VIVENDI UNIVERSAL
Form 20-F
June 30, 2003

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 30, 2003

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

FORM 20-F

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

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER:

VIVENDI UNIVERSAL, S.A.
(Exact name of Registrant as specified in its charter)

N/A	REPUBLIC OF FRANCE
(Translation of Registrant's name into English)	(Jurisdiction of incorporation or organi

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 E 5.50 per share	New York Stock Exchange*
American Depositary Shares (as evidenced by American Depositary Receipts), each representing one share, nominal value E 5.50 per share	New York Stock Exchange

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* 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.................................	92,029,885
Ordinary Shares, nominal value E 5.50 per share............	1,068,558,994

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 [X] No [ ]

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

Item 17 [ ] Item 18 [X]

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 United States Securities and Exchange Commission (SEC).

"Vivendi Universal" refers to Vivendi Universal, S.A., a societe anonyme, a form of limited liability company, organized under the laws of the Republic of France, and its direct and indirect subsidiaries. "Vivendi" refers to Vivendi, S.A., the predecessor company to Vivendi Universal. Unless the context requires otherwise, references to "we," "us" and "our" mean Vivendi Universal, S.A. and its subsidiaries or its predecessor company and its subsidiaries. "Vivendi Universal Entertainment" and "VUE" refer to Vivendi Universal Entertainment LLLP, a limited liability limited partnership organized under the laws of the State of Delaware. "Vivendi Environnement" changed its name pursuant to a shareholder resolution adopted on April 30, 2003 to "Veolia Environnement." "Shares" refers to the ordinary shares of Vivendi Universal. The principal trading market for the ordinary shares of Vivendi Universal is EuroNext Paris

S.A., or the Paris Bourse. "ADS" or "ADR" refers to the American Depositary Shares or Receipts, respectively, of Vivendi Universal which are listed on the New York Stock Exchange, or NYSE, each of which represents the right to receive one Vivendi Universal ordinary share.

This annual report includes Vivendi Universal's Consolidated Financial Statements for the years ended December 31, 2002, 2001 and 2000 and as of December 31, 2002 and 2001. Vivendi Universal's Consolidated Financial Statements, including the notes thereto, are included in "Item 18--Financial Statements" and have been prepared in accordance with generally accepted accounting principles in France, which we refer to in this annual report as "French GAAP." Unless otherwise noted, the financial information contained in this annual report is presented in accordance with French GAAP. French GAAP is based on requirements set forth in French law and in European regulations and differs significantly from generally accepted accounting principles in the United States, which we refer to in this annual report as "US GAAP." See Note 17 to our Consolidated Financial Statements for a description of the significant differences between French GAAP and US GAAP, a reconciliation of net income, shareholders' equity and other measures from French GAAP to US GAAP and condensed consolidated US GAAP balance sheets and statements of income.

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

Under the provisions of the Treaty on European Union negotiated at Maastricht in 1991 and signed by the then 12 member states of the European Union in early 1992, a European Monetary Union, known as the EMU, was implemented on January 1, 1999 and a single European currency, known as the euro, was introduced. The following 12 member states participate in the EMU and have adopted the euro as their national currency: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain. The legal rate of conversion between the French franc and the euro (Euro, euro or E) was fixed on December 31, 1998 at E 1.00 = FF6.55957, and we have translated French francs into euros at that rate.

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

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

FORWARD-LOOKING STATEMENTS

This annual 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 dispositions, 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 the words such as "estimate(s)," "aim(s)," "expect(s)," "feel(s)," "will," "may," "believe(s)," "anticipate(s)" and similar expressions in this document, we are intending to identify those statements as forward-looking. All forward-looking statements, including without limitation the launching or prospective development of new business initiatives and products, anticipated music or motion picture releases, Internet or theme park projects, and anticipated cost savings from asset divestitures 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 managements' 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 others:

- general economic and business conditions, particularly a general economic downturn;
- industry trends;
- increases in our leverage;
- reduced liquidity;
- the terms and conditions of our asset divestitures and the timing thereof;
- changes in our ownership structure;
- competition;
- changes in our business strategy and development plans;
- challenges to, or losses or infringement of, our intellectual property rights;
- changes in customer preference;
- technological advancements;
- political conditions;
- financial and equity markets;
- foreign currency exchange rate fluctuations;
- legal and regulatory requirements and the outcome of legal proceedings and pending investigations;
- environmental liabilities;
- natural disasters; and
- war or acts of terrorism.

The foregoing list is not exhaustive and there are other factors that 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-forward looking statements attributable to us or persons acting on our behalf apply only as of the date of this document and are

expressly qualified in their entirety by the cautionary statements included in this document. We undertake no obligation to publish revised forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

EXPLANATORY NOTE

Unless otherwise indicated, all references to our competitive positions made in this document are in terms of revenue generated.

ENFORCEABILITY OF CIVIL LIABILITIES AGAINST FOREIGN PERSONS

Vivendi Universal is a corporation organized under the laws of the Republic of France. Many of Vivendi Universal's directors and officers are citizens or residents of countries other than the United States. Substantial portions of Vivendi Universal's assets are located outside the United States. Accordingly, it may be difficult for investors:

- to obtain jurisdiction over Vivendi Universal or its directors or officers in courts in the United States in actions predicated on the civil liability provisions of the US federal securities laws;

- to enforce against Vivendi Universal or its directors or officers judgments obtained in such actions;

- to obtain judgments against Vivendi Universal or its directors or officers in original actions in non-US courts predicated solely upon the US federal securities laws; or

- to enforce against Vivendi Universal or its directors or officers in non-US courts judgments of courts in the United States predicated upon the civil liability provisions of the US federal securities laws.

Actions brought in France for enforcement of judgments of US courts rendered against French persons, including directors and officers of Vivendi Universal, would require those persons to waive their right to be sued in France under Article 15 of the French Civil Code. In addition, actions in the United States under the US federal securities laws could be affected under certain circumstances by the French law of July 16, 1980, which may preclude or restrict the obtaining of evidence in France or from French persons in connection with those actions.

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ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3: KEY INFORMATION

SELECTED FINANCIAL DATA

The selected consolidated financial data at year end and for each of the years in the three-year period ended December 31, 2002 has been derived from our Consolidated Financial Statements and the related notes appearing elsewhere in this annual report. The selected consolidated financial data at year end and for each of the years in the two-year period ended December 31, 1999 has been derived from our Consolidated Financial Statements not included in this annual report. You should read this section together with "Item 5--Operating and Financial Review and Prospects" and our Consolidated Financial Statements included in this annual report.

Our Consolidated Financial Statements have been prepared in accordance with French GAAP, which differs in certain significant respects from US GAAP. The principal differences between French GAAP and US GAAP, as they relate to us, are described in Note 17 to our Consolidated Financial Statements. For a discussion of significant transactions and accounting changes that affect the comparability of our Consolidated Financial Statements and the financial data presented below, refer to "Item 5--Operating and Financial Review and Prospects" and the notes to our Consolidated Financial Statements.

Our Consolidated Financial Statements and the selected financial data presented below are reported in euros. For periods presented prior to January 1, 1999, our financial statements are reported in French francs and translated into euros using the official fixed exchange rate of E 1.00 = FF6.55957, applicable since December 31, 1998.

	YEAR ENDED DECEMBER 31,					
	2002(1)	2002(3)	2001	2000(4)	2000	1999(
	(MILLIONS OF EUROS, EXCEPT PER SHARE AMO					
INCOME STATEMENT						
Amounts in accordance with French GAAP						
Revenue.............................	28,112	58,150	57,360	41,580	41,798	40,8
Revenue outside France...............	16,405	31,759	33,075	20,647	20,624	17,2
Operating income.....................	1,877	3,788	3,795	1,823	2,571	1,8
Exceptional items, net...............	1,125	1,049	2,365	3,812	2,947	(8
Goodwill amortization................	19,434	19,719	15,203	634	634	6
Minority interest....................	574	844	594	625	625	(1
Net income (loss)....................	(23,301)	(23,301)	(13,597)	2,299	2,299	1,4
Basic earnings (loss) per share.......	(21.43)	(21.43)	(13.53)	3.63	3.63	2.
Diluted earnings (loss) per share.....	(21.43)	(21.43)	(13.53)	3.41	3.41	2.
Dividends per share..................	1.0	1.0	1.0	1.0	1.0	1
Average shares outstanding (millions)(7)......................	1,087.4	1,087.4	1,004.8	633.8	633.8	530
Shares outstanding at year-end (millions).........................	1,068.6	1,068.6	1,085.8	1,080.8	1,080.8	595
Amounts in accordance with US GAAP(2)						
Revenue.............................	--	40,062	51,733	34,276	34,276	36,5
Net income..........................	--	(44,447)	(1,172)	1,908	1,908	2
Basic earnings per share.............	--	(40.89)	(1.19)	3.24	3.24	0.
Diluted earnings per share...........	--	(40.89)	(1.19)	3.03	3.03	0.

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	YEAR ENDED DECEMBER 31,					
	2002(1)	2002(3)	2001	2000(4)	2000	1999(
	(MILLIONS OF EUROS, EXCEPT PER SHARE AMO					
FINANCIAL POSITION						
Amounts in accordance with French GAAP						
Shareholders' equity.................	--	14,020	36,748	56,675	56,675	10,7
Minority interest....................	--	5,497	10,208	9,787	9,787	3,7
Net financial debt(6)................	--	10,753	28,879	25,514	25,514	22,8
Total assets.........................	--	69,333	139,002	150,738	150,738	84,6
Total long-term assets...............	--	48,495	99,074	112,580	112,580	47,9
Amounts in accordance with US GAAP						
Shareholders' equity.................	--	11,065	54,268	64,729	64,729	16,9
Total assets.........................	--	69,200	151,139	151,818	151,818	74,4
CASH FLOW DATA						
Amounts in accordance with French GAAP						
Net cash provided by operating activities.........................	2,795	4,670	4,500	2,514	2,514	7
Net cash provided by (used for) investing activities................	4,109	405	4,340	(1,481)	(1,481)	(12,9
Net cash (used for) provided by financing activities................	(2,461)	(3,792)	(7,469)	(631)	(631)	13,7
Capital expenditures.................	1,729	4,134	5,338	5,800	5,800	6,1

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(1) This French GAAP consolidated statement of income and cash flow data has been shown to present our scope of consolidation as of December 31, 2002. It illustrates the accounting of Veolia Environnement using the equity method from January 1, 2002, instead of December 31, 2002. See Note 2 to our Consolidated Financial Statements.

(2) 2002 amounts under US GAAP reflect the use of the equity method of accounting for our investment in Veolia Environnement beginning July 1, 2002, which represents a significant difference in revenues and the presentation of cash flows in the French GAAP financial statements.

(3) On December 31, 2002, Vivendi Universal applied the option proposed in the paragraph 23100 of the French rules 99-02 and presents the equity in (losses) earnings of businesses which were sold during the year on one line in the consolidated statement of income as "equity in (losses) earnings of disposed businesses." Divested businesses include all of the Vivendi Universal Publishing activities excluding: Vivendi Universal Games; publishing activities in Brazil; the consumer press division, the divestiture of which was completed in February 2003; and Comareg, the divestiture of which was completed in May 2003. See Notes 2 and 3 to our Consolidated Financial Statements.

(4) Restated to give effect to changes in accounting policies adopted in 2001 (see Note 1 to our Consolidated Financial Statements).

(5) In order to facilitate the comparability of 2000 and 1999 consolidated financial results, the 1999 consolidated results are presented in accordance with accounting policies in effect in 2000.

(6) Net financial debt is defined as the sum of long-term debt, bank overdrafts and other short-term borrowings, cash and cash equivalents, other marketable securities and financial receivables. The first four components are separate line items in the Consolidated Balance Sheet. Financial receivables are comprised of short-term loans receivable (also a separate line item in the Consolidated Balance Sheet) and net interest-bearing long-term loans receivable (included in other investments in the Consolidated Balance Sheet). Net interest-bearing long-term loans receivable were E 855 million and E 1,455 million, respectively, at December 31, 2002 and December 31, 2001.

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

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 25, 2003, the noon buying rate was E 1.00 = $1.16.

MONTH ENDED	PERIOD END	AVERAGE RATE(1)	HIGH	LOW

May 31, 2003	1.18	1.16	1.19	1.12
April 30, 2003	1.12	1.09	1.12	1.06
March 31, 2003	1.09	1.08	1.11	1.05
February 28, 2003	1.08	1.08	1.09	1.07
January 31, 2003	1.07	1.06	1.09	1.04
December 2002	1.05	1.02	1.05	0.99

YEAR ENDED	PERIOD END	AVERAGE RATE(2)	HIGH	LOW
December 31, 2002	0.95	1.06	1.17	0.95
December 31, 2001	0.89	0.89	0.95	0.84
December 31, 2000	0.94	0.92	1.03	0.83
December 31, 1999	1.00	1.06	1.17	1.00
December 31, 1998(3)	5.59	5.90	6.21	5.38

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(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.

(3) The exchange rates for the year ended December 31, 1998, are set forth as French francs per US dollar and are based on the rates quoted by the Federal Reserve Bank of New York for French francs per $1.00.

DIVIDENDS

The table below sets forth the total dividends paid per Vivendi Universal ordinary share and Vivendi Universal American Depositary Share (ADS) from 1998 through 2002. The amounts shown exclude the avoir fiscal, a French tax credit described under "Item 10--Additional Information--Taxation." We have historically paid annual dividends in respect of our prior fiscal year. We have rounded dividend amounts to the nearest cent.

	DIVIDEND PER ORDINARY SHARE (EUROS)(1)	DIVIDEND PER ADS (DOLLARS)(2)
1998(3)	0.92	0.17
1999	1.00	0.22
2000(4)	1.00	0.89
2001	1.00	0.89
2002	1.00	0.91

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(1) Until 1999 (i.e., until the dividend for the year ended December 31, 1998), we paid dividends in French francs. Amounts in French francs have been translated at the official fixed exchange rate of E 1.00 = FF6.55957.

(2) Translated solely for convenience into US dollars at the noon buying rates

on the respective dividend payments date, 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.

(3) Restated for a 3-for-1 stock split which occurred on May 11, 1999.

(4) Prior to December 8, 2000, the date of the completion of the Vivendi S.A., The Seagram Company Ltd. and Canal Plus S.A. merger transactions (described below under "Item 4--Information on the Company--History and Development of the Company"), each Vivendi ADS represented one-fifth of a Vivendi ordinary share, while each Vivendi Universal ADS now represents one Vivendi Universal ordinary share.

RISK FACTORS

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

WE AND OUR SUBSIDIARIES REQUIRE A SIGNIFICANT AMOUNT OF CASH TO SERVICE AND REPAY OUR DEBT. OUR ABILITY TO GENERATE SUFFICIENT CASH DEPENDS ON MANY FACTORS BEYOND OUR CONTROL.

While our ability and the ability of our subsidiaries to fund working capital for our operations, research and development and capital expenditures depends on our future operating performance which cannot be predicted with assurance, we believe that our current cash position plus our unused credit facilities should provide a sound basis for funding these cash requirements.

Despite the significant extension of the maturity profile of our debt achieved through the refinancing plan that we have undertaken in 2003, we expect that there will be a shortfall in the funding necessary to meet our debt-service obligations. In addition, we face a significant number of contingent obligations, some of which are likely to require significant cash payments by us. We expect to meet these funding requirements with the proceeds from our asset divestiture program described in "Item 4--History and Development of the Company--Our Strategy." There can be no assurance, however, that asset divestitures will be sufficient to make up the shortfall or that our cash needs over the term of the divestiture program will not exceed our current estimates.

If our future cash flows from operations, capital resources and from sales of assets are insufficient to pay our obligations as they mature or to fund our liquidity needs, we and our subsidiaries may be forced to:

- reduce or delay our business activities, capital expenditures or research and development;

- obtain additional debt or equity capital; or

- restructure or refinance all or a portion of our debt on or before maturity.

In particular, our subsidiaries Vivendi Universal Entertainment LLLP, or VUE, and Societe d'Investissement pour la Telephonie S.A., or SIT, have significant indebtedness and are relying on refinancing and operating cash flow to service and repay that indebtedness.

We cannot assure you that we and our subsidiaries would be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. In addition, our existing debt and any future debt may limit our and our subsidiaries' ability to pursue any of these alternatives.

WE ARE SELLING A PORTION OF OUR ASSETS AND BUSINESSES TO MEET OUR DEBT OBLIGATIONS AND DECREASE OUR LEVERAGE.

To meet our debt obligations and decrease our leverage, we are in the process of disposing of a portion of our assets and businesses. After new management was appointed in July 2002, we announced a goal of E 16 billion in asset divestitures by the end of 2004. In the second half of 2002, we sold assets and businesses for aggregate consideration of approximately E 6.7 billion, including approximately E 0.4 billion in assumed debt. For 2003, we have announced the goal of E 7 billion in asset sales and, through March 31, 2003, we have sold assets for aggregate consideration of approximately E .7 billion. We are currently also evaluating bids for the purchase of all or portions of VUE and VU Games as well as a possible initial public offering of the

equity of VUE. If we disposed of assets worth E 7 billion in 2003, we anticipate our net debt would decrease by only a portion of that amount. See "Item 4--History and Development of the Company--Our Strategy."

We can offer no assurances that we will be able to locate potential buyers for our assets and businesses or will be able to consummate any sales to potential buyers we do locate. For example, certain asset transfer restrictions contained in the amended and restated limited liability limited partnership agreement of VUE (the "Partnership Agreement") that certain of Vivendi Universal's affiliates entered into in connection with Vivendi Universal's acquisition of the entertainment assets of InterActiveCorp (formerly known as USA Interactive and prior thereto as USA Networks, Inc.), or USAi, will require us to obtain the consent of our partner for certain transactions. See "Item 4--History and Development of the Company--2002 Significant Transactions." Some other factors that may make it difficult or impossible for us to sell our assets or businesses are:

- restrictive covenants in our current and future debt facilities;
- shareholders agreements and minority interests;
- ongoing litigation and investigations; and
- the need to receive governmental approvals, including antitrust and regulatory approvals.

Our divestitures may prove unsuccessful or may otherwise have a material adverse effect on our ability to conduct business, our operations and our financial condition. For example, we may not always be able to obtain the optimal price for assets and businesses we are required or plan to sell or may receive a price that is substantially lower than the price we paid for the assets or businesses being disposed of. In addition, our continuing operations may suffer as a result of losing synergies with the assets and businesses sold. On December 23, 2002, we sold Houghton Mifflin and have received approximately $1.3 billion in consideration therefor. We paid approximately $2.2 billion for Houghton Mifflin in July 2001. On December 23, 2002, we sold our approximately 10% interest in Echostar for total consideration of approximately E 1.0 billion; we had paid a total consideration of approximately E 1.7 billion for that interest on January 22, 2002.

OUR SUBSTANTIAL DEBT COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION OR RESULTS

OF OPERATIONS AND PREVENT US FROM FULFILLING OUR OBLIGATIONS.

We have a significant amount of debt. As of December 31, 2002, we had E 19.6 billion of gross debt on a consolidated basis. See "Item 5--Operating and Financial Review and Prospects -- Liquidity and Capital Resources" and our Consolidated Financial Statements for further information about our substantial debt.

Our substantial debt and the covenants in our debt instruments could have important consequences. For example, these instruments are causing us to dispose of assets and businesses and they could:

- require us to dedicate a substantial portion of our cash flows from operations to payments on our debt, which will reduce our funds available for working capital, capital expenditures, research and development and other general corporate purposes;

- limit our flexibility in planning for, or reacting to, changes in distribution or marketing of our products, customer demands and competitive pressures in the industries we serve;

- limit our ability to undertake acquisitions;

- place us at a competitive disadvantage compared to our competitors that have less debt than we do;

- restrict our use of proceeds from asset sales or new issuances of equity or debt or from new bank debt facilities;

- increase our vulnerability, and reduce our flexibility to respond, to general and industry-specific adverse economic conditions; and

- limit our ability to borrow additional funds and increase the cost of any such borrowing.

We may incur substantial additional debt in the future. The terms of our debt restrict but do not prohibit us from incurring additional debt. The addition of further debt to our current debt levels could further increase the leverage-related risks discussed herein.

OUR SALES OF ASSETS AND BUSINESSES HAVE RESULTED IN, AND WILL RESULT IN, THE REMOVAL OF THE RESULTS OF THOSE BUSINESSES AND ASSETS FROM OUR FINANCIAL RESULTS AND MAY INCREASE THE VOLATILITY OF OUR FINANCIAL RESULTS.

Sales of our assets and businesses have caused, and will continue to cause, our revenues and operating income to decrease and may cause our financial results to become more volatile or may otherwise materially adversely affect us. Since the beginning of 2002, we have disposed of businesses and assets that, if we had held them, would have contributed significantly to our revenue and operating income.

WE HAVE ENGAGED IN A SUBSTANTIAL NUMBER OF SIGNIFICANT ACQUISITION AND DISPOSITION TRANSACTIONS IN RECENT YEARS, WHICH MAKES IT DIFFICULT TO COMPARE OUR RESULTS FROM PERIOD TO PERIOD.

We have engaged in a substantial number of significant acquisitions and dispositions and other complex financial transactions in recent years, which makes it difficult to analyze our results and to compare them from period to period. In order to facilitate comparison of our results between recent periods, we present financial information on a pro forma basis, both on a consolidated basis and for our individual business segments, giving effect to these transactions as if they had occurred on earlier dates. However, pro forma financial information is not necessarily indicative of results that would have been achieved had the transactions actually occurred on such earlier dates. Moreover, we present pro forma information based on a number of assumptions. For example, we present pro forma information consistent with French GAAP, as if the transactions had occurred at the beginning of 2001. Given our asset divestiture program, our results will continue to be difficult to compare from period to period in the future.

WE HAVE BEEN, AND COULD BE, ADVERSELY AFFECTED BY A DOWNGRADE OF OUR DEBT RATINGS BY RATING AGENCIES.

In the second half of 2002, we experienced a number of debt rating downgrades. Moody's cut Vivendi Universal's senior debt rating on July 1, 2002, from Baa3 to Ba1, under review for possible further downgrade. Standard & Poor's followed the next day with a one-notch downgrade in our credit rating to BBB- with a negative outlook. On August 14, 2002, Moody's lowered the long term senior unsecured debt rating of Vivendi Universal to B1 and assigned a Ba2 senior implied rating to the company under review for possible downgrade, and Standard & Poor's downgraded the long term senior unsecured debt to B+ and assigned a BB corporate credit rating to Vivendi Universal on credit watch with negative implications. On October 30, 2002, Moody's downgraded Vivendi Universal's senior implied rating to Ba3, leaving the senior unsecured ratings unchanged at B1, under review for possible downgrade. These downgrades caused us to lose, to a significant extent, access to the capital markets, and, most importantly, to the commercial paper market, historically our main source of funding for working capital needs, and they also triggered default and covenant provisions under some of our debt facilities. While our current debt facilities do not contain further rating triggers, additional downgrades by either Standard & Poor's or Moody's could exacerbate our liquidity problems, increase our costs of borrowing, result in our being unable to secure new financing and affect our ability to make payments on outstanding debt instruments and to comply with other existing obligations.

WE ARE A PARTY TO NUMEROUS LEGAL PROCEEDINGS AND INVESTIGATIONS THAT COULD HAVE A NEGATIVE EFFECT ON US.

We are party to lawsuits and investigations in France and in the United States that could have a material adverse effect on us. In France, the Commission des Operations de Bourse commenced in July 2002 an investigation regarding certain of our financial statements. In the United States, Vivendi Universal is party to a number of suits and investigations concerning allegations challenging the accuracy of our financial statements and certain public statements made by us describing our financial condition from late 2000 through 2002:

- Vivendi Universal is named as a defendant in a consolidated securities class action filed in the United States District Court for the Southern District of New York.

- Vivendi Universal is being investigated by the Office of the United States Attorney for the Southern District of New York, and by the SEC.

- Vivendi Universal is named as a defendant in a suit filed by Liberty Media on March 28, 2003, which on May 13, 2003, was consolidated for pre-trial purposes into the securities class action pending in the United States District Court for the Southern District of New York.

In addition, Vivendi Universal, USI Entertainment Inc. and VUE have been sued by USAi and one of its affiliates for specific performance of what the plaintiffs contend to be VUE's obligation to make certain tax payments. Vivendi Universal may also be liable to pay, in accordance with an investment agreement with Elektrim S.A., a substantial portion of any damages awarded against Elektrim in two ongoing arbitrations to resolve disputes concerning the acquisition and transfer of certain shares in a subsidiary company by Elektrim.

In the opinion of Vivendi Universal, the plaintiffs' claims in the legal proceedings lack merit, and Vivendi Universal intends to defend against such claims vigorously. However, the outcome of any of these legal proceedings or investigations or any additional proceedings or investigations that may be initiated in the future could have a material adverse effect on us. For a more complete discussion of our legal proceedings and investigations, see "Item 8--Litigation."

WE HAVE A NUMBER OF CONTINGENT LIABILITIES THAT COULD CAUSE US TO MAKE SUBSTANTIAL PAYMENTS.

We have a number of significant contingent liabilities. These liabilities are generally described in "Item 5--Operating and Financial Review and Prospects" and in Notes 11 and 17.4 to our Consolidated Financial Statements included in this document. If we were forced to make a payment due to one or more of these contingent liabilities, it could have an adverse effect on our financial condition and our ability to make payments under our debt instruments.

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 of Western Europe, the US and Canada, can include, among other risks:

- fluctuations in currency exchange rates (including the dollar/euro exchange rate) and currency devaluations;

- restrictions on the repatriation of capital;

- differences and unexpected changes in regulatory environment, including environmental, health and safety, local planning, zoning and labor laws, rules and regulations;

- varying tax regimes which could adversely affect our results of operations or cash flows, including regulations relating to transfer pricing and withholding taxes on remittances and other payments by subsidiaries and joint ventures;

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

- difficulties in attracting and retaining qualified management and employees or rationalizing our workforce;

- tariffs, duties, export controls and other trade barriers;

- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;

- limited legal protection and enforcement of intellectual property rights;

- insufficient provisions for retirement obligations;

- recessionary trends, inflation and instability of the financial markets;

- higher interest rates; and

- political instability and the possibility of wars and terrorist acts.

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

UNFAVORABLE CURRENCY EXCHANGE RATE FLUCTUATIONS COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

We have substantial assets, liabilities, revenues and costs denominated in currencies other than euros. To prepare our Consolidated Financial Statements we must translate those assets, liabilities, revenues and expenses into euros at then-applicable exchange rates. Consequently, increases and decreases in the value of the euro versus other currencies will affect the amount of these items in our Consolidated Financial Statements, even if their value has not changed in their original currency. These translations could result in significant changes to our results of operations from period to period.

In addition, to the extent that we incur expenses that are not denominated in the same currency as the related revenues, exchange rate fluctuations could cause our expenses to increase as a percentage of net sales, affecting our profitability and cash flows.

WE MAY NOT BE ABLE TO MEET ANTICIPATED CAPITAL REQUIREMENTS FOR CERTAIN TRANSACTIONS.

We may engage in projects that require us to seek substantial amounts of funds through various forms of financing. Our ability to arrange financing for projects and our cost of capital depends on numerous factors, including general economic and capital market conditions, availability of credit from banks and other financial institutions, investor confidence in our businesses, restrictions in debt instruments, success of current projects, perceived quality of new projects and tax and securities laws. We may forego attractive business opportunities and lose market share if we cannot secure financing on satisfactory terms.

WE MAY SUFFER REDUCED PROFITS OR LOSSES AS A RESULT OF INTENSE COMPETITION.

The majority of the industries in which we operate are highly competitive and require substantial human and capital resources. Many other companies serve the markets in which we compete. From time to time, our competitors may reduce their prices in an effort to expand market share and introduce new technologies or services, or improve the quality of their services. We may lose business if we are unable to match the prices, technologies or service quality offered by our competitors.

In addition, most of our main businesses rely on some important third-party content. There is no assurance that the desired rights to content will be available on commercially reasonable terms, and as the markets in which our businesses operate become more competitive, the cost of obtaining this third-party content could increase. Any of these competitive effects could have a material adverse effect on our business and financial performance.

WE MAY NOT BE SUCCESSFUL IN DEVELOPING NEW TECHNOLOGIES OR INTRODUCING NEW PRODUCTS AND SERVICES.

Many of the industries in which we operate are subject to rapid and significant changes in technology and are characterized by the frequent introduction of new products and services. 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 made in those products and services and to make substantial new investments.

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. A substantial portion of our revenue comes from the sale of audio and audiovisual products that are potentially subject to unauthorized copying. Similarly, advances in Internet technology have increasingly made it possible for computer users to share audio and audiovisual information without the permission of the copyright owners and without paying royalties to holders of applicable intellectual property or other rights. A large portion of intellectual property is potentially subject to widespread, uncompensated dissemination on the Internet. If we fail to obtain appropriate relief through the judicial process or the complete enforcement of judicial decisions issued in our favor, or if we fail to develop effective means of protecting our intellectual property or entertainment-related products and services, our results of operations and financial position may suffer.

CHALLENGES TO OUR RIGHTS TO USE INTELLECTUAL PROPERTY COULD HAVE A NEGATIVE EFFECT ON US.

Many of our main businesses are heavily dependent on intellectual property owned and licensed by us. Challenges by third parties claiming infringement of their proprietary rights, if upheld, could result in the loss of intellectual property which we depend on to generate revenues and could result in damages or injunctive relief being imposed against us. Even challenges that we are successful in defending may result in substantial costs and diversion of resources, which could have an adverse effect on our operations.

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 each of our businesses. The process for obtaining these permits and approvals is often lengthy, complex and unpredictable. Moreover, the cost for renewing or obtaining permits and approvals may be prohibitive. 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 -- our ability to achieve our strategic objectives could be impaired. The regulatory environment in which our businesses operate is complex and subject to change, and adverse changes in that environment could impose costs on us or limit our revenue.

THE LOSS OF KEY PERSONNEL COULD HURT OUR OPERATIONS.

Our success and the success of our business units depends upon the continuing contributions of our executive officers and other key operating personnel. The complete or partial loss of their services could adversely affect our businesses.

RESTRUCTURING AT OUR BUSINESS UNITS MAY ADVERSELY AFFECT OUR OPERATIONS AND FINANCIAL CONDITION.

