée SA 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.

The Company is registered with the Register of Commerce and Companies of Paris (*Registre du Commerce et des Sociétés de Paris*) under number 343 134 763.

We were formed through the merger in December 2000 of Vivendi SA, The Seagram Company Ltd. and Canal Plus SA, with Vivendi continuing as the surviving parent entity (the 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 Merger Transactions in December 2000. Following the appointment of new management in July 2002, we commenced a significant asset divestiture program aimed at reducing the Vivendi group s indebtedness, which we have completed. See Our Strategy and Main Developments for 2005, 2004 and Subsequent Developments in 2006 and Main Developments for 2003 below.

Our Strategy

Vivendi is strengthening its position in media and telecommunications, two business sectors with strong growth rates. All of the Group s businesses music, interactive games, pay-TV and mobile and fixed-line telephony are focused on customer satisfaction. The Group s objective is to enhance its businesses by fostering innovation and creativity while building upon their strong operational compatibility.

The number of distribution platforms continues to grow as does the use of digital technology in mobile, satellite and internet applications. Vivendi is investing in:

- creating and publishing exclusive content;
- creating and managing distribution platforms for content and other services aimed at the general public by drawing on its vast expertise in subscriber database management, customer loyalty, marketing and distribution networks; and
- investing in telecom and pay-TV infrastructure and technological innovations particularly in mobile telephone and broadband applications.

Vivendi ranks either first or second in sales in nearly all of the markets it serves.

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In 2005, as a result of our strategy, the distribution of digital music tripled at Universal Music Group. Vivendi Games was hugely successful with the *World of Warcraft* game and completed a number of external growth transactions. The Canal+ Group boosted subscriptions and announced the plan to combine the Canal+ Group s French pay-TV activities with those of the company TPS. SFR was successful in deploying its third generation network and in diversifying mobile services, while Maroc Telecom saw continued strong growth of mobile telephony and services based on ADSL broadband.

In 2006, as part of this strategy, Vivendi will focus its efforts on:

Completing the combination of Canal+ and TPS and finalizing the agreement with Lagardère to become a leader in the French broadcasting market, which will be able to compete with large foreign media companies, cable and Internet operators;

resolving its differences with Elektrim and Deutsche Telekom in order to assert Vivendi s rights with regard to its 51% equity stake in Elektrim Telekomunikacja and to eventually increase such stake to 100%;

moving further into music publishing, and in certain territories, into the production and distribution of recorded music; and

ensuring the balanced development of Vivendi Games among online, console and mobile games.

There are growth opportunities for third generation mobile telephony and related services, for pay-TV penetration and the development of downloading and interactive exchanges of content (music, games, film and television) over the internet. Vivendi plans to continue investing in all of its businesses in order to benefit from customer demand for innovative products and services. In addition, Vivendi intends to seek additional growth and value through selected acquisitions and investments that complement or extend its media and telecommunications businesses.

Main Developments for 2005 and 2004 and Subsequent Developments in 2006

Since 2002, our Group has evolved considerably, by divesting approximately 25 billion in assets and investing approximately 25 billion. Over the last four years, our Group s revenues were reduced by three, our operating income remained stable and our Financial Net Debt was reduced from 37.1 billion as of December 31, 2001 (under French GAAP) to 3.8 billion as of December 31, 2005 (under IFRS). In particular, the combination of Vivendi Universal Entertainment LLLP (VUE) and National Broadcasting Company, Inc. (NBC) in 2004 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). Following this important reorganization, we emerged as a major participant in the media and telecommunications industries. In 2005, we consolidated our position in our strategic businesses as we acquired an additional 16% stake in Maroc Telecom and completed the combination of Cegetel and Neuf Telecom. In January 2006, we announced a combination agreement for the pay-TV businesses of the Canal+ Group and TPS followed by an agreement with Lagardère in February 2006.

For more information on our main developments in 2005 and 2004 and subsequent events in 2006, please see Item 5. Operating and Financial Review and Prospects .

Main Developments for 2003

In 2003, Vivendi 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. Vivendi also refocused, restructured, and recapitalized the Canal+ Group for close to 3 billion, eliminated major cash drains (essentially its Internet operations), divested non-strategic assets with proceeds of approximately 3 billion and refinanced its debt.

In January 2003, Vivendi purchased BT Group s 26% interest in Cegetel Groupe SA 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). In

December 2003, Cegetel Groupe SA simplified the group s structure through the merger of Transtel, Cofira and SFR into Cegetel Groupe SA 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. Following the repurchase by SFR of the 0.3% stake held by minority shareholders in August 2005, SFR is 56.0% owned by Vivendi and 44.0 % owned by Vodafone.

In December, 2003, Vivendi recapitalized the Canal+ Group for 3 billion through the conversion of an inter-company loan into equity, with no cash impact. As a result of this recapitalization, the performance of the Canal+ Group in 2003 and divestitures of non-core assets, the Canal+ Group s financial net debt was close to 1 billion at the end of 2003, compared to approximately 5 billion on June 30, 2003.

During 2003, Vivendi divested approximately 3 billion of assets. The Canal+ Group s divestitures included the sale of its 89% interest in Canal+ Technologies, its interest in Telepiù, the Italian pay-TV platform, Canal+ Nordic, the company in charge of its pay-TV channel activities in the Nordic region, and Canal+ Belgique SA and its Flemish operations. Vivendi (through VUE) also sold Spencer Gifts, a novelty and gift store chain operating in the US, Canada and the UK and non-core operations including its publishing assets and its fixed-line telephony assets in Hungary.

Business Overview

General

We are a leading media and telecommunications company. Our media business is comprised of Universal Music Group (UMG), Vivendi Games and the Canal+ Group. On May 11, 2004, we completed the NBC-Universal transaction and currently have a 20% interest in NBC Universal (NBCU). Our telecommunications business is comprised of SFR 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 2005 and 2004, in each case after the elimination of intersegment transactions, is as follows:

	Year ended December 31,			
	(as published)		(on a comparable basis(a))	
	2005	2004	2005	2004
	(millions of euros)			
Universal Music Group	4,893	4,989	4,893	4,819
Vivendi Games	641	475	641	475
Canal+ Group	3,452	3,560	3,407	3,277
SFR(b)	8,687	7,192	8,687	8,117
Maroc Telecom	1,860	1,581	1,860	1,611
Non-core operations and elimination of inter-segment transactions(c)	(49)	86	(49)	(62)
Total revenue	19,484	17,883	19,439	18,237

(a) Comparable basis essentially illustrates the effect of the divestitures that occurred in 2005 (primarily, NC Numéricâble) and 2004 (mainly the Flux-divertissement business of StudioExpand, Canal+ Benelux, UMG s music clubs, Kencell and Monaco Telecom) and includes the full consolidation of minority interests in distribution subsidiaries at SFR and of Mauritel at Maroc Telecom, as if these transactions had occurred as of January 1, 2004.

In 2004, comparable basis also includes estimated mobile-to-mobile sales at SFR applying in 2004 the rate applied in 2005. Comparable basis revenues are not necessarily indicative of the combined revenues that would have been reported had the events actually occurred as of January 1, 2004.

(b) Beginning January 1, 2005, SFR s revenue and cost of sales include mobile-to-mobile sales which amount to 909 million for the fiscal year ended December 31, 2005. In 2004, comparable basis includes estimated mobile-to-mobile sales applying in 2004 the rate applied in 2005, i.e., 875 million for fiscal year 2004.

(c) Including Vivendi Telecom International, Vivendi Valorisation and other non core businesses.

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Geographic Data

The contribution of selected geographic markets to our consolidated revenue for each of 2005 and 2004, is as follows:

	Year ended December 31,	
	2005	2004
	(millions of euros)	
France	12,216	10,835
Rest of Europe	1,933	2,176
United States	2,414	2,260
Morocco	1,773	1,516
Rest of World	1,148	1,096
Total	19,484	17,883

Our Segments

Media

Universal Music Group

Our music business is operated through Universal Music Group (UMG), in which we have held a 100% interest since February 7, 2006, compared to a 92% interest as at December 31, 2005. UMG is the largest recorded music company in the world in terms of revenues (based on management estimates for 2005 and the International Federation of the Phonographic Industry (IFPI) for 2004). In 2005, UMG held an estimated 25.6% of the global music market (according to management estimates), compared with 25.5% in 2004 (source: IFPI). UMG acquires, manufactures, markets and distributes recorded music through a network of subsidiaries, joint ventures and licensees in 75 countries. UMG also sells and distributes music video and DVD products and licenses recordings. UMG participates in and encourages the distribution of music over the Internet and over cellular, cable and satellite networks by making a significant amount of its content available in a digitized form. UMG is not dependent on any single artist. UMG s top 15 album releases accounted for 13% of unit volume in 2005 (13% in 2004).

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 allows UMG to have a consistent strategy to respond effectively to industry and social trends and challenges;
- 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, which accounts 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 Geffen A&M Records, Lost Highway Records, MCA Nashville, Mercury Nashville, Mercury Records, Polydor and Universal Motown Records Group; classical labels Decca, Deutsche Grammophon and Philips; and jazz labels Verve, GRP and Impulse! Records.

Best-selling albums in 2005 were new releases from Mariah Carey, 50 Cent, Black Eyed Peas, Eminem, Kanye West and Jack Johnson, in addition to very strong carryover sales from Gwen Stefani. Other best sellers included debut releases from The Game, The Pussycat Dolls, Fallout Boy, Akon and the UK s Kaiser Chiefs. Regional best sellers included Latin artists Juanes and Daddy Yankee, Germany s Rammstein, Brazil s Ivete Sangalo and France s Chimène Badi. Best-selling albums in the first quarter of 2006 were new releases from Andrea Bocelli, Jack Johnson and Prince in addition to the debut release from Ne-Yo that topped the US album chart in March. Other best-sellers were NOW 21 in the US, Spitz and Dreams Come True in Japan and carryover sales from Mary J. Blige.

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, 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.

E-Commerce and Electronic Delivery

Legal digital distribution of music continued to increase in 2005, 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 Japan;
- worldwide growth of mobile offerings with particularly strong growth in the US; and
- the monetization of online music video streaming and downloads.

In 2005, UMG s US digital downloads registered more than 200 million retail sales, which increased almost three fold compared to 2004. This growth was driven primarily by Apple s iTunes and other US digital download retailers, such as Napster, Real Networks and Wal-Mart.

Outside the US, digital download revenue grew significantly, with over 44 million downloads in 2005, mainly due to growth in Japan and Europe. Growth in European downloads was driven primarily by iTunes and Napster, though local services such as OD2 and Germany s T-Online also contributed. In Japan, the growth in downloads was due to the highly successful launch of iTunes as well as mobile Over-The-Air (OTA) downloads through LabelMobile.

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US mobile revenue became a significant revenue stream in 2005, carried by strong sales of mastertone products. UMG sold over 48 million mastertones in the US in 2005, a 380% increase over 2004. Mobile revenue outside the US continued to grow briskly, nearly doubling in 2005.

In 2005, UMG began to generate significant revenue from the online exploitation of its music video assets. UMG led the industry in establishing a business model in which rights holders and artists are paid for free-to-consumer video streams viewed within portals such as Yahoo!, AOL and MSN. Additionally, Apple s iTunes began selling video downloads for $1.99 each. UMG sold more than one million music video downloads in the US in less than three months, accounting for nearly half of all iTunes music video sales. Outside the US, revenue streams from video (excluding mobile sales) are less significant, but should increase in 2006 with additional streaming revenue and the continued expansion of download offerings.

In 2005, UMG maintained its leadership position in digital distribution primarily due to UMG s offering of the largest digital distribution catalog, delivery of new releases to digital retailers upon release and collaboration 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 2006, UMG anticipates continued growth in the download market due to strong sales of digital music players (particularly iPods), increased penetration of broadband and the emergence of new digital retail partners such as MTV. Sales of portable devices should also lead to growth in the subscription market as technology that allows rented downloads to be transferred to compatible portable devices improves and gains device penetration.

Video downloads and free-to-consumer video streaming will continue to be an important new source of revenue and ad-supported models should emerge for free-to-consumer audio as well. Additionally, mobile revenue should benefit from: strong growth in mastertone sales in the US and outside the US; the continued expansion of the ringback-tones market in the US and additional territories internationally, and the rollout of mobile broadband networks in the US, enabling greater consumption of mobile music entertainment products such as OTA audio and video downloads, video ringers and video streams. Across all product categories, UMG will seek to maximize revenue by making more content available and introducing new digital products and bundles.

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 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 reacquired 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, Anastacia, Avril Lavigne, 50 Cent, The Beach Boys, Mary J. Blige, Jon Bon Jovi, The Corrs, Gloria Estefan, No Doubt, Prince, Michel Sardou, Paul Simon, André Rieu, Andrew Lloyd Webber and U2. Legendary composers represented include Leonard Bernstein, Elton John and Bernie Taupin and Henry Mancini. In 2005, we concluded two separate deals to administer the remaining copyrights attributable to the esteemed songwriting team of Elton John and Bernie Taupin (UMG already owned certain other rights pursuant to a prior acquisition). Other new deals in 2005 included Mark Batson, Maximo Park, The Bravery, Ciara, Rock Music Publishing, Wolfmother, Iris Gruttmann (Schnappi), Chamillionaire, The D.O.C. and Wind-Up Entertainment.

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.

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

Finally, the recorded music business continues to be adversely affected by pressed disc and CD-R piracy, home CD burning and illegal downloading from the Internet. According to the IFPI, the worldwide music market decreased by 3% in 2005, with a 7% drop in physical music sales partly offset by growing demand for online and mobile music on the Internet and mobile phones. Sales of pirated music amounted to $4.6 billion in 2004 (most recent available data), as compared to $4.5 billion in 2003 and $4.6 billion in 2002. IFPI further estimates that one in three discs sold worldwide is a pirate copy and in 31 countries of the world, illegal recordings outsell the legitimate alternative. Pirate sales amounted to 1.2 billion copies in 2004 (a 2% increase compared to 2003).

Online music services continue to be developed to offer consumers a viable, legal and copy-protected online source of music. The industry and UMG are increasing their anti-piracy activities with a multi-pronged approach focusing on legal action, including 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 2003, following a lawsuit filed by the Federal Trade Commission, the Federal Trade Commission issued an order that generally prohibits UMG from entering into agreements with unaffiliated entities (i) to fix, raise or stabilize prices or price levels for sales of audio or video products in the United States and (ii) to prohibit, restrict, regulate or otherwise limit truthful, non-deceptive advertising for audio or video products in the United States. In 2006, following an investigation by the New York State Attorney General regarding the business dealings of major record companies with radio stations and with independent radio promoters, a UMG company entered into an Assurance of Discontinuance Agreement with the New York State Attorney General s office. That agreement provides for the UMG company to institute a variety of reforms in its radio promotion policies, including the appointment of a radio promotion compliance officer.

In December 2005, the New York State Attorney General opened an investigation into matters concerning the pricing of digital downloads. In connection with that inquiry, the New York State Attorney

General has served a subpoena on the four major record companies. UMG is currently in the process of responding to that subpoena. In February 2005, the United States Department of Justice opened an investigation into matters concerning UMG s practices and policies related to the online distribution of music. In connection with that inquiry, the New York State Attorney General has served a subpoena on the four major record companies. UMG is currently in the process of responding to that subpoena.

