

# LETTER

**vivendi**

**MARCH 2016**

# TO OUR SHAREHOLDERS

PHOTOS DR



- Acceleration of international expansion
- Development of original content production
- Need to stop losses of Canal+ channels in France

**A**n integrated media and content group, Vivendi stepped up efforts in 2015 regarding original content production and international growth.

Canal+ has 5.5 million individual subscribers worldwide, of which 2 million are located in Africa. Operating in more than 60 countries, Universal Music is the world leader in recorded music, holding a global market share exceeding 30%.

## Confirmation of expected returns to shareholders between 2015 and 2017

The acquisition of Dailymotion also allowed an acceleration of its international development.

The development of original content production, which reduces Vivendi's dependence

on third-parties, is also one of the Group's major objectives. This is being

achieved by the continuous investment in artists and original productions by the various companies comprising Canal+ and Universal Music. Vivendi also acquired interests in Mars Films and the Banijay Group. With these goals in mind, the Group also crossed the legal threshold of 15% and now holds a 15.66% stake in Ubisoft as of February 29. Moreover, Vivendi decided to launch a public tender offer for Gameloft. The video

games business represents a promising key segment of today's content sector.

The 2015 results reflected the good operating performances of all businesses, apart from Canal+<sup>(1)</sup> channels in France. Facing a moribund economy and fierce competition, the channels have been seeing their subscriber base erode and losses accumulate since 2012. The Group can no longer support them. As a result, Vivendi held discussions with beIN sports with the aim of entering into an exclusive distribution agreement covering its channels.

For Universal Music, Vivendi continues to see positive momentum in the business, leading to a reasonable increase in results this year and enhanced results from 2017 onwards.

For Canal+, Vivendi needs to stop the losses at Canal+ channels<sup>(1)</sup> in France, which could lead to a significant decline in the operating results in 2016, by implementing a transformation plan with the objective, for the Canal+ channels<sup>(1)</sup> in France, of reaching breakeven in 2018 and of achieving a level of profitability similar to that of the best European players in sector in the medium term.

Furthermore, Vivendi confirms the expected returns to shareholders between 2015 and 2017. ■

(1) Canal+, Canal+ Cinéma, Canal+ Sport, Canal+ Séries, Canal+ Family and Canal+ Décadé.



**Hervé Philippe**  
Chief Financial  
Officer

**In 2015, Vivendi recorded results in line with forecast. The Group confirms the expected return to shareholders in 2016 and has committed to return an additional €1.3 billion to shareholders by mid-2017 at the latest.**

## 2015 RESULTS IN LINE WITH FORECAST

**D**espite a difficult economic environment, the Group's 2015 results are in line with forecast. Apart from Canal+<sup>(1)</sup> channels in France, this year's results reflected the good operating performances of all businesses, with adjusted net income increased by 11.3%.

More specifically, Universal Music's revenues were €5,108 million, up 12.1% compared to 2014, mainly driven by streaming and subscription revenues (up 43.2% at constant currency and perimeter). Its income from operations rose to €626 million, up 3.2% compared to 2014.

Canal+ Group's revenues amounted of €5,513 million, up 1.1% compared to 2014. Its income from operations was €542 million versus €618 million in 2014 due to increased investments in programs and non-recurring items. The Canal+ channels<sup>(1)</sup> in France recorded a negative EBITA of €264 million, a €76 million loss increase compared to 2014.

Vivendi Village's revenues were €100 million, up 3.5% compared to 2014. Vivendi Village's income from operations was positive by €10 million, thanks to the transformation plan implemented by Watchever in Germany.

### POSITIVE MOMENTUM OF UMG

For Universal Music Group, Vivendi continues to see positive momentum in the business, driven by ongoing growth in streaming and subscription and tempered by declines in download and physical sales, leading to a reasonable increase in results this year and enhanced results from 2017 onwards.

For Canal+ Group, Vivendi needs to stop the losses of Canal+ channels<sup>(1)</sup> in France which could lead to a significant decline in the operating results in 2016, by implementing a transformation plan with the objective, for the Canal+ channels<sup>(1)</sup> in France, of reaching breakeven in 2018 and of achieving a level of profitability similar to that of the best Euro-

**An 11.3% rise in adjusted net income in 2015**

pean players in the sector in the medium term.