In an effort to cut costs and rationalize operations, our business units may engage in restructuring, including closures of facilities and reduction of workforce. If a business unit fails to properly carry out any restructuring, the relevant business's ability to conduct its operations and the business's results could be adversely affected. Restructurings, closures and layoffs may also harm our employee relationships, public relationships and governmental relationships which would in turn adversely affect our operations and results. For example, in March 2003, Canal+ Group announced an employee reduction as part of its overall restructuring plan. The program calls for a reduction of 305 positions, mainly administration and technical support personnel. In addition, 138 positions in certain support functions will be outsourced. The announcement of this program may result in a deterioration of our labor relations and may have an adverse effect on our operations.

CEGETEL GROUP EXPECTS TO MAKE SIGNIFICANT INVESTMENTS IN NETWORKS AND NEW TECHNOLOGY AND ANTICIPATED BENEFITS OF THESE INVESTMENTS MAY NOT BE REALIZED.

Cegetel Group expects to make substantial investments in its mobile networks, particularly in connection with the rollout of its UMTS mobile network over the next several years in view of increased usage and the

need to offer new services and greater functionality afforded by UMTS technology. Accordingly, the level of Cegetel Group's capital expenditures in future years is expected to exceed current levels. The development of UMTS technology is taking longer than anticipated. Consumer acceptance of UMTS or other new technology may be less than expected and will depend on a number of factors, including the availability of applications which exploit the potential of the technology and the breadth and quality of available content. If the introduction of UMTS services is further delayed or UMTS fails to achieve the expected advantages over existing technologies, Cegetel Group may be unable to recoup its network investment.

REGULATIONS REGARDING ELECTROMAGNETIC RADIATION OR FUTURE CLAIMS WITH RESPECT TO ELECTROMAGNETIC RADIATION COULD HAVE AN ADVERSE EFFECT ON OUR MOBILE TELEPHONE REVENUES AND OPERATIONS.

The International Commission for Non-Ionizing Radiation Protection, an independent organization that advises the World Health Organization, has established a series of recommendations setting exposure limits from electromagnetic radiation from antennas. These regulations were driven by concern over a potential connection between electromagnetic radiation and certain negative health effects, including some forms of cancer. They were enacted into French law on May 3, 2002. SFR, an 80% owned subsidiary of Cegetel Group, is also, along with the other French mobile telephony operators, in the process of entering into agreements with various cities, including the city of Paris, that will set up local guidelines. The International Cancer Research Center, authorized by the World Health Organization, is currently conducting a large-scale epidemiological study, the conclusions of which are expected to be published in 2004. We cannot assure you that future regulations will not have a negative impact on our revenues operations. We also cannot assure you that claims, relating to electromagnetic radiation will not arise against us and our mobile telephony operations in the future and have an adverse effect on our revenues and operations. In addition, even the perception of possible health risks, could lead to reduced demand for our mobile telephony services and have an adverse effect on our revenues and operations.

OUR CONTENT ASSETS IN TELEVISION, MOTION PICTURES AND MUSIC MAY NOT BE COMMERCIALLY SUCCESSFUL.

A significant amount of our revenue comes from the production and distribution of content offerings such as feature films, television series and audio recordings. The success of content offerings depends primarily upon their acceptance by the public, which is difficult to predict. The market for these products is highly competitive and competing products are often released into the marketplace at the same time. The commercial success of a motion picture, television series or audio recording depends on the quality and acceptance of competing offerings released into the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions and other tangible and intangible factors, all of which can change quickly. Our motion picture business is particularly dependent on the success of a limited number of releases. Universal Picture Group, or UPG, typically releases 14 to 16 motion pictures a year and the commercial failure of just a few of these motion pictures can have a significant adverse impact on UPG's results for both the year of release and the following year. This is particularly true for motion pictures with high production costs, and in 2003, UPG intends to release an unusually large number of high production cost motion pictures. Our failure to produce and distribute motion pictures, television series and audio recordings with broad consumer appeal could materially harm our business, financial condition and prospects for growth.

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 are all contributing to a declining recorded music market. Additionally, the period of growth in recorded music sales driven by the introduction and penetration of the CD format has ended and no profitable new format has emerged to take its place. Worldwide sales were down as the music market witnessed an estimated market decline of 9.5% in 2002. Double-digit declines were experienced in the US, Japan and Germany. Of the world's five major music markets only France reported growth. There are no assurances that the recorded music market will not

continue to decline. A declining recorded music market is likely to lead to the loss of revenue and operating income at Universal Music Group, or UMG.

UMG HAS BEEN LOSING, AND IS LIKELY TO CONTINUE TO LOSE, SALES DUE TO UNAUTHORIZED COPIES AND PIRACY.

Technological advances and the conversion of music into digital formats have made it easy to create, transmit and "share" high quality unauthorized copies of music through pressed disc and CD-R piracy, home CD burning and the downloading of music from the Internet. Unauthorized copies and piracy cost the recorded music industry an estimated $4.3 billion in lost revenues during 2001, the last year for which data is available, according to the International Federation of the Phonographic Industry, or IFPI. IFPI estimates that 1.9 billion pirated units were manufactured in 2001, equivalent to about 40% of all CDs and cassettes sold globally. According to IFPI estimates, about 28% of all CDs sold in 2001 were pirated, up from about 20% in 2000. We believe that these percentages are continuing to increase. 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 UMG.

OUR MOTION PICTURE BUSINESSES MAY LOSE SALES DUE TO UNAUTHORIZED COPIES AND PIRACY.

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

CHANGES IN ECONOMIC CONDITIONS COULD AFFECT THE REVENUE WE RECEIVE FROM TELEVISION PROGRAMMING THAT WE PRODUCE AND FROM OUR TELEVISION CHANNELS.

Our television production and distribution and cable networks are directly and indirectly dependent on advertising for their revenue. Changes in US, global or regional economic conditions may affect the advertising market for broadcast and cable television programming, which in turn may affect the volume of, and price for, the advertising on our cable networks and shows and the volume of, and price for, the programming we are able to sell.

CONSOLIDATION AMONG CABLE AND SATELLITE DISTRIBUTORS MAY HARM OUR CABLE TELEVISION NETWORKS.

Cable and satellite operators continue to consolidate, making our cable television networks increasingly dependent on fewer operators. If these operators fail to carry our cable television networks or use their increased bargaining power to negotiate less favorable terms of carriage, our cable television network business could be adversely affected.

THE INCREASE IN THE NUMBER OF CABLE TELEVISION NETWORKS MAY ADVERSELY AFFECT OUR CABLE TELEVISION NETWORKS.

Our cable networks compete directly with other cable television networks as well as with local and network broadcast channels for distribution, programming, viewing audience and advertising revenue. Growth in distribution platforms has led to the introduction of many new cable television networks. The increased competition may make it more difficult to place our cable networks on satellite and cable distribution networks, acquire attractive programming or attract necessary audiences or suitable advertising revenue.

OUR TELEVISION PRODUCTION AND DISTRIBUTION BUSINESSES FACE INCREASED COMPETITION.

Our produced programs, including television series, made-for-television and made-for-video motion pictures, compete in a worldwide television marketplace that has become ever more competitive as digital

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cable and satellite delivery increasingly expand the number of channels (and competing programs) available to consumers. Competition in the critical US production market has also been increased by the growing consolidation and vertical integration of several large television and media giants. The 1995 repeal of the financial interest and syndication rules in the US has permitted these conglomerates to combine ownership of television production businesses with broadcast networks. As a result, the current US broadcast networks -- ABC, CBS, NBC, Fox, The WB and UPN -- are able to fill their schedules with a large percentage of self-owned programs, thus reducing the number of time slots available to VUE's Universal Television Group and other "outside" producers. For the fall 2002 season, the top five producers in total hours on network television were all affiliated with a broadcast network. Approximately 40% of Universal Television Group's revenues came from broadcast license program fees in 2002. We can offer no assurances that we will be able to maintain or grow these revenues in the face of increased competition.

NEW TECHNOLOGIES MAY HARM OUR CABLE TELEVISION NETWORKS.

A number of new personal video recorders, such as TIVO in the United States, have emerged in recent years. These recorders often contain features allowing viewers to watch pre-recorded programs without advertising. The effect of these recorders on viewing patterns and exposure to advertising could have an adverse effect on our operations and results.

OUR THEME PARK AND RESORT GROUP MAY CONTINUE TO BE NEGATIVELY AFFECTED BY INTERNATIONAL, POLITICAL AND MILITARY DEVELOPMENTS.

The terrorist attacks of September 11, 2001, the threat and outbreak of war and the threat of further terrorist attacks have resulted in significant reductions in domestic and international travel that negatively affected our theme park and resort activities. These developments have had a continued impact on vacation travel, group conventions and tourism in general. Any further outbreak or escalation of hostilities, any further terrorist attack, the perceived threat of hostilities or terrorist attack or a change in public perception regarding current developments would be likely to have an additional negative impact on our operations.

CANAL+ GROUP IS SUBJECT TO FRENCH AND OTHER EUROPEAN CONTENT AND EXPENDITURE PROVISIONS THAT RESTRICT ITS ABILITY TO CONDUCT ITS BUSINESS.

Canal+ Group is regulated by various statutes, regulations and orders. In particular, under its French broadcast authorization, the premium channel Canal+ is subject to the following regulations: (i) no more than 49% of its capital stock may be held by a single shareholder and (ii) 60% of the films broadcast by the channel must be European films and 40% must be French Language films. Each year Canal+ must invest 20% of its total prior-year revenues in the acquisition of film rights, including 9% which must be devoted to French language films and 3% to non-French language European films. At least 75% of the French movies must not be acquired from Canal+ Group controlled companies. Canal+ has an obligation to invest 4.5% of its revenues in original TV movies and dramas. Canal+ Group also operates in Belgium, Spain, the Netherlands, Poland and the Nordic countries pursuant to the regulations of each of these countries which generally stipulate, as do the French, financing levels for European and national content. These regulations severely limit Canal+ Group's ability to choose content and otherwise manage its business and could have an adverse effect on its operations and results.

ONE OF OUR TWO INDEPENDENT PUBLIC ACCOUNTANTS, BARBIER FRINAULT & CIE, WAS FORMERLY A MEMBER OF ANDERSEN WORLDWIDE, AS WAS ARTHUR ANDERSEN LLP, WHICH HAS BEEN FOUND GUILTY OF A FEDERAL OBSTRUCTION OF JUSTICE CHARGE, AND HOLDERS OF OUR SECURITIES LIKELY WILL BE UNABLE TO EXERCISE EFFECTIVE REMEDIES AGAINST ANDERSEN WORLDWIDE IN ANY LEGAL ACTION.

One of our two independent public accountants, Barbier Frinault & Cie, was formerly a member of Andersen Worldwide, as was Arthur Andersen LLP, and during that period provided us with auditing services, including issuing an audit report with respect to our audited consolidated financial statements for the fiscal years ended December 30, 2001, and December 31, 2002. On June 15, 2002, a jury in Houston, Texas found

Arthur Andersen LLP guilty of a federal obstruction of justice charge arising from the federal government's investigation of Enron Corp. On August 31, 2002, Arthur Andersen LLP ceased practicing before the SEC.

Andersen Worldwide has not reissued its audit report with respect to our audited consolidated financial statements prepared by it. Furthermore, Andersen Worldwide has not consented to the inclusion of its audit report herein. As a result, investors in our securities likely will not have an effective remedy against Andersen Worldwide in connection with a material misstatement or omission with respect to our audited consolidated financial statements, any registration statement or any other filing we make with the SEC, including any claim under Section 11 of the Securities Act with respect to such registration statement. In addition, even if investors were able to assert such a claim, as a result of its conviction and other lawsuits, Andersen Worldwide may not have sufficient assets to satisfy claims made by investors or by us that might arise under federal securities laws or otherwise relating to any alleged material misstatement or omission with respect to our audited consolidated financial statements.

ITEM 4: INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

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

We were formed through the merger in December 2000 of Vivendi S.A., The Seagram Company Ltd. and Canal+ S.A., with Vivendi Universal continuing as the surviving parent entity, or 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 December 2000 merger and the May 2002 acquisition of the entertainment assets of InterActiveCorp (formerly known as USA Interactive and prior thereto as USA Networks), or USAi. Following the appointment of new management in July 2002, we commenced a significant asset divestiture program aimed at reducing the group's indebtedness, which we are pursuing actively. We have already largely exited the environmental services and publishing businesses and sold various smaller operations. See "Item 5--Operating and Financial Review and Prospects--Recent Developments" and "--Our Strategy" below.

We are one of the largest media and telecommunications groups in the world. Our attractive portfolio of assets include, among others, the following businesses: mobile and fixed-line telecommunications, recorded music, film, television, theme parks and resorts and interactive entertainment and educational software. See "--Business Overview."

Our Strategy

We are a company in transition. Our principal strategic focus is to return to an investment grade credit profile by continuing to reduce our leverage while maintaining sufficient liquidity.

The primary means by which we intend to achieve this goal is through the completion of our E 16 billion asset divestiture program by the end of 2004. In the second half of 2002, we sold E 6.7 billion of assets. In 2003, we intend to sell an additional E 7.0 billion of assets. We have initiated numerous asset divestiture processes, and we are not dependent on any single asset sale to meet our divestiture target. We have begun exploring strategic options that could lead to the partial or total divestiture of VUE and VU Games. We have received multiple, preliminary bids relating to one or more of these businesses and are currently evaluating them. As of yet there is no pre-established structure or calendar for any particular divestiture. In parallel, we are also exploring the option of listing up to 25 to 30% of the share capital of VUE in an initial public equity offering. In the first quarter of 2003, we have closed asset sales for an aggregate consideration of

approximately E 726 million. From April 1, 2003 to June 25, 2003, we have signed and closed asset sales for an estimated aggregate consideration of E 1.7 billion.

DATE	ASSET	TOTAL CONSIDERATION	CASH RECEIVED
		(IN MILLIONS)	
July 2002	B2B/Health	E 150	E 150
July 2002	Lagardere	44	44
July 2002	Vinci	291	291
August 2002	Vizzavi	143	143
December 2002	Houghton Mifflin	1,567	1,195
December 2002	Other Publishing	1,138	1,121
December 2002	Veolia Environnement	1,856	1,856
December 2002	Echostar	1,037	1,037
December 2002	Sithe Energies Inc	319	319
	Others	108	108
	TOTAL 2ND HALF 2002(1)	E 6,653	E 6,264
February 2003	Express-Expansion-Etudiant	E 200	E 200
February 2003	Canal+ Technologies	191	170(
February 2003	USAi Warrants	256	256
	Others	79	79
	TOTAL 1ST QUARTER 2003(1)	E 726	E 705
	TOTAL 2ND HALF 2002 & 1ST QUARTER 2003(1)	E 7,379	E 6,969

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(1) Actual numbers after deduction of divestiture fees and expenses

(2) Of which E 90 million of cash consideration was received in 2002 (excludes

E 21 million received in May 2003)

DATE	ASSET	TOTAL CONSIDERATION(1)	CASH RECEIVED
		(IN MILLIONS)	
April 2003	Telepiu..	E 871	E 407(
May 2003	Vivendi Telecom Hungary............................	325	10(
May 2003	Egypt (telecom)....................................	43	43
May 2003	Comareg..	135	135
June 2003	Sithe Asia...	40	40
June 2003	VUE: 10 Universal City Plaza.......................	160	160
	Other closed transactions as of June 25, 2003.......	169	169(
	TOTAL APRIL 1 -- JUNE 25, 2003.....................	E 1,743	E 964

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(1) Amounts subject to adjustment to reflect the deduction of divestiture fees and expenses, currency rate fluctuations and purchase price adjustments

(2) Does not include a remaining amount of E 50 million of consideration held in escrow that may be received

(3) Does not include a remaining amount of E 10 million of deferred purchase consideration that may be received

(4) Includes E39 million to be received by Vivendi Universal in the second half of 2003.

2003 Significant Transactions

For a discussion of significant transactions that have occurred in 2003, see "Item 5--Operating and Financial Review and Prospects--Subsequent Events."

2002 Significant Transactions

Acquisition of the Entertainment Assets of USA Networks, Inc.

On May 7, 2002, Vivendi Universal consummated its acquisition of the entertainment assets of InterActiveCorp (formerly known as USA Interactive and prior thereto as USA Networks, Inc.), or USAi, through the limited liability limited partnership, Vivendi Universal Entertainment LLLP, or VUE, in which Vivendi Universal has an approximately 93% voting interest and an approximately 86% economic interest. As part of the transaction, Vivendi Universal and its affiliates surrendered 320.9 million shares of USANi LLC that were previously exchangeable into shares of USAi stock. In addition, Vivendi Universal transferred 27.6 million treasury shares to Liberty Media Corporation in exchange for (i) 38.7 million USANi LLC shares (which were among the 320.9 million surrendered) and (ii) 25 million shares of USAi common stock, which were retained by Vivendi Universal.

As consideration for the transaction, USAi received a $1.62 billion cash distribution from VUE, a 5.44% common interest in VUE and Class A and Class B preferred interests in VUE with initial face values of $750 million and $1.75 billion, respectively. The Class B preferred interests are subject to put/call provisions at any time following the 20-year anniversary of issuance (May 2022). USAi may require Vivendi Universal to purchase the Class B preferred interests, and Vivendi Universal may require USAi to sell to it the Class B preferred interests, for a number of USAi shares having a market value equal to the accreted face value of the Class B preferred interests at such time, subject to a maximum of 56.6 million USAi shares. The parties also agreed to put and call options on USAi's common interests. The call may be exercised by Vivendi Universal at any time after the fifth anniversary of the transaction (May 2007) and the put may be exercised by USAi at any time after the eighth anniversary of the transaction (May 2010), in either case, at its fair market value, payable at the option of Universal Studios in cash or Vivendi Universal listed common equity securities.

In addition, Mr. Diller, USAi's chairman and chief executive officer, received a 1.5% common interest in VUE in return for agreeing to specific non-competition provisions for a minimum of 18 months, for informally agreeing to serve as VUE's chairman and chief executive officer and as consideration for his agreement not to exercise his veto right over this transaction. At any time after the first anniversary of the closing, Mr. Diller may require Universal to purchase his common interest and, at any time after the second anniversary of the closing, Universal may purchase Mr. Diller's common interest. In either case, the purchase price will be equal to the greater of $275 million and the private market value of his common interest, payable at the option of Universal in cash or Vivendi Universal listed common equity securities. The fair value of $275 million of Mr. Diller's common interest has been recorded as part of the total purchase consideration at the acquisition date. As part of Vivendi Universal's preliminary purchase price allocation, $15 million has been recorded as the value of Mr. Diller's non-competition arrangement, which is being amortized on a straight-line basis over a period of 18 months. The $275 million minimum value of the common interest is accounted for by Vivendi Universal as a minority interest in VUE. Any increases in fair value above the minimum put price of the common interest and any subsequent decreases in fair value to the minimum put price of the common interest are recognized in operations by Vivendi Universal (for US GAAP purposes only).

Under the VUE partnership agreement, VUE is subject to a number of covenants for the benefit of the holder of the Class A Preferred Interests in VUE (currently USAi), including a cap on indebtedness and a restriction on asset transfers by VUE and its subsidiaries. Certain of the covenants, including those specified above, would cease to apply if an irrevocable letter of credit were issued in an amount equal to the accrued value of such interests at maturity (approximately $2 billion in 2022).

In addition, Vivendi Universal has agreed to indemnify USAi for any "tax detriment" (defined to mean the present value of the loss of USAi's tax deferral on the transaction) arising from certain actions taken by

VUE prior to May 7, 2017, including selling assets contributed by USAi to VUE and repaying the $1.62 billion in debt used to finance the cash distribution made to USAi at the closing.

In connection with the transaction, Vivendi Universal received approximately 60.5 million warrants to purchase common stock of USAi, with exercise prices ranging from $27.50 to $37.50 per share. The warrants were issued to Vivendi Universal in return for an agreement to enter into certain commercial arrangements with USAi. At this time, no commercial arrangement is in place. A portion of the warrants were sold in February 2003. The remainder of the warrants are expected to be sold on June 30, 2003. For more information, see "Item 5--Operating and Financial Review and Prospects--Subsequent Events."

The entertainment assets acquired by Vivendi Universal were USAi's television programming, cable networks and film businesses, including USA Films, Studios USA and USA Cable. These assets, combined with the film, television and theme park assets of the Universal Studios Group, formed a new entertainment group, Vivendi Universal Entertainment LLLP, in which Vivendi Universal has an approximately 93% voting interest and an approximately 86% economic interest (due to the minority stake of Matsushita Electric Industrial Co., Ltd., or Matsushita).

The acquisition cost of the USAi entertainment assets amounts to E 11,008 million and was determined with the assistance of an independent third-party valuation firm.

Acquisition of Additional Interest in Multithematiques

In connection with the sale of its shares in USAi, Liberty Media transferred to Vivendi Universal its 27.4% share in the European cable television company, Multithematiques and its current account balances in exchange for 9.7 million Vivendi Universal shares. The share value is based on the average closing price of Vivendi Universal shares during a reference period before and after December 16, 2001, the date the agreement was announced. Following this acquisition, Canal+ Group holds 63.9% of Multithematiques' share capital. The additional goodwill resulting from Vivendi Universal taking a controlling stake in this company, which had been consolidated until March 31, 2002 using the equity method, amounted to E 542 million.

Divestiture of Interest in Veolia Environnement

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

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

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

The third step occurred on December 24, 2002, a month after the banks that managed the June transaction and a group of new investors entered into an amendment to the June 24, 2002 agreement. Under

the terms of the amended agreement, Vivendi Universal agreed to sell 82.5 million shares of Veolia Environnement, representing 20.4 % of Veolia Environnement's share capital, and the new investors agreed to become subject to the lock-up on dispositions of these shares previously agreed to by Vivendi Universal for the remaining term of that lock-up agreement, i.e. until December 21, 2003.

Each of these shares of Veolia Environnement includes a call option that entitles these investors to acquire additional Veolia Environnement shares at any time until December 23, 2004 at an exercise price of E 26.50 per share. After the exercise of all the call options, Vivendi Universal would no longer hold any shares of Veolia Environnement. On December 24, 2002, Vivendi Universal received, in exchange for the shares and the call options, E 1,856 million. The call options on the Veolia Environnement shares are recorded as deferred items in liabilities for an amount of E 173 million.

Following this divestiture, Vivendi Universal holds 82.5 million shares, or 20.4%, of Veolia Environnement's share capital which is held in an escrow account to cover the call options. This investment is accounted for using the equity method as of December 31, 2002.

Vivendi Universal recorded a E 1,419 million capital gain for these operations in 2002.

Divestiture of Vivendi Universal Publishing's Professional and Health Divisions

On April 18, 2002, Vivendi Universal Publishing (VUP) signed a definitive agreement pursuant to which the Cinven, Carlyle and Apax investment funds acquired 100% of the professional and health information divisions of VUP. In parallel with this divestiture, Vivendi Universal acquired 25% of the capital stock of the acquisition vehicle, alongside Cinven (37.5%), Carlyle (28%) and Apax (9.5%). The transaction was concluded on July 19, 2002 with Vivendi Universal's sale to the investors of the shares acquired in the leveraged buy-out. The transaction reduced profit before tax by E 298 million.

Sale of Stake in Vizzavi Europe

On August 30, 2002, Vivendi Universal sold to Vodafone its 50% share of Vizzavi Europe. As a result, Vivendi Universal received E 143 million in cash. As part of the transaction, Vivendi Universal took over 100% of Vizzavi France. This transaction generated a capital gain of E 90 million.

Divestiture of Publishing Activities

The Board of Directors of Vivendi Universal on August 13, 2002, decided to sell the American publisher Houghton Mifflin acquired in 2001. On September 25, 2002, the Board decided that the sale should occur as soon as possible and cover, in addition to Houghton Mifflin, all of the activities of VUP.

These assets, with revenues and employees totaling approximately E 2.3 billion and 7000, respectively, were presented to several buyers.

Following receipt of indicative offers, Vivendi Universal decided to conduct separate sale processes for the European and American businesses. The Board of Directors meeting held on October 29, 2002 approved the divestiture of

VUP's European activities to the Lagardere Group, which had made the most competitive offer. This transaction was finalized on December 20, 2002 after the approval of the personnel representative bodies of Vivendi Universal and VUP. The European publishing activities were acquired by Investima 10, a company wholly-owned by Natexis Banques Populaires for Lagardere. Investima 10 will transfer the acquired assets to the Lagardere Group as soon as the latter obtains the competition approval to be given by the European Commission. The gross proceeds from the sale amounted to E 1,198 million. This transaction has resulted in a gain of E 329 million on Vivendi Universal's net income before tax.

Following this transaction, Vivendi Universal retains its 50% interest in the company that owns Atica and Scipione, the Brazilian publishers.

Three investors participated in the separate auction to sell the publisher Houghton Mifflin. On December 30, 2002, Vivendi Universal finalized the sale of Houghton Mifflin to a consortium comprised of Thomas H. Lee and Bain Capital. The purchase price was approximately E1.6 billion, of which approximately

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E1.2 billion in cash has been received. As a result of this transaction, Vivendi Universal recognized a capital loss of E 822 million before tax, including a foreign currency translation loss of E 236 million.

Acquisition of Additional Interest in UGC

On December 23, 2002, following the exercise by Banque Nationale de Paris of the put granted by Vivendi Universal in July 1997, Vivendi Universal acquired, for a total consideration of E 59.3 million, 5.3 million of UGC shares representing 16% of share capital of UGC. Vivendi Universal's 58% interest in UGC does not provide for operational control of the company due to a shareholders' agreement. Accordingly, this investment is still accounted for using the equity method.

Divestiture of Telepiu

News Corporation and Telecom Italia signed, on October 1, 2002, a definitive agreement with Vivendi Universal and Canal+ Group to acquire Telepiu, the Italian pay-TV business. The transaction was approved by the European Commission on April 2, 2003 and completed on April 30, 2003. As part of the acquisition agreement, all litigation between the parties, including Canal+'s litigation against NDS, will be dropped. The purchase price was E 871 million, consisting of the assumption of E 414 million in debt and a cash payment of E 457 million. The cash payment includes a E 13 million adjustment corresponding to the reimbursement of the accounts payable net of debt adjustment.

Unwinding of the Total Return Swap in Connection with the Divestiture of Vivendi Universal's Investment in BSkyB plc

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

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

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

In addition, in February 2002, Vivendi Universal released its remaining holding of 14.4 million shares in BSkyB by exercising its option to exchange a convertible bond for BSkyB shares issued by Pathe that came into Vivendi Universal's possession when it acquired Pathe. The redemption date was fixed on March 6, 2002, at a redemption price of 100% of the principal amount plus accrued interest to that date. Holders of the bonds were entitled to convert them into 188.5236 shares of BSkyB per FFr10,000 principal amount of bonds up to and including February 26, 2002.

Divestiture of an Investment in EchoStar Communication Corporation

On December 18, 2002, Vivendi Universal sold its entire EchoStar equity position, 57.6 million Class A common shares, back to EchoStar. Total net proceeds of the sale were $1.066 billion, generating a capital loss of E 674 million before tax.

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Vivendi Universal held these Class A common shares following the conversion of the 5.8 million Echostar Class D preferred stock acquired in January 2002 for $1.5 billion. Each Class D preferred stock was convertible into 10 EchoStar Class A common shares.

Divestiture of Investment in Vinci

In July 2002, Vivendi Universal sold 5.3 million Vinci shares for a total of E 343.8 million, thereby generating a pre-tax, capital gain of E 153 million. At the same time, Vivendi Universal bought call options on 5.3 million shares at E 88.81 for E 53 million allowing the group to cover the bonds exchangeable for Vinci shares issued in February 2001 for E 527.4 million.

Disposition of Sithe

In December 2000, Vivendi Universal, along with other shareholders of Sithe Energies, Inc. (Sithe), a US power generation company, finalized the sale of a 49.9% stake in Sithe to Exelon (Fossil) Holdings, Inc., (Exelon), for approximately $696 million. The net proceeds of the transaction to Vivendi Universal were approximately $475 million. Following this transaction, Exelon became the controlling shareholder of Sithe, with Vivendi Universal retaining an interest of approximately 34%. As a result of the transaction, Vivendi Universal ceased to consolidate Sithe's results of operations for accounting purposes effective December 31, 2000.

On December 18, 2002, Vivendi Universal sold its remaining 34% stake in Sithe Energies, to Apollo Energy LLC. Net cash proceeds of this transaction were E 319 million, generating a capital loss of E 232 million before tax. Under the terms of this transaction, Vivendi Universal retained the rights and obligations to take legal ownership of a minority stake in certain power generating operations in Asia from Sithe. Vivendi Universal transferred these rights and obligations to Marubeni for $47 million on June 11, 2003. See "Item 5--Operating and Financial Review and Prospects--Subsequent Events."

Settlement Agreement with Pernod Ricard-Diageo

On August 7, 2002, Vivendi Universal, Pernod Ricard and Diageo reached a global settlement of outstanding claims relating to post-closing adjustments arising from the acquisition of Seagram's spirits and wine concluded in December 2000 and closed in December 2001.

Notes Mandatorily Redeemable for New Shares of Vivendi Universal

In November 2002, Vivendi Universal issued 78,678,206 bonds for a total amount of E 1 billion, redeemable in Vivendi Universal new shares on November 25, 2005, at a rate of one share for one bond. The bonds bear interest at 8.25% per annum. The total amount of discounted interest was paid to the bondholders on November 28, 2002, for an amount of E 233 million. The bondholders can call for redemption of the bonds in new shares at any time after May 26, 2003, at the minimum redemption rate of 1 -- (annual rate of interest multiplied by the outstanding bond lifetime expressed in years).

Events between January 1 and December 31, 2002 related to Treasury Shares

At December 31, 2001, Vivendi Universal and its subsidiaries held 107,386,662 Vivendi Universal shares, representing a gross amount of E 6,762 million and 9.9% of share capital at an average cost per share of E 63.

During 2002, Vivendi Universal:

- bought on the market, between January and April, 6, 969,865 shares at an average price of E 48.5 per share. These purchases occurred under the terms of the COB prospectus n(LOGO) 00-1737 which authorized Vivendi Universal to go public;

- sold 55 million shares to two financial institutions on January 7 at a price of E 60 per share;

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- transferred 37.4 million shares in May 2002 to Liberty Media in exchange for equity in USANi LLC and USAi and the 27% interest in Multithematiques;

- sold a further 94,157 shares to employees exercising their stock options; and

- cancelled 20,469,967 shares on December 20, 2002 following the decision by the Board of Directors on August 13, 2002 based on the authorization obtained in General Meeting of Shareholders held on April 24, 2002. The cancellation of these shares previously held in connection with employee stock option plans has reduced the shareholders' equity by E 1,191.3 million. In connection with French legal obligations, Vivendi Universal acquired 14.1 million of call options on Vivendi Universal shares in order to cover future stock option plans from December 31, 2002.