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. 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 do 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 UK 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 Games

Vivendi Games is a global developer, publisher and distributor of multi-platform interactive entertainment. Vivendi Games owns five global development studios which create online, PC, mobile and console games for the company s owned intellectual properties and licensed content. Vivendi Games two principal studios and publishing labels include Blizzard Entertainment and Sierra Entertainment (which includes Radical Entertainment, Swordfish Studios, High Moon Studios and Massive Entertainment). Vivendi Games is a leader in the subscription-based Massively Multi-Player Online Role-Playing Games (MMORPG) segment and holds leading market positions in PC, console, handheld and mobile games and is an emerging player in casual online games.

In 2005, Sierra, a division of Vivendi Games, acquired three independent studios, which have extended Vivendi Games internal developmental capabilities, each of these studios being well positioned to develop titles for the next generation of consoles. In March 2005, Sierra completed the acquisition of Vancouver-based Radical Entertainment, the developer of *The Incredible Hulk: Ultimate Destruction* and *The Simpsons: Hit & Run*. In June 2005, Sierra acquired UK-based Swordfish Studios, named Developer of the Year in 2004 by The Independent Game Developers Association. In December 2005, Sierra purchased High Moon Studios based in Carlsbad, CA. Sierra also owns Massive Entertainment, the creator of the *Ground Control* PC franchise, which established the studio as a top developer in the real-time strategy genre. In addition, in May 2005, Blizzard Entertainment acquired Swingin Ape studios, now renamed Blizzard Console. In October 2005, Vivendi Games sold Coktel, its studio specializing in educational games.

Vivendi Games library contains over 700 titles, many of which were developed in-house and for which Vivendi Games holds the intellectual property rights, including *Warcraft, StarCraft, Diablo* and *World of Warcraft* from Blizzard Entertainment, and Sierra s *Crash Bandicoot, Spyro the Dragon, Empire Earth, Leisure Suit Larry, Ground Control* and *Tribes*. Vivendi Games also maintains commercial relationships with strategic partners such as NBC Universal and Twentieth Century Fox. In 2005, Sierra signed an exclusive global agreement to publish games based on the literary works of Robert Ludlum, whose books have sold more than 290 million copies worldwide and generated the theatrical box office hits *The Bourne Identity* and *The Bourne Supremacy*.

Top selling titles in 2005 included Blizzard s *World of Warcraft* and Sierra s *50 Cent: Bulletproof, Crash Tag Team Racing, Robots* and *F.E.A.R.*

World of Warcraft is the world s most popular game in the MMORPG segment, with more than 6.5 million customers worldwide as at May 2006. Either directly or in cooperation with local partners, Blizzard Entertainment has released *World of Warcraft* in over six countries within 12 months, and established in all regions the appropriate in-game support service for users. The title is distributed by Blizzard Entertainment in North America, Europe and Korea, and by China The9 Interactive Limited (C9I) in China, and Soft-World International Corporation in Taiwan. Blizzard Entertainment s track record includes nine No. 1 selling games and multiple Game of the Year awards. Its free Internet gaming service Battle.net is the largest in the world, with several million active users.

In 2006, Blizzard Entertainment intends to continue to expand *World of Warcraft s* customer base and retain existing subscribers with an expansion pack, *World of Warcraft: The Burning Crusade* and additional content patches bringing attractive new features throughout the year. Sierra s 2006 PC and console product line-up includes titles such as *Scarface: The World is Yours, Eragon, F.E.A.R. Extraction Point (Expansion Pack), Ice Age II, Caesar IV* and *The Legend of Spyro A New Beginning.* Sierra will also release titles for the next generation of consoles starting late 2006 including *Timeshift, F.E.A.R. 360* and *Eragon* for the Xbox 360. PSP (Playstation® Portable) titles for 2006 include *50 Cent Bulletproof G Unit Edition, Miami Vice The Game* and *M.A.C.H.* Nintendo DS titles for 2006 include *Eragon, Crash Boom Bang* and *The Legend of Spyro A New Beginning*.

In 2005, Vivendi Games entered the rapidly growing market for games on mobile phones by: launching five Vivendi Games titles via distributors; building up a mobile game development studio and staff in Meudon (France); recruiting senior management for a mobile games publishing unit; preparing its 2006 mobile game publishing slate; and receiving positive feedback on its plans from the world s major wireless network carriers.

Vivendi Games owns certain of the technologies used in its PC and console games and 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. In the console games market, Vivendi Games is intensifying its development efforts for the next generation of consoles from Sony, Microsoft and Nintendo. High Moon and Swordfish Studios use the Unreal 3 technology which was licensed in 2005 by Vivendi Games as the basis for their engine. Radical Entertainment is transitioning its proprietary engine to the next generation.

Seasonality

PC and console software sales are historically higher during the last quarter of the year.

The subscription-based MMORPG business provides a more consistent revenue stream throughout the year as consumers are required to pay a monthly subscription fee or purchase hourly time cards in order to play the game. The more continuous revenue flow from *World of Warcraft* has helped reduce the seasonality of Vivendi Games revenues. For mobile games, there is a slight increase in sales at the end of the year due to the acquisition of cellular phones during the holidays.

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Competition

Vivendi Games main competitors are global publishers with products for multiple platforms and genres. The worldwide leader in interactive games is Electronic Arts (EA) with a 19.1% market share in 2005. In 2005, Vivendi Games was the second largest publisher of PC game software with a market share of 10.3% (including 2005 retail sales of *World of Warcraft*). Vivendi Games had the eighth largest share of the combined PC and console games market at 5.1%. (Source: Vivendi Games estimates based on GFK, Chart Track and NPD, France, UK, Germany and the US combined, from January to December 2005.)

Vivendi Games principal competitors in the MMORPG segment include NC Soft and Sony Online Entertainment. Vivendi Games major competitors in console and PC games include EA, Activision, Take 2, THQ and Ubisoft. In the mobile category, Vivendi Games mainly competes with Gameloft, EA, THQ, Glu and Hands-On-Mobile.

Piracy

Piracy is a serious concern for game publishers generally, and one that Vivendi Games anti-piracy department combats directly (via investigation, litigation, and criminal referrals) and in collaboration with third parties such as other publishers and trade associations. Vivendi Games has also pursued emerging business models, such as MMORP games developed by Blizzard Entertainment, which embrace the Internet and at the same time use technology to prevent piracy.

Regulatory Environment

Vivendi Games voluntarily participates in self-regulatory ratings systems established by various industry organizations around the world. In the US and in Europe, Vivendi 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, Vivendi 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.

Research and Development

Research and development costs include internal development costs as well as capitalized advances to external developers and license owners. Research and development costs were 186 million in 2005 (excluding the impact of writedowns and reserves on cancelled titles and net amortization of capitalized software development costs), 158 million in 2004 and 112 million in 2003.

Raw Materials

Vivendi Games principal raw materials are polycarbonate for the production of CDs and DVDs and paper for packaging. These raw materials do not constitute a significant amount in the total economics of a game. Price fluctuations affecting these raw materials are unlikely to have a material impact on Vivendi Games business.

Property, Plant and Equipment

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

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The Canal+ Group

The Canal+ Group has two principal lines of business:

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

- Pay-TV channel distribution via satellite, cable, ADSL or 3G mobile telephony, which includes CanalSat 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 owns 100% of the Canal+ Group, which in turn owns 49% of Canal+ SA (the premium channel).

On January 6, 2006, after consulting with employee representative bodies, Vivendi, TF1 and M6 entered into an agreement with the objective of combining the French pay-TV activities of the Canal+ Group and TPS into a company controlled by Vivendi. Upon completion, Vivendi will have an 85% interest in the new company, while TF1 and M6 will have respective stakes of 9.9% and 5.1%. This combination agreement is subject to the approval of the French competition authorities and the French Broadcasting Authority, the *Conseil supérieur de l audiovisuel* or *CSA*.

On February 17, 2006, Lagardère, Vivendi and the Canal+ Group entered into a separate agreement under which Lagardère, already a partner of the Canal+ Group through CanalSat, would join the Canal+ Group, TF1 and M6 in the new company, temporarily named Canal+ France. The agreement with Lagardère is subject to the approval of the CSA and the French competition authorities.

Upon completion of these transactions, Canal+ France will be owned by the Canal+ Group (65%), Lagardère (20%), TF1 (9.9%) and M6 (5.1%) and Vivendi will have the exclusive control of Canal+ France through the Canal+ Group. The new company would comprise all the present assets of TPS and the Canal+ Group in Pay-TV, including 100% of CanalSat, Canal+, TPS, MultiThématiques, MediaOverseas, Sport+, Canal+ Active and Kiosque. StudioCanal, the advertising company, PSG[(1)] and i>Télé, on the one hand, and Cyfra+, on the other hand, will not be part of Canal+ France and will continue to be held 100% and 75% by the Canal+ Group, respectively.

We believe that Canal+ France will be a major participant in the French audiovisual market with the ability to react to the changing competitive environment created by the rise of new players, such as cable and internet operators.

Pay-TV France

Canal+ Group s pay-TV operations in France are centered on the Canal+ premium channel and 17 theme channels, which provide subscribers with exclusive high-quality content.

The Canal+ Premium Channel

Canal+ has been a pioneer in the field of pay-TV since 1984. Canal+ is broadcast via terrestrial, satellite, cable and ADSL networks, and since November 2005, via digital terrestrial television (DTT). Since March 5, 2005, Canal+ s digital subscribers have had access to Canal+ Le Bouquet , which offers premium content channels built around Canal+ (Canal+ Cinéma, Canal+ Sport, Canal+ Décalé, each with their own identity and programs, and Canal+ Hi-Tech). Canal+ is the first premium multi-channel service in France. Since November 2004, Canal+ has been the only French channel to broadcast films in Dolby Digital 5.1 on its dedicated wide screen (16/9) channel. Canal+ offers a unique programming format featuring exclusive first-

(1) In April 2006, the Canal+ Group entered into an agreement regarding the divestiture of its interest in the Paris Saint-Germain soccer club (PSG) to a group of institutional investors. The Canal+ Group finalized the divestiture of PSG on June 20, 2006.

run movies, various sports events, news, documentaries French and foreign drama and original entertainment shows. Canal+ broadcasts approximately 430 films each year, 300 of which are exclusive first runs on French TV.

In 2005, Canal+ invested more than 135 million to acquire French-language productions. The channel holds exclusive first-run rights to movies produced by major US studios such as 20th Century Fox, NBC Universal, Sony/Columbia, and DreamWorks. 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.

Canal+ offers premium sports coverage with exclusive commercial-free broadcasts and pre-game, half-time and post-game reports and high quality production methods with original camera positions and technical innovation. On December 10, 2004, the French soccer league granted the 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 5.06 million subscriptions (group and individual subscriptions in mainland France and its overseas territories) as of December 31, 2005, a net increase of more than 105,000, as compared to 2004. During 2005, Canal+ gained 640,000 new subscriptions, its best sales since 1987. Its churn rate stood at 11.4%.

Theme Channels

Canal+ has a total of 17 theme channels which 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, the Canal+ Group and the Lagardère Group signed an agreement under which Lagardère sold its entire interest in the content producer MultiThématiques to the Canal+ Group. In return, the Canal+ Group sold its entire interest in Lagardère Thématiques to Lagardère. Now that the transactions have been completed, the 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

CanalSat

The Canal+ Group currently owns 66% of CanalSat (formerly CanalSatellite), the leading French digital satellite pay-TV provider. CanalSat had almost 3.2 million subscriptions at the end of December 2005 (a net increase of almost 205,000 subscriptions, as compared to 2004). In 2005, CanalSat gained over 480,000 new subscribers (an 8% increase, compared to 2004) while maintaining its churn rate slightly below 10%.

CanalSat offers over 280 channels and services, about 55 of which are satellite exclusives. CanalSat has a multi-platform strategy based on satellite and ADSL services. In addition, CanalSat launched a package of channels specifically designed for 3G telephones, which has been broadcast on SFR s network since June 2005. In November 2005, CanalSat introduced Minipack CanalSat on the pay DTT service.

CanalSat s revenues are comprised mainly of subscription fees. In September 2005, CanalSat broadened its commercial offerings with new types of subscriptions and a wider price range.

Media Overseas

Media Overseas, a wholly-owned subsidiary of the Canal+ Group, is the operator for Canal+ and CanalSat in France s overseas territories and in other countries outside of France. Media Overseas is the only French overseas network and directly operates four satellite platforms (Africa, Caribbean, Indian Ocean and Pacific) in which it is the majority shareholder, covering 500 million people in the world and two-thirds of all French-speaking countries. Media Overseas also manages Cyfra+, Canal+ Group s Polish platform. At the

end of December 2005, Media Overseas had a total of 660,000 active subscriptions in French overseas departments and territories and in Africa.

Cyfra+ (Poland)

The Canal+ Group is a major participant in pay-TV in Poland through its activity as programmer of the Canal+ premium package, which celebrated its 10th anniversary in 2005. The Canal+ Group also programs theme channels and operates the Cyfra+ digital platform. Cyfra+ offers subscribers 81 television and radio channels, 63 of which are in Polish, as well as approximately one hundred additional channels available free-to-air via satellite. Cyfra+ is the leading platform in Poland with close to 800,000 subscriptions at year end 2005. The Canal+ Group has a 49% stake in the operating activities of Cyfra+ in Poland, and has a 100% interest in Polcom which, in turn, holds a 26% interest in Cyfra+.

ADSL TV

Since the first quarter of 2004, with the launch of the digital version of Canal+ via ADSL, the Canal+ Group offers ADSL TV distribution as part of its strategy to reach as many homes as possible, especially in large city centers. The Canal+ Group s offerings Canal+ Le Bouquet and CanalSat (100 channels and services) have been available through Neuf Cegetel (formerly Neuf Telecom) since March 2004, France Telecom since the end of June 2004, and Free since November 2004. The Canal+ Group had over 200,000 ADSL subscriptions at year-end 2005.

Digital Terrestrial Television (DTT)

In January 2005, the Canal+ Group became the first operator to broadcast a full program (Canal+) over DTT. On March 31, 2005, Canal+ began broadcasting free-to-air programs as part of the launch of free DTT services. In May 2005, the CSA granted the Canal+ Group four new DTT authorizations, in addition to the authorization already held for the channel Canal+.

Legal Downloading of Video and Video On Demand (VOD)

In October 2005, the Canal+ Group launched CanalPlay, a legal video downloading service. Accessible via a PC, www.canalplay.com offers a large variety of videos available for download. CanalPlay has a library of close to 1,000 videos and since December 2005, offers videos for young people, in particular with the catalogs of Nickelodeon and Jetix. Users have one month to watch the video in a 24-hour window that begins with the start of viewing. For videos for young viewers, users can watch the video as many times as they wish during a one-month period.

StudioCanal

Through StudioCanal, the Canal+ Group is a major participant in the production, co-production, acquisition and distribution of European and French films and one of the main partners of the French film industry through its financial involvement in co-productions and in the provision of guaranteed minima for the distribution of films. StudioCanal has one of the largest film libraries in the world, with over 5,000 French, British and American feature film titles, including *Basic Instinct, Les Bronzés, The Pianist* and *Podium*. Some rights are held by StudioCanal for the whole world, others are limited to Europe or France.

In 2005, two StudioCanal films were among the 10 biggest box office hits in France: *Million Dollar Baby* with ticket sales totaling 3,200,000 and *The Russian Dolls* with ticket sales totaling 2,860,000. These films also achieved very high DVD sales, each selling over 400,000 copies. As a result of this performance and that of comedy DVDs such as *De Caunes/ Garcia 2*, StudioCanal took the lead for end-of-year video sales.