It will be proposed to the Annual Shareholders' Meeting to be held on April 21, 2016, that an ordinary dividend of €3 per share be paid with respect to 2015. Two interim dividends of €1 each were paid on June 29, 2015 and February 3, 2016, and the balance will be paid on April 28, 2016 (coupon detachment on April 26, 2016). In addition to these distributions, the Group also repurchased shares amounting to €1,386 million as of February 17, 2016.

Vivendi has also committed to returning an additional €1.3 billion to shareholders by mid-2017 at the latest. This should take the form of an ordinary dividend of €1 per share or share repurchases depending on the overall economic environment. ■

*(1) Canal+, Canal+ Cinéma, Canal+ Sport, Canal+ Séries, Canal+ Family and Canal+ Décalé.*

## 2015 RESULTS\*

	2015	Change year-on-year	Change at constant currency and perimeter year-on-year
Revenue	€10,762M	+6.7 %	+1.4 %
Income from operations	€1,061M	-4.3 %	-5.9 %
Adjusted net income	€697M	+11.3 %	
Net cash position	+€6.4bn vs. +€4.6bn as of December 31, 2014		

*\*The key figures presented above take account of the changes in scope of consolidation occurring or announced in 2014 and 2015, of which the accounting impacts, particularly compliance with IFRS 5, are described in the 2015 Financial Report and Consolidated Financial Statements. These documents are available at [www.vivendi.com](http://www.vivendi.com) or upon request from the Vivendi Shareholder Department.*

## STRENGTHENING ITS POSITION AT TELECOM ITALIA

**Vivendi, which held 23.80% of Telecom Italia's ordinary shares as of February 29, 2016, has three members on the Italian telecom operator's Board of Directors and successfully proposed the appointment of an independent member.**

**O**n June 24, 2015, Vivendi received 1.11 billion ordinary shares (8.24%) of Telecom Italia, Italy's largest landline and mobile phone operator, in exchange for a 4.5% interest in Telefonica Brasil. This opportunity arose during GVT's sale to Telefonica. The Group then acquired shares on the stock market to own 23.80% of the operator's ordinary shares as of February 29, 2016.

### LONG-TERM SHAREHOLDER

Vivendi's equity investment in the Italian telecom operator is



Arnaud de Puyfontaine



Stéphane Roussel



Hervé Philippe



Félicité Herzog

### Sharing Vivendi's expertise

distribution of its content. Vivendi, a long-term shareholder, successfully proposed the appointment of four members to the Italian telecom operator's Board of Directors (of which one independent member): Arnaud de Puyfontaine Chairman of the Management Board of Vivendi; Hervé Philippe, member of the Management Board and Chief Financial Officer of Vivendi; Stéphane Roussel, member of the Management Board and Chief Operations Officer of Vivendi; and Félicité Herzog, Senior Advisor at Ondra Partners. Ms. Herzog serves as an independent member of the Telecom Italia board. ■

an integral part of its strategy. The aim of this investment is to support Telecom Italia's devel-

opment by sharing Vivendi's expertise. In return, Vivendi will gain an opportunity to expand

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## PROPOSED PUBLIC TENDER OFFER FOR GAMELOFT\*

**T**he video games business represents a fundamental component of today's content and media sector. Video games generated revenues of \$83 billion in 2014, outselling music and almost as important as the cinema.

The mobile segment should experience the industry's strongest growth; it already represents one-third of the global market and should achieve 40% market share by 2018. Global

(video games are the content that "travels best"), the game market is a perfect fit for Vivendi's strategy.

### INVESTMENTS IN UBISOFT AND GAMELOFT

As a result, the Group decided in October 2015 to invest in Ubisoft, a publisher of video games for PCs and consoles, and Gameloft, a publisher of mobile video games, after the necessary sale of Activision Blizzard in 2013 to reduce Vivendi's significant debt. On February 18, 2016, the Supervisory Board authorized the Management Board to file a public

tender offer for Gameloft's shares. The proposed offer was filed with the Autorité des Marchés Financiers (AMF) the same day at a price of €6 per share. The offer was raised to €7.20 on February 29. These investments are part of a strategic vision that involves operationally converging Vivendi's content and distribution platforms, on the one hand, and the two companies' products, on the other. If the plan succeeds, the public tender offer will represent a new stage in the development of a worldwide group and a French leader in the media and content sectors. ■

**A 83 million dollar market**



Frédéric Crépin

Senior Executive Vice President & Vivendi and Canal+ Group General Counsel

**Mobile games should experience the strongest growth of the video games market and fully-fledged content that round out Vivendi's offering.**

\*This article does not constitute an offer and should not be regarded as constituting any type of solicitation whatsoever for the purpose of purchasing or selling securities in the United States or any other country. The above-mentioned offer and the acceptance of such an offer may be subject to specific regulations in certain countries, and readers of this letter are required to comply with these regulations.