At December 31, 2002, Vivendi Universal and its subsidiaries (excluding Veolia Environnement, which is accounted for under the equity method as from December 31, 2002) held 562,375 Vivendi Universal shares, or 0.05% of its share capital which represents a gross amount of E 44 million and an average cost per share of E 77.9. The majority of these treasury shares are classified as marketable securities and held in connection with certain employee stock option plans of MP3.com, Inc.

Sale of Put Options on Its Own Shares

In connection with its share repurchase program, Vivendi Universal sold put options on its own shares by which it agrees to buy its own shares on specified dates at the exercise price. As of December 31, 2002 and December 31, 2001, Vivendi Universal had outstanding obligations on 3.1 million and 22.8 million shares respectively. The average exercise prices were E 50.5 and E 70, respectively, resulting in a potential commitment of E 154 million and E 1,597 million, respectively. These put options are only exercisable on their exercise date and expire during the first quarter of 2003. According to the terms of the contracts for these put options, they may be settled at the option of Vivendi Universal either by the purchase of the shares at the exercise price or payment, in cash, of the difference between the market price of the shares and the exercise price.

The cost to Vivendi Universal during 2002 from option holders exercising their rights was E 589 million, which represents the premium paid in the event of a cash settlement of the difference between their market price and the exercise price. Further, at the end of December 2002, Vivendi Universal marked to market put options with a specific, future exercise date. This resulted in a provision of E 104 million, corresponding to the premium that will have to be paid out by Vivendi Universal in the event of a cash settlement.

Renunciation by Convertible Bondholders on the Guarantee agreed by Vivendi Universal

Holders of 1.5% 1999 -- 2005 Veolia Environnement bonds exchangeable for new or existing Vivendi Universal shares held a general meeting on August 20, 2002. At this meeting, the bondholders renounced, effective September 1, 2002, any rights to the guarantee provided by Vivendi Universal in respect of Veolia Environnement's obligations under these bonds and, as a consequence, renounced certain rights under the liability clause in the event of a default by Vivendi Universal. In exchange, the nominal interest rate was increased by 0.75%, thereby increasing the interest rate from 1.5% to 2.25%.

Reorganization of Vivendi Universal Headquarters

In October 2002, Vivendi Universal initiated a reorganization plan regarding its headquarters in Paris, as well as its locations outside France. It aims to:

- redefine and refocus the headquarters' tasks on holding company activities;

- concentrate all those tasks in Paris, with New York becoming a representative office for the company, primarily responsible for functions relating to North America; and

- achieve full-year savings of around E 140 million compared with the total 2002 budget of E 313 million. These savings will be generated by a very significant cut in non-payroll costs (fees for external services, in particular), as well as a reduction in the number of employees at all headquarters sites.

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With regard to the Paris headquarters, the plan provides for eliminating 146 positions out of a total of 327 employees. To address potential employment ramifications, in consultation with the labor unions, Vivendi Universal is taking measures -- in particular, with regard to job mobility -- to ensure that all employees are offered the most optimal solutions possible.

2001 SIGNIFICANT TRANSACTIONS

Purchase of Interest in Maroc Telecom

In the course of the partial privatization of Maroc Telecom, Vivendi Universal was chosen to be a strategic partner in the purchase of an interest in Morocco's national telecommunications operator for approximately E 2.4 billion. The transaction was finalized in April 2001, at which time Maroc Telecom began to be consolidated in the accounts of Vivendi Universal, as we obtained control through majority board representation and shared voting rights.

Acquisition of Houghton Mifflin Company

In July 2001, Vivendi Universal acquired the Houghton Mifflin Company, a leading US educational publisher, for a total of approximately $2.2 billion, including assumption of Houghton Mifflin's average net debt of approximately $500 million. Houghton Mifflin was sold on December 30, 2002.

Acquisition of MP3.com, Inc.

On August 28, 2001, Vivendi Universal completed its acquisition of MP3.com, Inc., for approximately $400 million, or $5 per share in a combined cash and stock transaction.

Disposition of Interest in France Loisirs

In July 2001, Vivendi Universal sold its interest in France Loisirs to Bertelsmann. Proceeds from the sale approximated E 153 million, generating a capital loss of E 1 million.

Disposition of AOL France

In March 2001, Vivendi Universal announced the conclusion of a deal with America Online, Inc., a subsidiary of the AOL Time Warner Group, under which Cegetel and Canal+ Group swapped their interest in the AOL France joint venture for AOL Europe shares. Both groups also signed distribution and marketing agreements. Cegetel and Canal+ Group thus swapped their 55% share of AOL France for junior preferred shares of AOL Europe valued at $725 million and paying a 6% annual dividend. These preferred shares were sold, in late June 2001, to an unrelated financial company for a price corresponding to their present value marked up by their coupon value, or a total of $719 million. If this investment was consolidated, an asset representing the junior preferred shares and a liability representing the corresponding debt would be recorded in the Consolidated Financial Statements in the amount of $812 million. This transaction generated a net capital gain of E 402 million.

Issuance of bonds exchangeable for Veolia Environnement shares

In February 2001, Vivendi Universal placed E 1.8 billion principal amount of bonds exchangeable into Veolia Environnement stock on a one-for-one basis. The bonds correspond to 9.3% of the capital stock of Veolia Environnement. The 2%, five-year bonds were issued at a price of E 55.90, a 30% premium over the previous day's weighted-average price.

Issuance of bonds exchangeable for Vinci shares

In February 2001, Vivendi Universal placed E 457 million principal amount of bonds exchangeable for shares of Vinci, a company in which Vivendi Universal has an 8.67% stake. The 1%, five-year bonds were issued at a price of E 77.35, a

30% premium to Vinci's then-current stock price. Each bond is exchangeable for one Vinci share. On February 5, 2001, the lead manager for the bond offering exercised an over-allotment

option to purchase E 70 million additional principal amount of the bonds, thus increasing the overall amount of the issuance to E 527 million.

Sale of 9.3% Interest in Veolia Environnement

In December 2001, Vivendi Universal sold 32.4 million shares or a 9.3% interest in Veolia Environnement for approximately E 38 per share or total proceeds of E 1.2 billion, generating pre-tax capital gains of E 116 million (net of E 10 million fees). The 9.3% interest sold had been held separately as it was allocated to exchangeable bonds issued in February 2001. At the same time, Veolia Environnement agreed to issue one free warrant for each share held to its shareholders, with every seven warrants giving holders the right to a new share of Veolia Environnement at E 55 per share until March 2006. These transactions did not modify Vivendi Universal's 63% consolidated interest in Veolia Environnement as the warrant issue replaces the shares sold that were allocated to the exchangeable bonds.

Canal+ Group's Sale of its Stake in Eurosport

In January 2001, Canal+ Group announced that it had sold its 49.5% interest in European sports channel Eurosport International and its 39% interest in Eurosport France to TF1. Proceeds from the sale amounted to E 303 million for Canal+ Group and E 345 million for Vivendi Universal, as its subsidiary Havas Image also sold its interest in Eurosport France. Canal+ Group will remain a distribution channel for Eurosport. Canal+ Group had acquired its interest in Eurosport International and Eurosport France from ESPN in May 2000.

Sale of Stake in Havas Advertising

In June 2001, Vivendi Universal sold its remaining 9.9% interest in Havas Advertising, the world's fifth largest advertising and communications consulting group, to institutional investors and Havas Advertising itself. The E 484 million transaction, conducted with the approval of Havas Advertising management, generated pre-tax capital gains of E 125 million. In December 2001, Vivendi Universal sold the rights to the "Havas" name to Havas Advertising for approximately E 4.6 million.

Participation in Elektrim

In September 2001, Elektrim Telekomunikacja, in which Vivendi Universal has a 49% interest, acquired all of Elektrim SA's landline telecommunications and Internet assets. Vivendi Universal loaned Elektrim Telekomunikacja E 485 million, at arm's-length conditions, to provide them with the necessary funds for the acquisition.

UMTS License

In July 2001, the French government officially granted SFR, an indirect subsidiary of Vivendi Universal, a license to provide 3G (third generation) UMTS mobile telephony services in France. UMTS is a high-speed standard for mobile telephony that will allow Vivendi Universal, through SFR, to provide an extensive range of new services, including video telephony and high-speed access to the Internet and to corporate intranets. The license was initially granted for a period of 15 years and a license fee of E 4.95 billion, with payments spread over the 15-year period. However, as a result of a delay in the manufacture of equipment and infrastructure for UMTS technology and the economic weakness in the telecommunications industry, the original terms of the license were renegotiated with the French government. In October 2001, the French government announced the revised terms of the 3G UMTS license. The license was extended to a period of 20 years and the license fee was split into two parts -- a fixed upfront fee of E 619 million, which was paid in September 2001, and future payments equal to 1% of 3G revenues earned when the service commences. The new arrangement reduces cash expenditures related to the license during 2001 to 2003 by more than E 2 billion and is expected to contribute to an improvement in Vivendi Universal's cash flow and debt position.

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UPC Alliance

In August 2001, Canal+ Group and United Pan-Europe Communications N.V. (UPC) agreed to merge their respective Polish satellite TV platforms Cyfra+ and Wizja TV as well as the Canal+ Polska premium channel, to form a common Polish digital TV platform. The new company (TKP) is managed and controlled by Canal+ Group, which owns 75% of TKP. UPC will contributed its Polish satellite assets to TKP in exchange for a 25% interest and E 150 million in cash. As part of this transaction Canal+ Polska is available on UPC's Polish cable network, in which UPC will retain 100% control. The agreement was finalized in December 2001 after having received regulatory approval. TKP was consolidated in the accounts of Vivendi Universal at December 31, 2001. The new joint platform were launched in the first quarter of 2002 with a base of more than 700,000 subscribers.

2000 SIGNIFICANT TRANSACTIONS

Merger of Vivendi, Seagram and Canal+

On December 8, 2000, Vivendi, Seagram and Canal+ completed a series of transactions in which the three companies combined to create Vivendi Universal. The terms of the merger transactions included: Vivendi Universal's combination, through its subsidiaries, with Seagram in accordance with a plan of arrangement under Canadian law, in which holders of Seagram common shares (other than those exercising dissenters' rights) received 0.80 Vivendi Universal American Depositary Shares (ADSs), or a combination of 0.80 non-voting exchangeable shares of Vivendi Universal's wholly-owned Canadian subsidiary Vivendi Universal Exchangeco (exchangeable shares) and an equal number of related voting rights in Vivendi Universal, for each Seagram common share held; Vivendi Universal's merger with Canal+, in which Canal+ shareholders received two Vivendi Universal ordinary shares for each Canal+ ordinary share they held and kept their existing shares in Canal+, which retained the French premium pay television channel business.

In connection with the merger transactions, on December 19, 2000, Vivendi Universal entered into an agreement with Diageo and Pernod Ricard to sell its spirits and wine business. The sale closed on December 21, 2001 and Vivendi Universal received approximately $8.1 billion in cash, an amount that resulted in after-tax proceeds of approximately $7.7 billion. The spirits and wine business generated revenues of E 5 billion and operating income of E 0.8 billion in 2001. Prior to its sale, Vivendi Universal accounted for the spirits and wine business as an investment held for sale on the balance sheet, and net income of the spirits and wine business in 2001 effectively reduced goodwill associated with the Seagram acquisition. No gain was recognized upon the ultimate sale of the spirits and wine business.

Disposition of Non-Core Construction and Real Estate Businesses

In order to facilitate our withdrawal from our non-core construction and real estate businesses, we restructured Compagnie Generale d'Immobilier et de

Services (CGIS), our wholly owned real estate subsidiary, into two principal groups of companies: Nexity and Vivendi Valorisation. In July 2000, we sold 100% of Nexity to a group of investors and to Nexity's senior management for E 42 million, an amount that approximated book value of these operations. Vivendi Valorisation holds our remaining property assets, which consist primarily of investments arising out of past property development projects. These assets are managed by Nexity pending their sale. In February 2000, we reduced our interest in Vinci (Europe's leading construction company) from 49.3% to 16.9%, receiving in exchange E 572 million, which resulted in a capital gain of approximately E 374 million. Subsequently, Vinci merged with the construction company, Groupe GTM, which reduced our interest in the combined entity to 8.67%. As a result of these transactions we ceased to consolidate Vinci's results effective July 1, 2000.

Formation/IPO of Veolia Environnement

Veolia Environnement was formed at the end of 1999. It brought together the majority of our water, waste management, energy services and transportation businesses, as well as our interest in Fomento de Construcciones y Contratas (FCC). Veolia Environnement's formation was achieved by either the contribution of existing businesses and companies or the purchase of shares. Generale des Eaux, Dalkia and

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Compagnie Generale d'Entreprises Automobiles were transferred at book value in accordance with tax provisions applicable to certain mergers. United States Filter Corporation (US Filter) and our interest in FCC were acquired by Veolia Environnement in December 1999. In July 2000, Veolia Environnement sold approximately 37% of its shares to the French public and to institutional investors in France and elsewhere in an initial public offering (IPO).

Lagardere alliance

In July 2000, pursuant to an alliance between Canal+ Group and Lagardere, a French media company, Lagardere acquired an approximate 34% stake in CanalSatellite and a 27.4% stake in MultiThematiques. Canal+ reduced its stake in Multithematiques to 27.4% (Vivendi reduced its indirect interest to 9%). Canal+ and Lagardere also set up three joint ventures. The first, 51% owned by Lagardere and 49% by Canal+, will own and operate existing theme channels and intends to create others. The second, 51% owned by Lagardere and 49% by CanalSatellite, will oversee interactive services for new channels jointly created by CanalSatellite and Lagardere. The third, a 50/50 joint venture between Lagardere and MultiThematiques, will create and distribute new theme-based channels based on Lagardere's international brands.

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 in the last or current fiscal year.

BUSINESS OVERVIEW

GENERAL

We are one of the largest media and telecommunications groups in the world. We focus on the following six distinct businesses which are leaders in telecommunications, music, TV & film, and games, with a variety of other non-core operations and investments:

CEGETEL GROUP. Cegetel Group, through its 80% owned subsidiary, Societe Francaise du Radiotelephone, or SFR, is the second largest mobile telecommunications operator in France and through its 90% owned subsidiary, Cegetel S.A., is the second largest fixed-line operator in France. SFR has a 35.1% market share in a stable three-operator market in France, and is well positioned to benefit from the strong growth of the French wireless market. In early 2003, we increased our ownership interest to 70% of Cegetel Group.

UNIVERSAL MUSIC GROUP (UMG). UMG is the largest recorded music business in the world. UMG acquires, manufactures, markets and distributes recorded music in 71 countries. Key recording artists include Eminem, Shania Twain, U2 and Ashanti. In addition to its recorded music business, UMG is the third largest music publisher in the world. UMG also manufactures, sells and distributes music video and DVD products, and owns mail-order music/video clubs. We own approximately 92% of UMG.

VIVENDI UNIVERSAL ENTERTAINMENT (VUE). We own approximately 86% of VUE, a US-based entertainment company active in the film, television, and theme parks and resorts businesses. We are currently evaluating proposals from potential bidders for the possible sale of all or a portion of VUE. VUE operates through the following entities:

- UNIVERSAL PICTURES GROUP (UPG). UPG is a major film studio, engaged in the production and distribution of motion pictures worldwide in the theatrical, non-theatrical, home video/DVD and television markets. Recent motion picture releases include Gladiator, The Mummy franchise, A Beautiful Mind, 8 Mile, Erin Brockovich, Red Dragon and The Fast and The Furious. UPG's 2003 movie slate includes Bruce Almighty, The Hulk, 2 Fast 2 Furious, Peter Pan and Dr. Seuss' The Cat in the Hat.

- UNIVERSAL TELEVISION GROUP (UTG). UTG owns and operates four US cable television networks including USA Network and the Sci Fi Channel as well as a portfolio of international television channels. UTG produces and distributes original television programming worldwide, including Law and Order, Jerry Springer, Taken and Monk.

- UNIVERSAL PARKS & RESORTS (UPR). UPR is the second largest destination theme park operator in the world. UPR owns interests and operates theme parks and resorts in the US, Japan and Spain, including Universal Studios in Hollywood, California and Universal Studios in Orlando, Florida.

CANAL+ GROUP. Canal+ Group is the leader in the production and distribution of digital and analog pay-TV in France (principally through its premium channel, Canal+, and its digital satellite platform, CanalSatellite). Canal+ Group has 6.95 million individual subscriptions in France. Canal+ Group is also a leading European studio involved in the production, co-production, acquisition and distribution of feature films and television programs and owns interests in pay-TV activities in Spain, Poland and elsewhere. We own 100% of Canal+ Group, which in turn owns 49% of Canal+ S.A., which holds the broadcast license for our premium channel Canal+ and 66% of CanalSatellite.

MAROC TELECOM. Maroc Telecom is the incumbent fixed line and the leading mobile telecommunications operator in Morocco, with a 70% share of the wireless market. We have a 35% ownership stake in Maroc Telecom. However, through our control of the executive board and management, we exercise day-to-day control over the business and, in accordance with French GAAP, consolidate it in our financial statements.

VIVENDI UNIVERSAL GAMES (VU GAMES). VU Games is a worldwide leader in the development, marketing and distribution of games and educational software for PC, handheld devices and consoles. We own 99% of VU Games, and we are currently evaluating proposals for the possible disposition of all or a portion of this business.

SEGMENT DATA

The contribution of our business segments to our consolidated revenues for each of 2002, 2001 and 2000, in each case after the elimination of intersegment transactions, is as follows:

	YEAR ENDED DECEMBER 31,				
	ACTUAL			PRO FORMA(3)	
	2002(1)	2001	2000(2)	2002	2001
	(IN MILLIONS)				
REVENUES					
Cegetel Group	E 7,067	E 6,384	E 5,129	E 7,067	E 6,384
Universal Music Group	6,276	6,560	495	6,276	6,560
Vivendi Universal Entertainment	6,270	4,938	194	6,978	6,874
Canal+ Group	4,833	4,563	4,054	4,742	4,563
Maroc Telecom	1,487	1,013	--	1,487	1,351
Vivendi Universal Games(4)	794	657	572	794	657
	26,727	24,115	10,444	27,344	26,389
Other(5)(7)	1,385	1,289	2,667	1,385	1,344
Total Vivendi Universal (excluding businesses sold in 2002)	28,112	25,404	13,111	28,729	27,733
Veolia Environnement	30,038	29,094	26,294	--	--
	58,150	54,498	39,405	28,729	27,733
VUP assets sold during 2002(6)(7)	--	2,862	2,175	--	--
	E 58,150	E 57,360	E 41,580	E 28,729	E 27,733

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(1) At December 31, 2002, Vivendi Universal applied the option proposed in paragraph 23100 of the French rules 99-02 and has presented the results of businesses sold during 2002 on one line in the consolidated statement of income as "equity in earnings of disposed businesses." Disposed businesses include all of Vivendi Universal Publishing's operations excluding Vivendi Universal Games, publishing activities in Brazil, the consumer press division (the divestiture of which was completed in February 2003) and Comareg (the divestiture of which was completed in May 2003).

(2) 2000 results restated for changes in accounting policies adopted in 2001, as discussed further in "Item 5--Operating and Financial Review and Prospects."

(3) The pro forma information illustrates the effect of the acquisitions of the entertainment assets of InterActiveCorp (formerly known as USA Interactive and prior thereto as USA Networks, Inc.), or USAi, in May 2002, Maroc Telecom in April 2001 and MP3.com in August 2001, and the disposition of certain interests in Veolia Environnement and Vivendi Universal Publishing, as if these transactions had occurred at the beginning of 2001. Additionally, the pro forma information includes the results of Universal Studios international television networks in Vivendi Universal Entertainment in both 2002 and 2001 (in the actual 2002 results, the results of Universal Studios international television networks were reported by Canal+ Group). This reclassification has no impact on the total results of Vivendi Universal. We believe that pro forma results may help the reader to better understand our business results as they include comparable operations in each year presented. However, it should be noted that the pre-acquisition results of an acquired business accounted for on a historical cost basis are not directly comparable to the post-acquisition results of acquired entities whose initial purchase price was allocated on a fair value basis. The pro forma results are not necessarily indicative of the combined results that would have occurred had the events actually occurred at the beginning of 2001.

(4) Formerly part of Vivendi Universal Publishing. Includes Kids Activities (e.g., Adi/Adibou in France and Jumpstart in the United States).

(5) Principally comprised of Vivendi Telecom International, Internet, Vivendi Valorisation (previously reported in non-core businesses) and Vivendi Universal Publishing assets not sold during 2002 (Consumer Press Division, Comareg and the Brazilian operations -- Atica & Scipione).

(6) Comprised of Vivendi Universal Publishing's European publishing assets (excluding those described above) and Houghton Mifflin sold in December 2002 and Vivendi Universal Publishing's Business to Business and Health divisions sold in June 2002.

(7) The presentation of "Other" and "Vivendi Universal Publishing assets sold in 2002" differs from the disclosure in our Business Segment Data in Note 12.2 to Consolidated Financial Statements. In such Note 12.2, Publishing excluding Games includes both assets sold and assets retained. In the table above, publishing assets sold are reflected as a separate line item.

GEOGRAPHIC DATA

The contribution of selected geographic markets to our consolidated revenue for each of 2002, 2001 and 2000 is as follows:

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(IN MILLIONS)		
France	E 26,391	E 24,285	E 20,933
United Kingdom	3,765	4,170	2,992
Rest of Europe	11,327	10,456	7,421
United States of America	10,810	12,654	7,009
Rest of World	5,857	5,795	3,225
	E 58,150	E 57,360	E 41,580

OUR SEGMENTS

CEGETEL GROUP

Cegetel Group, formed at the end of 1997, is the second largest telecommunications operator in France with approximately 16.8 million customers, and more than 8,700 employees as of December 31, 2002. Cegetel Group is the only private operator in France to cover all telecommunications activities: mobile telephony, through SFR, an 80% owned subsidiary of Cegetel Group, and fixed telephony and data and Internet transmission, through Cegetel S.A., a directly and indirectly 90% owned subsidiary of Cegetel Group. Its customer base includes residential, professional and corporate customers. Cegetel Group's presence in all these fields forms the core of its business and one of its major assets.

In January 2003, Vivendi Universal acquired an additional 26% interest in Cegetel Group from the BT Group, raising its direct and indirect interest to its current 70%. Our strategic partner in Cegetel Group is Vodafone.

The following table sets forth the breakdown of Cegetel Group's revenues by activity for each of the periods indicated.

REVENUES

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
		(IN MILLIONS)	
Mobile Telephony	E 6,146	E 5,606	E 4,626
Fixed Telephony, Data and Internet	905	756	469
Holdings and Other	16	22	34
TOTAL	E 7,067	E 6,384	E 5,129

Mobile Telephony

SFR is the second largest mobile telephony operator in France. In 2002, it increased its customer base from 12.6 million to 13.5 million, and its market share from 33.9% to 35.1%, at year end according to Autorite de Regulation des Telecommunications (ART), the French telecom regulatory authority. In terms of geographic coverage, SFR covers 98% of the population in France, and has signed international roaming agreements with operators in more than 150 countries or territories. The market share of SFR's two competitors, the France Telecom subsidiary, Orange France, and Bouygues Telecom were 49.8% and 15.1%, respectively, at the end of 2002, according to ART.

SFR operates in a stable three operator market. The French market has relatively low penetration compared to other European Union countries with 64% penetration compared to a European Union average of 78% as of December 31, 2002 according to ART and the Mobile Communications survey of December 2002, respectively.

SFR's mobile services are provided using the global system for mobile communications standard (GSM), the dominant digital standard in Europe. SFR's GSM license expires in 2006.

The following table sets forth a breakdown of SFR's revenues from mobile telephony services and equipment sales for each of the periods indicated.

REVENUES

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(IN MILLIONS)		
Mobile telephony services	E 5,675	E 5,086	E 4,121
Equipment sales	471	520	505
TOTAL MOBILE	E 6,146	E 5,606	E 4,626

The following table sets forth mobile telephony operating information for the French market and for SFR for each of the periods indicated.

OPERATING INFORMATION

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
French(1) mobile telephony users (at year end, in millions)(2)	38.6	37.0	29.7
Postpaid	21.5	18.9	16.4
Prepaid	17.1	18.1	13.3
SFR/SRR customers (at year end, in millions)(1)(2)	13.5	12.6	10.2
Postpaid	7.2	6.3	5.8
Prepaid	6.4	6.2	4.3
SFR Churn (in %/month)	2.2%	2.0%	1.8%

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(1) French metropolitan and overseas departments.

(2) According to ART as of December 2002.

In 2002, SFR saw an increase in its total customer base of 0.9 million or 8%. SFR saw an increase in its higher revenue generating postpaid customers in 2002 of 0.8 million or 13%, in line with the market as a whole. This was partially due to the successful development of the Universal Music Mobile offer launched in September 2001 in the teen market segment, which reached 500,000 customers at the end of December 2002 and to the implementation of a strong retention policy. Prepaid customers increased by 0.1 million or 2% compared to a decline of 5% for the French prepaid market as a whole.

SFR takes pro-active measures to attract and retain postpaid contract customers, focusing on the high-end and long-term customer. In 2002, over 50% of SFR's new postpaid contract customers signed up for an initial period of 24 months. SFR seeks to re-engage high value postpaid contract customers beyond their initial

period through new tariffs and options and at end 2002 approximately 75% of the SFR contract base was re-engaged after their initial period.

SFR operates a dense, high-quality GSM mobile telecommunications network. This network is capable of providing service to 98% of the French population. SFR has roaming agreements with 150 countries. In addition, since December 2000, SFR has been providing General Packet Radio System (GPRS) on its network, which permits greater bandwidth data communications. GPRS is deployed throughout the company's network.

SFR has been awarded a 3G license for a 20 year period (2001-2021) by the French government, for consideration consisting of a one time fixed payment of E 619 million, which was paid in September 2001, and annual fees equal to 1% of the future revenues generated from the UMTS network. UMTS is a third generation mobile radio system that creates additional mobile radio capacity and enables broadband media applications while also providing high speed Internet access. In connection with the development of its UMTS network in the next few years SFR plans to significantly increase its capital expenditures. As a result of the UMTS roll out in France occurring after the roll out in some other major European countries, SFR believes it should benefit from the experience of telecommunication companies in those countries.

The use of mobile phones for text messages and multimedia experienced significant growth in 2002, with nearly 2.3 billion Short Messaging Services, or SMS, sent by SFR customers. This was twice the number of SMS sent in 2001, and 15% above SFR's initial objective of 2 billion for 2002. SFR also recorded more than 400,000 multimedia messages sent from its network between the introduction of its multimedia services in October 2002 and the end of 2002. 260,000 SFR Packs integrating multimedia terminals were sold between October 2002 and the end of 2002. At year-end, multimedia phones represented 45% of new SFR customers and more than half of mobile renewals.

Generally, tariffs in the French mobile telephony market have been stable, with the introduction of new low-end postpaid plans. In 2002, the French mobile telephony market also saw the introduction of per second rates for voice communications.

Fixed Telephony, Data and Internet

Cegetel is the leading private operator for fixed telecommunications in France with 3.3 million residential and professional customers and more than 16,000 business customers at the end of 2002. 70% of the businesses listed on the CAC 40 index are Cegetel customers.

Since its formation five years ago, Cegetel's fixed telephony, data and Internet has seen sustained revenue growth. The following table sets forth revenues generated by fixed telephony, data and Internet for the periods indicated.

REVENUES

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Revenues (millions)	E 905	E 756	E 469
Of which Residential and Professional (in %)	48%	45%	41%
Of which Corporate (in %)	52%	55%	59%

Since its formation five years ago, Cegetel's fixed telephony, data and Internet has also seen sustained growth in its operations. The table below sets forth fixed telephony operational information for the periods indicated.

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OPERATIONAL INFORMATION

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Traffic (minutes, in billions)	8.2	5.2	3.8
Customers			
Residential and Professional (in thousands)	3,286	2,860	2,418
Corporate Voice sites (in thousands)	60	55	35
Corporate Data sites (in thousands)	15	12	9

In 2002, Cegetel transported more than 8 billion minutes of phone telecommunications, an increase of nearly 60% over 2001. At the same time, Cegetel won more than 400,000 new residential and professional customers, and was the first French fixed telecom operator to earn ISO 9001 version 2000 certification for all its operations for corporate customers.

In addition to traditional fixed telephony products, Cegetel offers small-and medium-sized businesses Internet protocol virtual private networks (IP VPN) and high-speed data offerings (ADSL) specifically designed to meet their needs. Since October 2002, Cegetel has offered very high-speed network services (Ethernet) to large businesses. Cegetel Group also manages France's Reseau Sante Social, or RSS, France's Social Security Network, the intranet for health professionals under a public service license, which was the leading network for the medical world in 2002, with 48,200 subscribers and 300 health institutions connected, including half of the University Hospitals in France.

The year 2002 was also marked by the continued deregulation of the local telecommunications market in France. The market was first deregulated in 2001 and Cegetel began to compete with the incumbent operator, France Telecom, in May 2001. In 2002, Cegetel began to offer flat rates, a first in the French private fixed market.

In 2002, Cegetel completed the installation of a large national distribution network. Cegetel also expanded its telephone services for businesses in 2002 by offering to manage their customer relations through 800 numbers and call center services.

Network

The strategy of Cegetel Group is to invest in its own telecommunications networks in order to offer its customers a broad range of services and ensure complete quality control. Cegetel Group's mobile and fixed activities are based on a common transport platform, the network of Telecom Developpement (TD), a joint subsidiary of Cegetel Group and SNCF (the French national railway), which carried 33.8 billion minutes in 2002, representing approximately 14% of the French telecommunications traffic and nearly one-fourth of French Internet traffic. Cegetel Group has a 49.9% interest in TD. The mobile network of SFR was composed of 12,500 GSM sites at the end of 2002.

SFR continues to make investments in its GSM network in order to maintain high quality of service and to increase capacity. In 2002, Cegetel Group had capital expenditures of E 300 million relating to its mobile network. As noted above, SFR expects to significantly increase its capital expenditures in connection with the build out of its UMTS network.

With respect to its fixed telephony network, Cegetel Group relies on TD, which has the most extensive alternative network of telecom infrastructures in France, with 20,000 km of optical fibers and more than 500 points of presence.

This network control strategy benefits from the new possibilities linked to the arrival of high-speed transmission and the unbundling of the local loop.