Seasonality

The Canal+ Group s revenues are mainly derived from subscriptions which provide the Canal+ Group s pay-TV activity with regular monthly revenues and with the ability to forecast income due to the length of

subscription contracts. As a result, the Canal+ Group is 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 the calendar year.

Competition

Competition in the pay-TV sector remains largely national due to language and cultural factors specific to each country. Satellite TV dominates the French market and therefore cable TV penetration is weak compared to North America and certain other European countries. The Canal+ Group s main pay-TV competitors in France for the distribution of TV channels are TPS for satellite TV and cable operators. Since 2004, telecommunications providers have also developed triple play offers combining telephone, Internet and television access. In addition, 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. Digitization of content on physical media (DVD) or electronic media, favored by the emergence of high-tech equipment such as home cinema equipment and new generations of personal multimedia players, also represent competition for a premium channel such as Canal+. 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 Discovery, MTV, Fox Kids and the Disney Channel. In the film industry, StudioCanal s main competitors are other film studios from the US, Europe and France.

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 order to fight piracy, the Canal+ Group has created CK2 Security, a subsidiary dedicated to technological monitoring and research that employs approximately 15 people. In an agreement signed in 2003, the 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 the Canal+ Group to change all the analog keys in February 2005 to further enhance the security of the system.

The Canal+ Group also seeks 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. 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.

The Canal+ Group owns 49% of Canal+ SA, a company listed under Compartment B of Eurolist by Euronext Paris, which holds the broadcasting license to broadcast the Canal+ premium channel terrestrially via satellite and cable. This authorization was renewed for a five-year period starting December 6, 2005.

Under its broadcasting license in France, Canal+ SA 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 addition, the share capital of Canal+ SA, as the holder of the broadcasting license, can only be held up to 20% by a non-European Union shareholder.

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

renewed its financial commitment to support all film industry segments and agreed to 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;

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

made certain other financial and technological commitments.

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 i>Télé, Sport+, CinéCinéma, Planète, CanalJ and MCM channels. Canal+ s DTT authorization was not affected by this decision. In March 2005, the 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 the 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.

Regarding Canal+ Active s video-on-demand business, a multi-industry agreement (*protocole d accord interprofessionel*) on movies-on-demand was entered into on December 20, 2005 for a 12-month period.

Research and Development

In 2005, as in 2004 and 2003, the Canal+ Group did not incur significant research and development costs.

Raw Materials

Raw materials used in the Canal+ Group s business are primarily comprised of celluloid for the production of films, polycarbonate for the production of DVDs and paper for packaging. Price fluctuations affecting these raw materials are unlikely to have a material impact on the Canal+ Group s business.

Property, Plant and Equipment

The Canal+ Group s main assets recorded as property, plant and equipment include personal video recording equipment (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 and CanalSat s new broadcasting center.

Telecommunications

SFR

SFR is the second-largest telecommunications operator in France with 17.2 million customers as of December 31, 2005 (excluding wholesale customer base). Following the repurchase by SFR of the 0.3% stake held by minority shareholders in August 2005 and the subsequent cancellation of the corresponding shares by

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SFR, Vivendi now holds a 56% interest in the share capital of SFR (the remaining 44% being held by Vodafone).

SFR offers mobile telephony services both on a subscription (post-paid) and a prepaid basis (via phone cards), with or without handsets as well as mobile multimedia services (such as music, television, video and games) and data transmission for residential, professional and corporate customers in mainland France and in the French overseas territories, Réunion and Mayotte, through its wholly-owned subsidiary Société Réunionnaise du Radiotéléphone (SRR).

SFR also operates in the fixed-line telecommunication sector (voice, data transmission and broadband Internet access) through its 34.9% interest in Neuf Cegetel. Upon completion of the merger between Cegetel and Neuf Telecom in August 2005, SFR and Louis Dreyfus SAS held an equal interest of 28.2% in Neuf Cegetel while the remaining stake of approximately 44% was held by the historical shareholders of Neuf Telecom. In May 2006, SFR exercised its preemptive rights and acquired an additional 6.9% stake in Neuf Cegetel s share capital. SFR now holds 34.9% of Neuf Cegetel and Louis Dreyfus 35.2%, the remaining share capital of Neuf Cegetel is held by the historical shareholders of Neuf Telecom. Neuf Cegetel, is the second largest fixed-line telecommunications operator in France and is the leading alternative operator within the markets for the general public and for professionals, corporate customers and operators. Neuf Cegetel markets its services under two brands, Neuf Telecom and Cegetel. At the end of 2005, Neuf Cegetel had close to 1.2 million customers for its ADSL Internet services.

Mobile Telephony

In 2005, the mobile phone market continued to grow in France, with an increase in SFR s mobile phone customer base of 3.5 million (representing a 7.9% annual growth) and 48 million mobile customers in France as at December 31, 2005, while the penetration rate of the mobile phone market increased from 73.9% in 2004 to 79.7% in 2005 (Source: French telecommunications regulatory authority, ARCEP (formerly ART), and SFR).

In 2005, the French market faced strong competition with the entry on the market of eight Mobile Virtual Network Operators (MVNOs) and the steady development of third generation (3G) mobile services following implementation by SFR and Orange of UMTS services in the French territory.

In 2005, SFR gained 1.38 million new customers to reach a total customer base of 17.2 million (a 9% increase compared to 2004). For the third consecutive year, SFR held the highest market share in terms of net sales (39.4%), while SFR s share in the mobile phone market in France increased to 35.8%, compared to 35.5% in 2004 and 35.3% in 2003 (Source: ARCEP and SFR). Despite a 16.3% reduction of the regulated call termination tariffs introduced on January 1, 2005, SFR s Average Revenue Per User (ARPU) remained stable at 429 in 2005. SFR proved ongoing commercial dynamism during the first quarter of 2006, with 130,000 new customers, taking its total customer base to 17.328 million (excluding wholesale customer base).

This achievement reflects the success of SFR s offering, which aims to increase the use of voice calls on the mobile network and to develop new services, mainly involving TV/Video and music. In this context, the following factors were decisive:

SFR s investment strategy in its own telecommunications networks and in particular in its UTMS network through a significant increase of available capacities for voice calls and data transfers to meet its diversified customer needs;

multiple initiatives to boost the French market, including 3G access from the lowest monthly subscription rate (22) and the cheapest pre-paid card (10) regardless of the plan chosen (subscription, pre-paid or rechargeable blocked accounts), along with a significant decrease in the price of 3G handsets; and

a strong commercial presence within the French territory with 5,000 outlets.

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Network

SFR s mobile services operate through a GSM/GPRS (Global System for Mobile Communication/ General Packet Radio Service) license, the international standard for mobile communications and the dominant digital standard in Europe or through a UMTS (3rd generation mobile telephony or 3G) license. At the end of 2005, SFR s GSM/GPRS network covered 98% of the French population and SFR s UMTS network covered 60% of the French population.

The UMTS system is a third-generation mobile radio system which generates additional capacity, enables broadband media applications and high-speed Internet access. SFR will continue to invest in the development of its UMTS network in 2006 as a result of a significant capital expenditure program. In addition, since 2005, SFR has been preparing the introduction of the new HSDPA functionality (3G+) on its 3G network. The first HSDPA commercial pilots for corporate customers were launched in March 2006. In May 2006, SFR launched the first 3G+ commercial offerings in France for corporate customers. SFR was the first operator to offer 3G+ services to its corporate customers. In June 2006, SFR was also the first operator to extend its 3G+ offerings to the general public.

SFR will implement the Enhanced Data for Global Evolution (EDGE) standard in areas which are not covered by the UMTS network to improve its GSM/GPRS coverage. This standard will allow SFR to offer higher levels of communication output to its corporate customers compared with those provided by the GSM/GPRS network.

SFR s network was ranked first or first ex-aequo for quality on 56 out of the 59 criteria used by the ARCEP in its 2004/2005 annual audit on the quality of mobile networks. SFR is the only operator to have achieved this ranking for two consecutive years.

As a service operator, SFR does not intervene in any industrial processes directly. The various pieces of its network infrastructure, as well as the terminals and the SIM cards sold by SFR to its customers, are purchased from a variety of suppliers to avoid any dependence in this respect.

Services

In 2005, SFR s voice usage per user increased by 10.5%, compared to 2004, with an average length of communications (Average Usage Per User, AUPU[(2)]) of 296 minutes per month. This strong growth results in part from the launch of new offers in April 2005, including unlimited communications to three other SFR customers, representing a significant decrease in the price per minute paid by customers. Average voice usage of SFR customers continued to grow in the first quarter of 2006 to reach 309 minutes per month. For non-voice communications, the number of 3G customers and associated services, including video teleconferencing, downloading of music and access to video and television sharply increased during 2005. SFR had more than one million exclusively 3G customers at the end of 2005, largely exceeding its objective of 500,000 customers and 1.352 million as of March 2006.

Pursuant to strategic agreements signed with major record companies, the SFR music portal has a music catalog comprised of 500,000 titles. It is one of the top five leading legal platforms for downloading music in France, with 830,000 downloads in 2005 and more than one million downloads in January 2006. SFR mobile TV/Video service offers 54 channels (including the 26 channels of the CanalSat package with close to 20,000 customers at the end of December 2005) and more than 60 video programs, including 1.2 million TV/Video sessions in December 2005, for a total of 4.3 million TV/Video sessions in 2005. The use of video teleconferencing also expanded in 2005, with almost 2 million video teleconferences held on the SFR network by the end of 2005.

At the end of 2005, SFR had 4.8 million Vodafone *live*! customers, compared with 2.2 million at the end of 2004. In addition, the number of text messages continued to grow in 2005, with 5.4 billion short messaging

(2) AUPU (Average Usage Per User) is defined as the incoming and outgoing voice volumes divided by the average customer base (as defined by ARCEP) for the last twelve months.

services (SMS) and 98 million multimedia messaging services (MMS) sent over SFR s network over the year, compared with 4.5 billion and 37 million in 2004, respectively.

In the area of corporate services, 2005 was marked by strong sales, which confirmed the trend of the past years and significant strategic innovations. In October 2005, SFR launched the SFR Service Management offer, which provides a comprehensive service to SFR s corporate customers through mobile phone deployment and fleet management services. 2005 was also marked by a sharp increase in data transmission services, in particular with increased sales of Vodafone Mobile Connect Cards (a 300% increase) and of BlackBerry® Mobile Messaging services (a 244% increase).

SFR has signed roaming agreements covering over 212 countries for GSM/GPRS and 25 countries for UMTS. In 2005, SFR also launched the Vodafone Passport option, which allows SFR customers calling from outside of France to make calls at the rate specified for national calls beyond the minutes provided by each customer s package.

SFR has entered into various agreements with the manufacturers of telecommunication network infrastructures, service platforms and mobile terminals as well as agreements for the integration or development of software solutions (network and management software). Pursuant to these agreements, the relevant SFR entity is either granted a license to use the intellectual property rights of the supplier or transferred the ownership of the software along with the improvements and studies. SFR has also entered into marketing agreements under which the relevant SFR entity is authorized to include services developed by third parties within its offer of commercial services.

Seasonality

SFR s sales (acquisition of new customers) are generally higher at the end of the year.

Competition

SFR faces strong competition in the mobile market in France which remained dynamic with an increase in the penetration rate of 5.8 percentage points in 2005 at 79.7% at the end of 2005, compared to 73.9% at the end of 2004 (Source: ARCEP). SFR s mobile network competitors are Orange France and Bouygues Telecom. SFR s principal MVNO competitors are Debitel, Tele 2, NRJ Mobile, Virgin Mobile and Futur Telecom (SFR has a 40% interest in CID, the parent company of Futur Telecom).

At the end of 2005, the market share of Orange France, Bouygues Telecom and MVNOs was 46.7%, 16.9% and 0.6%, respectively, and 35.8% for SFR. The arrival of MVNOs on the French market, six of which have signed agreements with SFR and two with Orange, has intensified competition within the mobile phone market, increasing diversity and complementarities to the existing offers.

Regulatory Environment

Our French telecommunications operations are subject to national laws and regulations overseen by authorities such as France s 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 revenues 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, paid in September 2001 and an annual fee equal to 1% of SFR s future revenues generated by the UMTS network.

The sector-specific measures that the ARCEP can adopt in the relevant markets include the obligation to provide access, pricing controls (including wholesale cost pricing) and accounting separation. 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 authorized to settle disputes relating to interconnection and access.

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 has to

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. In 2005, the ARCEP decided to abandon its project to introduce regulations to the market for mobile access and call origination (Market 15). This market, together with the associated retail market, is being monitored by the ARCEP until the end of 2006. Two other markets are currently being analyzed by the ARCEP: the market for SMS call termination (new within the European Union) and the international roaming market (Market 17). Regarding the market for SMS call termination, the ARCEP has considered that each of the mobile operators had a monopoly on SMS call termination, which could lead the ARCEP to impose a cost orientation SMS call termination rate on operators. The ARCEP should render a final decision on this matter in 2006 after considering the opinion of the French Competition Council. The EU Commission has a right of veto. With respect to the international roaming market, after having concluded in its preliminary decision that no individual mobile operator dominates the retail market or jointly dominates the wholesale market, the ARCEP has nevertheless referred to the EU Commission for the regulation of this market. In February 2006, the EU Commissioner for Information Society and Media indicated that she was contemplating an EU regulation to contain international roaming prices considered as too high. The final decision in this matter could be rendered by the end of 2007.

French Act no. 2005-882 of August 2, 2005 in favor of small businesses sets out provisions regarding the portability of mobile phone numbers, which allows subscribers to retain their phone number when switching operators, provided a request is made within ten days of the switch (currently two months). The implementing decree was published in January 2006 and its implementation by operators is scheduled for early 2007. In anticipation of such changes, SFR has unilaterally decided to offer its customers a temporary one-month period for portability starting April 12, 2006. In addition, several government committees were set up in 2005. The conclusions of these committees could lead to proposed legislation governing consumer protection (collective actions and various measures) or broadcasting (setting up a regulatory framework allowing television services broadcasting on mobile phones).

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, including SFR, launched a two-phase program to extend mobile services to 3,000 communities which do not have access to mobile services by 2007 (so called dead zones), extending coverage to 99% of the French population. 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 communities.

SFR alone achieved almost half of the deployment scheduled for 2005 by all French mobile operators with 163 opened sites covering 251 areas. This deployment schedule goes beyond the initial commitments of all three French network operators (a total of 378 installed sites, compared with 300 as initially scheduled). Taken as a whole, this program represents an investment of approximately 150 million for SFR.

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 recommend appropriate measures if necessary.

Expert opinion, both national and international, is generally of the view that mobile phone masts do not pose a health risk. In Ottawa, in July 2005, the World Health Organization (WHO) confirmed the position it had adopted in June 2000, that none of the studies recently undertaken make it possible to conclude that exposure to radiofrequency fields emitted by mobile phones or base stations has any harmful effect whatsoever on human health. This observation is repeated in the various studies by experts throughout the world and in particular in the report of the French environmental health agency, the *Agence Française de Sécurité Sanitaire Environnementale* (AFSSET), published in June 2005. SFR is paying close attention to scientific studies carried out by experts throughout the world. These studies have 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 within thirteen countries, the conclusions of which are expected to be published in 2006.

Since September 2002, in accordance with the recommendations of the French Ministry of Health, SFR has provided an earphone kit, free of charge, in each package distributed to its customers. SFR, in association with the French Ministry for Research and other companies, created a foundation to study radiofrequencies and health in January 2005.

