

LETTER

vivendi

SEPTEMBER
2014

TO OUR SHAREHOLDERS



**VINCENT
BOLLORÉ**
CHAIRMAN OF
THE SUPERVISORY
BOARD

**ARNAUD
DE PUYFONTAINE**
CHAIRMAN OF
THE MANAGEMENT
BOARD

VIVENDI, AN INTEGRATED INDUSTRIAL **MEDIA** AND **CONTENT** GROUP

The plan to dispose of GVT, Vivendi's Brazilian telecoms subsidiary, marks the end of the group's program of refocusing its activities, which was decided over two years ago. With the sales of SFR and Maroc Telecom and the announcement of the sale of GVT, Vivendi has refocused its activities on media and content, where it enjoys leading positions.

Partnerships for content distribution

Nonetheless, it has maintained minority interests in telecoms to increase opportunities to distribute its products. As an integrated industrial group, its development is now driven by organic growth, close partnerships between its subsidiaries, and alliances designed to support even wider distribution of its content.

Distribution methods for music and audiovisual content have changed significantly in

recent years. Digital consumption is now the norm, in particular via the multiple internet platforms. In this new environment, the boundaries between different media have been blurred. Our activities have more points in common and will be able to work together even more than in the past. Digital technology, not limited by national borders, will enable us to increase our presence in developing countries and boost our overall growth.

Refocusing our activities will help put Vivendi back on a firm financial footing, giving it significant resources to strengthen its position in content. To compete with giants such as Disney and Warner, our group needs increased financial capacity. It will continue to offer returns to shareholders if its cash flow allows it and its projects make it possible.

We took over the management of Vivendi in June with firm conviction and high ambitions. We wanted to share them with you as well as thanking you for your loyalty to the group. ■



Hervé Philippe
Chief Financial Officer

The strong operational performance of Canal+ Group, Universal Music Group and GVT and the reduction in financial costs associated with early repayments of bond issues supported Vivendi's net profitability in the first half of 2014.

MODERATE ORGANIC GROWTH IN ADJUSTED OPERATING PROFIT FOR FIRST HALF 2014

The strong operational performance of Canal+ Group, Universal Music Group and GVT and the reduction in financial costs associated with early repayments of bond issues supported Vivendi's net profitability in the first half of 2014. Vivendi's adjusted net earnings were €355 million in the first half of 2014, practically stable compared with the same period in 2013, for sales of €5.55 billion, an increase of 1.3% on a like-for-like basis at constant exchange rates (down by 3.5% in real terms). Earnings were supported by an improvement in financial costs

linked to early repayments of bond issues following the sale of Activision Blizzard. Adjusted operating profit totalled €626 million, an increase of 1.2% on a like-for-like basis at constant exchange rates (down by 8.8% in real terms), thanks to strong performances from Canal+ Group, Universal Music Group and GVT.

REDUCTION IN DEBT 30 JUNE 2014

Net financial debt on the balance sheet was €7.9 billion at 30 June 2014, compared with €17.4 billion a year earlier. The change can be explained by the group's new strategy,

which focuses on media and content: on 11 October 2013, Vivendi sold the majority of its stake in Activision Blizzard for \$8.2 billion and on 14 May 2014, it sold Maroc Telecom for €4.1 billion. Furthermore, the Supervisory Board decided on 5 April 2014 to accept the offer from AlticeNumericable to take over SFR. Taking into account the proceeds from this sale, Vivendi should have an estimated net positive cash flow of €4 billion at the end of December 2014. Finally, on 28 August, the group announced that it was entering into exclusive negotiations with Telefonica for the sale of GVT. ■

2014 HALF-YEAR RESULTS⁽¹⁾⁽²⁾

	Change compared with first half 2013	Like-for-like change at constant exchange rates compared with first half 2013
Revenue €5,546 M	-3.5 %	+ 1.3 %
Operating profit (EBIT) €436 M	-7.1 %	
Group net profit €1,913 M	+ 84.8 %	
Adjusted operating profit (EBITA)⁽³⁾ €626 M	- 8.8 %	+ 1.2 %
Adjusted net earnings⁽³⁾ €355 M	- 1.1 %	
CFFO⁽³⁾ €176 M	+ 57.0 %	
Net financial debt⁽³⁾ €7.9 billion contre €17.4 billion à fin juin 2013		

(1) IFRS data, unaudited.