Competition

Cegetel Group faces a high degree of competition in both the mobile and fixed telephony markets. Currently, Cegetel Group's principal competitors in mobile telephony are Orange France and Bouygues Telecom. SFR also expects Orange France and Bouygues Telecom will be its principal competitors for 3G customers when commercial UMTS services are introduced in France. The French government offered a fourth UMTS license on December 29, 2001, but to date there has not been any candidate for this license. In fixed telephony, Cegetel Group's main competitors, in addition to the incumbent operator France Telecom, are LDCom/Siris, Tele2, and Completel. As with other telecommunications operators, Cegetel Group is also subject to indirect competition from providers of other telecommunications services in France.

Competitive pressures have led to reductions in tariffs and increased customer retention costs as operators seek to manage the level of customer churn.

Regulatory Environment

The French telecommunications market was broadly deregulated with the adoption of the Telecommunications Regulatory Act of July 26, 1996 and its related regulations. Many of the provisions of the applicable regulations are designed to foster competition in the French telecommunications market. These regulations apply both to operators of fixed line networks and to operators of mobile networks.

The operator of any public telecommunications network in France exerting significant influence over the fixed line market is required to permit interconnection with its network on the basis of the long run incremental cost of providing the relevant service. Access to the local loop (unbundling of the copper pair) was authorized by decree in September 2000, and established by European regulation at the end of 2000.

All fixed line operators are required to allow their customers to select a long distance carrier on a call by call basis by entering a numeric prefix when dialing. Customers may also opt to "pre-select" their long distance carrier so that the subscriber can access his carrier's network without having to dial a prefix. In 2002, carrier pre-selection was extended to local numbers. Prior to this, all local calls were routed over France Telecom. Accordingly, France Telecom's access subscribers may now pre-select an alternative carrier for all of their fixed line calls.

Mobile operators in France exerting significant influence over the wireless public telephony market are also required to offer interconnection. The ART deems both Orange France and SFR to have significant influence over the wireless retail market and the domestic interconnection market, and SFR is therefore subject to the rules governing this type of operator. As a result, SFR has been required to reduce its interconnection rates for terminating calls on its network.

ART, the French telecom regulatory authority, monitors application of the law and is consulted on proposed laws, decrees and regulations for the sector. It assigns frequencies and numbers and has the authority to settle disputes concerning interconnection.

Two types of licenses apply to the telecommunications market, licenses issued by the Minister for Telecommunications to operators that establish and operate networks open to the public (L 33-1 licenses) or issued by the ART (L 33-2 licenses) for independent networks, and licenses issued by the Minister to telephone service providers (L 34-1 licenses). The market for providing other telecommunications services is not regulated.

Through SFR, TD and Cegetel, Cegetel Group holds national licenses that allow us to provide all telecommunications services: transmission and access, voice and data, fixed and mobile.

The International Commission for Non-Ionizing Radiation Protection, an independent organization that advises the World Health Organization, has established a series of recommendations setting exposure limits from electromagnetic radiation from antennas. These regulations were driven by concern over a potential connection between electromagnetic radiation and certain negative health effects, including some forms of cancer. They were enacted into French law on May 3, 2002. SFR is also, along with the other French mobile

telephony operators, in the process of entering into agreements with different cities of France including the city of Paris, that will set up local guidelines.

Research and Development

Through projects initiated several years ago, Cegetel Group focuses its research and development efforts in four complementary areas:

- involvement in national research networks through cooperative research projects and an active presence in decision-making agencies and strategic authorities;

- contribution to university research projects via the Cegetel -- SFR Foundation and significant contacts with the academic world;

- active participation in standardization in the IP and 3G mobile segments;

and

- increasing introductions of prototypes of new services with about twenty services.

Cegetel Group conducts pre-competitive research and development, with particular emphasis on integrating standard components. Through experiments on existing platforms, Cegetel Group also conducts research and development on the preparation of next generation technologies, such as the all IP network, and, in collaboration with Monaco Telecom, in which VTI holds a 55% stake, 3G wireless technology.

Because of its structure and size, Cegetel Group has a network research strategy. The complementary nature of the academic world, manufacturers, public laboratories and operator partners contributes to an optimized effort and an efficient pooling of project results.

This substantial research and development effort is reflected in a number of patents, primarily for services related to the mobile Internet, geopositioning, and voice services.

Cegetel Group's research and development costs in 2002 totaled E 58.7 million.

MUSIC

Our music business is operated through UMG, the largest recorded music business in the world measured by revenues according to management estimates for 2002 and the International Federation of Phonographic Industry (IFPI) for 2001. We have a 92.3% interest in UMG. UMG acquires, manufactures, markets and distributes recorded music through a network of subsidiaries, joint ventures and licensees in 71 countries. UMG also manufactures, sells and distributes music video and DVD products, licenses music copyrights, and owns music/video clubs in certain territories. By way of licenses to third parties, UMG participates in and encourages online electronic music distribution.

UMG is also active in the music publishing market, in which UMG acquires rights to musical compositions (as opposed to recordings) in order to license them for use in recordings and related uses, such as films, advertisements or live performances. Management believes that UMG is the number three global music publishing company with over one million owned or administered titles.

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The following table provides a breakdown of UMG's revenues and selected market share information on a geographic basis for the periods indicated:

REVENUES

	YEAR ENDED DECEMBER 31, 2002,		YEAR ENDED DECEMBER 31, 2001,	
	REVENUE	MARKET SHARE(1)	REVENUE	MARKET SHARE(2
	(IN MILLIONS)	(%)	(IN MILLIONS)	(%)
North America..................	E 2,772	29.0	E 2,921	28.3
Europe.........................	2,588	27.3	2,655	26.5
Far East.......................	588	12.2	671	11.0

ANZ/Africa....................	139	24.5	137	22.7
Latin America.................	190	18.3	176	15.0
TOTAL.........................	E 6,276	24.4	E 6,560	23.5

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(1) Market share data is based on UMG estimates. Market share data from third party sources is not available in all regions. Third party market share data is not available for 2002.

(2) 2001 market share data is based on IFPI estimates.

Recorded Music

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

UMG has a strong collection of major recording labels including: popular music labels Island/Def Jam, Interscope/Geffen/A&M, MCA Records, Mercury Records, Polydor and Universal Motown Records Group; classical labels Decca, Deutsche Grammophon and Philips; and jazz labels Verve and Impulse! Records. Interscope/Geffen/A&M, with artists such as Eminem, Sheryl Crow, No Doubt, Enrique Iglesias and Vanessa Carlton, was the number one label in the US in current album market share in 2002 according to SoundScan. Island/Def Jam, with artists such as Ashanti, Musiq and Cam'ron, was the number two US label.

In an industry in which size confers significant scale benefits, UMG's recorded music business has been steadily increasing its market share. While 2002 was a challenging year for the music industry, with global market sales declining an estimated 9.5% due to the combined effect of economic downturn, piracy and illegal downloading of music from the Internet, UMG outperformed its major competitors, increasing its global market share, according to UMG management estimates, from 23.5% at year end 2001 to 24.5% at year end 2002.

The key to UMG's success in growing its market share has been its ability to consistently spot, attract and retain a relatively high proportion of successful artists and market them effectively. We believe this is mainly due to:

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

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

- UMG's huge catalog of prior hit releases that provide a stable and profitable revenue stream, accounting for nearly one-third of sales, without significant additional investment;

- UMG's diverse array of decentralized labels that complement each other through their focus on different genres, sub-genres and market segments thereby mitigating the effect of changes in consumer tastes; and

- Multi-album contracts which secure long-term relationships with some of the most important artists in the industry.

UMG generally acquires the contractual right to the output of musical artists by paying them an advance against a percentage royalty on the wholesale or retail price of their recordings. With a few exceptions, rights are contracted on an exclusive and global basis. UMG manages approximately 2,000 active artists and has approximately 50,000 albums in its active product catalog.

In line with the rest of the industry, UMG's revenues and profits are driven by hits, with a relatively small proportion of releases accounting for the majority of sales. Therefore, UMG's labels usually sign new artists for multi-album contracts, typically up to six albums (most of these albums at UMG's option) so that those artists that become successful are tied-in sufficiently to support the cost of producing the vast majority of recordings that are not as commercially successful. Established artists command higher advances and royalty rates and it is not unusual for a recording company to renegotiate contract terms with a successful artist. However, UMG is not dependent on any one artist. UMG's top 15 album releases accounted for 14% of unit volume in 2002.

Best selling albums in 2002 included those by Eminem, Shania Twain and Nelly. Eminem recordings, including the 8 Mile original sound track, sold over 21 million copies worldwide in 2002. The strength and depth of UMG's catalog was highlighted once again with Greatest Hits albums for U2, Nirvana and Elton John selling over 11 million units in the aggregate. New artists also made a significant contribution to activity and releases from Ashanti and Vanessa Carlton shipped in excess of 6 million units in the aggregate. In 2003, UMG released the successful 50 Cent debut album and also has scheduled releases of new albums by Ashanti, Blink 182, Dr. Dre, Jay Z, Limp Bizkit, Nickelback, Sting and Texas.

In addition to recently released recordings, we also market and sell recordings from our catalog of prior releases. Sales from this library account for a significant and stable part of our recorded music revenues each year. We own the largest catalog of recorded music in the world, with performers from the US and the UK and around the world, including: ABBA, Louis Armstrong, Chuck Berry, James Brown, Eric Clapton, Patsy Cline, John Coltrane, Count Basie, Bill Evans, Ella Fitzgerald, The Four Tops, Marvin Gaye, Jimi Hendrix, Billie Holiday, Buddy Holly, The Jackson Five, Antonio Carlos Jobim, Herbert von Karajan, Bob Marley, Nirvana, The Police, Smokey Robinson, Diana Ross & The Supremes, Rod Stewart, Muddy Waters, Hank Williams and The Who.

The average price of a CD album in the US has fallen at a compound annual rate of 2.5% from $21.50 in 1983 to $14.02 by 2000 according to the Recording Industry Association of America (RIAA). Discounting to drive momentum on certain releases, increased competition from other forms of entertainment, such as home video DVDs, and discounting by retailers to build store traffic, have all contributed to lowered prices. In general, the period of growth in recorded music sales driven by the introduction and penetration of the CD format has ended, and no profitable new format has emerged to drive growth.

Technological advances and the conversion of music into digital formats have made it easy to create, transmit and "share" high quality, unauthorized copies of music through pressed disc and CD-R piracy, home CD burning and the downloading of music from the Internet. Unauthorized copies and piracy cost the recorded music industry an estimated $4.3 billion in lost revenues during 2001, the last year for which data is available, according to the International Federation of the Phonographic Industry. IFPI estimates that 1.9 billion pirated units were manufactured in 2001, equivalent to about 40% of all CDs and cassettes sold globally. According to IFPI estimates, about 28% of all CDs sold in 2001 were pirated, up from about 20% in 2000. We believe that these percentages are continuing to increase. The industry is, however, increasing its enforcement activities against piracy. Unauthorized copies and piracy both decrease the volume of legitimate sales and put pressure on the price at which legitimate sales can be made. In order to address unauthorized copying and pirating threats, UMG continues to experiment with a variety of technologies designed to prevent CD copying and duplication. In 2002, UMG released a number of titles with copy protection primarily in Europe and, to a lesser extent, in North America.

UMG markets its recordings and artists through advertising and otherwise gaining exposure for them through magazines, radio, TV, Internet, other media and point-of-sale material. Public appearances and performances are an important element in the marketing process. We arrange for 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 becoming increasingly important. Marketing is carried out on a country-by-country basis, although global priorities and strategies for certain artists are set centrally. Music sales are weighted towards the last quarter of the calendar year, when approximately one-third of annual revenues are generated.

In all major countries in which our products are sold except Japan, we have our own distribution services for the warehousing and delivery of finished products to wholesalers and retailers. In certain countries we have entered into distribution joint ventures with other record companies. We also sell music and video products directly to the consumer, principally through two direct mail club organizations: Britannia Music in the UK and D.I.A.L. in France.

E-Commerce and Electronic Delivery

UMG continues to encourage and participate in new methods to distribute, market, sell, program and syndicate music and music-related programming by exploiting the potential of new technological platforms. We believe that emerging technologies will be strategically important to the future of the music business. Evolving technology will allow current customers to sample and purchase music in a variety of new ways and will expose potential customers to new music. Through a variety of independent initiatives and strategic alliances, we continue to invest resources in the technology and electronic commerce areas that will allow the music business to be conducted over the Internet, cellular networks, cable and satellite.

pressplay, a joint venture of UMG and Sony Music Entertainment, offers access to hundreds of thousands of tracks from all five majors and many independent record companies for a monthly fee. pressplay's subscribers also may retain tracks permanently for an additional fee. UMG also licenses its music to other subscription services including Musicnet, Listen.com's Rhapsody, Full Audio and Streamwaves. Consumers may customize Internet radio streams so that the music they prefer is played more often, or they may simply listen to programming provided for everyone. In all of these cases, UMG receives a fee or commission each time someone accesses music to which it owns the rights. On May 19, 2003, Roxio, Inc. acquired substantially all of the interests of pressplay. See "Item 5--Operating and Financial Review and Prospects--Subsequent Events."

UMG also offers over 90,000 of its recorded music tracks for purchase as permanent downloads through third party sites. UMG's music is available through the Apple Music Store. UMG is also working with Liquid Audio to power download sales that are available on Liquid.com, Windowsmedia.com, Towerrecords.com, Musicrebellion.com, MP3.com and more than 25 other affiliate partner websites. The Liquid Audio tracks are available in the Windows Media and Liquid Audio formats, and like the tracks available at the Apple Music Store, can be downloaded, burned to a CD-R, or transferred to a secure portable device. UMG also continues to sell or license its music catalog through various other non-exclusive agreements, both for digital "a la carte" downloading services as well as interactive radio services. For example, UMG has issued catalog licenses to Listen.com and MusicNet for their on-demand subscription services and to Musicmatch and RCS for their interactive radio services.

Music Publishing

Music publishing involves the acquisition of rights to, and licensing of, musical compositions (as opposed to recordings). We enter into agreements with composers and authors of musical compositions for the purpose of licensing the compositions for use in sound recordings, films, videos and by way of live performances and broadcasting. In addition, we license compositions for use in printed sheet music and song folios. We also license and acquire catalogs of musical compositions from third parties such as other music publishers and composers and authors who have retained or re-acquired rights. Accordingly, revenues in this sector are

generated largely through licensing fees, with much smaller revenues from sales of printed sheet music and song folios.

Our publishing catalog includes more than one million titles that we own or administer, including some of the world's most popular songs, such as "American Pie," "Strangers in the Night," "Good Vibrations," "I Wanna Hold Your Hand," "Candle in the Wind," "I Will Survive" and "Sitting on the Dock of the Bay," among many others. Among the significant artists and songwriters represented are ABBA, Prince, The Beach Boys, George Brassens, Bon Jovi, Gloria Estefan, Eddy Mitchell, Andre Rieu, Shania Twain, Andrew Lloyd Webber and U2. Legendary composers represented include Leonard Bernstein, Elton John and Bernie Taupin, and Henry Mancini. Significant acquisitions in 2002 included Koch Music Publishing and the Tupac Shakur catalog as well as compositions by Ashanti, Avril Lavigne, Gloria Estefan, Anastacia, Rob Davis, Royksopp, Liam Gallagher, Jorge Luis Piloto, Paul Kelly, Murlyn Songs, Jack Johnson and The Hives, among others.

Competition

The profitability of a company's 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, Bertelsmann Music Group, Warner Music Group and Sony Music Entertainment. UMG also faces competition from independents 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 rosters and release schedules.

The music industry also competes for consumer discretionary spending with other entertainment products such as video games and motion pictures. Competition for shelf space has intensified in recent years due to the success of DVD video and further consolidation in the retail sector in the US and in Europe which is increasing the quantity of product being sold through multinational retailers and buying groups and other discount chains.

Finally, the recorded music business continues to be adversely affected by pressed disc and CD-R piracy, home CD burning and the downloading of music from the Internet. On-demand music subscription services such as pressplay and on-demand "a la carte" services are being developed to offer the consumer a viable, legitimate, copy-protected online source of music. See "--Recorded Music."

Regulatory Environment

The recorded music, music publishing, manufacturing and distribution businesses that comprise UMG are subject to applicable national statutes, common law and regulations in each territory in which it operates. In the US, these agencies include, without limitation, the US Department of Justice, the Federal Trade Commission (FTC), the Environmental Protection Agency and the Occupational Safety and Health Administration, and in the various states they include the Attorney General and other labor, health and safety agencies. Additionally, in the US, certain UMG companies entered into a Consent Decree in 2000 with the Federal Trade Commission for seven years wherein they agreed not to make the receipt of any co-operative advertising funds for their pre-recorded music product contingent on the price or price level at which such product is advertised or promoted.

In the European Union, UMG is subject to additional pan-territorial regulatory controls, in particular relating to merger control and antitrust regulation. UMG is also subject to an undertaking given to the European Commission arising out of Vivendi's purchase of Seagram, which, for a five-year period (ending in December 2005), requires that UMG shall not discriminate in favor of Vizzavi (formerly a joint venture between Vivendi Universal and Vodafone) in supplying music for downloading and streaming online in the European Economic area. An undertaking given in connection with Vivendi's purchase of Seagram to the Canadian Department of Heritage also requires UMG to continue its investments in Canada's domestic music industry.

Continuing compliance with the consent decree and undertakings mentioned above do not have a material effect on the business of UMG.

Research and Development

UMG seeks to participate to the fullest extent in the digital distribution of recorded music and to protect its copyrights and the rights of its contracted artists from unauthorized digital or physical distribution. To this end, UMG has established a new business and technology arm, eLabs. This unit supervises UMG's digitization of content and the online distribution of that content, and generally reviews the licensing of that content to third parties. In addition, it generally reviews and considers the technologies being developed by others for application in UMG businesses, such as technological defenses against piracy in all forms, and is engaged in various projects intended to open new distribution channels or improve existing ones.

VIVENDI UNIVERSAL ENTERTAINMENT (VUE)

Our film, television and parks and resorts businesses are conducted primarily through VUE, a limited liability limited partnership 86% held by Vivendi Universal. VUE was formed in April 2002 and used for the May 2002 transaction among Vivendi Universal, Universal Studios, Inc., USA Networks, Inc. (now known as InterActiveCorp, which we refer to as USAi), USANi LLC, Liberty Media Corporation and Barry Diller. In this transaction, Universal Studios, Inc. contributed to VUE the Universal Studios Group, consisting of Universal's film, television and recreation businesses, and USA Networks Inc. contributed its ownership interest in the USA Entertainment Group, consisting of USA Cable (now known as Universal Television Networks), USA Films (now Focus Features) and Studios USA (now known as Universal TV LLC).

The primary businesses in which VUE engages are:

- Universal Pictures Group (UPG). UPG is a major film studio, engaged in the production and distribution of motion pictures worldwide in the theatrical, non-theatrical, home video/DVD and television markets;

- Universal Television Group (UTG). UTG is engaged in the production and distribution of television programming worldwide as well as the ownership and operation of four domestic cable television networks, including USA Network and the Sci Fi Channel, and a network of international television channels outside of the United States; and

- Universal Parks & Resorts (UPR). UPR owns and operates theme parks, entertainment complexes and specialty retail stores worldwide.

In addition to VUE's three primary businesses, VUE also has a Universal Studios Operations Group which is responsible for providing quality production/post production facilities and services to both internal and external productions. It is also responsible for managing VUE's lower lot facility in Los Angeles and ensuring that services to VUE's employees, tenants and productions are uninterrupted.

Effective April 1, 2003, Barry Diller resigned as interim chief executive of Vivendi Universal Entertainment.

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The following table shows the pro forma revenue for each of the primary businesses in which VUE is engaged for each of the periods indicated:

REVENUES

	YEAR ENDED DECEMBER 31, 2002	YEAR ENDED DECEMBER 31, 2001
	(IN MILLIONS)	
UPG	E 3,927	E 3,803
UTG	2,199	2,134
UPR and Other	852	937
Total	E 6,978	E 6,874

The revenue and operational information and data relating to VUE and its businesses set forth in this section is presented on a pro forma basis, adjusted to include the results of the entertainment assets of USAi, which was acquired in May 2002, as if it had been acquired on January 1, 2001, and the results of Universal Studios international television networks in 2002 (in the actual 2002 results, the results of Universal Studios international television networks were reported by Canal+ Group).

UNIVERSAL PICTURES GROUP (UPG)

VUE, through Universal Pictures and Focus Features, is a major producer and distributor of feature films worldwide. Universal Pictures and Focus Features produce feature films that are initially distributed to theatres and, thereafter, through other "windows" of distribution, including non-theatrical, home video and DVD, pay-per-view and video-on-demand, and pay, free and basic cable and satellite television.

Key geographic markets for motion picture distribution, as described in the preceding paragraph, include the United States, Canada, Europe, Asia, Latin America and Australia.

The following tables show information on VUE's motion picture revenue for each of the periods indicated, broken down by geographic market and "release window":

GEOGRAPHIC MARKET

	YEAR ENDED DECEMBER 31, 2002
	(IN MILLIONS)
North America	E 2,239
Europe	1,217
Rest of the World	471
Total	E 3,927

RELEASE WINDOW

	YEAR ENDED DECEMBER 31, 2002	YEAR ENDED DECEMBER 31, 2001
	(IN MILLIONS)	
Theatrical	E 746	E 913
Home Video	2,239	2,016
Television	943	875
Total	E 3,927	E 3,803

Major motion pictures released in recent years include Erin Brockovich, Gladiator, The Mummy Returns, Meet the Parents, The Fast and the Furious, Jurassic Park III, Dr. Seuss' How The Grinch Stole Christmas, A Beautiful Mind, The Scorpion King, Red Dragon, The Bourne Identity and 8 Mile. In addition, the Universal Pictures Group produces animated and live-action family programming for home video and television distribution and licenses merchandise in various parts of the world.

VUE, through its wholly-owned subsidiaries, distributes its motion pictures in the United States and Canada to theaters. Throughout the rest of the world, VUE distributes its motion pictures through United International Pictures B.V., a joint venture owned equally by Universal Studios International B.V., a wholly owned subsidiary of VUE, and Viacom International (Netherlands) B.V. (Paramount). Through an agreement with DreamWorks SKG, VUE also distributes theatrically DreamWorks' motion pictures outside of the United States and Canada.

The distribution of VUE's products on videocassettes and DVDs is handled by wholly-owned subsidiaries of VUE throughout the world. Through a servicing agreement with DreamWorks SKG, VUE also distributes DreamWorks' home video products throughout the world.

After a motion picture's theatrical exhibition and its home video/DVD release, VUE seeks to generate revenues from various other distribution channels, including non-theatrical distribution (such as airlines, hotels, cruise ships and armed forces facilities) and various forms of television distribution. Television distribution includes worldwide exhibition on pay-per-view and video-on-demand services, subscription pay television services, network and basic cable and satellite television services, and independent television stations. VUE does not always have rights in all media of exhibition to all motion pictures that it theatrically releases and does not necessarily distribute a given motion picture in all of the foregoing media in all markets.

VUE's licensing arrangements may be on an "output" basis, where the licensee is obligated to exhibit some or all of VUE's future motion pictures or programs over a given period of time, or on a package basis, where the licensee is obligated to exhibit one or more specified motion pictures or programs. In the US, VUE has output arrangements for pay-per-view and/or video-on-demand exhibition with parties such as DirecTV, EchoStar and iNDemand. As for pay television, VUE has output arrangements with Home Box Office, providing for the licensing of films released for theatrical exhibition through the year 2010, as well as a partially overlapping arrangement with Starz Encore Group, providing for the licensing of a portion of the films released for theatrical exhibition through the year 2004. VUE also licenses motion pictures and other programs to the broadcast television networks ABC, NBC, CBS, Fox, UPN and The WB, to independent broadcast television stations and to basic cable networks, such as AMC, Bravo, Comedy Central, MTV, Sci Fi Channel, TBS and USA; domestically, these licenses are generally made on a package basis. In international markets, VUE licenses motion pictures and other programs on both an output and package basis to leading third-party pay-per-view and video-on-demand services and to free, basic and pay television services, including programming services operated by various affiliated entities and several joint ventures with various other major studios and other partners.

UNIVERSAL TELEVISION GROUP (UTG)

UTG is engaged in two primary businesses:

- UTG Cable. UTG's cable business owns and operates four domestic cable television networks and a network of international pay television channels outside of the United States; and

- Television Production and Distribution. UTG's television production and distribution business is engaged in the production and distribution of television programming worldwide.

The following table shows UTG's revenues for each of the primary businesses in which UTG is engaged broken down for each of the periods indicated:

REVENUES

	YEAR ENDED DECEMBER 31, 2002	2001
	(IN MILLIONS)	
Cable Television Networks	E 1,252(1)	E 1,338
Television Production and Distribution	947	795
Total	E 2,199	E 2,134

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(1) Includes international TV channels (in the actual 2002 results, the results of Universal Studios international television networks were reported by Canal+ Group).

In 2002, 78% of UTG's revenues were generated in North America. VUE also distributes worldwide current television series and made-for-video and made-for-television motion pictures, as well as titles from its extensive motion picture and television library, which consists of varying rights to thousands of previously released feature films and many well-known television series and made-for-video and made-for-television motion pictures. In the US, such licenses are generally made on a package basis, while outside the US such licenses may be either on an output or package basis depending on the territory and licensee involved.

Cable Television Networks

In the US, VUE operates four domestic 24-hour, basic cable television networks, USA Network, Sci Fi Channel, TRIO and NewsWorld International (NWI).

Cable television networks derive virtually all of their revenue from two sources:

- Affiliate revenues. Per subscriber fees paid by the cable television operators and other distributors to cable television channel providers. These revenues generally provide more stable and predictable cash flow; and

- Advertising revenues. The sale of advertising time to national advertisers during the programming carried on each of the networks.

The relative stability of affiliate revenues helps reduce cable television networks' sensitivity to advertising cycles. UTG's cable television network combined revenue streams have grown at an average rate of 10% over the past 5 years. The total market size, between affiliate and revenue fees, is estimated to be $17.5 billion (Kagan/UTV Research).

The following table shows a breakdown of UTG's cable television network revenues for each of the periods indicated:

REVENUES

	YEAR ENDED DECEMBER 31, 2002(1)	YEAR ENDED DECEMBER 31, 2001
	(IN MILLIONS)	
Cable Television Networks		
Affiliate revenues (subscription fees)	E 721	E 695
Advertising revenues	531	643
Total	E 1,252	E 1,338

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(1) Includes international television networks (in the actual 2002 results, the results of Universal Studios international television networks were reported by Canal+ Group).

USA Network is a general entertainment network featuring original series and movies, theatrical movies, off-network television series and major sporting events, designed to appeal to the available audiences during particular viewing hours. In general, USA Network's programming is targeted at viewers between the ages of 18 and 54. According to Nielsen Media Research, as of December 31, 2002, USA Network was available in approximately 87 million US households. According to Nielsen Media Research, for 2002, USA Network was first among all domestic basic cable television networks in primetime ratings among adults 18-49 (Mon-Sun 7pm-11pm).

USA Network's program line-up features original series, including the two highest rated original dramatic series on basic cable television (Dead Zone and Monk) and approximately six movies/mini-series produced exclusively for it each year. USA Network's programming also includes off-network series, such as JAG, Nash Bridges, Walker, Texas Ranger, Law & Order: Special Victims Unit and Law & Order: Criminal Intent, and major theatrically released feature films. USA Network is home to the AFI Life Achievement Awards, Eco-Challenge, exclusive midweek coverage of the US Open Tennis Championships, The Westminster Kennel Club Dog Show, and early round coverage of The Masters, The Ryder Cup and other major PGA Tour golf events.

Sci Fi Channel was launched in 1992. Sci Fi Channel features science fiction, horror, fantasy, paranormal and reality programming. In general, Sci Fi Channel's programming is designed to appeal to viewers between the ages of 25 to 54. According to Nielsen Media Research, as of December 31, 2002, Sci Fi Channel was available in approximately 79.4 million US households. According to Nielsen Media Research, in 2002, Sci Fi Channel was sixth among all basic cable television networks in adults 25-54 and ninth in adults 18-49.

Sci Fi Channel's program lineup includes many original dramatic and reality series, such as: Stargate: SG-1, Farscape, Tremors: The Series, Crossing Over With John Edward and Scare Tactics. Additionally, Sci Fi Channel airs popular vintage series ranging from The Twilight Zone to Quantum Leap to digitally-remastered episodes of the original Star Trek series. Sci Fi Channel continuously updates its programming library with popular current sci-fi fare such as X-Files, The Outer Limits, Babylon 5 and Beyond Belief: Fact or Fiction.

Additionally, Sci Fi Channel features many popular theatrical movies, as well as movies and mini-series made specifically for the network. In 2002, Sci Fi Channel grabbed headlines with the record-breaking 20-hour original premiere mini-series, Stephen Spielberg Presents Taken. In 2003, Sci Fi Channel will telecast two more mini-series made directly for it -- Frank Herbert's Children of Dune and Battlestar Gallactica.

TRIO and NWI were acquired by USA Cable from the Canadian Broadcasting Corporation and Power Broadcasting Inc. in May 2000. TRIO relaunched in June 2001 as "popular arts television" featuring the best in film, fashion, music, stage and popular culture. NWI is a 24-hour international news channel that presents newscasts every hour as well as long-form contemporary magazine shows. At December 31, 2002, TRIO and NWI were available in 15 million and 14 million households, respectively.

USA Network and Sci Fi Channel typically enter into long-term agreements for their major off-network series programming. Their original series commitments usually start with less than a full year's commitment, generally a pilot episode, but contain options for further production over several years. These original productions will include specials, series, and made-for-television movies. USA Network, and to a lesser extent, Sci Fi Channel, acquire theatrical films in both their "network" windows and "pre-syndication" windows. Under these arrangements, the acquisition of such rights is often concluded many years before the actual exhibition of the films begins on the network. Each network's original films start production less than a year prior to their initial exhibition.

International Television Networks

Universal Studios Networks Worldwide Limited and various other indirect subsidiaries of Universal Studios, Inc. operate a network of international television channels. As of December 31, 2002, Universal Studios Networks Worldwide manages branded television channels in 25 countries outside of the United

States. 13th Street -- The Action & Suspense Channel reaches television subscribers via satellite and cable systems in France, Germany and Spain. Studio Universal, a basic-tier television movie channel, is currently available to cable and satellite subscribers in Germany, and to satellite subscribers in Italy. The Sci Fi Channel, a basic-tier television channel with a science-fiction theme, is currently available to cable and satellite subscribers in the UK. Finally, the USA Network channel, a basic-tier general entertainment channel, is offered to cable and satellite subscribers in Brazil, through a local joint venture partially owned by a Universal Studios subsidiary, and in 19 other countries in Latin America. In 2002, the results of Universal Studios international television networks were reported by Canal+ Group.