SFR complies with applicable regulations (in particular Decree no. 2002-775 of May 3, 2002) concerning the limitation of public exposure to electromagnetic fields and endeavors to keep the public, local authorities and its lessors informed about the latest developments and regulations on this issue. SFR has also taken an active part in the work of the French mobile operators association (*Association Française des Opérateurs Mobiles* AFOM) in order to enhance 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. In May 2005, the AFOM and the French Mayors Association published a first assessment of the application of the best practice guide and introduced monitoring indicators. SFR is implementing environmental management procedures in order to have some of its activities ISO 14001 certified beginning 2008. In 2005, SFR s two historical environmental projects reached their final stages with the integration into their surroundings of 90 % of new phone masts installed during the year 2005 and the collection of 60,000 used mobile phones for recycling.

Research and Development

In 2005, SFR s investments in research and development mainly focused on three main areas which include the quality of customer services, service platforms and the study of new telecommunications technologies in the fields of radio (HSDPA/ WiMax), core network (IMS/IPV6) and terminals, generally through experiments on pilot platforms.

As a result of its structure and size, SFR has adopted a strategy for academic and industrial network research by means of national or European projects in order to optimize investments and ensure that project results are properly shared. These multi-party projects have led to the filings of new patents mainly in the fields of mobile Internet, security and multimedia services.

SFR s research and development costs totaled more than 43 million in 2005, compared to 37 million in 2004.

Raw Materials

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

Property, Plant and Equipment

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

Maroc Telecom

Maroc Telecom was created in 1998 following its spin-off from the *Office National des Postes et Télécommunications* (the Moroccan National Postal and Telecommunications Office). Maroc Telecom is Morocco s historic and leading telecommunications operator in both the fixed-line and the fast-growing mobile business. Maroc Telecom also controls 51% of Mauritel SA, the national telecommunications operator in Mauritania.

Vivendi became the Kingdom of Morocco s strategic partner in Maroc Telecom after acquiring a 35% equity interest in Maroc Telecom in 2001 following an auction process organized by the Moroccan government. Pursuant to a shareholders agreement entered into at the time of the acquisition of the 35% interest, Vivendi 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 now holds a 51% interest in Maroc Telecom s share capital, the remaining 34.1% and 14.9% of Maroc Telecom s share capital being 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 2005, the penetration rate of mobile telephony was 41.3% and Maroc Telecom held a 66.7% market share. In 2005, Maroc Telecom s mobile customer base increased by more than 2.4 million, up 38%, to reach 8.8 million customers (excluding Mauritel), 96% of which were prepaid (source: *Agence Nationale de Réglementation des Télécommunications* (ANRT) Moroccan National Telecommunications Regulation Agency). During 2005, Maroc Telecom continued to improve its commercial offer and introduced new services in order to retain existing customers and attract new ones. In 2005, innovations included a more comprehensive handset range, a reduction in pack prices starting at MAD 290 (26), the introduction of MAD 50 (4.5) cards, increased offerings with the introduction of no commitment tariff plans and the development of its loyalty program through the remuneration of incoming traffic with loyalty points. Maroc Telecom s mobile customer base continued to grow in the first quarter of 2006 to reach 8.576 million customers[(3)] (excluding Mauritel), a net increase of 339,000 customers over the quarter.

The average churn rate was 12.2% at the end of 2005 compared to 11.6% at the end of 2004, despite a significant growth in the customer base. In 2005, Average Revenue Per User (ARPU[(4)]) reached MAD119 (approximately 11), compared to MAD123 in 2004, due to significant growth of the customer base in 2004 and the 7% decrease in fixed-to-mobile interconnection tariffs as of September 1, 2005. Excluding the impact of the January 1, 2005 incoming international tariff increase, blended ARPU decreased by 9% in 2005. Monthly ARPU for the first quarter of 2006, and churn rate were 10.1 euros and 15.3%, respectively.

Maroc Telecom remains the benchmark for the short messaging services (SMS) and the multimedia messaging services (MMS) market in Morocco and also offers MMS and GPRS roaming services to its post-paid customers. In 2005, the total number of outgoing SMS messages on Maroc Telecom s network reached more than 1.1 billion.

Fixed-line Telephony, Data and Internet

At the end of 2005, Maroc Telecom was the sole holder of a fixed-line telephony license and is the leading Internet and data services provider in Morocco. The market was opened to competition in 2005 following the grant of fixed-line licenses to two new operators, which are expected to start operating in 2006.

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

telephony services;

interconnection services with national and international operators;

(3) The customer base, in compliance with the definition of the ANRT and as used by Maroc Telecom in 2006, is calculated as the sum of prepaid customers giving or receiving a voice call during the last three months and the number of not resiliated postpaid customers.

(4) ARPU (Average Revenue Per User) is calculated by dividing revenues (from incoming and outcoming calls and data services) net of promotions, excluding roaming in and equipment sales by average customer base over the period.

data transmission services for professional markets and Internet service providers, as well as to other telecoms operators; and

Internet services which include Internet access services and related services such as hosting.

The number of fixed-lines was slightly over 1.3 million as of December 31, 2005, a 2.4% increase as compared to 2004. The residential customer base was 884,546 lines at the end of 2005, a slight 0.6% decrease as compared to 2004. The number of professional and corporate users reached 292,519 at the end of 2005, representing a 3.5% increase over 2004.

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 revenue equal to the difference between the retail price (determined by Maroc Telecom) and the rate charged by Maroc Telecom. This activity has grown significantly since October 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 164,091 at year-end 2005, a 20.6% increase as compared to 2004. 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 2005, as a result of rate cuts introduced in March 2005 and year-end promotions, Maroc Telecom had more than 252,000 subscribers to its Internet access services, more than 96% of whom were ADSL subscribers. The ADSL customer base continued to experience strong growth in the first quarter of 2006, particularly as a result of promotions during the first quarter, to reach 296,000 lines (a 54,000 increase over the quarter).

Distribution

Maroc Telecom has an extensive distribution network with a direct and indirect network comprising nearly 40,000 points-of-sale (approved by Maroc Telecom) and subject to distribution agreements with local resellers or with national retailers.

As of December 31, 2005, the various distribution channels were as follows:

the direct network, comprised of 277 sales agencies;

the local indirect network, comprised of independent resellers subject to exclusive agreements, which are managed by the closest Maroc Telecom commercial agency. A significant part of these resellers also operate phone shops approved by Maroc Telecom;

an independent local network, primarily dedicated to mobile telephony, managed by GSM Al Maghrib, a company in which Maroc Telecom held a 35% stake until March 2006; 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. To meet customer demand, the international Internet bandwidth increased five-fold from 1.4 Gbits/s at year-end 2004 to reach 7.1 Gbits/s at the end 2005.

In mobile telephony, Maroc Telecom is focused on growing both population and geographic coverage. At year-end 2005, Maroc Telecom had more than 4,180 GSM sites (compared to 3,750 in 2004 and 3,300 in

2003). Maroc Telecom covers 97% of the Moroccan population. At December 31, 2005, Maroc Telecom had entered into 399 commercial roaming agreements (more than 353 of which are operational) for its postpaid customers with operators in 207 countries and 68 roaming agreements for its pre-paid customers with operators in 41 countries. Maroc Telecom has entered into roaming agreements to offer MMS and GPRS in 54 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 and its wholly owned subsidiary Mauritel Mobiles.

Mauritel SA is the only fixed-line telephony operator in Mauritania, which provides both fixed-line telephony (voice and data) and Internet access services. At the end of 2005, Mauritel had a fixed-line customer base of approximately 40,000, representing a 1.5% penetration rate (source: Mauritel).

Mauritel Mobiles is the leading mobile phone operator in Mauritania with an estimated market share of 70% (source: Mauritel Mobiles estimates), ahead of its competitor, Mauritano-Tunisienne de Télécommunications (Mattel), which is part-owned by the Tunisian historic telecommunications operator. Mauritel Mobiles customer base increased from less than 7,200 customers at the end of 2000 to more than 465,000 customers as at December 31, 2005 (source: Mauritel Mobiles).

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 January 21st in 2005), while the month of Ramadan (from October 5th to November 3rd in 2005) is a low point in consumption for both fixed-line and mobile telephony.

Competition

At the end of 2004, there were two GSM operators in Morocco (Maroc Telecom and Médi Télécom (Méditel)), five 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.

In 2005, the fixed-line market was open to further competition with fixed-line telephony licenses granted to Méditel and Maroc Connect (including a local loop license allowing limited mobility within a 35 km diameter). Third generation (UMTS) licenses will be granted in 2006 at a fixed price.

Fixed-line Telephony

As of December 31, 2005, the two operators holding the new fixed-line licenses had not launched their services but are expected to start operating in 2006.

The public telephony market has been open to competition since 2004 with Méditel, which opened phone shops using GSM technology in spring 2004, and Globalstar, which opened phone shops using satellite technology. At year end 2005, Maroc Telecom s market share in the public telephony market was estimated at approximately 96% of the number of lines. Méditel, through the installation of GSM gateways known as Link Optimization Boxes (LO Box), entered the professional fixed-line market. The installation of this equipment for outgoing PABX lines facilitates the transformation of fixed-to-mobile traffic into mobile-to-mobile traffic without using Maroc Telecom s fixed-line network.

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

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Mobile

Maroc Telecom s competitor in this segment is Méditel, a mobile license holder since August 1999. The majority shareholders in Méditel are Telefonica and Portugal Telecom, each with 32.18% of the share capital and a group of Moroccan investors led by *Banque Marocaine du Commerce Extérieur*. As of December 31, 2005, Maroc Telecom held 66.7% of the mobile market (source: ANRT).

Internet

Maroc Telecom holds a 95% market share of the Internet market, excluding subscription-free services and its competitors include Maroc Connect, distributor of the Wanadoo brand, with an estimated market share of less than 5%, as well as other ISPs (source: ANRT). Maroc Telecom has a 97% market share in the high growth ADSL market (source: ANRT).

Regulatory Environment

The Kingdom of Morocco created the *Agence nationale de réglementation des télécommunications* (ANRT), a telecommunications regulatory authority, which is in charge of liberalizing and regulating the telecommunications market in Morocco and manages the liberalization and privatization program of the telecommunications market advocated by the World Bank. Maroc Telecom fulfills its obligations as a fixed-line operator by providing universal service.

In 2004, the government of the Kingdom of Morocco re-launched the liberalization process in the telecommunications sector by amending and supplementing the Post and Telecommunications Act of August 7, 1997 with Moroccan Law no. 55-01, which institutes a more gradual sanction system based on fines, relieves the operators of some obligations related to universal service and local community development and authorizes the use of alternative infrastructures. The government also published a policy paper for the liberalization of the sector for the 2004-2008 period.

In February 2005, the ANRT launched an invitation to tender for the allocation of additional fixed-line telephony licenses for local loop, national transmission and international gateway and transit. In July and September, such new licenses were granted to Médi Télécom and Maroc Connect.

In 2005, changes to the regulation related to interconnection, and general conditions for the operation of a telecommunications network were made respectively through Decree no. 2-05-770 and Decree no. 2-05-771 of July 13, 2005. The ANRT has launched an invitation to tender in May 2006 for the allocation of 3G mobile licenses (a maximum of three licenses). Regulatory controls will be implemented as scheduled: pre-selection of the carrier (July 2006), partial unbundling of the local loop (January 2007) and total unbundling of the local loop (January 2008).

Research and Development

Maroc Telecom s research and development activities focus on the introduction of new Maroc Telecom products and/or services or the transformations or improvements to existing Maroc Telecom products. In 2005, Maroc Telecom s research and development expenses were immaterial in 2004 and were approximately 2 million in 2003 and 2002.

Raw Materials

As a service operator, Maroc Telecom s operations do not rely on raw materials.

Property, Plant and Equipment

For the development of its networks and commercial, support and administrative functions, Maroc Telecom has approximately 4,500 sites (including buildings and land) throughout Morocco, including 3,350 leased locations and 1,150 owned locations.

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Other

NBC Universal

In May 2004, Vivendi completed the combination of the businesses of NBC with those of VUE and certain related assets to create one of the world s leading media companies, NBC Universal (NBCU). As at December 31, 2005, Vivendi held 18.5% of NBCU. In February 2006, Vivendi increased its interest in NBCU to 20% (please refer to Item 5. Operating and Financial Review and Prospects Combination of VUE and NBC to form NBC Universal .

NBCU is engaged in a variety of media and entertainment businesses, including:

- production of live and recorded television programs;
- production and distribution of motion pictures;
- operation, under licenses from the Federal Communications Commission (FCC), of television broadcasting stations;
- furnishing of US network television services to affiliated stations;
- ownership of several cable/ satellite networks around the world;
- operation of theme parks; and
- investment and programming activities in multimedia and the Internet.

The NBC television network is one of four major US commercial broadcast television networks and serves 230 affiliated stations in the US. NBC owns and operates Telemundo, a leading US Spanish-language commercial broadcast television network.

At December 31, 2005, NBC owned and/or operated 30 VHF and UHF television stations including those located in Birmingham, Alabama; Los Angeles, California; San Diego, California; Hartford, Connecticut; Miami, Florida; Chicago, Illinois; New York, New York; Raleigh-Durham, North Carolina; Columbus, Ohio; Philadelphia, Pennsylvania; Providence, Rhode Island; Dallas, Texas; and Washington, DC. Broadcasting operations of the NBC Television Network, the Telemundo network, and the company s owned stations are subject to FCC regulation.

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

Veolia Environnement

Until June 2002, we held approximately 63% of the share capital of VE, a global environmental services company. We gradually reduced our share capital in VE to 40.8% in July 2002, 20.3% in December 2002, and 5.3% in December 2004. In December 2004, we entered into a three-year derivative contract with Société Générale to benefit from any potential capital gains on our 5% interest in Veolia Environnement over a price of 23.91 per share. In October 2005, this derivative instrument was settled before maturity. For further information on the December 2004 transaction, see Other 2005 transactions .

Elektrim Telekomunikacja

Vivendi holds 51% of Elektrim Telekomunikacja and Carcom, whose only asset is a 51% interest in Polska Telefonia Cyfrowa (PTC), a major participant in the Polish telecommunications market. For further information on Elektrim Telekomunikacja please refer to Item 5. Operating and Financial Review and Prospects Elektrim Telekomunikacja situation in 2005 and Item 8. Financial Information Litigation .

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Public Takeover Offers

To our knowledge, we have not been the target of any public takeover offer by third parties in respect of our shares during the last or current fiscal year. Moreover, we have not sought to acquire another company in a public takeover except as might be disclosed in this document or in last year s annual report on Form 20-F.

Organizational Structure

Please refer to Item 5. Operating and Financial Review and Prospects and Item 18. Financial Statements Note 31 for a list of our principal operational subsidiaries and affiliates as of December 31, 2005.

Patents, Licenses, Contracts, Manufacturing Processes

Other than our mobile telecommunication licenses (see Item 18. Financial Statements Note 11 for further information), we have no patent, license, contract or other manufacturing process that is, individually, material to Vivendi.

Item 5: *Operating and Financial Review and Prospects*

Basis of Presentation of Financial Information

The following discussion presents a review of Vivendi s financial and business segment results. It should be read in conjunction with Vivendi s Consolidated Financial Statements and the related notes presented in Item 18 of this document.

Accounting Policies

Our Operating and Financial Review and Prospects are based on our Consolidated Financial Statements. Before January 1, 2005, our Consolidated Financial Statements were prepared in accordance with French GAAP. Effective January 1, 2005, we adopted IFRS, along with other European listed companies, in accordance with European Union regulations. IFRS as adopted by the European Union differ in certain significant ways from accounting principles generally accepted in the United States (US GAAP). For a complete description of the Group s significant accounting policies, please see Note 1 to our Consolidated Financial Statements.