(2) For information, under IFRS 5, SFR (as from the 1st quarter 2014), the Maroc Telecom Group and Activision Blizzard (from the 2nd quarter 2013) are presented as businesses sold or held for sale. Moreover, Vivendi deconsolidated the Maroc Telecom Group and Activision Blizzard from 14 May 2014 and 11 October 2013 respectively, the dates of their actual sale by Vivendi. As a result, neither SFR, the Maroc Telecom Group nor Activision Blizzard are included under sales, operating profit (EBIT), adjusted operating profit, CFFO or adjusted net earnings. Their respective contributions to Vivendi's net profit and the capital gains realized are reported under "net profit from businesses sold or held for sale" and excluded from adjusted net earnings.

(3) For a definition of these figures, see the 2014 Half-Year Financial Report on www.vivendi.com.

TOWARDS A CHANGE OF STATUS FOR VIVENDI

A new era is beginning for Vivendi, with a clear objective: moving from a holding company with financial stakes in several different business sectors to an integrated industrial group focusing on media and content. Stéphane Roussel, SEVP development and organisation, will play a leading role in managing the change.

With its new focus on activities where it occupies leading positions, the group's development will be driven by organic growth, close partnerships between its subsidiaries, and alliances designed to support wider distribution of its content.

It is this last aspect, in particular, that prompted the Supervisory Board to enter into exclusive negotiations with Telefonica on the sale of GVT. The future disposal of the Brazilian operator, which will be accompanied by taking a stake in Vivo-GVT and potentially in Telecom Italia, will provide an opportunity to implement projects and create content and media distribution networks with both companies. For the same reason, the group will retain 20% of the future business SFR-Numericable.

The new strategy, which has been accompanied by sales of assets, will put Vivendi back on a firm financial footing and support its further development.



Stéphane Roussel
SEVP development and organisation

NEW MANAGEMENT TO LEAD VIVENDI

Following the appointment of **Vincent Bolloré** as Chairman of the Supervisory Board on 24 June, at the end of the General Shareholders' Meeting, the Board appointed **Arnaud de Puyfontaine** as Chairman of the Management Board. Alongside **Arnaud de Puyfontaine**, the Management Board now consists of **Hervé Philippe**, Chief Financial Officer since January 2014, and **Stéphane Roussel**, SEVP development and organisation. Stéphane has extensive knowledge of Vivendi as a member of General Management since August 2013. He was previously Chairman and Chief Executive Officer of SFR, from June 2012 to August 2013, and the Senior Executive Vice President, Human Resources of the Group from March 2009 to June 2012.

Other members of the senior management team are the Senior Executive Vice President & Group General Counsel, **Frédéric Crépin**, the Senior Executive Vice President, Communications and Public Affairs, **Simon Gillham**, and the business directors.



UNIVERSAL MUSIC GROUP



Lucian Grainge CBE
Chairman & CEO
of Universal Music Group

Music distribution methods are changing and it's now digital and particularly streaming (listening on the internet without owning the song) that consumers are using most and which are supporting the business.

**Increase of 7%
in adjusted
operating profit**

SIGNIFICANT GROWTH IN STREAMING

The changes in how music is consumed and the rate at which new titles are released had an impact on UMG's results in the first half of 2014: like-for-like sales at constant exchange rates declined by 3.2% per year compared with the first half of 2013 at €2.003 billion (-10.4% in real terms). Digital sales increased by 3% on a like-for-like basis at constant exchange rates, with a significant increase in subscriptions and streaming (listening to a song on the internet without owning it) largely making up for the decrease in digital downloads. The growth in the digital sector did not, however fully compensate for the decline in physical sales. UMG also achieved very strong performance with the original score of the Disney film "Frozen" and songs by Lorde, Katy Perry and Avicii. Similarly, "Racine Carrée" by the Belgian artist Stromae is the best-selling French-speaking album for over 10 years,



THE ORIGINAL SCORE FROM
THE FILM "FROZEN"
AND LORDE ACHIEVED SOME OF
THE BEST RESULTS FOR THE FIRST
HALF OF 2014.

with over 2.5 million copies sold in total.

Supported by savings in general expenses and lower restructuring costs adjusted operating profit (EBITA) for UMG was €153 million, an increase of 41.9% on a like-for-like basis at constant exchange rates (+7.0% in real terms) compared with the first half of 2013.



PHOTO UMG/DR

In addition, on 1st August, UMG finalized the sale of its 13% stake in Beats to Apple for \$409 million. ■

CANAL+

GROUP



Bertrand Meheut
Chairman of the
Management Board
of Canal+ Group

International sales, particularly in Africa, have boosted growth and profitability at Canal+ Group. The group therefore plans to launch a new channel in Africa in October.