Television Production and Distribution

VUE is one of the major suppliers of television programs made for worldwide exhibition. Through its various subsidiaries, VUE either directly produces, or finances and acquires ownership of, and distributes a broad variety of television series, made-for-television movies, mini-series, children's shows and game and reality-based programs.

The production business tends to be less predictable than the cable television business as it requires significant upfront investment with no guarantee of the success of a television series. Typically, a show is created on a pilot format, which, if successful, will be licensed by a broadcast network for a number of seasons. License fees paid by the network typically do not cover costs, meaning that a television show typically only becomes profitable after entering syndication (usually after four seasons). However, approximately 90% of shows are cancelled before the fourth season. This means that the key drivers for the television production and distribution business are the recruitment and retention of creative talent and a good "hit ratio" of successful television shows that are launched.

VUE is a supplier of primetime dramatic and comedy programming for initial exhibition on the US broadcast networks, including (during the 2002/03 television season) the long-running series Law & Order and its spinoffs, Law & Order: Special Victims Unit and Law & Order: Criminal Intent, the newly launched Dragnet and several series co-produced with individual US networks, including The District and The Agency on CBS, and American Dreams on NBC. VUE is likewise a leading supplier of programs for initial exhibition in US domestic syndication (i.e., sales to individual television stations or station groups). During the 2002/03 season, these programs included talk shows -- Maury (hosted by Maury Povich) and The Jerry Springer Show -- and such game and reality shows as Blind Date, Fifth Wheel and Crossing Over With John Edward. VUE also finances, acquires and distributes programs produced for initial exhibition on VUE's US cable television networks, including the dramatic series Tremors on Sci Fi Channel and Monk on USA Network, as well as the epic mini-series Helen of Troy for USA Network. VUE also has a majority interest in the new production label Reveille LLC, which recently launched the new series Nashville Star on USA Network, as well as two new series -- The Restaurant and The Fast & the Furious -- on NBC.

UNIVERSAL PARKS & RESORTS (UPR)

Universal Parks & Resorts is a leader in the development and operation of theme parks. UPR owns 100% of Universal Studios Hollywood, the world's largest combined movie studio and movie theme park, and Universal CityWalk Hollywood, a complex that offers shopping, dining, cinemas and entertainment, each located in Universal City, California. Additionally, through joint ventures with Blackstone, UPR owns 50% of Universal Studios Florida -- a combined movie studio and movie theme park, Universal's Islands of Adventure -- an adjacent theme park in Orlando, Florida, and Universal CityWalk Orlando -- a complex that offers shopping, dining, cinemas and entertainment. Further stakes include a 25% interest in UCF Hotel Venture -- a joint venture owning three hotels adjacent to the Orlando theme parks, a 37% interest in Universal Mediterranea near Barcelona, Spain, comprised of a theme park, water park and two hotels, and a 24% interest in Universal Studios Japan in Osaka. The Universal Orlando joint venture has recently completed a $500 million bond offering. In connection with this offering, Blackstone and VUE agreed that Blackstone will lend to VUE (or a subsidiary of VUE) its share of certain distributions from the joint ventures, up to approximately $22.5 million.

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The US market is now mature and further growth is more likely to come from business expansion in Asia and Europe.

UPR's business is seasonal and bad weather can adversely impact attendance at theme parks and resorts. Attendance at theme parks follows a seasonal pattern which coincides closely with holiday and school schedules. Prolonged bad or mixed weather conditions during seasonal peak attendance periods may reduce attendance causing a greater decline in revenues than if those conditions occurred during a low attendance period.

Theme park construction and operation is capital-intensive. Maintenance capital expenditures can absorb 5% to 10% of revenues, while the cost of developing a new destination park can range from $1 to $2 billion. UPR attempts to share the costs of developing the parks by taking only a partial equity interest while signing agreements to manage the completed parks. For managing the parks, UPR receives an annual management fee.

On February 10, 2003, UPR (through its wholly owned Mauritius entity Universal Studios Holding, Ltd.) entered into a joint venture with two partners in the People's Republic of China for the construction of a theme park in Shanghai. UPR will have a 25% interest in the joint venture. The agreement provides that UPR will manage day-to-day operations of the park and will have key veto rights. The total project cost is estimated to be $875 million. The agreement remains subject to governmental approval in China and other significant conditions subsequent.

VUE has agreed to provide a project completion guarantee in respect of the Shanghai theme park joint venture on a pro rata basis based upon its subsidiary's 25% ownership interest in the joint venture. This project completion guarantee is expected to include the guarantee of UPR's pro rata share of all amounts owing under an approximately $563 million bank loan to the joint venture. The obligations under this guarantee will be payable if the Shanghai theme park is abandoned or is not completed on or prior to the Project Completion Date. The "Project Completion Date" is expected to be a date no earlier than 42 months and no later than 51 months after the physical site, including certain improvements, is delivered to the joint venture so that it can commence construction. That delivery could occur as early as June 2003. The guarantee will be released upon completion of project construction.

COMPETITION

Competition in the Motion Picture Industry

There are eight major competitors in the motion picture industry in the US and several independents that compete aggressively against each other in all aspects of the production, acquisition and distribution of motion pictures. These companies include Universal Pictures, The Walt Disney Company, Warner Bros., DreamWorks SKG, Paramount Pictures Corporation, Metro-Goldwyn-Mayer Studios, Inc., Twentieth-Century Fox Film Corporation and Sony (through Columbia/Tri-Star and Sony Pictures). These US "majors" compete against each other and against independent motion picture companies for product, talent and revenue received at the box office from the distribution of motion pictures through all of the distribution channels discussed above. Market share in the US and international markets varies widely from picture to picture, by "window" and geographic market, and year to year given the volatility in the commercial acceptance of motion pictures by consumers. In 2002, according to the Motion Picture Association of America, Universal Pictures ranked fifth in the US theatrical market with a 9.3% market share.

Competition is also intense in distributing VUE's theatrical motion pictures in the various television markets. There are numerous suppliers of television programming worldwide, including the television networks, the other major studios and independent producers, all of which compete actively for the limited number of broadcast hours available on free, basic cable and pay television. In addition, unlike VUE, many of the other major studios are affiliated with major broadcast television networks, which can provide a ready means of distributing their products, as well as an additional source of earnings that can offset the fluctuations in the financial performance of their motion picture and television operations.

Competition in Television Production and Distribution

VUE produces television programs in a highly competitive environment, as such programs must compete with television product supplied by other producers, as well as all other forms of entertainment and leisure time activities. Within the television industry, VUE must first compete for the creative talent -- writers, actors, producers -- and the underlying literary properties needed to produce television shows. VUE's produced programs, including television series and made-for-television and made-for-video motion pictures, must then strive for success in a worldwide television marketplace that has become ever more competitive as digital cable and satellite delivery increasingly expand the number of channels (and competing programs) available to consumers. Competition in the critical US production market has also been increased by the growing consolidation and vertical integration of several large television and media giants. In particular, the 1995 repeal of the financial interest and syndication rules in the US has permitted these conglomerates to combine ownership of television production businesses with broadcast networks. As a result, the current US broadcast networks -- ABC, CBS, NBC, Fox, The WB and UPN -- are able to fill their schedules with a large percentage of self-owned programs, thus reducing the number of time slots available to VUE and other "outside" producers. Nonetheless, up through the current 2002/03 season, VUE continues to be one of the primary "independent" suppliers of broadcast network programming. VUE has also achieved success in producing original programming for VUE's own cable networks and remains a leading producer of "first-run" syndicated product. Internationally, competition can be exacerbated due to regulatory and local market factors, including the imposition of quotas, limiting the amount of foreign programming those television services are permitted to exhibit, and increases in the availability of locally produced programs.

Competition in the Cable Television Industry

VUE's basic cable television networks compete for access to customers and for audience share and revenue with other cable program services, broadcasters, and other forms of entertainment. Cable operators and other distributors only contract to carry a limited number of the available networks. Therefore, they may decide not to offer a particular network to their subscribers, or they may package a network with other networks in a manner that only a portion of their subscribers will receive the service (for example, by charging an additional fee). In addition, there has been increased consolidation among cable operators, so that VUE's networks have become increasingly subject to the carriage decisions made by a small number of operators. This consolidation may reduce the per-subscriber fees received from cable operators in the future. This consolidation also means that the loss by any network of any one or more of its major distributors could have a material adverse impact on the network. The competition for advertising revenues also has become more intense as the number of television networks has increased. While many factors affect advertising rates, ultimately they are dependent on the numbers and types of viewers that a program attracts. As more networks compete for viewers, it becomes increasingly difficult to increase or even maintain a network's number of viewers. Moreover, to do so may require a network to spend significantly greater amounts of money on programming. Therefore, greater pressure may be placed on a network's ability to maintain advertising revenue levels and to try and generate increases. The competition for third-party programming also is likely to increase. Many networks, including VUE's networks, are affiliated with companies that produce programming. This programming is becoming increasingly difficult to acquire by third parties or unaffiliated networks. As a result, there is likely to be strong competition to acquire remaining programming.

Competition in the Theme Park Industry

Theme parks can be separated into two main categories: destination parks (the largest parks, historically located within the US territory, attracting both US and overseas visitors) and regional parks (smaller parks, attended by visitors living in the same area). UPR operates in the first category together with market leader Disney, though recent declines in travel have decreased the proportion of non-local visitors. Companies such as Six Flags and Cedar Fair operate in the regional park segment. Barriers to entry, especially in the destination park segment, are high as development of new parks is constrained by availability of land and capital.

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VUE, through Universal Parks & Resorts, competes aggressively against other major theme park operators including The Walt Disney Company, Anheuser Busch Companies, Paramount Parks, Six Flags and Cedar Fair.

LEGAL AND REGULATORY ENVIRONMENT

Legal and Regulatory Environment in Motion Picture Production and Distribution

In the US, the motion picture production and distribution businesses are largely unregulated due to protections given to expressive works under the United States Constitution. There are, however, many federal, state and local statutes and regulations that are integral to the business and under which the businesses operate including, without limitation, the copyright, trademark, antitrust, anti-discrimination and environmental, health and safety laws and regulations. In addition, many federal and state agencies exercise some degree of oversight and, at times, may initiate investigations and enforcement proceedings with regard to industry practices. These agencies include, without limitation, the United States Department of Justice, the Federal Trade Commission, the Department of Labor, the Equal Employment Opportunity Commission, the Environmental Protection Agency and the Occupational Safety and Health Administration and, in the State of California, the Attorney General, the Department of Toxic Substances Control and the California Department of Industrial Relations. VUE, through a variety of internal policies and compliance procedures, regulates itself in many of these areas. In a few limited areas, a consent decree and undertakings further regulate the operations of VUE. In the US, the motion picture distribution and exhibition industries are regulated by the consent decree in US v. Paramount Pictures, Inc.; this consent decree, affirmed in 1950, prohibits certain conduct by film distributors, including price fixing and product tying, and requires film distributors to license products on a film-by-film and theater-by-theater basis. In the European Union, VUE is regulated by an undertaking in the pay-TV area which, for a five-year period in each affected country, starting from the end of Universal's existing first window output deal in that country, will regulate certain business with Canal+; and is regulated in the film distribution area through an undertaking given by United International Pictures, the joint venture through which VUE distributes its feature films theatrically outside of the US and Canada. An undertaking with the Canadian Department of Heritage also regulates certain operations of Universal Studios Canada. Continuing compliance with the laws, regulations, consent decree and undertakings mentioned in this paragraph do not have a material effect on the business of VUE.

Legal and Regulatory Environment in Television Production and Distribution

Many countries enforce quotas that restrict the amount of US-produced television programming that may be aired on television in such countries. There can be no assurances that additional television quotas will not be enacted or that countries that already impose quotas will not more strictly enforce them. Additional or more restrictive quotas or stricter enforcement of existing quotas could adversely affect VUE's business by limiting its ability to exploit its motion pictures and television products internationally.

Distribution rights to motion pictures and other programs are granted legal protection under US copyright law and the copyright laws of many foreign countries, which generally provide civil and criminal penalties for the unauthorized duplication and exhibition thereof. VUE's ability to distribute and exploit its motion pictures and other television programming is affected by the strength and effectiveness of these laws. VUE attempts to take appropriate and reasonable measures to secure, protect and maintain copyright protection for all of its motion pictures and other television programming under the laws of applicable jurisdictions. However, despite these measures, motion picture piracy continues to be extensive in many parts of the world, including South America, Asia, the countries of the former Soviet Union and other former Eastern Bloc countries. In the past, various trade associations have enacted voluntary embargoes of motion picture exports to certain countries in order to pressure the governments of those countries to be more aggressive in preventing motion picture piracy. In addition, the US government has publicly considered trade sanctions against specific countries that do not take steps to prevent copyright infringement of US-produced motion pictures. There can be no assurance that voluntary industry embargoes or US government trade sanctions will be enacted or be effective. If enacted, such actions could impact the amount of revenue that VUE realizes from the international exploitation of its motion pictures depending upon the countries subject to such action and the duration of

such action, and if not enacted or not effective or if other measures are not taken, VUE may continue to lose an indeterminate amount of revenue as a result of piracy.

US television stations and networks, as well as foreign governments, impose content restrictions on motion pictures that may restrict in whole or in part exhibition on television or in a particular territory. There can be no assurance that such restrictions will not limit or alter VUE's ability to exhibit certain motion pictures in such media or markets.

VUE is subject to certain regulations by the European Union and other international regulatory authorities. The European Commission recently initiated investigations into certain aspects of licensing relationships between studios and channel operators, and there are no assurances that limitations or restrictions enacted as a result of those investigations or otherwise will not adversely affect VUE's business and financial results.

Legal and Regulatory Environment Affecting Television Channels and Programming

The communications industry, including the operation of television broadcast stations, cable television systems, satellite distribution systems and other multichannel distribution systems and, in some respects, vertically integrated cable programmers, is subject to a substantial federal regulation, particularly under the Communications Act of 1934, as amended, and the related rules and regulations of the Federal Communications Commission (FCC).

Cable Programming. The Cable Television Consumer Protection and Competition Act of 1992 prohibits a cable operator from engaging in unfair methods of competition that prevent or significantly hinder competing multichannel video programming distributors from providing satellite-delivered programming to their subscribers. The FCC has adopted regulations to (1) prevent a cable operator that has an attributable interest, including voting or non-voting stock ownership of at least 5%, in a programming vendor from exercising improper influence over the programming vendor in the latter's dealings with competitors to cable; and (2) prevent a programmer in which a cable operator has an attributable interest from discriminating among cable operators and other multichannel video programming distributors, including other cable operators.

Cable television systems in the US are also subject to regulation pursuant to franchises granted by a municipality or other state or local governmental entity.

Digital Television. The FCC has taken a number of steps to implement digital television service (including high-definition television) in the US, including the adoption of a final table of digital channel allotments and rules for the implementation of digital television. The table of digital allotments provides each existing television station licensee or permittee with a second broadcast channel to be used during the transition to digital television, conditioned upon surrender of one of the channels at the end of the digital television transition period. The FCC set a target date of May 2002 for completion of construction of digital television facilities and 2006 for expiration of the digital transition period, subject to biennial reviews to evaluate the progress of digital television, including the rate of consumer acceptance. Although the FCC has granted waivers of the May 2002 target date to a number of stations and a number of requests for waivers are pending, the number of stations providing both digital and analog programming has steadily increased and is expected to do so at an accelerated rate during the next several years. Under the FCC's rules, deployment of digital television is taking place in the major television markets more rapidly than in smaller markets; and, in those markets where digital television channels are now operational, cable programmers face competition from both over-the-air analog and over-the-air digital television service.

Must-Carry/Retransmission Consent. Full-power television broadcasters are required to make triennial elections to exercise "must-carry" or "retransmission consent" rights with respect to their carriage by cable systems in each broadcaster's local market. By electing must-carry rights, a television broadcaster demands carriage on a specified channel on cable systems within its television market, defined by Nielsen as a Designated Market Area. Alternatively, if a television broadcaster chooses to exercise retransmission consent rights, it can prohibit cable systems from carrying its signal or grant the appropriate cable system the authority

to retransmit the broadcast signal for a fee or other consideration. The FCC currently is conducting a rulemaking proceeding to determine whether, in certain circumstances, it should require carriage of a television station's digital and analog signals. Some stations have exercised retransmission consent rights with respect to digital programming with the result that cable operators are carrying some combination of the digital and analog programming on their systems.

Regulations Applicable to Cable Systems Affecting Programming. Cable television operators also are subject to regulations concerning the commercial limits in children's programming, and closed captioning. The FCC's closed captioning rules, which became effective January 1, 1998, provide for the phased implementation, beginning in the year 2000, of a universal on-screen captioning requirement with respect to the vast majority of video programming. Cable television operators are also subject to regulations concerning commercial limits on children's programming, political advertising and indecency standards. Although all of these content regulations formally apply to the cable operator, cable programmers are required to distribute programming that meets these restrictions.

Legal and Regulatory Environment in the Theme Park Business

VUE, through Universal Parks & Resorts, operates theme parks around the world in accordance with the highest health, safety and environmental standards.

In the State of California, legislation and implementing regulations require the reporting to the state of certain incidents that occur on permanent amusement rides, which result in the death or serious injury to a guest. VUE and the other major theme park operators in Florida voluntarily report similar incidents that occur in their Florida theme parks to the state. These requirements and practices do not have a material effect on the business of VUE.

CANAL+ GROUP

Canal+ Group has two principal lines of business:

Pay-TV France: the leader in the production and distribution of pay-TV in France, through Canal+ premium channel, CanalSatellite digital platform, NC Numericable cable platform and multiThematiques theme channels; and

StudioCanal: a leading European studio involved in the production, co-production, acquisition and distribution of feature films and television programs.

In addition to its two primary lines of business, Canal+ Group also has other European pay-TV and sports interests.

We own 100% of Canal+ Group, which in turn owns 49% of Canal+ S.A. and 66% of CanalSatellite.

The following table shows Canal+ Group's revenues for the periods indicated, broken down by business line.

REVENUES

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(IN MILLIONS)		
Pay-TV -- France	E 2,652	E 2,530	E 2,427
StudioCanal	455	429	328
Other(1)	1,635	1,604	1,299
CANAL+ GROUP	E 4,742	E 4,563	E 4,054

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(1) Other is primarily comprised of international pay-TV, including Telepiu, Canal+ Benelux, Canal+ Nordic, Cyfra+, Canal+ Technologies and Expand.

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The revenue and operational information relating to Canal+ Group and its businesses is presented on a pro forma basis to exclude the results of Universal Studio's international television networks in 2002. In the actual 2002 results, the results of Universal Studios international television networks were reported by Canal+ Group.

Subscription revenues, which are the largest portion of Canal+ Group's revenues, depend primarily on four factors: subscription growth, churn rates and programming packages chosen by subscribers which may increase monthly subscription rates.

Pay-TV is a subscription business. As a result, Canal+ Group has steady monthly income and predictable revenues. Over 50% of new subscriptions for Canal+ Group's pay-TV operations are gained during the last four months of the year.

Canal+ Group has suffered losses in recent years in large part due to its international growth strategy. In late 2002, Canal+ Group announced that it would restructure its business around its French pay-TV and film production businesses, and certain of its other assets have been or are in the process of being sold. On February 5, 2003, Canal+ Group disposed of its 89% interest in Canal+ Technologies, a supplier of software for digital television. Canal+ Group has also agreed to sell Telepiu, the Italian pay-TV business, to News Corporation. The Telepiu divestiture received the approval of the European Commission on April 2, 2003 and was completed on April 30, 2003.

Pay-TV -- France

Canal+ Group's pay-TV operations in France are engaged in the production of pay-TV channels (Canal+, Multithematiques and others) and the operation of satellite and cable platforms (CanalSatellite and NC Numericable).

The cost of purchasing rights for premium channel programming, including investments required in French and European programming described below, is the largest operating cost for Canal+ Group, representing over 70% of operating costs in 2002. Other operating expenses include subscriber acquisition costs (sales commissions and marketing expenses), subscriber management costs (cost of set-top boxes which are rented to the subscribers, call centers, etc.), and transmission costs.

The French Audiovisual Council has granted licenses to Canal+ Group for five channels (the maximum number allowed to be under common ownership) for future digital terrestrial broadcasting in France. Those channels are Canal+, Sport+, I-Television, Planete and CineCinema.

Canal+

Canal+ was the first premium pay-TV channel in Europe and remains the leading pay-TV channel in France. Canal+, which broadcasts recent films and sports events on an exclusive basis, is available through customized local versions in eleven European countries. In France, Canal+ is available both as an analog channel and on cable and satellite. French digital satellite and cable subscribers have access to a multiplex of four Canal+ channels.

Under French law, Canal+ Group cannot own more than its existing 49% interest in the broadcasting activities of Canal+. Canal+ Group holds this interest through a 49% interest in Canal+ S.A., a publicly traded company listed on the Paris Second Marche, which owns the Canal+ channel.

Canal+'s 2002 revenues were generated mainly by subscriptions (94%) and advertising (5%).

The following table shows information about Canal+'s subscriptions, for the periods indicated:

SUBSCRIPTIONS

	YEAR ENDED DECEMBER 31, 2002	2001	2000
	(IN THOUSANDS, EXCEPT %)		
Subscription base French pay-TV market(1)			
Digital	5,631	5,075	4,473
Analog	4,554	4,625	4,723
Subscription base Canal+ (premium)			
Digital	1,613	1,505	1,396
Analog	2,864	3,046	3,224
Churn (annual)	10.6%	10.8%	9.9%

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(1) Includes cable, satellite and direct-to-air.

Subscription information is based on Canal+ Group's compilation of subscription figures provided by the relevant companies and the cable association Aform.

Canal+ attracts subscribers principally through its films and sports offerings. Canal+ broadcasts more than 400 films annually, about 80% of which are French TV premieres. Canal+ sports offerings include French premier league soccer, Champions League and other major European soccer leagues, horse racing, rugby union, golf, boxing and various US sports. Canal+ also offers original premium programs.

Among Canal+'s sports offerings, French soccer premier league is an important driver of our subscriber base and Canal+ pays significant licensing fees for the right to broadcast games. The French premier league current contract expires in June 2004. Canal+ and the French soccer premier league negotiated an agreement whereby Canal+ would have had exclusive broadcasting rights for the premier league 2004-2007 seasons. However, upon petition by Canal+'s competitor Television par Satellite (TPS), the French competition council stayed effectiveness of this agreement. As a result of a court recommended mediation with TPS, all parties concerned agreed in April 2003 to extend the existing contract for the duration of one year (i.e., through the end of the 2004-2005 season). See "Item 8--Financial Information--Litigation."

Obligations contained in Canal+'s broadcasting license impose significant requirements on Canal+'s investments, broadcasting and use of revenues. See "--Regulatory Environment."

Theme Channels

Canal+ Group has approximately 40 theme channels across Europe including approximately 20 theme channels in France. As part of its strategic restructuring, Canal+ will be focusing this activity on the French market.

CanalSatellite

Canal+ Group owns 66% of CanalSatellite, the leading French Satellite TV platform. The remaining shares are held by Group Lagardere. Launched in 1992 as a small platform distributed through analog technology, CanalSatellite upgraded to digital technology in 1996 and is now the leading satellite platform in France. At the end of 2002, CanalSatellite had a share of approximately 63% of the French satellite market with over two million subscribers. CanalSatellite offers over 230 channels, some of which are exclusive.

CanalSatellite's revenues are driven by subscriptions. The following table shows information about CanalSatellite's subscriptions for the periods indicated:

SUBSCRIPTIONS

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
CanalSatellite subscriptions (thousands)	2,046	1,822	1,598
Churn (annual)	8.4%	9.9%	10.3%

With the assistance of Canal+ Technologies the digital platforms of Canal+ Group in Spain, Poland and France, including CanalSatellite, launched the digital TV industry's largest-ever operation to change the smart cards in set top boxes. More than 7 million cards with a new chip and a new version of the access control software were exchanged in 2002 to combat piracy.

Canal+ Group sold Canal+ Technologies in early 2003 to Thomson. Canal+ Technologies will continue to provide the services it previously provided to Canal+ Group pursuant to a long term contract. CanalSatellite started marketing in early 2003 a new generation of digital set top boxes equipped with a hard drive that uses a new version of MediaHighway, the digital interactive system developed by Canal+ Technologies and based on the new international standards for interactive television (DVB-MHP). These set-top boxes, known as Pilotime, offer a broad range of original and innovative services.

NC Numericable

Canal+ Group operates the French cable platform, NC Numericable. At the end of 2002, NC Numericable had a share of approximately 16% of the French cable market, with 406,933 subscriptions. NC Numericable leases its network from France Telecom.

StudioCanal

StudioCanal is a major player in the production, co-production, acquisition and distribution of European and American films for theaters. StudioCanal has one of the largest film libraries in the world, including over 5,000 well-known films of different genres, including Terminator 2, Basic Instinct, The Graduate, The Producers, The Third Man, Breathless, Chicken Run, Billy Elliot, Grand Illusion, Bridget Jones's Diary, Brotherhood of the Wolf. Some of StudioCanal's distribution rights are worldwide, others are limited to Europe and France. StudioCanal's TV program library represents more than 40,000 hours of viewing.

Along with Canal+, StudioCanal is involved in the financing of approximately 80% of French films, which together makes them the main sponsor of the domestic industry.

StudioCanal is also engaged in audiovisual production (through its subsidiary StudioExpand) and is active in video and DVD distribution, music publishing, and product licensing.

In 2002, StudioCanal produced, co-produced or acquired six films that sold more than one million tickets in France, including Roman Polanski's The Pianist, L'Auberge espagnole (Euro Pudding) by Cedric Klapisch, Decalage horaire (Jet Lag) by Daniele Thompson, and Michael Mann's Ali. Two films co-produced by StudioCanal earned two prestigious awards at the 2002 Cannes Festival: the Palme d'Or for The Pianist and the award for Best Director for Im Kwon Taek's Chiwaseon. The company has been extremely successful with the video and DVD releases in France of Bridget Jones's Diary, Zinedine Zidane "Comme dans un reve," Traffic and We Were Soldiers. Roman Polanski's The Pianist received three Academy Awards (Best Director, Best Actor and Best Adapted Screenplay) in 2003.

Other

In addition to its two primary lines of business, Canal+ Group also has the following other European pay-TV and sports interests:

Sogecable. Sogecable, a listed Spanish holding company, is 21.3% owned by Canal+ Group. Sogecable's other strategic shareholder is Prisa, the leading Spanish media group, which also owns 21.3% of Sogecable. Sogecable's two main activities, which represent more than 80% of its revenues, are Canal+, a terrestrial premium channel for sports and films, and CanalSatelite Digital, a DTH platform. CanalSatelite Digital is the largest and most successful satellite TV operator in Spain, and competes with Via Digital, a Telefonica affiliate. In January 2003, Sogecable and Telefonica agreed to merge their digital platforms, CanalSatelite Digital and Via Digital, subject to local regulatory and other approvals. On completion of the merger, Via Digital shareholders will receive 23% of the capital stock of Sogecable in return for their Via Digital shares. The merger of the two companies will create the largest pay-TV operator in Spain with more than 3 million subscriptions. The merged company will be the only satellite television operator in Spain.

Nordic Countries. In the Nordic countries, in June 2002 Canal+ Group sold its 50% stake in the Canal Digital distribution platform to Telenor, which already held the other 50% stake. We are in the process of selling the Group's Nordic channels. In the interim, Canal Digital continues to exclusively distribute the satellite segment of such channels.

Cyfra+. In Poland, the digital television platforms Cyfra+ and Wizja TV merged into a single satellite system, TKP, in 2002. The merged Cyfra+ package is now the leading pay-TV and satellite platform in Poland with an expanded premium offer and a stronger programming package and is 75% owned by Canal+ Group and Polcom Invest and 25% owned by UPC. As of December 31, 2002, Cyfra+ had one million subscriptions.

Telepiu. In October 2002, an agreement was signed with News Corporation and Telecom Italia for the sale of 100% of the pay-TV platform Telepiu in Italy to News Corporation. The acquisition of Telepiu by News Corporation, which intends to merge it with its Stream platform, was approved by the European Commission on April 2, 2003 and completed on April 30, 2003. As of December 31, 2002, Telepiu had 1.55 million subscriptions to its premium channel and 1.75 million subscriptions to its digital platform.

Canal+ Benelux. Canal+ Group operates in Belgium and the Netherlands through its wholly-owned subsidiary, Canal+ Benelux, by offering premium channels and packages of theme channels. As of December 2002, Canal+

Benelux had 689,000 subscriptions.

Media Overseas. Media Overseas is a 100% Vivendi Universal affiliate, managed by Canal+ Group and dealing with over 500,000 subscriptions of Canal+/CanalSatellite in the French overseas territories and some French-speaking African countries.

Sportfive. Canal+ Group and RTL Group each own 46% of Sportfive, with the balance held by Mr. Jean-Claude Darmon. Sportfive, created from the combination of the sports rights activities of Sport+ (a subsidiary of Canal+ Group), UFA Sports (a subsidiary of RTL Group) and Groupe Jean-Claude Darmon, holds a leading market position with a broad range of international TV and marketing of sports rights, primarily for football clubs and leagues around the world. Sportfive has more than 320 football clubs under contract, more than 40 national federations and leagues, as well as the international basketball, handball and rugby federations.

PSG. Paris Saint Germain is the only Paris based premier league soccer club and is one of France's leading soccer clubs. In 2001, Canal+ Group increased its interest in PSG to 90.88%.

Competition

Competition in the basic pay-TV market remains largely national due to language and cultural factors specific to each country. The French pay-TV market is dominated by satellite and Canal+. Cable penetration is low compared to America and certain other European countries.

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In its French pay-TV business, Canal+ Group's principal competitor is TPS. Cable operators (other than our subsidiary NC Numericable) also compete in this market. The increase in broadcast channels being made possible by new digital technology (such as digital broadcast television already introduced in several European countries and the anticipated introduction of ADSL) will lead to the arrival of newcomers in the pay-TV sectors.

The development of new distribution media, particularly DVDs, which offer a certain number of films before they are released on pay-TV channels, also fosters real competition for a premium channel such as Canal+.

In the theme channel business, competition is more international than in the basic pay-TV business. International labels initiated by American communication companies and studios such as MTV, Fox Kids or the Disney Channel are developing rapidly.