Critical accounting estimates

Some of the accounting methods and policies used in preparing our Consolidated Financial Statements under IFRS and the reconciliation of net earnings and shareholders equity to US GAAP require our management s assessments of estimates based on historical results and assumptions deemed realistic and reasonable. Despite periodic reviews of these estimates and assumptions, changes in facts and circumstances could affect these estimates and assumptions which in turn could impact the reported amount of Group assets, liabilities, equity or earnings. These estimates and assumptions notably relate to the measurement of deferred taxes, contingencies and provisions, employee benefits, share-based compensation and certain financial instruments, revenue recognition and the valuation of goodwill, other intangible assets and property, plant and equipment, as discussed below.

Deferred taxes

Deferred tax assets relate primarily to tax losses carried forward. They are recognized insofar as it is probable that a taxable profit will be available, or when a current tax liability exists, to make use of those deferred tax assets. As of December 31, 2005, our recorded deferred tax assets amounted to 1,784 million.

The carrying value of deferred tax assets is reviewed at end of each reporting period and revalued or reduced to the extent it is more or less probable that a taxable profit will be available to allow the deferred tax asset to be utilized. When assessing the probability of a taxable profit being available, account is notably taken

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of prior year results, expected future results, non-recurring items unlikely to occur in the future and the tax strategy. The assessment of the Group s ability to utilize tax losses carried forward is therefore to a large extent judgment-based. If the future taxable results of the Group differ materially from those expected, the Group could be required to increase or decrease the carrying value of deferred tax assets, which could materially impact the Group s statement of financial position and statement of earnings. Further information is provided in Item 18. Financial Statements Notes 1.3.10 and 6 .

Contingencies and Provisions

Provisions are recognized when at the end of the reporting period the Group has a legal, regulatory or contractual obligation as a result of past events, for which the amount can be measured with sufficient reliability and for an outflow of resources (without expected offset) which would most likely be required to settle this obligation. Where the effect of the time value of money is material, provisions are determined by discounting expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money. If no reliable estimate can be made of the amount of the obligation, no provision is recorded and a disclosure is made in the notes to the Consolidated Financial Statements. Contingent liabilities are often resolved over a long time period.

Establishing provisions and liabilities related to tax uncertainties, legal issues and restructuring charges, including environmental matters, requires significant management judgment and estimates. Management continually evaluates these estimates based on changes in the relevant facts, circumstances and events that may impact such estimates as well as their relevance and adequacy. While management believes that the current provisions and liabilities for these matters are adequate, there can be no assurance that such circumstances will prevail in the future. Further information is provided in Item 18. Financial Statements Notes 20, 22, 29 and 30 .

Employee benefits

Vivendi s employee benefit obligations are determined using actuarial models and assumptions applicable in the countries where the plans are offered, principally the US and the UK. The discount rate and the expected return on plan assets are two critical assumptions used to measure a plan s expense and/or liability. We review these critical assumptions at least annually. Other assumptions include demographic factors such as the expected residual length of service and the rate of compensation increase. These assumptions are reviewed periodically and are updated to reflect our prior experience. Actual results in any given year may differ from actuarial assumptions because of economic and other factors. The discount rate enables us to state expected future cash flows at a present value on the measurement date. We have little flexibility in selecting the discount rate, which must reflect the market rate for high-quality fixed income investments. We determine the proper discount rate by reference to returns received on treasury notes and notes issued by investment grade companies having maturity equivalent to those of the plans. A lower discount rate increases the present value of benefit obligations and pension expenses. In order to reflect market interest rate conditions, we reduced our weighted-average discount rate from 5.1% in 2004 to 4.9% in 2005 for pension plans and from 5.3% in 2004 to 5.2% for postretirement benefits plans. To determine the expected return on plan assets, we consider, for each country, the structure of the asset portfolio and the expected rate of return for each of the components. The weighted-average expected return on plan assets was 4.7% in 2005 and 6.4% in 2004.

Changes in key assumptions used to calculate our pension plans and post-retirement benefit plans would be as follows:

a 50 basis point increase in the 2005 discount rate would lead to an increase of 2 million in the pre-tax expense, whereas a 50 basis point decrease would have had no significant impact on the 2005 expense; and

a 50 basis point increase (or decrease) in the expected return on plan assets for 2005 would lead to a decrease (or an increase) of 4 million in the pre-tax expense.

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Further information on our principal pension and post retirement benefit plans, including disclosure on these assumptions, is provided in Item 18. Financial Statements Note 21 .

Share-based compensation

We maintain stock option incentive plans that grant subscription rights and options to purchase our ordinary shares to certain senior executives and employees and certain employees of equity affiliates. These plans constitute an additional compensation borne by us. The compensation cost is equal to the value of the option as of the grant date and is calculated using a binomial model based on certain assumptions. Those assumptions are described in Item 18. Financial Statements Note 19 and include among others, the expected dividend yield and the expected volatility. Volatility measures the expected variation over time in the return on a financial asset. Given the extremely high volatility of Vivendi ordinary shares prior to the valuation period of these stock option plans (1999 2002), we have limited relevant statistical data for prior periods to estimate future volatility for purposes of valuing our stock option plans in accordance with IFRS 2. We have therefore measured the value of our stock options using the implicit volatility rate for short-term securities. These variables make it difficult for us to estimate the fair value of stock options.

Financial instruments

The fair value of derivative instruments or financial assets that are not traded in an active market (such as unlisted equity securities, currency options and embedded derivatives) are determined using valuation techniques. The determination of an appropriate valuation methodology is based on our judgment. Underlying assumptions are based principally on existing market conditions. Changes in these assumptions may cause Vivendi to recognize impairments or losses in the future. Further information is provided in Notes 1.3, 15, 25 and 26 to our Consolidated Financial Statements.

Revenue recognition

We have revenue recognition policies for each of our business units based on the nature of their business. For a summary of these revenue recognition policies, see Item 18. Financial Statements Note 1.3.4 .

We record provisions for estimated returns on products sold to customers through distributors, such as recorded music, software products and DVD. These provisions are estimated based on past sales statistics and take into account the economic environment and product sales forecasts. Differences may arise with respect to the amount and timing of the revenue for any period if actual performance varies from these estimates.

Impairment of Assets

Investments and receivables from equity affiliates

We hold minority investments in companies having operations or technology in areas within or adjacent to our strategic focus and receivables from these companies. Some of these companies are publicly traded with highly volatile share price while others are not publicly traded and their value is difficult to determine. We record an investment impairment charge when we believe an investment has experienced a decline in value which is not temporary and record an allowance for receivables if recoverability is uncertain. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments or receivables, thereby possibly requiring an impairment charge in the future.

Goodwill, other intangible assets or property, plant and equipment

An impairment test is performed when events or changes in the economic environment indicate a risk of impairment for goodwill, other intangible assets, property, plant or equipment. This test is used to determine whether the carrying value of the asset or group of assets under consideration exceeds its or their recoverable value. Recoverable value is defined as the higher of an asset s fair value (less selling costs) and its value in use.

Value in use is equal to the estimated present value of future cash flows to be derived from the use and sale of the asset.

Value in use is determined based on cash flow projections consistent with the most recent budget and business plan approved by our executive management and presented to the management board. These actuarial valuations are based on assumptions that take into account the discount rate reflecting current market assessments of the time value of money and risks specific to the relevant asset or group of assets and the perpetual growth rate, which are those used to prepare three-year budget plans and forecasts and, for later years, rates used by the market.

Fair value is the amount derived from the sale of the asset or group of assets in an arm s length transaction, less selling costs. The fair value is determined based on market data (market comparables, recent transactions and stock market prices), or in the absence of reliable data, on discounted cash flows.

If the recoverable value is less than the carrying value of an asset or group of assets, an impairment loss is recognized for the difference. No significant impairment losses were recorded in 2005 or 2004. Further information is provided in Notes 10, 11, 12 and 13 to our Consolidated Financial Statements.

Music Advances to Artists

For established artists, we capitalize advances and direct costs associated with the creation of master recordings and expense these costs as the related royalties are earned or when the amounts are determined to be unrecoverable. An established recording artist is an artist whose current popularity and past performance provide a reasonable assurance for future recoupment of royalty advances payable to such artist against earnings. Advances to artists who are not established are expensed as incurred. Estimates of recoverability can vary based on the current popularity of the artist which is measured by sales throughout the reporting period. Unearned balances are reviewed periodically and appropriately reserved if future performance is no longer assured. Further information is provided in Item 18. Financial Statements Note 11 .

Certain other significant accounting policies do not involve the same level of measurement uncertainties as those discussed above, but are nevertheless important to understand our Consolidated Financial Statements. For a discussion of accounting policies we have selected from acceptable alternatives, see Item 18. Financial Statements Note 1 .

Exemptions to IFRS

As a first-time adopter of IFRS, we have elected to follow certain exemptions to IFRS as permitted by IFRS 1 First time adoption of International Reporting Standards , section 13. These exemptions are described below.

Business combinations

In accordance with the provisions of IFRS 1, we have elected not to restate business combinations that occurred prior to January 1, 2004.

As permitted under French GAAP prior to December 31, 1999, goodwill could be recorded as a reduction of shareholders equity when the acquisition was paid for with equity securities (notably US Filter in 1999 and Canal+ in 1998 and 1999). For more information, see Item 18. Financial Statements Note 34.3.3 . Additionally, certain acquisitions (notably Havas in 1998 and Pathé in 1999) were accounted for as mergers. Under this method, goodwill is computed as the difference between the consideration paid and the net historical book value acquired.

However, if we had restated past business combinations to comply with IFRS 3, our shareholders equity and the amount of goodwill as of January 1, 2004 would not have been materially greater due to the disposal of Havas, Pathé, and US Filter and the impairment of goodwill losses recorded on the Canal+ Group.

Cumulative unrecognized actuarial gains and losses

In accordance with the provisions of IFRS 1, we have elected to record unrecognized actuarial gains and losses relating to pension and post-retirement and other employee and post-employment benefit obligations against consolidated equity as of January 1, 2004.

The application of this option resulted in a 279 million decrease in our shareholders equity, net of deferred tax (423 million before deferred tax), as of January 1, 2004.

As of January 1, 2004, the restatement of actuarial losses and past service cost in the transitional statement of financial position resulted in a decrease in the related cost recognized in our earnings from operations which represented a 31 million saving in our IFRS statement of earnings for 2004. Please refer to Item 18. Financial Statements Note 33.7.I .

Cumulative translation adjustments

In accordance with the provisions of IFRS 1, we have elected to offset the accumulated foreign currency translation adjustments against retained earnings as of January 1, 2004. Foreign currency translation adjustments result from the translation into euros of the financial statements of subsidiaries whose functional currency is not the euro. Consequently, upon divestiture of the subsidiaries, affiliates or joint ventures whose functional currency is not the euro, these adjustments are not recorded as earnings.

As of January 1, 2004, this option had no impact on our shareholders equity but had a material impact on our 2004 net income following the sale of our 80% interest in VUE. Please refer to Item 18. Financial Statements Note 33.6 .

Revaluation of certain intangible assets and property, plant and equipment at fair value

We have chosen not to apply the option provided in IFRS 1 allowing the valuation, of certain intangible assets and property, plant and equipment at their fair value as of January 1, 2004.

Share-based payment

We have decided to adopt IFRS 2 Share-based payment with retrospective effect as of January 1, 2004 and we recognize all plans for which rights remained to be vested as of January 1, 2004.

For all other IFRS standards, any adjustment of the carrying value of assets and liabilities as of January 1, 2004 was measured retrospectively as if IFRS had been applied.

Other IFRS Options

Pending the publication of standard or interpretations by the IASB or IFRIC (International Financial Reporting Interpretations Committee), we have elected the following options:

Acquisition of minority interests

In the absence of guidance provided by the IFRS, in the event of an acquisition of an additional interest in a subsidiary, we have opted to recognize as goodwill the excess of the acquisition cost over the carrying amount of the acquired minority interests.

Commitments to purchase minority interests

In accordance with IAS 32, put options granted by us to minority shareholders are reported as financial liabilities at the present value of the acquisition cost.

In the absence of guidance provided by IFRS 3 on business combinations and pending publication of an IASB/IFRIC guidance on initial recognition of these options, we record the difference between the carrying amount of the minority interests and the acquisition cost, at present value, including any subsequent change in this present value (with the exception of the undiscounting effect or expected losses) against goodwill.

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Loyalty programs

Pending an IFRIC interpretation, we do not accrue loyalty coupons granted to customers of SFR and Maroc Telecom for the replacement of mobile phones, provided that these programs do not result in an additional cost. In effect, such bonuses do not represent a benefit greater than that granted to new customers at the inception date of a contract. Loyalty coupons convertible into free services are accrued.

Main developments occurring in 2005 and 2004

Overview of 2005 and 2004

Over the last two years, we achieved our principal strategic goal to consolidate our positions in our core businesses.

In January 2005, we completed the acquisition of an additional 16% stake in Maroc Telecom, in August 2005, we completed the combination of Cegetel and Neuf Telecom, and in January 2006, we announced an industrial agreement aimed at combining the pay-TV businesses of the Canal+ Group and TPS. In February 2006, we also announced a draft agreement with Lagardère.

In August 2004, we were admitted to the French Consolidated Global Profit Tax System to optimize our tax structure, in May 2004, we completed the strategic alliance between VUE and NBC to form NBC Universal, and in December 2004, we divested 15% out of our 20.3% stake in Veolia Environnement.

The actions taken in 2004 and 2005 illustrated the priority given by our management to strengthen our competitive position among the major European players in the Media and Telecommunications businesses. As a result, all our businesses earnings increased measurably in 2005.

In addition, our financial flexibility was fully restored due to (i) the reduction of borrowings which was 6.6 billion as of December 31, 2005, compared to 11.3 billion as of January 1, 2004, (ii) the return to investment grade rating by Fitch (May 12, 2004), Standard and Poor s (June 1, 2004) and Moody s (October 22, 2004), (iii) the redemption of all our high yield notes and (iv) the extension of the maturity of our Group s borrowings. Consequently, our interest expense decreased significantly to 218 million in 2005 compared to 406 million in 2004.

2005 developments

Acquisition of 16% of the capital of Maroc Telecom

On November 18, 2004, we agreed with the Kingdom of Morocco to the acquisition of an additional 16% interest in Maroc Telecom, through our wholly-owned subsidiary Société de Participation dans les Télécommunications. We have been a strategic holding partner with operating control of Maroc Telecom since the beginning of 2001. This acquisition, which was completed on January 4, 2005, enabled us to increase our stake in Maroc Telecom from 35% to 51%. Pursuant to the Maroc Telecom Shareholder Agreements, we already held a majority of the voting rights at shareholders meetings and on the supervisory board until December 30, 2005. Following this acquisition, our control is now assured by the direct holding, unlimited in time, of a majority of the voting rights at shareholder meetings and by the right to appoint, by virtue of shareholder agreements and the company bylaws, three of the five members of the management board of Maroc Telecom and five of the eight members of its supervisory board. This acquisition constitutes a new and decisive milestone in our strategic partnership with the Kingdom of Morocco. The acquisition was made at a cost of MAD 12.4 billion (approximately 1.1 billion as of the transaction date) and included a premium for continuing control. Payment was made on January 4, 2005 and was 50% financed by a borrowing of MAD 6 billion (approximately 551 million as of December 31, 2005) (please refer to Liquidity and Capital resources for 2005 and 2004). Pursuant to IAS 32, the forward purchase commitment was recorded in our 2004 Consolidated Statement of Financial Position for 1.1 billion and included in our Financial Net Debt. On January 4, 2005, this financial liability was offset by cash outflow. Please refer to Item 18. Financial Statements Note 2.1 Acquisition of an additional 16% stake in Maroc Telecom on January 4, 2005 .