PERFORMANCE DRIVEN BY INTERNATIONAL SALES

In the first half of 2014, Canal+ Group achieved adjusted net profits of €420 million, compared with €430 million a year earlier, for sales of €2.667 billion, an increase of 2.6% (+0.7% on a like-for-like basis at constant exchange rates) compared with the first half of 2013. Profitability was penalized by the increase in VAT from 7% to 10% on 1 January 2014 in France (which Canal+ Group did not pass on to its subscribers) in spite of positive results, particularly in Poland and Africa.

At the end of June 2014, Canal+ Group's portfolio was 15.1 million subscriptions, an increase of 940,000 in a year, thanks to strong performance in Africa and Vietnam, and growth in mainland France of its video-on-demand offering, Canalplay. D8, whose audience continues to grow, is one of the leaders in DTT.

At the same time, Studiocanal benefited from the success



PHOTOS CANAL+/DPP/DR

of the films "Non-Stop" and "RoboCop" and the addition of the British production company Red, which specializes in television series.

Canal+ Group intends to build on its positions in Africa. It already has almost 1.5 million subscribers on the continent and in October it will be launching A+, a new, 100% African channel.



JOHN MALKOVICH IN THE PART OF A VAMPIRE HOOKED ON CANALPLAY

Another high-profile figure for the latest Canalplay advertising campaign! John Malkovich, the American actor who appeared in "Dangerous Liaisons" and "The Sheltering Sky" plays a vampire who is mad about films and television series, and spends his time watching Canalplay wherever he is and whatever is going on around him (robbery, supermarket shopping, an aircraft caught in a storm or an evening with the family).

In France, over 500,000 people have already subscribed to the unlimited offer on Canal+ Group films and series. No

fewer than 25 million viewings were recorded in 2013.

Launched in November 2011, Canalplay is one of the leading video subscription services in

France. It offers over 9,000 items of content available on all screens in high definition and in French or original subtitled versions. For children, a secure

Kids space has been set up. Commitment free, Canalplay is available at €7.99 on a second screen smartphones and tablets) and at €9.99 on television (via an ADSL box, Apple TV and the Xbox 360 from Microsoft), separately from any Canal+ and/or Canalsat subscription. In addition, the Canalplay app was one of the first in France to include Google Chromecast. With Chromecast, subscribers can start watching a film or series on their smartphone or tablet before viewing it on their TV screen. The Canalplay app also supports Apple's AirPlay functionality.





Amos Genish
Vice-Chairman
of the Board
and CEO of GVT

It is a very high-speed operator and paid television provider with a presence in 153 cities in Brazil that Vivendi could be selling to Telefonica. The agreement was concluded on Friday 19 September.



A VERY ATTRACTIVE OFFER FROM TELEFONICA

GV T attracted a lot of interest in August. The Spanish telecoms giant, Telefonica, and its Italian counterpart Telecom Italia, battled to take over the Brazilian operator and submitted offers valuing the business at €7.450 billion (Telefonica) and €7 billion (Telecom Italia) respectively. Faced with two unsolicited offers, Vivendi's Supervisory Board made its decision based on the group's strategy and in the best interests of shareholders, and opted to enter into exclusive negotiations with Telefonica. More precisely, the offer from the Spanish giant on 28 August 2014 consists of €4.663 billion in cash and 12% in Telefonica Brazil shares, with the option for around a third of the holding to be ex-

changed at Vivendi's discretion for 5.7% of the capital (8.3% of the voting rights) in Telecom Italia.

AN UPSURGE IN PAID TELEVISION

The Supervisory Board felt that Telefonica's offer was particularly attractive: at this price, GVT is effectively valued at double the ratio (EV/EBITDA) currently seen in Brazilian telecoms operators. This should generate a capital gain of over €3 billion. In addition, the other terms of the offer limit the group's risks and commitments. Telefonica's proposal is also the best match for Vivendi's strategy. Moreover, in the first half of 2014, GVT's sales were €839 million, an increase of 12.8% at constant ex-

**Now available
in 153 cities**

change rates (-5.1% at actual exchange rates) compared with the first half of 2013.

Continuing its development, the operator was present in 153 cities by June 2014, compared with 146 a year earlier. Growth has also been driven by the paid television business, with sales increasing by 61.2% in one year at constant exchange rates. GVT's adjusted operating profit before amortization (EBITDA) was €329 million, an increase of 10.5% at constant exchange rates (-7.0% at actual exchange rates) compared with the first half of 2013. ■



Frédéric Crépin
Senior Executive Vice
President & Group
General Counsel

The final straight for the sale of SFR to Altice-Numericable: the transaction, which requires the approval of the French competition authority amongst others, should be completed in the next few months.