In the film and TV programming sector, StudioCanal's main competitors are the American and other national production companies.

Regulatory Environment

The media industry in Europe is regulated by various national statutes, regulations and orders, often administered by national agencies such as the French Audiovisual Council. These agencies usually grant renewable broadcast licenses for specific terms. In France, Canal+ holds a pay-TV broadcast license for over-the-air, satellite and cable broadcasts, which was renewed for a five-year period starting in December 2000.

Under Canal+'s French broadcast authorization, Canal+ is subject to the following regulations: (i) no more than 49% of its capital stock may be held by a single shareholder and (ii) 60% of the films broadcast by the channel must be European films, and 40% must be French Language films. Each year Canal+ must invest 20% of its total prior-year revenues in the acquisition of film rights, 9% of which must be devoted to French language films and 3% to European films other than French films. At least 75% of the French movies must be acquired from non-Canal+ Group controlled companies. Canal+ has an obligation to invest 4.5% of its turnover in original TV movies and dramas.

Canal+ Group also operates in Belgium, Spain, the Netherlands, Poland and the Nordic countries pursuant to the regulations of each of these countries which generally stipulate, as does France, financing levels for European and national content.

The European Union generally regulates competitive matters, including strategic combinations. The European Union has also adopted a series of directives that influence the communications business, in particular the directive known as "Television without Frontiers," and directives governing intellectual property, e-commerce, data protection, and telecommunications.

Research and Development

Canal+ Group's research and development costs in 2002 totaled E 51 million, primarily consisting of costs of Canal+ Technologies, and were incurred primarily for new digital and image processing technologies.

MAROC TELECOM

The following table shows Maroc Telecom's revenues for the periods indicated:

REVENUES

	YEAR ENDED DECEMBER 31,			
	ACTUAL		PRO FORMA	
	2002	2001	2002	2001
	(IN MILLIONS)			
Maroc Telecom revenues........................	E 1,487	E 1,013	E 1,487	E 1,351

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The revenue and operational information and data relating to Maroc Telecom set forth in this section is presented on a pro forma basis, adjusted to include the results of Maroc Telecom for all periods.

The actual 2001 results only include nine months of Maroc Telecom's operations since the completion of the acquisition by us in April 2001.

Maroc Telecom is Morocco's incumbent telecommunications operator. The company was created in 1998 following its spin-off from the ONPT (the Moroccan national postal and telecommunications administration). Morocco's mobile telephone market opened to competition in 2000 with the successful bid for licenses by a consortium led by Telefonica of Spain. In the past three years and with Vivendi Universal's assistance, the company has transformed itself into a highly profitable, market-oriented business focused on its customers, in accordance with international standards of the industry.

Vivendi Universal acquired its current ownership interest and became Maroc Telecom's strategic partner in 2001 following an auction process organized by the Moroccan government. With our 35% shareholding interest, we control Maroc Telecom under the terms of a shareholder's agreement entered into in connection with the acquisition of our stake. The remaining shares of Maroc Telecom are owned by the Kingdom of Morocco.

Under the shareholders' agreement, the Kingdom has put options on an additional 16% of the Maroc Telecom shares exercisable beginning in September 2003 at a fair market price determined by an appraisal procedure. If the Kingdom exercises this put right and we acquire the shares, we will also have a right of first refusal on the Kingdom's remaining shares. We have granted the Kingdom a pledge on our existing 35% interest in Maroc Telecom to secure the purchase price of the 16% interest for the period between the exercise of the put and its settlement in cash. Under the shareholders' agreement we cannot sell our shares in Maroc Telecom without the approval of the Kingdom of Morocco for a period of five years from the date of the shareholder's agreement.

In accordance with the Articles of Association and pursuant to the Shareholders' Agreement, we appoint a majority of both the Supervisory board and the Executive board of Maroc Telecom, including the chairman of the executive board. In addition, we exercise the majority voting rights at shareholder's meetings. As a result, Maroc Telecom is fully consolidated in our financial statements.

Maroc Telecom is Morocco's largest (and Africa's second largest) telecommunications operator, operating in both the fixed line business, where it currently remains the sole provider, and the fast growing mobile business, where it is the country's largest operator. Maroc Telecom revenues increased 10% to E 1.5 billion in 2002. Fixed-line, data and international revenues represented 62% of Maroc Telecom's revenues in 2002, while mobile revenues represented the remaining 38%.

Fixed Line Telephony

Fixed line telephony remains Maroc Telecom's largest business in terms of revenues. Our fixed line business includes traditional residential, international and business services and our public telephony service, data transmission solutions for companies, and our Internet access and portal businesses.

The number of fixed lines in Morocco grew steadily until 1999, reaching a total of 1.5 million, before falling between 1999 and 2002. The two main factors explaining this trend are the introduction of competition from the mobile network as of 1999 and the company's clean-up of its fixed-line customer base in 2001, when a significant number of customers who had stopped using or were no longer paying for their service were removed. The number of fixed lines has now stabilized and is expected to be stable in the future.

Revenue growth was maintained over the period despite the decline in the number of fixed lines, as international and fixed-to-mobile business revenues and public telephony all grew. The public telephony business comprises the public pay telephone network as well as a network of approximately 17,000 teleboutiques. Teleboutiques are managed by private sector entrepreneurs who rent on average four or five lines per store. They are charged reduced rates due to the high volume of calls per line and resell calls to customers at retail prices.

Data Transmission and Internet

Maroc Telecom's growing data transfer business provides companies with data transfer solutions including x.25, frame relay, digital and analogue leased lines and IP, primarily for its business customers.

Our Internet business offers packet switched ISP services to fixed-line subscribers under the Menara brand. At the end of 2002, Maroc Telecom got its ADSL service ready to launch; which it believes will be one of its primary growth areas at its launch, upon receipt of approval by the appropriate regulatory authority. At year end 2002, the company had approximately 32,000 subscribers to its Internet access services.

Mobile Telephony

Maroc Telecom launched its prepaid services in 1999 and its customer base has grown rapidly since. At year-end 2002, the company had over 4.5 million mobile users.

Maroc Telecom offered the only mobile service in Morocco until mid-2000, when a second operator commenced business. At year-end 2002, the company estimates that it had an approximate 70% share in the mobile telephony market. At the end of 2002, the overall penetration rate in mobile telephony in Morocco was estimated at 21.6%.

Maroc Telecom's customer base is over 95% prepaid, reflecting preferences in the Moroccan market. Maroc Telecom believes that its network of 17,000 teleboutiques, which is a key distribution channel for prepaid cards, is a major competitive advantage.

After eliminating delinquent customers from its postpaid customer base in 2001, postpaid subscribers increased in 2002. The company particularly targets business customers for its postpaid services.

Network

Fixed-line services and data transmission

Maroc Telecom's fully digital network has a switching capacity of 2 million lines and provides national coverage thanks to the emphasis placed on servicing newly created urban areas and improving network reliability.

Maroc Telecom operates a fully digital network and an optic fiber inter-city transmission infrastructure with high-speed data transmission capacity. International bandwidth has been gradually increased to reach 4*34Mbit/s.

Mobile telephony

Maroc Telecom has emphasized growing both its population and its country coverage. At the end of 2002 Maroc Telecom had 3,000 GSM sites, against 2,600 in 2001 and 600 in 1999. In 2002, over 95% of the Moroccan population was covered, the efficiency rate was greater than 95% and the drop call rate was less than 2%.

Maroc Telecom has signed 179 roaming agreements with operators in 85 countries around the world.

Competition

The auction for a second fixed telephony license in 2002 was unsuccessful, and Maroc Telecom remains the single fixed-line operator in the Moroccan market. The government has, however, announced its intention to hold another auction before the end of 2003.

Competition has existed in the mobile telephony market since the granting of a second mobile license in 1999 to Medi Telecom. Medi Telecom, with an estimated 30% market share in 2002, is a subsidiary of Telefonica, Portugal Telecom and a group of Moroccan investors led by BMCE.

Maroc Telecom has an estimated 72% share of the Moroccan Internet market. Maroc Telecom main competitors in this market are: Maroc Connect (subsidiary of Wanadoo) with an 18% market share, and various other smaller ISPs.

Specific licenses (VSAT, 3RP, GMPCS) have been granted for specific market segments (businesses and international communications).

Regulatory Environment

The Kingdom has created a regulatory authority Agence Nationale de Reglementation des Telecommunications (ANRT) which is responsible for implementing free competition and regulating the telecommunications market. The liberalization and privatization of the Moroccan telecommunications market advocated by the World Bank is implemented and managed by the ANRT.

The terms and conditions governing Maroc Telecom set out its rights and obligations as the fixed-line operator regarding universal service. The ANRT has not announced the granting of UMTS licenses.

Principal regulatory developments in 2002 were the leveling of retail tariffs and other price regulations and the authorization for Internet traffic to use the public telephone network.

Vivendi Universal Games (VU Games)

VU Games is one of the world's leading publishers of interactive entertainment and educational software. VU Games develops, markets and distributes its games and educational software products for all major platforms, including PC, consoles (Sony's PlayStation2, Microsoft's Xbox and Nintendo's GameCube) and handheld (Nintendo's GameBoy Advance). VU Games' revenue for the 2002 fiscal year was E 794 million and for the 2001 fiscal year was E 657 million. In 2002, 63% of VU Games' revenue came from North America, 27% came from Europe and 10% came from Asia/Pacific and Rest of the World.

VU Games is the sixth largest publisher of consumer software with an approximate 5% share of worldwide market. VU Games is the second-largest publisher of PC consumer software worldwide, holding the number-one position in South Korea, and the number two position in North America, France, Germany, UK, Spain and Australia (source: NPD Funworld, PC Data, Chart-Track, GFK, Inform, Interbase. Figures include sales of PC kids, PC education, PC productivity, PC games and all console software categories. Latest available 12 months (December 2002) except for Germany (November 2002).

VU Games maintains a strong heritage as a leader in PC games and educational software. For 2002, VU Games' PC revenues represented 56% of total revenues. VU Games' performance in the PC segment was driven by key releases such as Warcraft III, NASCAR 2002, The Thing, J.R.R. Tolkien's The Lord of the Rings: The Fellowship of the Ring, Jumpstart Advanced, and Barbie. VU Games' development studios -- Black Label Games, Blizzard Entertainment, Coktel, Knowledge Adventure, Massive Entertainment and Sierra Entertainment -- have delivered some of the industry's most successful PC titles across numerous genres.

VU Games entered the console software business in 2001, with the assumption of management responsibility for Universal Interactive (UI), which is held through Universal Studios. Since then, VU Games has expanded its publishing business with the establishment of Black Label and an affiliate-label program called the Partner Publishing Group. Within one year, VU Games increased its console sales from 21% to 44% of total revenues. Today, all of VU Games' studios are engaged in the development of console titles while maintaining their commitment to the PC segment.

In the online games arena, VU Games has sophisticated groups of developers whose experience includes Battle.net, a leading online games network launched in 1997 with over 12 million active users; Half-Life, the number-one online action game; and Tribes: Aerial Assault, one of the first third-party titles to support online game-play over the Internet using Sony's PlayStation 2 system.

Strong game brands are a cornerstone of VU Games' success. VU Games' product library consists of 378 active titles, including industry-leading, multi-million unit selling brand franchises such as Diablo, Starcraft,

Warcraft, Spyro the Dragon, Crash Bandicoot, Half-Life and Jumpstart. In March 2003, The Simpsons was added to VU Games' product library as a result of an agreement with Fox Interactive.

VU Games' brand portfolio includes a balanced mix of original content (52% of all titles), licensed properties (30% of all titles) and third-party releases (18% of all titles).

In the future, VU Games intends to continue producing high-quality and innovative game franchises such as The Hulk and X-Files, expansion sets and updated versions of blockbuster series such as Warcraft, Counter Strike and Crash Bandicoot, and the migration of best-selling franchises such as Starcraft and SWAT from PC to console.

Competition

The consumer software market is quite fragmented. The worldwide leader is Electronic Arts Games, with a 15% share. The top-ten players have a combined 60% worldwide market share.

Regulatory Environment

VU Games voluntarily participates in self-regulatory ratings systems established by various industry organizations around the world. In the US, VU Games adheres to ratings, advertising guidelines and online privacy principles adopted by the Entertainment Software Association. Pursuant to these guidelines, VU Games indicates in its product-packaging and advertising the age group for which the particular product is appropriate and a brief description of its content. VU Games operates in compliance with local legal requirements where applicable to computer games and video games (in countries such as Germany and South Korea) as well as with local statutory rating systems. Complying with such rating systems and local laws does not have a material effect on the business of VU Games.

OTHER

Veolia Environnement (VE)

Until June 2002, we held approximately 63% of the share capital of Veolia Environnement, an environmental services business with global operations. In

July 2002, we reduced our stake to approximately 40.8% of the outstanding share capital of Veolia Environnement and through an additional sale on December 24, 2002, we reduced our stake to approximately 20.4%. Our investment in Veolia Environnement is now accounted for using the equity method. As part of the December sale, we granted to the purchasers a call option exercisable until December 23, 2004 to purchase our remaining stake in Veolia Environnement at E 26.5 per share. For information on this call option, see "Item 5--Operating and Financial Review and Prospects--Contingent Liabilities."

Veolia Environnement has operations in more than 100 countries on five continents, divided into four main divisions:

- Vivendi Water for water services;

- Dalkia for energy services;

- Onyx for waste management; and

- Connex for transport.

Veolia Environnement's revenues were E 30.1 billion in 2002, E 29.1 billion in 2001 and E 26.3 billion in 2000.

Veolia Environnement's stock has been listed for trading on the Premier Marche of Euronext Paris since July 2000, and has also been listed on the New York Stock Exchange in the form of American Depositary Receipts (ADRs) since October 2001.

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Vivendi Telecom International (VTI)

Vivendi Telecom International operates our fixed and mobile telecommunications businesses outside France and Morocco. While Vivendi Universal's interest in Maroc Telecom is held through VTI, it is reported as a separate segment and is discussed separately herein.

VTI's revenue, excluding Maroc Telecom, was E 461 million in 2002, E 242 million in 2001 and E 141 million in 2000.

In 2002, we decided to explore selling VTI's stakes in Hungary, Poland, Egypt and Kenya in order to focus on our core businesses.

Monaco

VTI owns 55% of Monaco Telecom, the incumbent telecommunications operator in the Principality. The remaining 45% stake is held by the Principality of Monaco.

Spain

VTI is one of the principal shareholders of the Spanish communication company Xfera Moviles, which won one of the four UMTS licenses in Spain in 2000. Due to technological delays in the development of UMTS, the date of the commercial launch and deployment of the UMTS network has been postponed. As a result of this postponement, Xfera cut its work force in 2002. The Xfera Shareholders' Agreement dated January 12, 2000 contains a provision which gives the founding shareholders (including VTI) the possibility to acquire the shares held by Vodafone in Xfera in certain defined circumstances. Vodafone claims that such provision amounts to a call option and that, together with the other two founding shareholders, VTI exercised such call option by way of letters sent to

Vodafone in January 2001. VTI contests Vodafone's claims, including its interpretation of such provision. See "Item 5--Operating and Financial Review and Prospects--Commitments and Contingencies."

Hungary

Operating under the name Vivendi Telecom Hungary, VTI's subsidiary Matel BV is the second largest fixed line telecommunications operator in Hungary.

VTI signed an agreement to sell Vivendi Telecom Hungary for E 325 million, including the assumption of E 305 million in net debt in December 2002. The sale was completed in May 2003.

Poland

Vivendi Universal and VTI jointly hold 49% of Elektrim Telekomunikacja (ET), a major player in the Polish telecommunications market.

In November 2002, ET entered into an agreement to sell the cable television services of its wholly owned subsidiary, EI Viv Telecom for E 110 million. The completion of this sale remains subject to Polish regulatory approval.

In February 2003, ET sold part of its Polish fixed telephony business for approximately E 17 million. ET is exploring various options with respect to its fixed telephony operations as well as its 51% stake in PTC, a mobile telephone operator with approximately 5 million customers at the end of 2002.

For a description of certain litigation relating to Vivendi Universal's interest in ET, see "Item 8--Financial Information--Litigation."

Kenya

In 2002, KenCell, VTI's 60% subsidiary, showed strong growth in spite of a difficult economic climate. At the end of 2002, KenCell had more than 450,000 customers (compared to 56,000 at the end of 2000 and 250,000 at the end of 2001), and a 49% market share.

Egypt

On February 25, 2003, VTI signed a share purchase agreement to sell its interest in Vodafone Egypt Telecommunications for an aggregate consideration of E 40 million. The transaction completion is subject to regulatory approvals and various other closing conditions.

Vivendi Universal Net (VUNet)

VUNet, a wholly owned subsidiary of Vivendi Universal, and its subsidiary, Vivendi Universal Net USA Group, Inc., hold Vivendi Universal's Internet and new technology operations.

In 2002, Vivendi Universal carried out a strategic review of its Internet operations. This led to the implementation of a cost and investment reduction program, and the closure of a number of subsidiaries. We anticipate closing some of the remaining Internet division companies and integrating the others into the businesses to which they report within Vivendi Universal.

Publishing

In late 2002, Vivendi Universal sold its principal publishing assets, including Houghton Mifflin (which had been acquired in 2001) and almost all of its other publishing assets worldwide.

Vivendi Valorisation

Vivendi Valorisation holds a portfolio of real estate assets which formerly were part of our property and construction segment.

The majority of these assets, which we intend to sell, are associated with our past involvement in long-term residential and commercial property developments.

SEASONALITY

Our business is not seasonal, except as noted in the descriptions of UPR and UMG. See "--Our Segments--Vivendi Universal Entertainment (VUE)--Universal Parks & Resorts (UPR)" and "--Our Segments--Music."

RAW MATERIALS

Raw materials are not important to our business in a material way, except as they are used in the production of motion picture and television, in the production of video products and in the production of compact disks.

The primary material utilized in motion picture and television production is raw film stock. Film stock is purchased by subsidiaries of VUE for initial film production, and by third party film laboratories that produce release prints of theatrical films for VUE. Film stock is purchased from large manufacturers of photographic products located in the United States and other countries. Availability of raw film stock is good and no problems have been encountered. The price of raw film stock has had low volatility, and VUE and such third party film laboratories further reduce their exposure to price changes by securing pricing under long-term contracts with such film suppliers.

The primary materials used in production of video products are videotape, and polycarbonate to produce DVDs. These materials are purchased by third party video duplicators from large manufacturers located in the United States and other countries. Availability of such materials is good and no problems have been encountered. The price of videotape has had low volatility, and such cost is a small percentage of the cost to VUE of the final videotape product. The price of polycarbonate has had some volatility related to petroleum price fluctuations, but these have not been significant enough to be passed through to VUE by the third party duplicators.

The primary material used in production of compact discs is polycarbonate. UMG purchases polycarbonate from large suppliers located in the United States and other countries. Availability of polycarbonate

is good and no problems have been encountered. The price of polycarbonate has had some volatility related to petroleum price fluctuations, but such cost is a small percentage of UMG's cost of goods.

ORGANIZATIONAL STRUCTURE

The following table sets forth the subsidiaries through which we conducted the majority of our operations as of December 31, 2002 (subsidiaries are indented following their respective parent companies).

	COUNTRY OF	ACCOUNTING	VOTING	OWNERSHIP

	INCORPORATION	METHOD	INTEREST		INTEREST
CEGETEL GROUP					
Cegetel Groupe S.A.	France	Consolidated	59%		44%
Cegetel S.A.	France	Consolidated		80%	
Societe Francaise du Radiotelephone S.A. (SFR)	France	Consolidated		80%	
Telecom Developpement (TD)	France	Equity		50%	
MUSIC					
Centenary Holding N.V.	Netherlands	Consolidated	92%		92%
Universal Music (UK) Holdings Ltd.	UK	Consolidated		100%	
Universal Entertainment GmbH	Germany	Consolidated		100%	
Universal Music K.K.	Japan	Consolidated		100%	
Universal Music S.A.S.	France	Consolidated		100%	
Universal Studios, Inc.	USA	Consolidated	92%		92%
PolyGram Holding, Inc.	USA	Consolidated		100%	
Interscope Records	USA	Consolidated		100%	
UMG Recordings, Inc.	USA	Consolidated		100%	
VIVENDI UNIVERSAL ENTERTAINMENT					
Universal Pictures International B.V.	Netherlands	Consolidated	92%		92%
Universal Studios, Inc.	USA	Consolidated	92%		92%
Vivendi Universal Entertainment LLLP	USA	Consolidated		93%	
CANAL+ GROUP					
Groupe Canal+ S.A.	France	Consolidated	100%		100%
Canal Plus S.A.	France	Consolidated		49%	
CanalSatellite S.A.	France	Consolidated		67%	
StudioCanal S.A.	France	Consolidated		100%	
Multithematiques	France	Consolidated		64%	
MAROC TELECOM S.A.	Morocco	Consolidated		51%	
VIVENDI UNIVERSAL GAMES, INC.	USA	Consolidated		99%	
HOLDING & CORPORATE					
Societe d'Investissement pour la Telephonie (SIT)	France	Consolidated	100%		100%
UGC	France	Equity	58%		58%
VIVENDI TELECOM INTERNATIONAL S.A.	France	Consolidated	100%		100%
Vivendi Telecom Hungary	Hungary	Consolidated		100%	
Kencell S.A.	Kenya	Consolidated		60%	
Monaco Telecom S.A.M.	Monaco	Consolidated		55%	
Elektrim Telekomunikacja S.A.	Poland	Equity		49%	
Xfera Moviles S.A.	Spain	Equity		26%	

	COUNTRY OF INCORPORATION	ACCOUNTING METHOD	VOTING INTEREST	OWNERSHIP INTEREST

PUBLISHING ACTIVITIES EXCL. VU GAMES					
Vivendi Universal Publishing S.A..........................	France	Consolidated	100%		100%
Groupe Express-Expansion S.A........................	France	Consolidated		100%	
Comareg S.A...................	France	Consolidated		100%	
Atica.........................	Brazil	Consolidated		98%	
VIVENDI UNIVERSAL NET					
Vivendi Universal Net S.A........	France	Consolidated	100%		100%
i-France S.A..................	France	Consolidated		100%	
Scoot Europe N.V..............	Belgium	Consolidated		100%	
Ad-2-One S.A..................	France	Consolidated		100%	
CanalNumedia S.A..............	France	Consolidated		100%	
Vivendi Universal Net U.S.A. Group, Inc....................	USA	Consolidated	100%		100%
MP3.com, Inc..................	USA	Consolidated		100%	
Emusic.com, Inc................	USA	Consolidated		100%	
Flipside, Inc./Uproar, Inc.....	USA	Consolidated		100%	
VEOLIA ENVIRONNEMENT S.A.........	France	Equity	20%		20%

For more information on the above table, see Note 13 to our Consolidated Financial Statements included in this document.

PROPERTY, PLANT AND EQUIPMENT

In connection with our music, publishing, and TV & film businesses, we own manufacturing facilities in the US and Germany and office buildings and warehouse facilities in various countries. To support the rest of its business operations around the world, Vivendi Universal leases the majority of the real estate it requires.

USG owns, develops and manages the Universal City complex in Hollywood, California, spanning approximately 415 acres and is comprised of: Universal Studios, a complex of production and studio facilities and supporting office space; the Universal Studios Hollywood Theme Park and CityWalk, an integrated retail and entertainment complex offering shopping, cinemas, dining and open-area food and beverage facilities; the Sheraton-Universal Hotel, owned by Universal Studios and leased to Sheraton; and the Hilton Hotel, which Universal Studios leases to the entity owning and operating the hotel. In addition, Universal Studios owns the following theme park facilities: Universal Studios Florida and Islands of Adventure, in Orlando, Florida; Universal Studios Japan in Osaka, Japan; and Universal Mediterranean near Barcelona, Spain.

We have various commitments for the purchase of property, plant and equipment, materials, supplies and items of investment related to the ordinary conduct of business.

PATENTS, LICENSES, CONTRACTS, MANUFACTURING PROCESSES

Although we have patents, licenses, contracts and manufacturing processes, no one of these in particular is material to Vivendi Universal.

Canal+ Group acquires films and the rights to sports events, which are then broadcast on its channels. TV programs are acquired through exclusive medium-term contracts for the broadcasting of upcoming productions from US studios. For sports events, multi-year contracts are signed with sports clubs and federations. In 2001, the main broadcasting rights CANAL+ Group has acquired are the French soccer championship through to 2004, retransmission rights for the Champions League through to 2003, and the national and international rights for some Italian soccer clubs, including Juventus (Turin), Inter (Milan) and Milan AC.

Canal+ TV's broadcasting license in France expires in December 2005.

ENVIRONMENTAL MATTERS

Our operations are subject to evolving and increasingly stringent environmental regulations in a number of jurisdictions. In December 2002, the Los Angeles Regional Water Quality Control Board proposed a $308,000 civil penalty in connection with certain alleged exceedances of VUE's wastewater discharge permit in Universal City. We believe the exceedances are not the result of our operations and are working with the agency to resolve the matter. Other than this proposed penalty, as of March 21, 2003, there have been no significant losses or claims related to environmental matters.

SUMMARY OF INDEBTEDNESS

Set forth below is a description of certain of our outstanding debt instruments as of June 25, 2003. The descriptions set forth below do not purport to be complete and are qualified in their entirety by reference to the agreements themselves.

DUAL CURRENCY CREDIT FACILITY

Vivendi Universal has entered into a E 2.5 billion dual currency term and revolving credit facility (the Dual Currency Credit Facility) dated as of May 13, 2003, among Vivendi Universal, as borrower, certain of its subsidiaries, as guarantors, the lenders party thereto, and Societe Generale, as facility and security agent. The facility is available as a liquidity back-up to the disposal of assets and subject to certain exceptions for general corporate purposes.

The facility is comprised of (a) a three-year E 1.5 billion revolving credit facility (Tranche A) at LIBOR or EURIBOR plus an applicable margin that, depending on Vivendi Universal's credit ratings, ranges from 1.00% to 2.75% per annum and (b) a E 1.0 billion term loan (Tranche B) with a 2.75% per annum margin over LIBOR or EURIBOR maturing on the third anniversary of the date of the Dual Currency Credit Facility. Borrowings under the Dual Currency Credit Facility may be made in Euros or U.S. Dollars. Currently, Tranche B is fully drawn and Tranche A is undrawn.

Vivendi Universal is required to pay commitment fees at an annual rate of 40% of the then applicable margin for Tranche A (subject to a cap of 1.00% per annum) and 1.00% per annum for Tranche B, in each case calculated on the undrawn and uncanceled amount of commitments of the applicable tranche during the availability period. Accrued commitment fees are payable quarterly in arrear and on the final maturity date of the Dual Currency Credit Facility. Vivendi Universal also pays the facility agent an annual agency fee.

The respective obligations of Vivendi Universal and the subsidiary guarantors under the Dual Currency Credit Facility rank pari passu with their obligations under the Multicurrency Revolving Credit Facility (described below). The obligations of Vivendi Universal and the subsidiary guarantors under each of the Dual Currency Credit Facility and the Multicurrency Revolving Credit Facility are secured on a pro rata basis among the respective lenders by a first priority lien on certain assets of Vivendi Universal and the subsidiary guarantors, including (a) capital stock in certain subsidiaries, (b) deposit accounts and (c) 85% of all intercompany loans owed to Vivendi Universal and such subsidiary guarantors. In addition, Vivendi Universal and the subsidiary guarantors have agreed to subordinate their obligations under 85% of their intercompany loans to their obligations under each of the Dual Currency Credit Facility and the Multicurrency Revolving Credit Facility. The security and subordination obligations are suspended after Vivendi Universal attains and maintains an investment grade rating for a continuous period of 180 days.

The Dual Currency Credit Facility contains customary negative covenants which place restrictions on, among other things, the ability of Vivendi Universal and the subsidiary guarantors to incur debt, to incur financial guarantees, to pay distributions in respect of capital stock or to repay capital stock, to make certain investments, to enter into leasing arrangements or mergers and acquisitions, to dispose of assets and to create security interests. Furthermore, the Dual Currency Credit Facility places certain limitations on the ability of Vivendi Universal and certain of its subsidiaries to make or incur intra group loans, subject to certain exceptions. Certain of these restrictions are suspended three months after Vivendi Universal attains an investment grade rating.

The Dual Currency Credit Facility also requires Vivendi Universal and the subsidiary guarantors to observe certain customary affirmative covenants, including, but not limited to, relevant authorizations, maintenance of status, certain bank accounts and insurance, protection of intellectual property rights, payment of taxes, compliance with ERISA reporting requirements, compliance with laws (including environmental laws), provision of financial and other information and notification of defaults. Furthermore, Vivendi Universal and the subsidiary guarantors must ensure that in any three-month period, the aggregate amount of net cash available plus the aggregate undrawn amount under all existing facilities is more than E 100 million.

In addition, Vivendi Universal must maintain various financial ratios, including:

- maximum ratios of net financial debt to cash EBITDA;

- minimum ratios of cash EBITDA to net financing costs; and

- maximum total gross financial debt.

Subject to certain other exceptions, Vivendi Universal has also agreed to procure that the part of the net financial debt incurred by its subsidiaries shall not at any time exceed in the aggregate an amount equal to 30% of the net financial debt.

The Dual Currency Credit Facility allows for voluntary prepayment if Vivendi Universal gives at least three business days' notice, subject to a minimum payment threshold and integral multiple requirements. Such voluntary prepayments will be applied pro rata among the lenders. Vivendi Universal must also prepay at the same time and in the same amount, the Multicurrency Revolving Credit Facility.

Provided that Vivendi Universal gives at least three business days' notice, it may, without penalty or indemnity obligations, cancel the unutilized portions of the total commitments in whole or in part, subject to a minimum threshold and integral multiple requirements. Such voluntary cancellations will be applied pro rata against the commitments under each tranche, subject to certain exceptions, and against each lender's commitment in the relevant tranche Vivendi Universal must also cancel, at the same time and in the same amount, the Multicurrency

Revolving Credit Facility.

Unless Vivendi Universal attains and maintains an investment grade rating for a continuous period of 90 days and subject to certain other exceptions, the Dual Currency Credit Facility is subject to mandatory prepayment with certain proceeds, including but not limited to, 33% of net debt issue proceeds, 50% of net dividend proceeds, 16 2/3% of net equity issue proceeds and 16 2/3% of net asset disposal proceeds (other than the disposal of VE shares (of which 50% is required to be prepaid), and the disposal of Cegetel Group and SIT (of which 25% is required to be prepaid).