**CANAL+**

GROUP



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**Jean-Christophe Thiery**  
Chairman of the  
Management Board  
of Canal+ Group

**The losses of Canal+ in France have increased. To break this deadlock, Canal+ Group and beIN Sports have begun discussions to establish an exclusive distribution agreement with beIN Sports.**

## DISCUSSIONS BETWEEN CANAL+ AND BEIN SPORTS

The six Canal+ channels<sup>(1)</sup> have been losing money in France for the past four years. In 2015, the channels recorded a negative EBITA of €264 million (a €76 million loss increase compared to 2014), due to a subscriber base that has been severely eroded since 2012. The arrival of new national and international players in sports, drama and comedy has driven up the price of content broadcasting rights and increased the number of competing offers.

### A RETURN TO BREAKEVEN IN 2018

This situation threatens the entire Canal+ Group, which employs 8,200 people and is a major player in the financing and development of the French movie industry (French cinema



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COMPETITION HAS DRIVEN UP THE PRICE OF BROADCASTING RIGHTS

**Transformation plan of Canal+ in France**

agreements renewed in spring 2015). Canal+ Group invests globally close to €800 million per year in this industry, both in France and internationally. The priority for the new management team is to implement a major transformation plan that should restore the breakeven in

2018. This plan must ensure that the subscribers' perceived value of the group's offers is restored by increasing investments in original content production and premium content as well as by improving significantly the user experience, all in an essential cost-efficient manner. In addition, the plan will have to be developed with rigorous attention to cost management. Vivendi does not have the resources to withstand the Canal+ channels<sup>(1)</sup> losses in France indefinitely. Over the last two fiscal years, it has already invested €1.5 billion, and medium-term investments have been substantial.

In this context, Canal+ Group and beIN Sports have entered into discussions. This agreement, which would consist of exclusive distribution rights of beIN Sports, would enable beIN Sports to benefit from Canal+'s distribution strength and would allow the customers of the two companies to enjoy a comprehensive offering. ■

## ACQUISITION OF RADIONOMY

Radio now has its place in Vivendi. On December 17, 2015, the Group announced the acquisition of 64.4% of interest in Radionomy, a major global player in the digital radio industry.

Radionomy is a free audio platform that allows radio enthusiasts worldwide to create their own Internet stations, and FM radio stations to take advantage of new options for expanding their digital broadcasts. Today, over 57,000 radio stations are using the platform.

Radionomy encompasses not only the Radionomy platform, but also the streaming technology SHOUTcast, the advertising network TargetSpot, the digital radio station Hotmixradio and the audio player Winamp. All of these companies operate internationally but have a particularly strong presence in the United States, France, Spain and Germany.

Vivendi will provide Radionomy Group an impetus for its commercial development, supported by the promising outlooks for the advertising and digital audio markets. Radionomy is also very well positioned to capitalize on the rise of the digital audio market towards targeted advertising, thanks to its technical tools and its partnerships.

With this investment expands the Group's value chain that flows from talent discovery to content production and distribution. Collaboration between the digital audio platform and the Vivendi businesses will be established and a number of innovative offers will be developed. Radionomy also complements the talent support program which contributes to the Vivendi Group's sustainable development.



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**Simon Gillham**  
Chairman of  
Vivendi Village,  
Senior Executive  
Vice President,  
Communications

(1) Canal+, Canal+ Cinéma, Canal+ Sport, Canal+ Séries, Canal+ Family and Canal+ Décadé.