SFR: combination of Cegetel and Neuf Telecom to create Neuf Cegetel, the leading alternative fixed-line telecommunications operator in France

The combination of Cegetel SAS (Cegetel) and Neuf Telecom was announced on May 11, 2005 and completed on August 22, 2005. After acquiring the 35% interest held by SNCF in Cegetel, in accordance with the financial provisions of the pre-existing agreements and after re-capitalizing Cegetel, SFR contributed its entire interest in the capital of Cegetel to Neuf Telecom in exchange for a 28.2% interest in the share capital of Neuf Telecom as well as bonds issued by Neuf Telecom in a total amount of 380 million, 200 million of which were redeemed by Neuf Telecom at the end of November 2005.

The reference shareholders SFR and Louis Dreyfus had an equal 28.2% interest in Neuf Cegetel (increased to 34.9% in May 2006) while the remaining stake (approximately 44%) was held by Neuf Telecom historical shareholders. SFR s 28.2% interest in Neuf Cegetel (a 15.8% interest for Vivendi, since Vivendi hold 56% of SFR shares) is equity-accounted.

Pursuant to IFRS 5, Cegetel qualified as discontinued operations as of January 1, 2004:

From an accounting standpoint, this combination is accounted for as the divestiture of 71.8% of SFR s interest in Cegetel for 617 million (corresponding to the value of Neuf Telecom shares received for 237 million and the value of the bonds issued by Neuf Telecom in an amount of 380 million) and the concurrent acquisition of a 28.2% interest in the share capital of Neuf Telecom.

As a result, earnings and expenses of Cegetel from January 1, 2004 to August 22, 2005 were deconsolidated and presented netted, of which 71.8% were recorded as earnings from discontinued operations and 28.2% as income from equity affiliates.

As of December 31, 2005, this transaction resulted in a capital gain of 121 million (58 million after SFR s minority interests) recorded in earnings from discontinued operations.

After the reimbursement by Cegetel of the shareholders loan granted by SFR, all of the cash flows generated during the completion of the transaction had a negative impact of 329 million on SFR s cash position (including the deconsolidation of Cegetel s cash position in the amount of 30 million). Given the recognition of the put option granted by SFR to SNCF as of December 31, 2004 in accordance with IAS 32 (the present value of such commitment being 304 million as of that date), this transaction had a favorable impact of 97 million on our Financial Net Debt (including the deconsolidation of borrowings and other financial liabilities of Cegetel in the amount of 122 million). For the definition of Financial Net Debt, please see Liquidity and capital Resources for 2004 and 2005 .

Please refer to Item 18. Financial Statements Note 7. Discontinued operations and assets held for sale .

Reinforcement of the program offerings and distribution of the Canal+ Group in 2005 and 2004

In 2005, the Canal+ Group continued to enhance its program offerings for subscribers.

In August 2005, after obtaining exclusive rights to broadcast the French Professional Soccer League 1 for three seasons (2005-2008) in December 2004, for an annual cost of 600 million, the Canal+ Group won exclusive rights to broadcast the Champions League on pay-TV until the end of the 2008/2009 season. In addition, after signing in May 2004 several agreements guaranteeing a stronger partnership with the French film industry (covering the period 2005-2009) and after extending in November 2004 an agreement to first broadcast all of Twentieth Century Fox film features, the Canal+ Group renewed its exclusive rights agreements with NBC Universal (January 2005), DreamWorks (January 2005), Spyglass (April 2005) and Sony Pictures Television International (September 2005, including Columbia Pictures, TriStar Pictures and Screen Gems).

In addition, in May 2005, the *Conseil Supérieur de l Audiovisuel* (the French Broadcasting Authority) allocated four DTT channel authorizations to the Canal+ Group: Canal+Cinéma, Canal+Sport, i>Télé and

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Planète. On March 31, 2005, Canal+ began broadcasting unscrambled programs as part of the launch of free DTT services.

On November 4, 2005, the Canal+ Group launched two pay-TV offerings on DTT. The first one, which included Canal+, Canal+Cinéma and Canal+Sport, was the only premium multi-channel offering available through plug-and-play. The second one, which included Planète, Canal J, Eurosport and Paris Première, was a low price thematic offering. In addition, the Canal+ Group launched on October 15, 2005 the first general, unscrambled and 24/7 news channel on DTT: i>Télé.

Elektrim Telekomunikacja situation in 2005

On December 12, 2005, after consulting with the EU competition authorities in November 2005, Vivendi acquired Ymer s stakes in Elektrim Telekomunikacja (Telco) (2%) and in Carcom (1%), for a total cash consideration of 90 million. From that date, Vivendi has held a 51% equity and voting interest in both Telco and Carcom and fully controls these entities, which are now consolidated.

Telco/Carcom s only asset is a 51% interest in Polska Telefonia Cyfrowa (PTC), a Polish mobile telecom company. Due to the legal dispute involving Telco, Vivendi, Deutsche Telekom and Elektrim SA, the uncertainty surrounding the ownership of PTC prevents Telco/ Carcom from exercising its joint control over PTC, as provided in the company s bylaws. This situation requires that we no longer consolidate our stake in PTC. Please refer to Item 18 Financial Statements Notes 2.3 and 30 .

As of December 31, 2005, the simplified organization chart of Telco and PTC is as follows:

Simplified organization chart as of December 31, 2005:

Organization chart as of December 31, 2004:

Including the acquisition of our additional stake in December 2005, we have invested 1,966 million in Telco/PTC (including capital, current accounts and capitalized interest). As of December 31, 2005, given the impairment losses recorded since the end of 2001, the net book value of our investment in PTC was 531 million.

Canal+ and TPS combination agreement and Lagardère agreement

Canal+ and TPS combination agreement

On January 6, 2006, after consulting with the relevant labor relations committees, we entered into an agreement with TF1 and M6 for the combination of the pay-TV operations of the Canal+ Group and TPS in France and in other French speaking territories. The new group, temporarily named Canal+ France , will be controlled by us. This agreement is subject to consultation procedures with the *Conseil supérieur de l audiovisuel* and approval by French competition authorities. Upon completion of this transaction, we will own 85% of the new group.

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The terms of this combination (assuming the Lagardère draft agreement described below is completed) are as follows:

During the first phase, on January 6, 2006, we paid TF1 and M6 a 150 million advance corresponding to a 15% interest in TPS after cancellation of the debt of TPS and the transformation of TPS from a S.N.C. into a S.A. In addition, TF1 and M6 agreed to divest TPS to us, directly or via the Canal+ Group. Until the completion of the transaction, the Canal+ Group and TPS will retain their management autonomy.

During a second phase, following the approval by the competition authorities, the 150 million advance, plus interest, would be repaid to us. TF1 s and M6 s interests in the new group Canal+ France would be 9.9% and 5.1%, respectively. Canal+ France would be comprised of the Canal+ Group and TPS, by way of an exchange of shareholding without cash payment. The remaining stake would be shared between us and Lagardère.

However, if we resolve not to complete the combination, we would keep a 15% interest in TPS in exchange for our initial advance of 150 million and would compensate TF1 and M6 for an amount of 100 million.

Under certain strictly defined circumstances related to the conditions of the approval by the competition authorities, we could acquire TF1 s and M6 s stake in TPS for 900 million (plus interest) or could determine not to complete the combination, under circumstances described above.

Moreover, TF1 and M6 would benefit from a put option granted by us on their 15% interest in the new group for a minimum of 3 years following the completion of the transaction. The exercise price of this option would be based on the market value, as determined by a third-party valuation expert, with a minimum guarantee of 1,130 million for 15% of the new pay-TV group in France, representing 7.5 billion for 100%.

The scope of the new pay-TV group in France corresponds to 100% of CanalSat and TPS, 49% of Canal+ SA, MultiThématiques and MediaOverseas. We refer to this scope using the name Canal+ France . The assets not included in Canal+ France are StudioCanal, Cyfra+, Canal+ Régie and i>Télé, as to which we benefit from any potential increase in their value.

From an accounting standpoint, the 150 million advance will be recorded as a current financial asset. Following the formation of the new group, the transaction would be recorded as the acquisition by the Canal+ Group of 85% of TPS, which would be fully consolidated, and the dilution by 15% of Vivendi in the Canal+ Group share capital. The put option granted by us to TF1 and M6 would be accounted for as a 1,130 million financial liability.

Agreement with Lagardère

In February 2006, we and the Canal+ Group announced that we had entered into a draft agreement with Lagardère, in accordance with the terms and conditions of the combination agreement with TF1 and M6. Pursuant to this draft agreement, Lagardère, which is a partner of the Canal+ Group within CanalSat, will become a shareholder of the Canal+ France group, including the pay-TV operations of the Canal+ Group and TPS. In addition, there will be no dilution of the investments of TF1 and M6.

Following the transfer of its 34% shareholding in CanalSat, Lagardère would acquire a 20% interest in a new company having a scope equivalent to Canal+ France for a cash consideration of 525 million.

If these two transactions are completed, the structure of the new group would be as follows:

For more information about the ownership and voting interests in these entities, please refer to Item 18. Financial Statements Note 31 .

Lagardère would have the benefit of a call option for an additional 14% interest in the new company, exercisable for thirty-three months following the completion of the transaction at the greater of the market value and 1.05 billion, corresponding to a valuation of 7.5 billion for 100% of the temporarily named Canal+ France .

In addition, under certain circumstances, Lagardère will have a liquidity right for its stake in the event of an IPO and, under certain other circumstances related to the approval of the combination with TPS by the competition authorities and to Lagardère s specific assets, the right to sell its entire interest in CanalSat to Vivendi/ Canal+ Group before December 31, 2006 for 985 million (including 126 million for its pro-rata share of cash).

The agreement with Lagardère is subject to consultation procedures with the *Conseil supérieur de l audiovisuel* and approval by French competition authorities.

With the foregoing agreement with Lagardère, Vivendi seeks to achieve the creation of Canal+ France, which will hold 100% of CanalSat and TPS, during the third quarter of 2006. Vivendi would, directly or indirectly, retain a majority of the share capital and exclusive control of the new group and the terms of the put option to TF1 and M6 would remain unchanged.

2005 Divestitures

The Canal+ Group: Unwinding of MultiThématiques/ Lagardère cross-shareholdings

In January 2005, the Canal+ Group and Lagardère Group announced a new agreement to end their joint holding in MultiThématiques (a wholly-owned subsidiary of the Canal+ Group) and Lagardère Thématiques. This transaction, which closed on February 11, 2005, resulted in a 20 million increase in our Financial Net Debt (corresponding to the acquisition of 30% of MultiThématiques for 71 million and the divestiture of 49% of Lagardère Thématiques for 51 million). This transaction generated a capital gain of 26 million.

The Canal+ Group: Withdrawal from NC Numéricâble/Ypso

In 2005 and early 2006, the Canal+ Group sold its entire stake in NC Numéricâble to a consortium including Cinven, an investment fund, and Altice, a cable operator. This transaction was achieved in two steps.

During the first step, signed in December 2004 and completed on March 31, 2005, the Canal+ Group retained approximately 20% in Ypso, a cable operator resulting from the merger between NC Numéricâble and France Télécom s cable operations and certain assets of TDF. The Canal+ Group s proceeds from the divestiture amounted to an enterprise value of 96 million (including adjustments to the number of networks actually transferred). Net of divestiture fees and a 37 million loan granted by the Canal+ Group to the new operator, the transaction had a positive impact of 52 million on our Financial Net Debt. Given the adjustment in value realized in 2004, the capital loss on this divestiture was approximately 13 million.

During the second step, in January 2006, the Canal+ Group completed the divestiture of its remaining 20% stake in Ypso to Cinven-Altice for an amount of 44 million. Beforehand, in December 2005, the Canal+ Group had sold its preferred shares without voting rights to Ypso and Ypso had fully reimbursed the company loan granted by the Canal+ Group (which resulted in a capital gain of 29 million and a positive impact of 76 million on Financial Net Debt, including 39 million as accrued interest for the loan reimbursement).

Altogether, the withdrawal from NC Numéricâble/Ypso had a positive impact of 167 million on Financial Net Debt and generated a capital gain of 73 million for the Canal+ Group, after taking into consideration depreciations recorded in 2004.

UMG: Divestiture of CD and DVD manufacturing facilities in the United States and Germany

In May 2005, UMG divested its CD and DVD manufacturing and distribution facilities in the United States and Germany to Entertainment Distribution Company, LLC (EDC), a division of Glenayre Technologies, Inc. This transaction had no material impact on our earnings from operations as of December 31, 2005, after taking into account the cost of externalizing related pension obligations. This transaction had a negative cash impact in the year ended December 31, 2005 reflecting the net selling price, certain post-closing adjustments of the selling price and the cash cost of externalizing the related pension obligations. Under the terms of the supply contracts entered into as part of the transaction, EDC is required to grant a minimum of 37 million of UMG rebates between 2005 and 2014.

Divestiture of Vivendi s stake in UGC

In December 2005, pursuant to the exercise of the call option held by the family shareholders of UGC, we completed the divestiture of our 37.8% interest in UGC SA (representing 40% of the voting interests), previously equity-accounted for an amount of 89 million (including interests). The price may be adjusted depending on the date of a future sale by the UGC family shareholders within various periods of exercise of the call. During 2005, we received 54 million in cash, the remaining proceeds (approximately 34 million) being due before 2008. This transaction generated a capital gain of 10 million.

Other 2005 transactions

IACI exited Vivendi Universal Entertainment (VUE). IACI and Vivendi agreed to end litigation

On June 7, 2005, Vivendi, NBC Universal (NBCU) and InterActiveCorp (IACI) unwound IACI s interests in VUE through the purchase by NBCU of IACI s common and preferred interests in VUE. The unwinding of IACI s interests was funded in part through (i) $160 million of capital contributions by us, through our subsidiary Universal Studios Holding Corp., (ii) the sale of treasuries (negotiable US Government debt obligations) funding the defeasance of the covenants of the VUE Class A preferred interests and (iii) the exchange of 56.6 million shares of IACI stock securing the put/call rights relating to the VUE Class B preferred interests. As a result of this exchange, we renounced the after-tax benefit related to the increase of IACI s stock price above $40.82 per share in May 2022. Our obligations to fund the after-tax cost of 94.56% of the 3.6% per annum cash coupon on the VUE Class B preferred interests and pay up to $520 million to NBCU in respect of any loss from the disposition of the theme parks were eliminated.

As part of this transaction, we agreed with IACI to terminate our pending tax dispute. In addition, we agreed with General Electric (GE) to defer by one year, to January 2007 and May 2010, respectively, the dates on which we may first exercise our rights to monetize our equity interest in NBCU over time at fair market value and on which GE may exercise its call right on our equity interest in NBCU.

The impact of this transaction on our consolidated statement of earnings was a gain of 194 million for the year ended December 31, 2005.

Early termination of the derivative structure affecting 5% of the share capital of Veolia Environnement

On October 25, 2005, we agreed with Société Générale to the early termination of the derivative structure (collar option) on 5% of the share capital of Veolia Environnement (20,321,100 shares) set up in December 2004.