In addition, the Dual Currency Credit Facility is subject to, regardless of Vivendi Universal's rating, mandatory prepayment upon (a) Vivendi Universal's failure to comply with the specified financial ratios or (b) the occurrence of a change of control event or (c) the occurrence of a special mandatory cancelation of the Senior Notes.

The Dual Currency Credit Facility contains customary event of default provisions including, but not limited to, provisions relating to nonpayment, misrepresentation and breach of other obligations under the loan documents, cross-default, breach of covenants, insolvency, and insolvency proceedings, material adverse changes, certain material ERISA events and cessation of business.

MULTICURRENCY REVOLVING CREDIT FACILITY

Vivendi Universal has entered into a E 3 billion multicurrency revolving credit facility (Multicurrency Revolving Credit Facility) dated March 15, 2002, as amended on February 6, 2003, and as further amended and restated on May 13, 2003, among Vivendi Universal, as a borrower and the obligors' agent, certain of its subsidiaries, as guarantors, the lenders party thereto and Societe Generale, as facility and security agent. Currently, E 2.3 billion of the Multicurrency Revolving Credit Facility is drawn.

Borrowings under the Multicurrency Revolving Credit Facility that are denominated in Euros bear interest at EURIBOR plus a margin of 1.50% per annum, which margin will be reduced to 1.00% per annum

after Vivendi Universal attains and maintains an investment grade rating for a continuous period of 90 days. Borrowings under the Multicurrency Revolving Credit Facility that are denominated in any permissible currency other than Euros bear interest at LIBOR plus a margin of 1.50% per annum, which margin will be reduced to 1.00% per annum after Vivendi Universal attains and maintains an investment grade rating for a continuous period of 90 days. The Multicurrency Revolving Credit Facility matures on March 15, 2007.

Vivendi Universal is required to pay commitment fees at an annual rate of 50% of the then applicable margin on the undrawn, uncanceled amount of each bank's commitment until the final maturity date of the Multicurrency Revolving Credit Facility. Accrued commitment fees are payable quarterly in arrear and on the final maturity date of the Multicurrency Revolving Credit Facility. Vivendi Universal is also required to pay a utilization fee at a rate of 0.05% per annum on the aggregate amount of all loans then outstanding for each day the aggregate amount of all loans then outstanding exceeds 50% of the then total commitments under the Multicurrency Revolving Credit Facility. In addition, Vivendi Universal has agreed to pay certain fees to those banks that consented to certain waivers and consents under the Multicurrency Revolving Credit Facility. The amount of any such waiver fee is computed at a rate of 0.20% per annum on the consenting bank's commitment or, if greater, its participation in the loans on the applicable waiver fee date. We also pay the facility agent an annual agency fee.

The respective obligations of Vivendi Universal and the subsidiary guarantors under the Multicurrency Revolving Credit Facility rank pari passu with their obligations under the Dual Currency Credit Facility. The obligations of Vivendi Universal and the subsidiary guarantors under each of the Dual Currency Credit Facility and the Multicurrency Revolving Credit Facility are secured on a pro rata basis among the respective lenders as described above under the description of the Dual Currency Credit Facility.

The Multicurrency Revolving Credit Facility contains customary negative covenants which place restrictions on, among other things, the incurrence of certain security interests, guarantees, disposal of assets, mergers and acquisitions. Furthermore, the Multicurrency Revolving Credit Facility places restrictions that prevent Vivendi Universal from making any substantial change to the general nature or scope of its business and its subsidiaries from that conducted on May 13, 2003. Also, Vivendi Universal may not make certain amendments to the Senior Notes.

The Multicurrency Revolving Credit Facility also requires Vivendi Universal and the subsidiary guarantors to observe certain customary affirmative covenants, including, but not limited to, relevant authorizations, maintenance of insurance and status, perfection and protection of security interest, compliance with environmental laws and notification of defaults. Vivendi Universal is also required to provide financial and other information to the facility agent. In addition, Vivendi Universal must maintain various financial ratios, including:

- maximum ratios of net financial debt to cash EBITDA;

- minimum ratios of cash EBITDA to net financing costs; and

- maximum total gross financial debt.

Subject to certain other exceptions, Vivendi Universal has also agreed to procure that the part of the net financial debt incurred by its subsidiaries shall not at any time exceed in the aggregate an amount equal to 30% of the net financial debt.

Any borrower under the Multicurrency Revolving Credit Facility may voluntarily prepay any loan made to it in whole or in part if such borrower gives at least ten days' notice, subject to a minimum payment threshold and integral multiple requirements. Such voluntary prepayments will be applied pro rata among the lenders. Provided the obligor's agent gives at least ten days' notice, it may, without penalty or obligation to indemnify, cancel the unutilized portions of the total commitments in whole or in part, subject to a minimum threshold and integral multiple requirements. Any voluntary cancelation in part will be applied pro rata against the commitment of each bank. In the case of a voluntary prepayment or cancelation, Vivendi Universal must also prepay or cancel at the same time and in the same amount, the Dual Currency Credit Facility.

Unless Vivendi Universal attains and maintains an investment grade rating for a continuous period of 90 days and subject to certain other exceptions, the Multicurrency Revolving Credit Facility is subject to, mandatory prepayment with certain proceeds, including but not limited to, 50% of net dividend proceeds, 16 2/3% of net equity issue proceeds and 16 2/3% of net asset disposal proceeds (other than the disposal of VE shares (of which 50% is required to be prepaid), and the disposal of Cegetel Group and SIT (of which 25% is required to be prepaid).

In addition, subject to certain conditions, the Multicurrency Revolving Credit Facility is subject to, regardless of Vivendi Universal's rating, mandatory prepayment upon (a) Vivendi Universal's failure to comply with the specified financial ratios or (b) the occurrence of a change of control event.

The Multicurrency Revolving Credit Facility contains customary event of default provisions including, but not limited to, provisions relating to nonpayment, misrepresentation and breach of other obligations under the loan documents, cross-default, breach of covenants, insolvency and insolvency proceedings, material adverse changes, cessation of business and unlawfulness.

SENIOR NOTES DUE 2010

On April 3, 2003, Vivendi Universal issued $935 million in aggregate principal amount of 9.25% Senior Notes due 2010 and E 325 million in aggregate principal amount of 9.50% Senior Notes due 2010 (collectively referred to as the Senior Notes). The Euro denominated Senior Notes were issued at a discount to yield 9.75%. The Senior Notes are issued under an Indenture dated as of April 8, 2003, between Vivendi Universal and The Bank of New York, as trustee (the Indenture). In connection with the issuance of the Senior Notes, we have entered into an Exchange and Registration Rights Agreement dated April 8, 2003, with the initial purchasers of the Senior Notes (the Registration Rights Agreement).

The Senior Notes mature on April 15, 2010, and interest payments are payable on April 15 and October 15 of each year, commencing on October 15, 2003.

Pursuant to the Registration Rights Agreement, Vivendi Universal will, at its cost, for the benefit of the holders of the Senior Notes, to:

- no later than 90 days after the issue date of the Senior Notes, file a registration statement with the SEC with respect to a registered offer to exchange the Senior Notes for new Senior Notes of Vivendi Universal (Exchange Notes) having terms substantially identical in all material respects to the Senior Notes (except that the Exchange Notes will not contain terms with respect to transfer restrictions or payment of additional interest); and

- use its reasonable best efforts to cause the exchange offer registration statement to be declared effective under the Securities Act as soon as practicable but not later than 240 days after the issue date of the Senior Notes.

The Senior Notes are Vivendi Universal's general unsecured obligations. They rank pari passu in right of payment with all of Vivendi Universal's existing and future unsecured senior indebtedness and senior in right of payment to any of Vivendi Universal's future subordinated indebtedness. The Senior Notes are effectively junior to Vivendi Universal's secured indebtedness up to the value of the collateral securing such indebtedness.

Prior to the time that the Senior Notes receive an investment grade rating from both Standard & Poor's and Moody's and certain other conditions are satisfied (a Fall Away Event), the Indenture places certain restrictions on, Vivendi Universal's and its restricted subsidiaries' among other things, incurrence of debt, issuance preferred stock, payment of dividends in respect of, or a repurchase of, capital stock of Vivendi Universal, investments, creation of liens, or restrictions on the ability of our restricted subsidiaries to pay dividends or other amounts to Vivendi Universal, sale and leaseback transactions, transactions with affiliates, expansion into unrelated businesses, incurrence of financial guarantees, incurrence of indebtedness which is, subject to certain conditions, subordinated in right of payment to any other indebtedness of Vivendi Universal, and consolidation, merger or sale of all or substantially all assets.

After a Fall Away Event occurs with respect to either series of Senior Notes, the above limitations will no longer apply to that series of Senior Notes, except that the indenture will continue to place restrictions on the ability of Vivendi Universal and its restricted subsidiaries to, among other things, create liens, enter into specified sale and leaseback transactions and consolidate, merge or sell all or substantially all assets.

At any time prior to April 15, 2006, Vivendi Universal may use, subject to certain conditions, the net cash proceeds from any equity offering with gross proceeds of at least E 50 million to redeem up to 35% of the Senior Notes at a redemption price equal to 109.25% of the principal amount plus accrued and unpaid interest, in the case of the US dollar-denominated Senior Notes, and 109.50% of the principal amount plus accrued and unpaid interest, in the case of Euro-denominated Senior Notes. At any time prior to April 15, 2007, Vivendi Universal may redeem at its option the Senior Notes, in whole or in part, upon not less than 30 nor more than 60 day's prior notice at a redemption price equal to 100% of their principal amount and accrued and unpaid interest plus the applicable make-whole premium. At any time on or after April 15, 2007, Vivendi Universal may redeem at its option the Senior Notes, in whole or in part, upon not less than 30 nor more than 60 day's prior notice at the redemption prices (expressed as a percentage of principal amount) set forth below plus accrued and unpaid interest, if redeemed during the 12-month period beginning on April 15 of the years indicated below:

YEAR	DOLLAR NOTE PERCENTAGE	EURO NOTE PERCENTAGE
2007..	104.625%	104.750%
2008..	102.313%	102.375%
2009 and thereafter...........................	100.000%	100.000%

Before the occurrence of a Fall Away Event, the holders of the Senior Notes may, subject to certain conditions, require Vivendi Universal to repurchase the Senior Notes (a) for a price equal to 101% of the principal amount plus accrued and unpaid interest upon a change of control or (b) for a price equal to 100% of the principal amount plus accrued and unpaid interest with a portion of the net cash proceeds of certain assets sales.

The indenture contains customary event of default provisions including nonpayment, cross-default, failure to pay judgments, bankruptcy, insolvency and breach of covenants or other obligations.

SECURITIZATION FACILITY

On March 31, 2003, Film Funding, a subsidiary of VUE, borrowed $750 million under a securitization facility (the Securitization Facility) based on future video (including DVD and VHS) and television revenues in the United States from part of its existing film library and future theatrical pictures. As part of the Securitization Facility, certain subsidiaries of VUE transferred film assets which generate these revenues and certain other related assets to Film Funding and agreed to sell additional similar assets relating to future theatrical pictures. The proceeds of the Securitization Facility were used by VUE to retire $700 million of the $1.62 billion owed under the VUE Bridge Facility (described below), and to establish a funded reserve account required under the terms of the Securitization Facility, to be used to fund certain expenses related to exploitation of the film assets (e.g., costs of duplication and distribution expenses). Borrowings under the Securitization Facility currently bear interest at a rate of 1.50% over one-month LIBOR. The Securitization Facility has the benefit of a financial guaranty insurance policy issued by Ambac Assurance Corporation which guarantees to the lenders timely payment of interest and ultimate payment of principal. The Securitization Facility is scheduled to amortize over three years, commencing three years after the initial borrowing.

The Securitization Facility was arranged by Banc of America Securities LLC and J.P. Morgan Securities, Inc. with the funding being provided to Film Funding by a number of commercial paper conduit purchasers. Film Funding also received 364-day commitments from banks to provide funding if the conduit purchasers do not provide funding. If the commitments are not renewed, all or a portion of the Securitization Facility could commence amortization earlier than the third anniversary of the initial borrowing.

The Securitization Facility contains partial amortization events, early amortization events and event of default provisions that are triggered by, among other things, a failure to satisfy collateral performance tests, nonpayment, misrepresentation and breach of other obligations under the securitization documents, cross-default, insolvency and insolvency proceedings, judgments, and the ineffectiveness of the security interests and failure to satisfy an interest coverage test for VUE. Occurrence of any of these events could cause a requirement to amortize a portion or all of the Securitization Facility prior to the scheduled date.

The Securitization Facility places certain obligations on Film Funding and VUE and its other subsidiaries to maintain their distinct corporate identity, including but not limited to restrictions on the commingling of funds, maintenance of records, books of account and financial statements, and restrictions on the ability of Film Funding on the one hand, and VUE and its subsidiaries, on the other hand, to guarantee, hold themselves out as liable for or pledge assets to secure obligations of the other.

SOCIETE D'INVESTISSEMENT POUR LA TELEPHONIE FACILITY

We have entered into a E 1.3 billion facility (the Acquisition Facility) dated December 6, 2002, as amended as of June 25, 2003, among SIT, as the borrower, Vivendi Universal, a syndicate of lenders, Credit Lyonnais, as agent, and The Royal Bank of Scotland, as security trustee. The Acquisition Facility was entered into by SIT to finance the purchase by SIT of 26% of the share capital of Cegetel Group.

The outstanding amount of the loan under the Acquisition Facility is E 1.3 billion. The maturity date of the loan is June 30, 2004. SIT may request an extension of the maturity date to June 30, 2010, by providing notice prior to June 1, 2004. If SIT requests such an extension, the loan will be repaid in periodic installments over the term of the loan until the final installment on June 30, 2010. There is a scheduled repayment of E 105 million on June 30, 2003.

Borrowings under the Acquisition Facility bear interest at EURIBOR plus a margin of 4.00%, subject to certain adjustments.

The Acquisition Facility contains certain negative covenants which restrict or limit the ability of SIT and Cegetel Group and its subsidiaries to, among other things, create certain liens, dispose of certain assets, incur certain indebtedness, declare or pay certain dividends or distributions and pay certain management, advisory or other fees. In addition, SIT and Cegetel Group are required to maintain various financial ratios, including:

- minimum Cegetel Group EBITDA;

- maximum ratios of Cegetel Group total net debt to Cegetel Group EBITDA; and

- minimum ratios of Cegetel Group cash flow to the total funding costs of SIT.

SIT may, on not less than five business days' notice, cancel all or part of the undrawn part of the Acquisition Facility or prepay all or part of the outstanding loan, in each case subject to certain minimum requirements. The Acquisition Facility also provides for mandatory prepayment upon, among other things:

- Vivendi Universal ceasing to own the entire issued share capital of SIT;

- SIT disposing of all or any of the Cegetel Group shares acquired by it in the transaction financed by loans made under the Acquisition Facility;

- Vivendi Universal or its subsidiaries disposing of all or any Cegetel Group shares owned by any of them as of the date of the acquisition agreement, subject to certain exceptions; and

- Cegetel Group disposing of any shares held by it in Societe Francaise du Radiotelephone or any of its material subsidiaries.

The Acquisition Facility also requires, subject to certain exceptions, mandatory repayment of the loan from the net proceeds of new equity share capital issued by SIT and certain dividends or distributions from Cegetel Group received by SIT.

The Acquisition Facility contains customary event of default provisions, including provisions relating to nonpayment, misrepresentation, insolvency, unlawfulness, cessation of business and material adverse change.

VUE LOAN AGREEMENT

On June 24, 2003, VUE entered into a $920 million loan agreement with Bank of America, N.A. and JPMorgan Chase Bank, as co-administrative agents, the lenders party thereto, Barclays Bank PLC, as syndication agent, and JPMorgan Chase Bank, as collateral agent and as paying agent (the VUE Loan Agreement). The full amount of the facility was drawn at closing and the proceeds have been used to repay the remaining outstanding portion of the $1.62 billion loan dated May 3, 2002, as amended and restated as of November 25, 2002.

Borrowings under the VUE Loan Agreement are denominated in US Dollars and bear interest at either Eurodollar rate plus a margin of 2.75% or ABR plus a margin of 1.75%. The loan will mature in 16 consecutive quarterly installments commencing on September 30, 2004, each of which shall be equal to, in the case of the first 12 installments, 0.25% of the loan principal and, in the case of each of the last four installments, 24.25% of the loan principal.

Certain of VUE's subsidiaries guarantee VUE's obligations under the VUE Loan Agreement. VUE's obligations as borrower and the guarantors' obligations are secured by a first priority lien on the assets of VUE and the guarantors, and portions of the collateral may be released in certain transactions and circumstances. In addition, Vivendi Universal and certain of its subsidiaries have agreed to the subordination of inter-company indebtedness owing to them by VUE and the guarantors.

The VUE Loan Agreement contains negative covenants that restrict the ability of VUE and certain of its subsidiaries to engage in certain activities, including, but not limited to:

- limitations on creating or permitting to subsist certain security interests on their assets;

- limitations on disposals of assets;

- limitations on the incurrence of indebtedness (including financial guarantees);

- limitations on investment;

- limitations on restricted payments (unless the loans are rated investment grade), such as limitations on the payment of dividends or distributions of other amounts in respect of equity interests, as well as limitations on investments in, purchases of any indebtedness owing to, or other payments on account of, Vivendi Universal and its subsidiaries, and intercompany loans to Vivendi Universal and its subsidiaries;

- limitations on transactions with affiliates, sale and leaseback transactions, swap agreements, changes in fiscal periods, negative pledges, restrictions on subsidiary distributions, and permitted lines of business; and

- limitations on fundamental changes, including mergers, consolidations, and amalgamations.

In addition, VUE must maintain certain financial ratios at all times, namely:

- maximum ratios of consolidated indebtedness to consolidated EBITDA;

- maximum cash leverage ratios;

- maximum senior leverage ratios;

- minimum ratios of consolidated EBITDA to consolidated interest expense; and

- minimum ratios of cash EBITDA to consolidated fixed charges.

Unless the loans under the VUE Loan Agreement are rated investment grade, the VUE Loan Agreement, subject to certain exceptions, (a) places limitations on the ability of VUE and its subsidiaries to make loans, advances or pay dividends to Vivendi Universal and certain of its subsidiaries that are not VUE or

subsidiaries of VUE, (b) limits the net balance of loans between VUE, including its subsidiaries, and Vivendi Universal, including its subsidiaries, to an aggregate of $600 million and (c) prohibits VUE from distributing the net proceeds from the disposal of certain assets.

The VUE Loan Agreement also requires VUE and certain of its subsidiaries to observe certain affirmative covenants, including, but not limited to, relevant authorizations, maintenance of property and insurance, compliance with laws and obligations, provision of financial and other information, maintenance of the separateness of Vivendi Universal entities and VUE entities in respect of funds, assets, accounts, records and corporate formalities, maintenance and contributions of collateral, interest rate protection and notification of defaults.

VUE may voluntarily prepay loans under the VUE Loan Agreement in whole or in part if it gives at least three business days' notice, subject to a minimum payment threshold and integral multiple requirements. Subject to certain conditions, VUE must prepay the loans (or, in some cases, cash collateralize its obligations) under the VUE Loan Agreement with the proceeds of certain issuances of indebtedness, asset sales, issuances of equity interests and recovery events.

ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our operations should be read in conjunction with our Consolidated Financial Statements and related notes included elsewhere in this document.

BASIS OF PRESENTATION

The discussion presented below focuses on an analysis of Vivendi Universal's financial and business segment results prepared in accordance with generally accepted accounting principles in France (French GAAP), which differ in certain significant respects from accounting principles generally accepted in the United States (US GAAP). For a discussion of the most significant reconciling items see "Results of Operations--Adjustments to Conform to US GAAP" in Note 17 to our Consolidated Financial Statements included in this document.

The company, under previous management, announced that it intended to fully adopt US GAAP reporting standards beginning in 2002 as supplemental financial information for investors. Following the change in senior management in July 2002, it was decided that Vivendi Universal, as a French Company, would prospectively only report its primary financial statements in French GAAP with a reconciliation to US GAAP. The company will, however, periodically publish selected US GAAP financial information as required under certain of its debt agreements.

RECENT DEVELOPMENTS

Following a period of significant acquisition-related growth from the late 1990's through the first half of 2002, the associated increase in leverage led to heightened concerns during the first half of 2002 over the validity of Vivendi Universal's strategy in a deteriorating environment and, eventually, to the appointment of a new management team. See "Item 4--Information on the Company--History and Development of the Company." Concerns over Vivendi Universal's strategy and financial flexibility led Moody's to reduce Vivendi Universal's senior debt rating on July 1, 2002, from Baa3 to Ba1, under review for possible further downgrade. Standard & Poor's followed suit the next day, with a one-notch downgrade to BBB- with a negative outlook. The unfavorable development in our rating continued during the balance of 2002. See "--Liquidity and Capital Resources." The July downgrades had an immediate impact on Vivendi Universal's short-term liquidity. In particular Vivendi Universal lost, to a significant extent, access to the capital markets, and most importantly to the commercial paper market, historically its main source of funding for working capital needs.

The new management team addressed Vivendi Universal's immediate liquidity concerns by securing on July 10, 2002, a E 1.0 billion multi-currency term loan facility, which was repaid in December 2002. This was done with a view of putting in place a longer-term solution once the new management had the opportunity to better assess the medium-term situation. Following its review, the new management revised the previous

management's cash-flow projections for the period from July 2002 to December 2004 and wrote-off E 11 billion in acquisition-related goodwill while adding E 3.4 billion in financial provisions. This resulted in a E 12.3 billion net loss in the first half of 2002, which was publicly announced on August 14, 2002. At the same time, Vivendi Universal announced a E 16 billion asset divestiture program intended to be completed by 2004 in order to substantially reduce debt.

During the second half of 2002, Vivendi Universal closed asset sales for total consideration of approximately E 6.7 billion, including the assumption by the acquirers of the assets of approximately E 0.4 billion in debt, and we have continued to complete divestitures in 2003. At December 31, 2002, Vivendi Universal's net debt was E 12.3 billion compared with E 37.1 billion at December 31, 2001. Excluding the net debt of Veolia Environnement which, following divestitures of an additional portion of our shareholding interest therein in 2002, was deconsolidated from Vivendi Universal's balance sheet on December 31, 2002, net debt fell by approximately E 9.0 billion. In the first half of 2003 we implemented a refinancing plan in order to give us substantial flexibility in connection with the execution of our asset divestiture program, to increase funds available to Vivendi Universal and to extend the scheduled maturities of our debt facilities. For a description of our material outstanding indebtedness, see "Item 4--Information on the Company--Summary of Indebtedness."

COMPARABILITY

PRO FORMA INFORMATION; ACQUISITIONS AND DIVESTITURES.

The pro forma information presented below, which is not compliant with Article 11 of the Securities and Exchange Commission Regulation SX, has been included since it is required under French GAAP in Vivendi Universal's Consolidated Financial Statements to promote comparability. Such information has been presented in Note 2 to our Consolidated Financial Statements.

As several significant transactions completed in 2001 and 2002 have realigned our businesses and impacted the comparability of our financial statements, we present financial information for these years both for our consolidated group and for each of our business segments on a pro forma basis. The pro forma information illustrates the effect of the acquisitions of the entertainment assets of InterActiveCorp (formerly known as USA Interactive and prior thereto as USA Networks, Inc.), or USAi, in May 2002, Maroc Telecom in April 2001 and MP3.com in August 2001, and the disposition of certain interests in Veolia Environnement and Vivendi Universal Publishing, as if these transactions had occurred at the beginning of 2001. Additionally, the pro forma information include the results of Universal Studios international television networks in Vivendi Universal Entertainment in both 2002 and 2001 (in the actual 2002 results, the results of Universal Studios international television networks were reported by Canal+ Group). This reclassification has no impact on the overall results of Vivendi Universal. We believe that pro forma results may help the reader to better understand our business results as they include comparable operations in each year presented. However, it should be noted that the pre-acquisition results of an acquired business accounted for on a historical cost basis are not directly comparable to the post-acquisition results of acquired entities whose initial purchase price was allocated on a fair value basis. The pro forma results are not necessarily indicative of the combined results that would have occurred had the events actually occurred at the beginning of 2001.

For a discussion of the above transactions and other significant transactions that have occurred during the period 2000 to 2002, see "Item 4--Information on the Company--History and Development of the Company."

Given our ongoing asset divestiture program, our year to year comparisons of financial results will continue to be difficult in coming years.

REALIGNMENT OF SEGMENT REPORTING

In 2002, we realigned our segment reporting to reflect the new business organization and management structures resulting from the change in management and the dispositions of businesses which occurred in the second half of the year.

CHANGES IN ACCOUNTING PRINCIPLES AND FINANCIAL STATEMENT PRESENTATION

In 2001, Vivendi Universal adopted new accounting principles and modified its financial statement presentation in order to more closely align accounting policies between French GAAP and US GAAP. The principal changes, as they relate to the discussion presented below, are as follows:

- As permitted by French Regulation 99.02 (sec.41), Vivendi Universal elected to present its Consolidated Statement of Income in a format that classifies income and expenses by function rather than by nature, which was the format presented in prior years.

- For our subsidiary Veolia Environnement (which was deconsolidated from the Vivendi Universal balance sheet as of December 31, 2002), revenues include operating subsidiaries and exclude revenues related to construction of assets for internal use.

- The definition of exceptional items has been restricted to include only material items of an unusual nature that arise from events or transactions outside the ordinary course of business and which are not expected to recur. For Vivendi Universal, exceptional items are primarily comprised of gains and losses on the divestiture of businesses. Exceptional items are presented as a separate component in our Consolidated Statement of Income after operating income and financial expenses but before income taxes. Prior to 2001, Vivendi Universal had a broader definition of exceptional items, including restructuring costs, plant dismantling and closure costs and the effect of guarantees given when exercised, among others. These items are now included as a component of operating income.

In order to facilitate the discussion and comparability of 2001 and 2000 financial results, we have presented the 2000 financial statements on a comparable basis.

In 2000, Vivendi Universal adopted new accounting principles related to foreign currency translation/ transactions, subscriber acquisition costs and sports broadcasting rights as follows:

- Income and expenses of subsidiaries whose functional currency is not the euro, which were previously translated at the year-end exchange rate, are now translated at the average exchange rate during the period. Gains on foreign currency transactions, which were previously deferred, are now recorded in current period earnings.

- Subscriber acquisition costs, which were previously spread over 12 months from the date the line was put into service, are now charged to expense.

- Broadcasting rights acquired by Canal+ Group are now capitalized as intangible assets and are amortized over the period of the agreement. The cumulative effect of this change had no impact on net income in 2000. Total assets increased by E 2 billion in 2000 (most of which related to intangible assets) and total liabilities and shareholders' equity increased by the same amount.

For further discussion of some of the policies used in preparing our financial statements and comparability see Note 1 to our Consolidated Financial Statements.

GOODWILL, IMPAIRMENT OF GOODWILL AND FINANCIAL ASSETS

Vivendi Universal's acquisition-related growth strategy resulted in significant goodwill on its balance sheet. By the end of 2000, goodwill amounted to E 47.1 billion. In view of the continuing deterioration of the economy since December 2000, Vivendi Universal recorded significant goodwill impairment in both 2001 (E 13.5 billion) and 2002 (E 18.4 billion).

Following these impairments, and the other changes in goodwill described in Note 3 to our Consolidated Financial Statements, goodwill at December 31, 2002 stood at E 20 billion. Vivendi Universal is required under French GAAP to add goodwill of approximately E 3 billion to its balance sheet as a consequence of the acquisition of an additional interest in Cegetel Group in January 2003. Under French GAAP, goodwill is amortized over a 40 year period. Recurring amortization totaled E 1.3 billion in 2002 and E 1.7 billion in 2001, and Vivendi Universal expects to continue to incur significant expense for goodwill amortization in the coming years. Under US GAAP, goodwill is no longer amortized but is subject to annual impairment tests.

Impairments are calculated using the group's accounting principles for long-term assets. Long-term assets are subject to an exceptional impairment of goodwill if events result in, or show a risk of, an unexpected reduction in the value of the assets. In this situation, their fair value is re-assessed and a provision is made to cover any eventual significant difference between the book value and the realizable value.

This exceptional impairment, in both 2002 and 2001, was calculated as the difference between the net book value of the impacted businesses and their value, as estimated with the assistance of independent valuation experts. Fair value is determined as follows:

- The fair value of the business units is determined by an analysis of discounted cash flows.

- If this method is irrelevant for the business unit, other standard criteria are available: comparison to similar listed companies, assessment to the value attributed to the business units involved in recent transactions, and the market price for publicly-listed business units.

- The fair values of the business units included in the asset divestiture program are assessed on the basis of their market value. Market value is defined as the amount that could be obtained at the date of sale for an asset where the transaction is concluded at normal market conditions, net of transaction costs.

Regarding the discounted cash flow method of analysis, the three factors taken into account were cash flow, rate of return and perpetual growth rate. The source of the cash flow statements used for the analysis were the business plans of the business units concerned available at the time of the analysis, approved by the management and presented to the Board of directors. The rate of return was based upon an analysis of the average cost of capital of the relevant business units. Their cost of capital and growth rate were determined by taking into account the specific business environment in which each business unit operated, and specifically the maturity of the market and the geographic localization of its operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Accounting policies discussed in this section are those that we consider to be critical to an understanding of our financial statements because their application places the most significant demands on our ability to judge the effect of inherently uncertain matters on our financial results. For all of these policies, we caution that future events rarely develop exactly as forecast, and that the best estimates routinely require adjustment.

USE OF ESTIMATES -- The preparation of these financial statements requires management to make informed estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to the sale of future and existing music and publishing related products, as well as from the distribution of theatrical and television products, in order to evaluate the ultimate recoverability of accounts receivable, film inventory, artist and author advances and investments and in determining valuation allowances for investments, long-lived assets, pension liabilities and deferred taxes. Estimates and judgments are also required and regularly evaluated concerning financing operations, restructuring costs, contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates under different assumptions or conditions.

MERGER ACCOUNTING -- Vivendi Universal completed several significant transactions during the periods covered by its Consolidated Financial Statements included in this document. Generally accepted accounting principles require that acquisitions be recorded based on an assessment of the fair value at the acquisition date of the tangible and intangible assets acquired and liabilities assumed. As a result of recent acquisitions, Vivendi Universal, with the assistance of third-party valuation experts in certain areas, has estimated the fair value of intangible assets (such as film and television libraries, music catalogs and trade names), tangible assets (such as property, equipment, inventory and marketable securities), liabilities and commitments (such as favorable or unfavorable leases and contracts and certain restructuring costs incident to the acquisitions)

and preacquisition contingencies (such as litigation) for use in recording the purchase price of its acquisitions. The excess of purchase price over net assets acquired is reflected as goodwill. Should the value of acquired intangible or tangible assets, including goodwill, become impaired, a non-cash write-down of these assets may be required. Should restructuring costs incidental to the acquisition, which in the case of Vivendi Universal generally relate to employee severance costs, differ from the liability established at the time of acquisition, additional cash charges to operations or non-cash releases of the established liability to operations may be required. Ultimate settlement of preacquisition contingencies could differ significantly from the contingency reflected at the time of acquisition, which could lead to additional cash charges to operations or non-cash release of the established liability to operations.