TAKEOVER OF SFR BY ALTICE-NUMERICABLE

Having heard the views of the staff representation bodies Vivendi and Altice-Numericable signed the final merger agreement between SFR and Numericable on 20 June 2014 (Vivendi's Supervisory Board had accepted the offer from Altice-Numericable on 5 April). The agreement was completed by Frédéric Crépin, the group's Company Secretary. The relevant regulatory authorities, including the competition authority, are now examining the transaction. On 30 July, the authority announced that the transaction would require a detailed examination. This phase was expected given the significant stakes involved in the takeover. The author-

ity is currently consulting with the key players concerned and seeking the views of the regulators in the sectors involved, the ARCEP for telecoms and the CSA for the media. The ARCEP submitted its opinion on the transaction to the authority on 24 July.

**Mobile
customers
up by 2%⁽¹⁾**

In financial terms, SFR's sales were €4,909 million in the first half of 2014, a drop of 4.7% compared with the first half of 2013. In a tight competitive environment, the situation has improved over the period: on a like-for-like basis, the fall in sales was 3.5% in the second quarter of 2014, compared with a decline of 5.8% in the first. As at 30 June 2014, SFR's number



of mobile customers was 21,379 million, an increase of 2.0% (1) compared with the end of June 2013, whilst residential high-speed internet customers stood at 5.299 million. Excluding non-recurring items (2), SFR's adjusted operating profit before amortization (EBITDA) was €1,302 million, a decrease of 11.4% compared with the end of June 2013. ■

(1) The final figure for the first half of 2013 excludes 92,000 inactive lines following a technical clean-up operation carried out in the fourth quarter of 2013. (2) A charge of €112 million was recorded in the second quarter of 2014 related to the latest developments in litigation.

3 QUESTIONS FOR...



Simon Gillham
Senior Executive
Vice President,
Communications
and Public Affairs

Vivendi has 325,000 individual shareholders who are not employees. What is your communications policy for this group of investors?

We are particularly pleased to have so many individual shareholders with a stake in our capital. They follow us very carefully and are loyal to us. We need to meet their expectations and keep them informed. We therefore publish a regular shareholders' newsletter. We also have a dedicated section on our website and a toll-free number (0805 050 050). At the same time, Vivendi has set up a Shareholders' Club, which runs numerous events, and a Shareholders' Committee.

What is the Committee's role?

It acts as a link between individual shareholders and the Communications Department. Vivendi is keen to encourage dialogue with its individual shareholders. In fact, we are currently looking for new members of the Committee, so we would like to invite anyone who might be interested to apply.

Vivendi has sold Maroc Telecom and the majority of its stake in Activision Blizzard. The sale of SFR should be completed in the next few months. What will the distribution policy be following the sale?

Once the sales of its stakes in Activision Blizzard, Maroc Telecom and SFR are complete, the group should have a comfortable level of cash flow. The Supervisory Board has therefore decided to allocate almost €5 billion to shareholders in 2014 and 2015.

On 24 June, the General Shareholders' Meeting voted to distribute €1 per share, i.e. a total distribution of €1.35 billion. So far, no decisions have been taken on an additional return for shareholders. Similarly, nothing has been decided on the follow-up to the proposed sale of GVT. Vivendi has only just entered into exclusive negotiations with Telefonica.

SHAREHOLDERS' DIARY

■ PROGRAM FOR THE COMING MONTHS

Vivendi organizes numerous events for its Shareholders' Club. To participate, you must hold at least one share. Events include visits, shows, topical meetings and more! Discover our program and sign up! You will find this program of events on our website: www.vivendi.com (click on the "Individual shareholders" tab and then on "Shareholders' Club").

■ CONTACT US

For further information on Vivendi, please contact our Shareholders Information Department (IAI) by mail: Vivendi, Shareholders Information Department, 42 avenue de Friedland, Paris 75008 France.
By e-mail: actionnaires@vivendi.com.

And by telephone: **0805 050 050** (Numero vert) toll-free from a fixed line phone if you are calling from France, or **+33 (0)1 71 71 34 99** if you are calling from abroad.

The department will respond Monday through Friday from 9:00 a.m. to 6:00 p.m. (hours extended in the event of important news).

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You only need one share to join the **Vivendi Shareholders' Club**. Download your application form from the Internet and return it to us or request it by calling: **0805 050 050** (numero vert) toll-free from a French landline or on **+33(0)1 71 71 34 99** if you are abroad

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