**CANAL+**

GROUP



**Maxime Saada**  
Chief Executive Officer  
of Canal+ Group

**Africa is an ideal location for expansion, for Vivendi, and especially for Canal+, which already has over 2 million subscribers on the continent. Several more CanalOlympia venues will open across Africa in the coming months.**

## AFRICA: A MAJOR PART OF THE CANAL+ STRATEGY

A new step forward for the channel A+. Since February 9, 2016, this African channel became available in France. Since its creation in late 2014, A+ had previously been part of a lineup of 150 channels (65 of them African) that Canal+ offered in 30 French-speaking African countries. Produced by and for Africans, A+ offers programs such as the Ghanaian serie *African City*, the culinary program *Star Chef*, the show *Koiffure Kintoko*, the financial news program *Réussite* and the show *Africa Dance*.

The lineup now has over 2 million individual subscribers. In addition to the lineup, Canal+ is preparing to launch in some 20 cities Easy TV – a new, “more popular” pay-DTT offering comprising some 30 channels for about €7.50 per month –.

Africa, which the Group has made one of its priorities and where it has been operating for 20 years, saw its base of individual subscribers grow 33.6%

**CanalOlympia venues openings**



OVER 2 MILLION INDIVIDUAL SUBSCRIBERS IN AFRICA SO FAR

in 2015. Given the continent's age pyramid and outlook for economic growth, the potential is still very important.

Furthermore, in September 2015, the foundations of the very first CanalOlympia venue in Africa were laid in Conakry, Guinea.

Other venues will follow soon in Cotonou, Republic of Benin; Brazzaville, Republic of the Congo; Dakar, Senegal; and Yaoundé, Cameroon. These

multipurpose spaces (for movie screenings, music concerts and other live performances) aim to facilitate access to culture and entertainment and to act as catalysts in talent development. The CanalOlympia brand's name was a natural choice. Canal+ enjoys high brand recognition in Africa and stands for quality, creativity and a bold spirit, while Olympia is an iconic Parisian concert hall that will play an advisory role and provide support for the set-up of the CanalOlympia venues. ■



UNIVERSAL MUSIC GROUP



**Lucian Grainge**  
Chairman and CEO  
of UMG

**Already a partner with many music-streaming sites, UMG rounds out its distribution partnerships by signing an agreement with SoundCloud.**

## UNIVERSAL MUSIC GROUP ENTERS PARTNERSHIP WITH SOUNDCLOUD

This is a new step forward for Universal Music Group (UMG) in streaming and the innovative services that are currently key in the music sector. In January 2016, UMG entered a partnership with the young site SoundCloud (created in 2007), the world's biggest community of audio artists and musicians with 175 million listeners every month.

This win-win partnership creates many new creative, business and promotional opportunities for both companies. It gives

SoundCloud access to the music of seasoned artists, UMG's young talents and songwriters who signed with Universal Music

Publishing, and sets up advertising and introduces subscription-based services for several markets.

At the same time, the UMG and Universal Music Publishing labels will have access to SoundCloud's promotional, analytic and data-management tools to provide their artists and songwriters with opportunities to strengthen ties with their fans, increase their involvement on the platform and generate revenue. ■

**The rise of streaming**

## 3 QUESTIONS TO...



**Christelle Graillot**  
Vice President of Talent Management

### What is Vivendi's strategy in terms of talents?

Vivendi aims to make its talents, and particularly the discovery of new talents, central to its strategy. We need to find them and then help them develop their careers, give them the resources they need to create music and shine, and also increase their exposure to all types of audience. Vivendi already has extensive experience in discovering and supporting new talents, but we would like to step up the pace since our talents are the starting point for all the original content we produce.

### What roadmap Vivendi's Management Board gave you?

The team is lucky enough to have management's trust. That means a lot to me, and I'm grateful to them. Discovering talents, assisting them and watching them grow is not always so straightforward; it depends on people on both sides having the right instincts. It's based on trust, meeting the right people and sometimes going through extraordinary experiences. At Canal+, the discovery of artists such as Guillaume Gallienne, Charlotte Le Bon, Alex Lutz and Stéphane De Groodt has allowed me to better understand the different artistic domains and learn how to reconcile creative and operational demands.

### What happens on a typical day?

One workday (or night) is never the same as another, and that's what makes it great. We juggle meetings with actors, comedians and artists from all genres as well as journalists and commentators. Our team is also regularly called upon to work with different shows for the company's channels, which are always looking out for new talents. To work as closely with them as possible and provide them with all the support they need, we meet with them and attend their performances with a view to building a lasting relationship. That's one of the golden rules of this business: stick to the human scale!

## 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](http://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](mailto:actionnaires@vivendi.com).

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