As part of the divestiture of 15% of Veolia Environnement s share capital on December 2004, we agreed with Société Générale to a derivative transaction on a notional commitment representing 5% of Veolia Environnement s share capital allowing us to benefit, within a three years period, from an increase in Veolia Environnement s share price above 23.91. This derivative structure was terminated earlier in October 2005. Given the increase of the Veolia Environnement share price by reference to the exercise price of the collar option set in December 2004, the termination of this instrument generated a financial income of 115 million in 2005, corresponding to the gross proceeds of the transaction (208 million, net of fees) less the carrying value of the collar option as of January 1, 2005 (93 million).

We continue to own 5.3% in the share capital of Veolia Environnement (21,522,776 shares). We also held 218,255,690 Veolia Environnement warrants which expired in March 2006.

Partial redemption of bonds exchangeable into Sogecable shares

In November and December 2005, we opted for the early redemption of 363 million of bonds exchangeable into Sogecable shares with an exchange ratio of 1.0118 share for 1 bond. We delivered 12,540,403 Sogecable shares to bond holders. As of December 31, 2005, the residual amount of this borrowing was 242 million and we held 8,340,850 Sogecable shares. This transaction generated a capital gain of 256 million recorded as financial income and had no impact on our cash position.

Subsequent Events since December 31, 2005

Purchase of the 7.7% stake held by Matsushita Electric Industrial (MEI) in Universal Studios Holding Corp (USHI)

In February 2006, we acquired the 7.659% minority interest held by Matsushita Electric Industrial Co, Ltd (MEI) in our subsidiary, Universal Studios Holding 1 Corp. (USHI) for a purchase price of $1,154 million. USHI is a holding company located in the United States, which was 92.341% owned and 100% controlled by us prior to this transaction. USHI s assets correspond to Vivendi s main operations in the United States (excluding Vivendi Games): 100% of Universal Music Group (UMG) and 20% of NBC Universal (NBCU). Following this transaction, we increased our economic interest from 92.3% to 100% in UMG and from 18.5% to 20% in NBCU, respectively. This transaction resulted in a $1,154 million increase (approximately 960 million) in our Financial Net Debt.

Investment in 19.9% of the voting capital of Amp d

In February 2006, following the Amp d share capital increase, we and UMG increased our interest in the share capital of Amp d to 19.9%. Amp d is an aggregator and creator of generation multi-media mobile content over a customized user interface platform and a mobile virtual network operator (MVNO) offering 3G telephony and content services nationwide in the United States. Amp d has developed handsets that allow music and video downloading over the cellular network and the Internet. We supply music and video clips, mobile games and video/ programming through our business units UMG and Vivendi Games and through NBCU. Our total investment in Amp d amounts to 47 million.

Sale of Canal+ s interest in Paris Saint-Germain (PSG)

In April 2006, the Canal+ Group announced that it had signed an agreement to sell its entire interest in the soccer club Paris Saint-Germain to Colony Capital, Butler Capital Partners and Morgan Stanley. This transaction was finalized on June 20, 2006.

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Increase of SFR s stake in Neuf Telecom

In May 2006, SFR exercised its preemptive rights to acquire shares of Neuf Telecom held by Telecom Italia and a financial investor, increasing SFR s stake in Neuf Telecom from 28.2% to 34.9%.

Settlement of tax dispute over DuPont Shares and Sale of DuPont Shares

In June 2006, we announced that an agreement had been reached with the Internal Revenue Service (IRS) ending our dispute concerning the amount of tax due on the redemption of our DuPont shares in April 1995. In full settlement of this dispute, we agreed to pay a total of approximately $671 million (including tax in the amount of $284 million and interest of $387 million). This settlement will result in the elimination of the deferred tax liability recorded in our consolidated statement of financial position, which at December 31, 2005, was $1,847 billion. In June 2006, we sold all our 16.4 million shares in DuPont for a total consideration of $671 million.

2004 developments

Permission to use the French Consolidated Global Profit Tax System as of January 1, 2004

On December 23, 2003, we 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. We are thus entitled to consolidate our 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 we own at least 50% of outstanding shares, both French and foreign, as well as Canal+ SA, fall within the scope of the Consolidated Global Profit Tax System, including, but not limited to Universal Music Group, Vivendi Games, CanalSat, SFR and, as of January 1, 2005, Maroc Telecom. The 2004 Finance Act authorized the unlimited carry forward of existing ordinary losses as of December 31, 2003, which, combined with our permission to use the Consolidated Global Profit Tax System, enables us to maintain our capacity to use ordinary losses carried forward.

As of December 31, 2005, Vivendi SA recognized in its 2005 earnings a current tax saving of 507 million. In addition, a deferred tax asset of 580 million was recognized in respect of expected tax savings for 2006. Given the reversal of the deferred tax asset recognized in 2004 in the amount of expected tax savings in 2005 (492 million), the net change in deferred tax assets relating to the Consolidated Global Profit Tax System in 2005 was 88 million.

As of December 31, 2004, Vivendi SA recognized in its 2004 earnings the expected tax savings relating to 2004 fiscal year (464 million) and a deferred tax asset relating to the expected tax savings for 2005 (492 million).

For an analysis of the impact of the Consolidated Global Profit Tax System on the 2004 2005 earnings, please refer to Item 18. Financial Statements Note 6. Tax expense as of December 31, 2005 and 2004 .

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

On October 8, 2003, we announced the signing of a definitive agreement with General Electric (GE) for the combination of the respective businesses of the National Broadcasting Company (NBC) and Vivendi Universal Entertainment LLLP (VUE) to form NBC Universal (NBCU). The transaction, which was completed on May 11, 2004, resulted, from an accounting standpoint, in the divestiture of 80% of our interest in VUE for 8,002 million (corresponding to gross cash proceeds of 3,073 million and a value of 4,929 million for the 20% interest in NBC received in the transaction, before Universal Studios Holding III Corp. (USH) minority interests) and 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%

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owned and 20% controlled by us (through our subsidiary, USH) as presented in the following organizational chart:

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

(**) The MEI s 7.659% minority interest was repurchased in February 2006.

VUE s assets divested as part of the transaction included Universal Pictures Group, Universal Television Group, Universal Studios Networks as well as interests in five theme parks.

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, several NBC local stations, Spanish-language TV broadcaster Telemundo and its Telemundo local stations and interests in five theme parks.

Net income and expenses of VUE from January 1, 2004 to May 11, 2004, date of the closing of the transaction, were therefore deconsolidated and presented netted, in the amount of 80% in earnings from discontinued operations and in the amount of 20% in income from equity affiliates. A description of the transaction is also presented in Notes 2.4 and 7.2 to our Consolidated Financial Statements.

On May 11, 2004, as part of the NBC-Universal transaction, GE paid to USH, $3.65 billion (3.073 billion) of cash consideration. The cash consideration received by Vivendi amounted to 2,926 million, net of divestiture fees and of the amount paid to MEI. We retained responsibility for the cost of the defeasance of covenants of the VUE Class A preferred interests (657 million; i.e., 607 million after minority interests) and for the net costs of the dividends of 3.6% per annum on the VUE Class B preferred interests (298 million; i.e., 275 million after minority interests). We also retained the right to 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 IACI stock transferred to NBCU as part of the NBC Universal transaction (above $40.82 per share). We also have certain contingent obligations in connection with the NBC-Universal transaction relating to taxes, commitments related to exclusive businesses of the agreement for the combination and other matters customary for a transaction of this type.

On June 7, 2005, Vivendi, NBCU and IACI unwound IACI s interests in VUE through the purchase by NBCU of IACI s common and preferred interests in VUE. As part of this transaction, our 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. We also terminated our right to receive any after tax benefit related to the increase of IACI s stock price above $40.82 per share in May 2022.

As part of the agreements, we are entitled to sell our 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 restructuring. As a result, we will be able to sell our 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

our sales to the market. Under certain circumstances, if we exercise our right to sell our shares on the market and if GE does not exercise its preemptive right, we 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 our NBCU shares or (ii) $4 billion of our NBCU shares, in each case at the greater of their market value at the time the call is exercised and their value as determined at the time of the NBC-Universal transaction (i.e. $8.3 billion). If GE calls $4 billion, but not all, of our NBCU shares, GE must call the remaining NBCU shares held by us by the end of the 12-month period commencing on May 11, 2011.

In addition to the exit rights, as part of the agreements with GE, we have certain veto, board designation, information and consent rights in NBCU. We currently hold three out of 15 seats on the board of directors of NBCU. Our governance rights in NBCU may terminate, under certain circumstances, upon a change in control of Vivendi.

The divestiture of 80% of our interests in VUE generated a capital gain of 707 million, net of a 244 million tax impact. The acquisition cost of the 20% stake in NBC received by USH, corresponded to the fair value of this stake as defined in the VUE/NBC combination agreement, i.e., 4,929 million ($5,854 million, as of the transaction date). The book value of the NBC assets acquired amounted to 738 million ($877 million, as of the transaction date). In addition, in the context of the NBC-Universal transaction, we 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.

Divestiture of 15% of Veolia Environnement

In December 2004, we disposed of 15% of our 20.3% interest in Veolia Environnement through three transactions: (i) 10% were placed under an accelerated book building procedure by institutional investors for total proceeds of 997 million (24.65 per share), (ii) 2% were sold to Veolia Environnement for 195 million (23.97 per share) and (iii) 3% were 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 us in November 2002 to certain institutional shareholders of Veolia Environnement relative to our interest in that company. 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 recorded as a financial income in the Consolidated Statement of Earnings on their expiry date.

Overall, we received a total amount of 1,497 million in these transactions, generating a capital gain of 1,606 million before tax (1,445 after tax). From a tax standpoint, the associated capital gain of 477 million was offset by our current capital losses and, therefore, did not result in any cash capital gain tax.

Veolia Environnement, which was fully consolidated until December 31, 2002 and accounted for using the equity method thereafter, was fully deconsolidated on December 9, 2004. Currently, we retain 5.3% interest in Veolia Environnement.

In order to finalize the financial separation from its former subsidiary, Vivendi decided to substitute a third party in its guarantee commitments with respect to network renewal costs, granted to Veolia Environnement in June 2000 and in December 2002. For this purpose, on December 21, 2004, we signed a contract of full assignment with Veolia Environnement and a third party to transfer all our residual obligations towards Veolia Environnement. As a result, we 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 other financial charges and income.

Listing of Maroc Telecom and full consolidation of Mauritel

Listing of Maroc Telecom on the Casablanca and Paris Stock Exchanges The shares of Maroc Telecom have been trading on the Casablanca Stock Exchange and the Eurolist (formerly the *Premier Marché*) of Euronext Paris SA 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). As of December 31, 2004, the market price was 8.41 per share. As part of the offer, 130,985,210 common shares were sold by the Kingdom of Morocco, representing 14.9% of Maroc Telecom s share capital.

Full Consolidation of Mauritel by Maroc Telecom since July 1, 2004 Mauritel, previously equity-accounted, has been fully consolidated by Maroc Telecom since July 1, 2004. For the second half of 2004, Mauritel generated revenues and earnings from operations of 34 million and 11 million, respectively. For more details, please refer to Item 18. Financial Statements Note 30. Significant subsidiaries as of December 31, 2005 and 2004 .

Completion of the asset divestiture plan: Vivendi disposed of approximately 1.1 billion in assets (excluding the NBC-Universal and Veolia Environnement transactions) in 2004

The Canal+ Group

Sportfive In March 2004, RTL Group and the Canal+ Group signed an agreement with Advent International for the divestiture of their respective interests in Sportfive. Before signing the agreement on March 31, 2004, the Canal+ Group and RTL Group acquired Jean Claude Darmon s approximate 4.9% stake in Sportfive for a total consideration of 60 million (including a price adjustment of 5 million). The sale to Advent International of the 48.85% stake in Sportfive held by the Canal+ Group, for which the group received 274 million in cash, was completed on June 25, 2004. This divestiture generated a capital gain of 38 million (including a 22 million provision reversal).

The Canal+ Group completed, 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 negative impact of 26 million on our Financial Net Debt). These divestitures generated a capital gain of 65 million (net of a 24 million provision reversal).

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

Non-core operations

Vivendi Telecom International (VTI)

Kencell In May 2004, we sold our 60% interest in Kencell, Kenya s No. 2 mobile phone operator, for a cash consideration of $230 million (190 million as of the transaction date). This divestiture generated a capital gain of 39 million (net of a 7 million provision accrual).

Monaco Telecom In June 2004, we sold to Cable and Wireless our 55% interest in Monaco Telecom for a total cash consideration of 169 million (including a 7 million dividend distribution). This divestiture generated a capital loss of 4 million (net of a 5 million provision accrual).

Completion of the Total Withdrawal from Publishing Operations: Divestiture of Brazilian Publishing Operations

In February 2004, we divested our interest in Atica & Scipione, publishing operations in Brazil, for a total consideration of 32 million. This divestiture generated a capital loss of 8 million.

Divestiture of United Cinema International (UCI)

In October 2004, together with Viacom, we completed the divestiture of our respective 50% stakes in the European operations of the UCI Cinemas group to Terra Firma. In addition, UCI Group divested its 50% stake in UCI the Japan to Sumitomo Corporation (50% of transaction proceeds were paid by UCI Cinemas to us). As part of these transactions, we received 170 million. These transactions generated a capital gain of 64 million.

Other 2004 transactions

Divestiture of two Philip Morris Towers In June 2004, the divestiture of the Cèdre tower (27,000 square meters) and the Egée tower (55,000 square meters) located at La Défense, Paris, resulted in a 333 million reduction in our Financial Net debt with respect to long-term leases signed with Philip Morris in 1996. In addition, the reimbursement of the different participating loans and/or guarantees granted by us resulted into a net cash inflow of 84 million.

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

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Results of Operations

Consolidated statement of earnings in 2005 and 2004

The table below presents the Group s consolidated statement of earnings in euro for each of the years ended December 31, 2004 and 2005. The information below should be read in conjunction with the Consolidated Financial Statements and the Notes thereto, included elsewhere in this annual report.

	Year ended December 31,	
	2005	**2004**
	(In millions of euros, except per share amounts)	
Revenues	19,484	17,883
Cost of revenues	(9,898)	(9,100)
Margin from operations	9,586	8,783
Margin from operations rate	49%	49%
Selling, general and administrative expenses	(5,807)	(5,464)
Other operating expenses	(33)	(86)
Earnings from operations	3,746	3,233
Other income from ordinary activities	75	89
Other charges from ordinary activities	(170)	(25)
Income from equity affiliates	326	221
Earnings before interest, other financial charges and income and income taxes	3,977	3,518
Interest	(218)	(406)
Other financial charges and income	619	1,226
Interest and other financial charges and income	401	820
Earnings from continuing operations before income taxes	4,378	4,338
Provision for income taxes	(204)	(292)
Earnings from continuing operations	4,174	4,046
Earnings from discontinued operations	92	777
Earnings	4,266	4,823
Attributable to:		
Equity holders of the parent	3,154	3,767
Minority interests	1,112	1,056
Earnings, attributable to the equity holders of the parent per share basic (in euros)	2.74	3.29
Earnings, attributable to the equity holders of the parent per share diluted (in euros)	2.72	3.27

Consolidated earnings review

In 2005, earnings attributable to equity holders of the parent were 3,154 million (representing basic and diluted earnings per share of 2.74 and 2.72, respectively) compared to 3,767 million in 2004 (representing basic and diluted earnings per share of 3.29 and 3.27, respectively).

The 613 million decrease (-16%) in earnings attributable to equity holders of the parent was due to the following favorable impacts:

a 513 million increase in earnings from operations, as a result of the return to break-even at Vivendi Games (+ 244 million), the return to growth at UMG (+ 121 million) and ongoing profitability at SFR (+ 90 million despite a negative net impact of 115 million of non recurring items in 2005) and at Maroc Telecom (+ 100 million);

a 188 million reduction in interest, resulting from the decrease in the average amount of borrowings as well as improved financing conditions;

a 105 million increase in income from equity affiliates; and

88 million from lower provisions for income taxes mainly due to non-recurring items. Excluding non-recurring items, provisions for income taxes were higher as a result of the improvement in taxable earnings (UMG, SFR, Maroc Telecom), offset by tax savings resulting from the utilization of ordinary losses carried forward in France and in the United States.

More than offset by the following defavorable items:

a 685 million decrease in earnings from discontinued operations. The 2004 numbers reflected the impact of the divestiture of VUE on May 11, 2004, including capital gains for 707 million and 80% of charges and income generated by VUE over the period in the amount of 132 million;

a 607 million decrease in other financial income, mainly due to capital gains on the divestiture of businesses or financial investments in the amount of 668 million in 2005 compared to 1,738 million in 2004 (including 1,606 million of capital gain on the sale of the 15% Veolia Environnement stake);

a 145 million increase in other charges from ordinary activities, mainly resulting from the accounting in 2005 of non-cash adjustments relating to the NBC-Universal transaction;

a 56 million increase in minority interest earnings; and

a 14 million decrease in other income from ordinary activities.

Analysis of the main items of the consolidated statement of earnings

Revenues

Vivendi s 2005 consolidated revenues amounted to 19,484 million compared to 17,883 million in 2004, representing a 1,601 million increase.

On a comparable basis[(5)], revenues amounted to 19,439 million compared to 18,237 million, representing a 6.6% increase (+6.5% at constant currency). Each of the businesses contributed to this performance.

Cost of revenues and margin from operations rate

In 2005, cost of revenues amounted to 9,898 million (a 798 million increase compared to 9,100 million in 2004) and remained stable at 51% of revenues, compared to 2004. However, if mobile-to-mobile sales[(6)] at SFR had been invoiced since January 1, 2004 instead of January 1, 2005 (applying in 2004 the rate

(5) Comparable basis essentially illustrates the effect of the divestitures that occurred in 2005 (primarily, NC Numéricâble) and 2004 (mainly, the Flux-divertissement business of StudioExpand, Canal+ Benelux, UMG s music clubs, Kencell and Monaco Telecom) and includes the full consolidation of minority interests in distribution subsidiaries at SFR and of Mauritel at Maroc Telecom as if these transactions had occurred as of January 1, 2004. In 2004, Comparable basis also includes estimated mobile-to-mobile sales at SFR applying in 2004 the rate applied in 2005.

(6)

Mobile-to-mobile sales were not invoiced (income and expenses) between French mobile operators until December 31, 2004. They have been treated as an exchange of goods and services, the fair value of which was not determinable for the year ended December 31, 2004, and no revenues were recognized on these calls. Since 2005, these call terminations have been invoiced. For the year ended December 31, 2004, the impact of estimated mobile-to-mobile sales amounted to 875 million on revenues and to - 875 million on cost of revenues.

applied in 2005), cost of revenues in 2004 would have been increased by 875 million, and cost of revenues in 2005 would have declined by 77 million compared to 2004.

The margin from operations increased by 803 million to reach 9,586 million in 2005, mainly due to increased margin from operations at SFR, VUG and Maroc Telecom. The margin from operations rate was stable at 49%. However, if mobile-to-mobile sales at SFR had been invoiced since January 1, 2004 instead of January 1, 2005 (applying in 2004 the rate applied in 2005), the margin from operations rate would have increased by 2 basis points (49% in 2005 compared to 47% in 2004). This increase was mainly due to improved margins at Vivendi Games, which strongly benefited from the immediately profitable launch of *World of Warcraft* and efficient cost control, notwithstanding the negative impact of non-recurring costs associated to product cancellations and the write-off of certain titles.

Selling, general and administrative expenses

In 2005, selling, general and administrative expenses amounted to 5,807 million compared to 5,464 million in 2004, representing an increase of 343 million. This increase in cost was mainly due to the impact of a 220 million fine from the French Antitrust Council. Please refer to Item 18. Financial Statements Note 30 .

Depreciation and amortization

Depreciation and amortization are part of either administrative and commercial expenses or cost of revenues. In 2005, depreciation and amortization amounted to 1,525 million compared to 1,654 million in 2004, representing a 129 million decrease. This improvement was mainly due to changes in the scope of UMG (divestiture of CD and DVD manufacturing facilities in the United States and Germany in May 2005), slightly offset by higher amortization costs at SFR, as a result of the commencement of the amortization period for the UMTS license beginning mid June 2004.

Other operating expenses

In 2005, other operating expenses amounted to 33 million compared to 86 million in 2004, representing a 53 million decrease. They mainly consisted of restructuring charges (primarily at Maroc Telecom and UMG), which amounted to 51 million in 2005 compared to 103 million in 2004.

Earnings from operations

In 2005, Vivendi s earnings from operations amounted to 3,746 million compared to 3,233 million in 2004.

This 15.9% increase (+ 513 million) resulted from higher revenues (particularly at SFR, Maroc Telecom and Vivendi Games), combined with efficient cost control within the Group (mainly at SFR, Vivendi Games and UMG) and a reduction in restructuring costs (notably at UMG and Vivendi Games). In 2005, earnings from operations were negatively impacted by 115 million as a result of a 220 million fine from the French Antitrust Council which was partly offset by favorable non-recurring items of 105 million. In 2004, earnings from operations included non-recurring costs associated to product cancellations and the write-off of certain titles at VUG.

On a comparable basis, earnings from operations increased by 457 million to 3,719 million, representing a 14.0% increase (+13.7% at constant currency), compared to 3,262 million in 2004.

Other income from ordinary activities

In 2005, other income from ordinary activities amounted to 75 million, compared to 89 million in 2004, representing a 14 million decrease.

In 2005, other income from ordinary activities included 38 million of dividends received from unconsolidated companies (compared to 23 million in 2004) including Veolia Environnement which was

previously equity-accounted and 37 million of interests received for long-term financial receivables (compared to 66 million in 2004). This decline in interest income resulted from the fact that Vivendi ceased to record interest related to Elektrim Telekomunikacja s loan due to the company s situation. Please refer to Item 18. Financial Statements Notes 2.3 and 30 .

Other charges from ordinary activities

In 2005, other charges from ordinary activities amounted to 170 million compared to 25 million in 2004, representing a 145 million increase. They included non-cash adjustments relating to the NBC-Universal transaction (124 million) as well as exceptional goodwill amortization (48 million) at UMG, which was recorded to offset the activation of deferred tax assets related to ordinary loss carry forwards not recognized at the end of 2000 as part of the purchase price allocation of UMG.

Income from equity affiliates

In 2005, income from equity affiliates amounted to 326 million, compared to 221 million in 2004, representing a 105 million increase, including 156 million from VUE/NBC Universal. Specifically, it included Vivendi s equity interest in twelve months of 2005 NBC Universal earnings (361 million) compared to 234 days of NBC Universal earnings and 132 days of 20% of VUE earnings in 2004 (NBCU was created through the combination of NBC and VUE as of May 11, 2004). In addition, in 2005, income from equity affiliates included 50 million in Neuf Cegetel losses compared to 22 million in Cegetel SAS losses in 2004.

Interest

In 2005, interest amounted to 218 million compared to 406 million in 2004, representing a 188 million decrease. The average amount of borrowings (calculated on a daily basis) decreased to 6.7 billion in 2005 compared to 8.9 billion in 2004. This decrease was mainly due to the impact of the divestiture plan and in particular the divestiture of VUE in May 2004.

In 2005, average borrowing costs decreased to 3.92%, compared to 5.01% in 2004. This decrease resulted from the combined effect of the redemption of the High Yield Notes (83% in June 2004 and the remaining Notes in January 2005), funded by the proceeds received from the NBC-Universal transaction as well as new credit facilities obtained under better financial terms in 2004 and 2005 as a result of the upgrading of Vivendi s credit rating to Investment Grade in 2004.

In March 2005, Vivendi completed its plan to unwind interest rate swaps without cash consideration, which represented a 84 million charge for the full year of 2004.

Other financial charges and income

In 2005, other financial charges and income generated a 619 million income compared to a 1,126 million income in 2004, representing a 607 million decrease.

Other financial charges and income mainly included the amortized cost on borrowings (including premiums incurred for the early redemption of borrowings and for the unwinding of derivative instruments), changes in value of derivative instruments, gains/ losses on foreign currency translations (other than gains/ losses on foreign currency translations on operating activities, recorded in earnings from operations), financial component of costs related to employee benefit plans, as well as capital gains/ losses on the divestiture of businesses or financial investments.

Impact of amortized cost on borrowings (including premiums incurred for early redemption)

In 2005, the impact of amortized cost on borrowings was a charge of 115 million (compared to a charge of 486 million in 2004). This improvement was due to the large number of early redemptions of borrowings in

2004 following the NBC-Universal transaction. These early redemptions generated exceptional costs in 2004 and lower recurring costs in 2005 as the total amount of borrowings declined:

Premiums incurred for the early redemption of notes and other financial liabilities represented a charge of 71 million as of December 31, 2005, compared to a 308 million charge as of December 31, 2004, corresponding to the premium (including accrued interests) related to the early redemption of 83% of the High Yield Notes in June 2004. A charge of 50 million was incurred in 2005 for the redemption of the remaining High Yield Notes in January 2005. In addition, the early redemption of the bonds exchangeable into Vinci shares in the course of March 2005 generated a charge of 27 million.

In 2005, the impact of amortized cost on borrowings represented a charge of 44 million (compared to a charge of 178 million as of December 31, 2004, including a 53 million charge due to the cancellation of credit lines following the NBC-Universal transaction).

Changes in value of derivative instruments

In 2005, the depreciation of derivative instruments generated a loss of 2 million compared to a 10 million loss in 2004. This decrease was due to:

the early termination of the collar on the 5% stake in Veolia Environnement in 2005, representing an upside adjustment of 25 million;

the upside adjustment to the value of the embedded option on the bonds exchangeable into Sogecable shares (16 million in 2005), corresponding to the portion of the bonds not exchanged during the fourth quarter of 2005, compared to a downside adjustment of 11 million in the first nine months of 2004; and

the smaller downside adjustment to the value of the put option granted to SNCF on 35% of the capital of Cegetel SAS exercised on August 22, 2005 (14 million as of December 31, 2005, compared to 35 million as of December 31, 2004).

In addition, in 2004, downside adjustments were partly offset by the upside adjustment of the value of the interest rate swaps without cash consideration (18 million).

Change in financial component of costs related to employee benefit plans

In 2005, the financial component of costs related to employee benefit plans remained nearly unchanged at 35 million (including 75 million of interest charges and 40 million of expected return on assets) compared to 37 million in 2004 (including 83 million for the effect of undiscounting actuarial losses and 46 million of expected return on assets).

Gain/(loss) on the divestiture of businesses or financial investments

In 2005, gains or losses on the divestiture of businesses or financial investments amounted to 668 million. They resulted from the financial gain on the exchange of Sogecable shares related to the redemption of bonds exchangeable into Sogecable shares (256 million), the gains related to the unwinding of IACI s interest in VUE (194 million), the financial gain on the early termination of the collar on the 5% stake in Veolia Environnement (115 million) and on the divestiture of the stake in Lagardère Thématiques (26 million), as well as capital gains on the divestiture of remaining assets at UCI (34 million).

In 2004, they amounted to 1,738 million and resulted from the impact of the divestiture of 15% of Veolia Environnement which represented a portion of Vivendi s 20.3% stake in this company (1,606 million), various liquidation bonuses (74 million), capital gains on the divestiture of the flux-divertissement business of StudioExpand and Canal+ Benelux (65 million), certain UCI assets (64 million), Kencell (39 million) and Sportfive (38 million) and the impact of the abandonment of Internet operations (34 million) as well as the financial gain on the divestiture of the stake in Viva Media (26 million). These positive impacts were partly offset by provisions recorded for the NC Numéricâble divestiture (56 million).

Provisions for income taxes

In 2005, provision for income taxes amounted to 204 million compared to 292 million in 2004. The effective tax rate amounted to 4.7% in 2005 compared to 6.7% in 2004. Excluding the impact of non-recurring items, the effective tax rate reached 20% in 2005 compared to 23% in 2004.

Excluding the impact of non-recurring tax items and taxes related to non-recurring items (change in deferred tax assets, reversal of deferred tax liabilities relating to tax years no longer open to audit), the tax expense increased by 63 million, due to higher taxable earnings (UMG, SFR, Maroc Telecom). This increase was offset by tax savings resulting from the utilization of ordinary losses carried forward (mainly in France, including the impact of the Consolidated Global Profit Tax System and in the United States).

Earnings from discontinued operations

In 2005, earnings from discontinued operations generated a 92 million profit equal to 72% of the charges and income generated by Cegetel over the period, i.e. a loss of 29 million (the residual 28% being classified in income from equity affiliates) and capital gains generated by the divestiture of Cegetel, i.e. 121 million. In accordance with IFRS 5, following the Cegetel-Neuf Telecom combination, which was announced on May 11, 2005 and closed on August 22, 2005, Cegetel qualified as a discontinued operation.

In 2004, earnings from discontinued operations amounted to 777 million, essentially reflecting the impact of the divestiture of VUE in May, 2004. This impact was comprised of 80% of charges and income generated by VUE over the period for 132 million (the residual 20% being classified in income from equity affiliates) and 707 million of capital gains generated by the divestiture.

Minority Interests

In 2005, earnings attributable to minority interests, mainly of SFR and Maroc Telecom, amounted to 1,112 million compared to 1,056 million in 2004, representing a 56 million increase. The decline resulting from the acquisition of an additional 16% interest in Maroc Telecom in January 2005 was more than offset by the increase of SFR s earnings attributable to minority interests as a result of increased earnings at SFR.

Adjustments to conform to US GAAP

The following is a summary of the most significant adjustments to our Consolidation Statement of Earnings for the years ended December 31, 2005 and December 31, 2004, which would be required if US GAAP had been applied instead of IFRS.

	Year Ended December 31,	
US GAAP	**2005**	**2004**
	(In millions, except per share amount)	
Revenues	20,156	21,208
Earnings from operations(a)	3,311	3,334
Earnings, attributable to equity holders of the parent	2,571	2,921
Earnings, attributable to equity holders of the parent per share basic	2.39	2.73
Earnings, attributable to equity holders of the parent per share diluted	2.28	2.61

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(a) The reconciliation of the earnings from operations as reported under IFRS to the earnings from operations under US GAAP is as follows:

	Year Ended December 31, 2005								
	UMG	**Vivendi Games**	**Canal+ Group**	**SFR**	**Maroc Telecom**	**Holding and Corporate**	**Non core operations**	**VUE**	**Total Vivendi**
	(In millions of euros)								
Earnings from operations IFRS	480	41	203	2,422	762	(195)	33		3,746
Adjustments to conform to US GAAP									
Business combinations/goodwill/ impairment	(2)		2	(6)		(124)			(130)
Divestiture of Cegetel				(51)		(2)			(53)
Employee benefit plans	(23)					(44)			(67)
Share-based compensation	1					45			46
Intangible assets		(6)		(147)	(31)				(184)
Other	(22)	(10)		12	(14)	(21)	8		(47)
Earnings from operations US GAAP	434	25	205	2,230	717	(341)	41		3,311