REVENUE RECOGNITION -- For Music, revenues from the sale of recorded music, net of provision for estimated returns and allowances, are recognized on shipment to third parties.

For VUE and Canal+ Group segments, theatrical revenues from the distribution of films are recognized as the films are exhibited. Home video product revenues, less a provision for estimated returns and allowances, are recognized upon availability of product for retail sale to the ultimate customer. Revenues from television and pay television licensing agreements are recognized when the films are available for telecast, and all other conditions of the sale have been met. Revenues from television subscription services related to cable and satellite programming are recognized as the services are provided. Revenues at theme parks are recognized at the time of visitor attendance. Revenue for retail operations is recognized at point-of-sale.

Revenues from telephone service and installation are recognized as they occur. Subscriptions are billed monthly in advance, and recorded as a deferred revenue liability, before transfer to earnings of the period during which the service is provided. Prepaid fees are deferred and recognized as the purchased minutes are used. Service discounts are accounted for as a reduction of revenue when the service is used, or on provision of line access in the case of pack discounts.

Vivendi Universal records VU Games revenue when goods are shipped to the customer except if risk of ownership does not transfer to the customer upon shipment.

Finally, Internet revenues are primarily derived from subscriptions, advertising and e-commerce activities. Subscription revenues are recognized over the period that services are provided. Advertising revenues are recognized in the period that advertisements are displayed.

VALUATION OF LONG-LIVED ASSETS -- Vivendi Universal reviews the carrying value of its long lived assets held and used, intangible assets that do not have indefinite lives and long lived assets to be disposed of whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. This review is performed using estimates of future cash flows. Management believes that the estimates of future cash flows and fair value are reasonable; however, changes in estimates resulting from lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuations of those long-lived assets.

GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE LIVES -- Vivendi Universal regularly reviews the carrying value of goodwill and other intangible assets that are determined to have an indefinite life. These assets are tested for impairment on an annual basis and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of these assets below the carrying value. The fair value of these assets is determined using a discounted cash flow analysis, which is based on business plans approved by the Board or, if this method is irrelevant for the business unit, other standard criteria are used including: a comparison to similar listed companies, an assessment of the value attributed to the business units involved in recent transactions and an assessment of the fair value of the business unit included in the asset divestiture program. Management believes that the estimates of future cash flows and fair value are reasonable; however, changes in estimates resulting in lower cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuations.

PENSION BENEFIT COSTS -- Vivendi Universal's pension benefit obligations and the related costs are calculated using actuarial models and assumptions applicable in the countries where the plans are located, principally the United States, Canada, United Kingdom, France, Germany and Japan. Two critical assump-

tions, discount rate and expected return on assets, are important elements of plan expense and/or liability measurement. We evaluate these critical assumptions at least annually. Other assumptions involve demographic factors such as retirement, mortality, turnover and rate of compensation increase. These assumptions are evaluated periodically and are updated to reflect our experience. Actual results in any given year will often 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 latitude in selecting this rate, as it is required to represent the market rate for high-quality fixed income investments. A lower discount rate increases the present value of benefit obligations and increases pension expense. We reduced our weighted average discount rate from 6.3% in 2001 to 5.7% in 2002 to reflect market interest rate conditions. For our US plans, a further 50 basis point decrease in the discount rate would increase pension expense by approximately E 1 million per year. To determine the expected long-term rate of return on pension plan assets, we consider the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. For our US plans, a 50 basis point decrease in the expected return on assets of principal plans would increase pension expense on our principal plans by approximately E 2 million per year. We assumed that the weighted average of long-term returns on our pension plans were 7.2% in 2002 and 7.4% in 2001. Further information on our principal pension plans is provided in Note 17.4 to our Consolidated Financial Statements, including disclosure of these assumptions.

FILM AND TELEVISION REVENUES AND COSTS -- Vivendi Universal expenses the cost of film and television production over the applicable product life cycle based on the ratio of current period's gross revenues to the estimated remaining total gross revenues. These estimates are calculated based on an individual production basis. Estimates of total gross revenues can change for a variety of factors, including the level of market acceptance, advertising rates and subscriber fees. Television rights for sports, theatrical movies, series and other programs are charged to expense based on the life cycle of the program over the license period. Estimates of usage of television network programming can change based on competition and audience acceptance. Accordingly, revenue estimates and planned usage are reviewed periodically and are revised if necessary. A change in revenue projections or planned usage could have an impact on our results of operations. Costs of film and television productions and programming rights are subject to valuation adjustments pursuant to the applicable accounting rules. If actual demand or market conditions are less favorable than our projections, potentially significant film, television or programming cost write-downs may be required.

MUSIC ADVANCES TO ARTISTS -- For established artists, Vivendi Universal capitalizes advances and direct costs associated with the creation of record masters and expenses 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 past performance and current popularity provides a sound basis for estimating the recoverability of the advance. Advances to artists who are not established are expensed as incurred. Estimates of recoverability can change based on the current popularity of the artist based on sales through the reporting period. If it appears that a portion of the advance is not recoverable from royalties to be earned by the artist, a provision is made in the period that a loss becomes apparent.

FINANCIAL INSTRUMENTS -- Vivendi Universal uses various techniques designed to manage risk and costs associated with its financing. Vivendi Universal commonly uses exchangeable debt, which represents long-term debt exchangeable for common stock of another publicly traded company or Vivendi Universal itself. Generally, the bondholder may choose to receive either cash or the underlying security at settlement. Should the underlying security decline in value, this may result in the recording of an allowance related to the valuation of the security by Vivendi Universal and could result in the bondholder electing to receive cash at settlement. In addition, Vivendi Universal uses various derivative financial instruments to hedge exposure to fluctuations in interest rates, currency exchange rates and investments in debt and equity securities.

RECEIVABLES FROM EQUITY AFFILIATES -- Vivendi Universal holds minority interest receivables in companies having operations or technology in areas within or adjacent to its strategic focus. Some of these companies are publicly traded and their share prices are highly volatile while some of these companies are non-publicly traded and their value is difficult to determine. Vivendi Universal records an investment impairment charge when it believes an investment has experienced a decline in value that is other than temporary, and records 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.

DEFERRED TAX ASSETS -- Vivendi Universal records deferred tax assets in the amount that it believes is more likely than not to be realized. While we have future taxable income and ongoing prudent and feasible tax planning strategies, in the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made. Likewise, should Vivendi Universal determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax assets would increase income in the period such determination was made.

CONTINGENCIES -- Vivendi Universal records liabilities when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. Disclosure is required when there is a reasonable possibility that the ultimate loss will exceed the recorded provision. Contingent liabilities are often resolved over long time periods. Estimating probable losses requires analysis of multiple forecasts that often depend on judgments about potential actions by third parties such as regulators. Further information on commitments and contingencies is included in Note 11 to our Consolidated Financial Statements.

RESULTS OF OPERATIONS

EARNINGS SUMMARY

	YEAR ENDED DECEMBER 31,	
	ACTUAL	PRO FORMA(3)

	2002(1)	2001	2000(2)	2002	2001
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)				
REVENUES	E 58,150	E 57,360	E 41,580	E 28,729	E 27,733
OPERATING INCOME	3,788	3,795	1,823	2,037	2,113
Financial expenses, net	(1,333)	(1,455)	(1,288)	(624)	(724)
Financial provisions	(2,895)	(482)	(196)	(2,786)	(410)
Other income (expense)	(514)	9	722	(658)	26
INCOME (LOSS) BEFORE EXCEPTIONAL ITEMS, INCOME TAXES, GOODWILL AMORTIZATION, EQUITY INTEREST AND MINORITY INTEREST	(954)	1,867	1,061	(2,031)	1,005
Exceptional items, net	1,049	2,365	3,812	561	2,328
Income tax expense	(2,556)	(1,579)	(1,009)	(2,319)	(1,043)
INCOME (LOSS) BEFORE GOODWILL AMORTIZATION, EQUITY INTEREST AND MINORITY INTEREST	(2,461)	2,653	3,864	(3,789)	2,290
Equity in earnings of disposed businesses(1)	17	--	--	--	--
Equity in losses of unconsolidated companies	(294)	(453)	(306)	(266)	(802)
Goodwill amortization	(1,277)	(1,688)	(634)	(1,040)	(1,438)
Goodwill impairment	(18,442)	(13,515)	--	(18,442)	(12,519)
INCOME (LOSS) BEFORE MINORITY INTEREST	(22,457)	(13,003)	2,924	(23,537)	(12,469)
Minority interest	(844)	(594)	(625)	(571)	(759)
NET INCOME (LOSS)	E (23,301)	E (13,597)	E 2,299	E (24,108)	E (13,228)
EARNINGS (LOSS) PER SHARE Basic	E (21.43)	E (13.53)	E 3.63	E (22.17)	E (12.81)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING(4) Basic	1,087.4	1,004.8	633.8	n/a	n/a
Net cash provided by operating activities	E 4,670	E 4,500	E 2,514	n/a	n/a
Net cash provided by (used for) investing activities	405	4,340	(1,481)	n/a	n/a
Net cash used for financing activities	(3,792)	(7,469)	(631)	n/a	n/a

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(1) At December 31, 2002, Vivendi Universal applied the option proposed in paragraph 23100 of the French rules 99-02 and has presented the equity in (losses) earnings of businesses which were sold during the year on one line in the consolidated statement of income as "equity in (losses) earnings of disposed businesses." Disposed businesses include all of the Vivendi Universal Publishing activities excluding: Vivendi Universal Games, publishing activities in Brazil, the consumer press division (the divestiture of which was completed in February 2003) and Comareg (the divestiture of which was completed in May 2003).

(2) Reflects changes in accounting principles and financial statement presentation adopted in 2001, as discussed in "--Comparability--Changes in Accounting Principles and Financial Statement Presentation."

(3) The pro forma information illustrates the effect of the acquisitions of the entertainment assets of InterActiveCorp (formerly known as USA Interactive and prior thereto as USA Networks, Inc.), or USAi, in May 2002, Maroc Telecom in April 2001 and MP3.com in August 2001, and the disposition of certain interests in Veolia Environnement and Vivendi Universal Publishing, as if these transactions had occurred at the beginning of 2001. Additionally, the pro forma information includes the results of Universal Studios international television networks in Vivendi Universal Entertainment in both 2002 and 2001 (in the actual 2002 results, the results of Universal Studios international television networks were reported by Canal+ Group). This reclassification has no impact on the total results of Vivendi Universal. We believe that pro forma results may help the reader to better understand our business results as they include comparable operations in each year presented. However, it should be noted that the pre-acquisition results of an acquired business accounted for on a historical cost basis are not directly comparable to the post-acquisition results of acquired entities whose initial purchase price was allocated on a fair value basis. The pro forma results are not necessarily indicative of the combined results that would have occurred had the events actually occurred at the beginning of 2001.

(4) Excludes treasury shares recorded as a reduction of shareholders' equity.

COMPARISON OF 2002 VERSUS 2001

Where indicated, the following comparison of 2002 versus 2001 discusses results of operations on both an actual basis and a pro forma basis. Pro forma results of operations reflects the effect of the acquisitions of the entertainment assets of USAi, Maroc Telecom and MP3.com, disposition of certain interests in Veolia Environnement and Vivendi Universal Publishing, as if these transactions had occurred at the beginning of 2001. See Note 2 to our Consolidated Financial Statements for further information on pro forma results of operations.

REVENUES

Actual -- Total revenues increased 1% (3% on a constant currency basis) from E 57.4 billion in 2001 to E 58.1 billion in 2002, primarily reflecting the acquisition in May 2002 of USAi's entertainment assets, partially offset by the fact that revenues generated by Vivendi Universal Publishing operations sold in 2002 are not included in 2002 revenues whereas they are included in 2001 revenues. See the discussion in "-- Comparability."

Pro Forma -- On a pro forma basis, revenues increased 4% (6% on a constant currency basis) from E 27.7 billion in 2001 to E 28.7 billion in 2002, with Cegetel Group leading revenue increases in all our operating segments other than Universal Music Group.

For an analysis of revenues by business segment, see "-- Business Segment Results."

COST OF REVENUES

Cost of revenues represented 69.8% of revenues or E 40.6 billion in 2002 compared to 68.9% of revenues or E 39.5 billion in 2001. The loss in gross margin came from: Canal+ Group, due to increases in programming costs and the write-off of films at Studio Canal, Universal Music due to declining revenues and higher Artist & Repertoire (A&R) and royalty costs, the deconsolidation of

Publishing businesses sold which operated at gross margins of 50% and Veolia Environnement, mainly due to negative impact of currency exchange rates. Cegetel and Maroc reported margin improvements as the result of managing costs efficiently as revenues rose, in particular thanks to productivity gains in interconnection and network costs at Cegetel. Vivendi Universal Entertainment's margins improved mainly due to the inclusion of eight months of performance of USA Entertainment assets in 2002. USA Entertainment assets include USA Networks, Sci Fi Channel as well as the highly profitable Law & Order franchise. The full year consolidation of Maroc Telecom and the seven-

month consolidation of USAi entertainment assets also contributed to the E 1.1 billion increase in cost of revenues.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses represented 22.2% of revenues or E 12.9 billion in 2002 compared to 23.9% of revenues or E 13.7 billion in 2001. In relation to revenues, the cost improvements are attributed to the deconsolidation of the Publishing businesses sold as they carried higher selling, general and administrative costs at 38% of revenues compared to the group average and cost management at Cegetel and Maroc Telecom, which reflects the effect of economies of scale as fixed costs were spread over a larger revenue base and the contributive margin from the acquired USAi entertainment assets at Vivendi Universal Entertainment. These improvements were offset by a significant increase in expenses at Holding and Corporate related to pensions and insurance.

OPERATING INCOME

Actual -- Total operating income was unchanged at E 3.8 billion in 2002 compared to 2001 as increases in cost of revenues and other operating expenses were offset by a decline in selling, general and administrative expenses.

Pro Forma -- On a pro forma basis, operating income declined 4% (1% on a constant currency basis) from E 2.1 billion to E 2.0 billion as increases in cost of revenues and other operating expenses were partially offset by a decline in selling, general and administrative expenses. Operating income in our six core operating segments increased 18% (21% on a constant currency basis) from E 2.7 billion to E 3.2 billion, primarily reflecting strength at Cegetel Group and reduced losses at Canal+ Group. However, operating losses incurred by other businesses, including holding and corporate, at E 1.1 billion, more than offset the overall improvement in our core businesses.

For an analysis of operating income (loss) by business segment, see "-- Business Segment Results."

Financial Expenses, Net

In 2002, net financial expenses amounted to E 1.3 billion, a decline of 8% compared to 2001. The sales of Houghton Mifflin, the majority of Vivendi Universal Publishing's other operations, our investment in EchoStar and a portion of our interest in Veolia Environnement at the end of the year significantly reduced our debt level. However, the first half of the year included the cost of financing the acquisition of the entertainment assets of USAi and EchoStar. The average cost of debt in 2002 was 4.1% (excluding Veolia Environnement) compared to 4.0% in 2001. Of the total financing costs in 2002, E 683 million pertained to Veolia Environnement, which was deconsolidated at the end of the year.

Financial Provisions

Financial provisions increased significantly in 2002 to E 2.9 billion from E 482 million in 2001, primarily due to non-cash charges required to reduce the carrying value of certain publicly traded and privately held investments that experienced other-than-temporary declines. The most significant provisions related to: the investment in Elektrim Telecommunikacja (E 609 million); the USAi warrants (E 454 million); interest rate swaps (E 261 million); Vivendi Universal call option premium (E 226 million); investments in UGC and UGC Cine Cite (E 220 million); investments in international telecoms operations (E 175 million); and the investment in DuPont shares (E 173 million). For additional details, see Note 10 to our Consolidated Financial Statements.

Other Income (Expense)

Other income (expense) is principally comprised of capital gains on the sale of portfolio investments, foreign exchange gains or losses and dividends from unconsolidated companies. Other expense of E 514 million was incurred in 2002 compared to other income earned of E 9 million in 2001. In 2002, other expense was

primarily comprised of expenses of E 589 million related to the buy-back of Vivendi Universal puts and E 193 million in fees related to the renegotiation of credit facilities resulting from the liquidity crisis, partially offset by capital gains of E 255 million (primarily related to the sale of Vinci shares and divestitures by Veolia Environnement), E 58 million in dividends from unconsolidated companies and foreign exchange gains of E 24 million. In 2001, other income was primarily comprised of capital gains of E 143 million, principally related to the sale of Sante Luxembourg and St. Gobain shares, foreign exchange gains of E 51 million, dividends from unconsolidated companies of E 13 million and E 71 million premium expense on the buy-back of Vivendi Universal puts.

Exceptional Items, Net

As discussed above under "--Comparability--Changes in Accounting Principles and Financial Statement Presentation," the definition of exceptional items was restricted in 2001 to include only material items of an unusual nature that arise from events or transactions outside the ordinary course of business and which are not expected to recur. In 2002, net exceptional income totaled E 1 billion, the principal components of which were capital gains on the divestiture of and/or dilution of our interest in other companies, including: E 1.6 billion for BSkyB; E 1.4 billion for Veolia Environnement; E 329 million for Vivendi Universal Publishing's European publishing operations; E 172 million for Canal Digital and E 90 million for Vizzavi Europe. Partially offsetting these gains were capital losses on the divestitures of Houghton Mifflin (E 822 million), EchoStar (E 674 million), Vivendi Universal Publishing's business-to-business and health divisions (E 298 million) and Sithe (E 232 million), and a E 360 million provision related to the anticipated sale of Telepiu.

Net exceptional income in 2001 totaled E 2.4 billion, the principal components of which were capital gains on the divestiture of and/or dilution of our interest in other companies, including: E 1 billion on the BSkyB transactions, E 712 million on the disposition of AOL France, E 151 million on the sale of Eurosport, E 116 million on the sale of a 9.3% interest in Veolia Environnement (net of E 10 million in fees), E 125 million on the sale of Havas Advertising and E 121 million on the Dalkia/EDF transactions.

Income Taxes

In 2002, income tax expense totaled E 2.6 billion, an increase of 62% over the prior year. Of the total, approximately E 1.1 billion related to recurring operations, including E 544 million for Cegetel Group, and E 1.0 billion related to exceptional items (mainly the use of deferred tax), which did not generate any cash outflow. Cegetel Group and Maroc Telecom are not part of our consolidated tax group, which has the effect that losses elsewhere in the group are not available to offset profits taxable at those entities. As a result, excluding exceptional items, goodwill amortization, equity losses and minority interest, Vivendi Universal's effective tax rate in 2002 was 84% compared to 40.8% in 2001.

Equity in Earnings of Disposed Businesses

Equity in earnings of disposed businesses was E 17 million in 2002. Disposed businesses include all of Vivendi Universal Publishing's operations excluding Vivendi Universal Games, publishing activities in Brazil, the consumer press division (the divestiture of which was completed in February 2003) and Comareg (the divestiture of which was completed in May 2003).

Equity in Losses of Unconsolidated Companies

In 2002, equity in losses of unconsolidated companies decreased 35% to E 294 million primarily due to decreased losses from Internet affiliates and Canal+ Group. Partially offsetting these improvements was the loss of equity income following the May 2002 acquisition and consolidation of the entertainment assets of USAi, which had previously been accounted for using the equity method, and increased losses at international telecoms affiliates.

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Goodwill Amortization

In 2002, recurring goodwill amortization declined 24% to E 1.3 billion, primarily due to the impact of goodwill impairment charges taken in prior periods.

Goodwill Impairment

In view of the continued deterioration of the economy in 2002 and the resulting decline in the value of some media and telecommunications assets, combined with the impact of the future increased cost of capital to the group as a result of liquidity issues, E 18.4 billion of goodwill was written down in 2002, including E 11 billion recorded as of June 30, 2002.

This exceptional goodwill impairment is broken down as follows:

- E 5.3 billion for Universal Music Group;

- E 6.5 billion for Vivendi Universal Entertainment;

- E 5.4 billion for Canal+ Group; and

- E 1.2 billion for international telecoms and Internet assets.

As previously permitted under French GAAP, a portion of the goodwill arising from acquisitions paid for in equity securities was originally recorded as a reduction to shareholders' equity, in proportion to the amount of the related purchase price paid in shares. Upon the recommendation of the COB, Vivendi Universal determined the total goodwill impairment based on total goodwill, including the portion originally recorded as a reduction of shareholders' equity, as adjusted for accumulated goodwill amortization recorded since the acquisition. However, the impairment charge does not reflect any proportional "theoretical" impairment of goodwill originally recorded as a reduction of shareholders' equity. The "theoretical" goodwill impairment for 2002 amounts to E 0.7 billion.

For further discussion of goodwill impairment, see Note 3 to our Consolidated Financial Statements.

Minority Interest

In 2002, minority interest expense increased 42% to E 844 million, primarily due to the May 2002 acquisition of the entertainment assets of USAi, the dilution of our interest in Veolia Environnement and improved profitability at Cegetel Group.

Net Income (Loss) and Earnings (Loss) Per Share

A net loss of E 23.3 billion or E 21.43 per share (basic and diluted) was incurred in 2002, compared with a net loss of E 13.6 billion or E 13.53 per share (basic and diluted) in 2001.

Adjustments to Conform to US GAAP

Net Income -- For the years ended December 31, 2002 and 2001, the net loss under US GAAP was E 44,447 million and E 1,172 million, respectively, compared to a net loss of E 23,301 million and E 13,597 million under French GAAP. The most significant reconciling item in both periods was goodwill impairment. In 2001, under French GAAP, following the market decline particularly in the Internet, media and telecommunications industries, our annual review resulted in a non-cash, non-recurring goodwill impairment charge of E 12.9 billion (E 12.6 billion after minority interest concerning Veolia Environnement). Under US GAAP, according to SFAS 121, no impairment was indicated as of December 31, 2001, and accordingly the goodwill impairment charge accounted for under French GAAP was reversed, increasing US GAAP net income in 2001 by approximately E 12.6 billion. In 2002, under French GAAP, in light of the deteriorating economic conditions and the impact of the higher financing cost for Vivendi Universal, an additional impairment charge of approximately E 18.4 billion was recorded. Under US GAAP, Vivendi Universal adopted SFAS 142 and 144 and recorded an impairment charge of E 38.3 billion. Another reconciling item, specific to 2002 and 2001, resulted from the differential accounting treatment for the sale of our investment in BSkyB, which decreased

US GAAP net income by approximately E 1,417 million in 2002 and increased US GAAP net income by approximately E 73 million in 2001.

Operating Income -- In 2001 and prior years, the most significant reconciling item between French and US GAAP operating income was goodwill amortization. Under French GAAP, goodwill amortization is excluded from operating income, while under US GAAP goodwill amortization was included as a component of operating income. Under US GAAP, with the adoption of SFAS 142 in 2002, Vivendi Universal ceased amortizing goodwill thus eliminating this reconciling item. In 2002, the accounting for Vivendi Universal's investment in Veolia Environnement gave rise to a reconciling item specific only to that year. Under French GAAP, Vivendi Universal consolidated its investment in Veolia Environnement until December 31, 2002, when Vivendi Universal reduced its ownership interest in Veolia Environnement from 41% down to 20.4%. Until that date, Vivendi Universal held more than 40% of Veolia Environnement's outstanding shares and no other shareholder held, directly or indirectly, a greater proportion of Veolia Environnement's voting rights than Vivendi Universal. Under

US GAAP, the equity method of accounting was applied beginning July 1, 2002, the date at which Vivendi Universal's equity and voting interest was reduced to 48%. While this difference between French GAAP and US GAAP had no impact on the reconciliation of shareholders' equity, net income and comprehensive income to US GAAP, it is a reconciling item at the operating income level. The most significant reconciling items impacting operating income in all periods presented relate to exceptional items and proportionate consolidation. French GAAP defines exceptional items differently from the definition of extraordinary items under US GAAP. None of the items included in exceptional items under French GAAP qualify as extraordinary items under US GAAP. Consequently, these items are reclassified to the appropriate income statement captions determined under US GAAP. Under French GAAP, exceptional items are excluded from operating income. Under US GAAP, with the exception of gains and losses on sales of shares of affiliated companies, exceptional items have been included in the determination of operating income. Gains and losses on sales of shares of affiliated companies are classified as other income (loss), which is not a component of operating income under US GAAP. Under French GAAP, investments in jointly controlled companies, where Vivendi Universal and outside shareholders have agreed to exercise joint control over significant financial and operational policies are accounted for using the proportionate consolidation method. Under US GAAP, these investments would be consolidated or accounted for using the equity method depending on the percentage of voting interest held. Summarized financial information for investments accounted for using the proportionate consolidation method is provided in Note 4 to our Consolidated Financial Statements. While this difference in accounting policy has no effect on either net income or shareholders' equity, it is a reconciling item at the operating income level.

For further discussion of the significant items in reconciling French GAAP and US GAAP, as they apply to the Vivendi Universal, see Note 17 to our Consolidated Financial Statements.

COMPARISON OF 2001 VERSUS 2000

REVENUES

Total revenues increased 38% to E 57.4 billion in 2001, primarily due to the inclusion of full twelve-month results of the acquired Seagram's operations in 2001 (compared to twenty-three days in 2000) and the impact of the 2001 acquisitions of Maroc Telecom, Houghton Mifflin and MP3.com.

For a detailed analysis of revenues by business segment, see "--Business Segment Results."

COST OF REVENUES

Cost of revenues represented 68.9% of revenues or E 39.5 billion in 2001 compared to 72.6% of revenues or E 30.2 billion in 2000. The gross margin improvement was due to reduction of handset costs at Cegetel and the mix effect of including the Music business for a full twelve months in 2001 versus less than one month in 2000. Music reported a gross margin of 55% in 2001. The E 9.3 billion increase in cost of revenues is primarily due to: growth at the Cegetel and Veolia Environnement units plus the full year consolidation of Universal Music Group, Vivendi Universal Entertainment (formerly Universal Studios Group) and the part year consolidations of Maroc Telecom and Houghton Mifflin.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses represented 23.9 % of revenues or E 13.7 billion compared to 21.7% of revenues or E 9.0 billion in 2000. The increase in these expenses relative to revenues is primarily due to the inclusion of the Music business for a full twelve months in 2001 versus less than one month in 2000. The Music business reported a higher ratio compared to the group average of selling, general and administrative expenses to revenues of 44% in 2001. In addition, the Internet and Holding costs were higher due to the expansion of activities in these areas. Cegetel reduced expenses as a percentage of revenues due to the effect of economies of scale as fixed costs were spread over a larger revenue base. The E 4.7 billion increase in these expenses is primarily due to the full year consolidation of Universal Music Group, Vivendi Universal Entertainment (formerly Universal Studios Group) and the part year consolidations of Maroc Telecom and Houghton Mifflin.

OPERATING INCOME

In 2001, total operating income more than doubled to E 3.8 billion, principally due to the inclusion of full twelve-month results of the acquired Seagram's operations in 2001 and the 2001 acquisitions of Maroc Telecom, Houghton Mifflin and MP3.com, as discussed above.

For a detailed analysis of operating income by business segment, see "--Business Segment Results."

Financial Expenses, Net

In 2001, net financial expenses at E 1.5 billion, increased E 167 million or 13%, as a higher average level of debt associated with our acquisitions was partially offset by a lower average cost of debt of 4.02% compared to 5.15% in 2000.

Financial Provisions

Financial provisions increased 146% in 2001 to E 482 million, primarily due to non-cash charges required to reduce the carrying value of certain publicly traded and privately held investments that experienced other than temporary declines.

Other Income (Expense)

Other income (expense) is principally comprised of capital gains on the sale of portfolio investments, foreign exchange gains or losses and dividends from unconsolidated companies. Other income declined E 713 million in 2001 to E 9 million, primarily due to reduced capital gains on the sale of portfolio investments. In 2001, capital gains were E 143 million, primarily related to the sale of Sante Luxembourg and St. Gobain shares. In 2000, capital gains were E 702 million, primarily related to the sale of Alcatel shares and treasury stock. Other income in 2001 also included E 51 million of foreign exchange gains, E 13 million of dividends from unconsolidated companies and E 71 million premium expense on the buy-back of Vivendi Universal puts.

Exceptional Items, Net

In 2001, net exceptional income totaled E 2.4 billion, the principal components of which were capital gains on the divestiture of and/or dilution of our interest in other companies, including: E 1 billion on the BSkyB transactions, E 712 million on the disposition of AOL France, E 151 million on the sale of Eurosport, E 116 million on the sale of 9.3% interest in Veolia Environnement (net of E 10 million in fees), E 125 million on the sale of Havas Advertising and E 121 million on the Dalkia/EDF transactions.

Net exceptional income in 2000 totaled E 3.8 billion, the principal components of which were gains of: E 780 million on the dilution of our interest in Veolia Environnement due to its IPO (initial public offering), E 735 million in the Dalkia/EDF transactions, E 534 million and E 473 million on the dilution of our interests in Vinci and BSkyB, respectively, E 408 million on the Lagardere/CanalSatellite/MultiThematiques alliance, E 372 million on the dilution of our interest in Sithe and sale of the GPU power plants and E 178 million on the dilution of our interest in Havas Advertising.

Income Taxes

In 2001, our income and deferred tax provision increased 56% to E 1.6 billion, primarily due to the inclusion of full twelve-month results of the acquired Seagram operations in 2001 (compared to twenty-three days in 2000). Excluding exceptional items, goodwill amortization, equity losses and minority interest, Vivendi Universal's effective tax rate in 2001 was 40.8%.

Equity in Losses of Unconsolidated Companies

In 2001, equity in losses of unconsolidated companies increased 48% to E 453 million, primarily due to increased losses from Internet affiliates, principally Vizzavi and Scoot.com, which increased 200% to E 291 million. Losses at Canal+ Group's affiliates more than doubled to E 236 million, primarily due to the poor performance of operations in Poland. Partially offsetting these increases was the divestiture of BSkyB, which reduced equity losses by E 119 million year-on-year. In 2001, equity earnings of USAi also had a positive impact of E 141 million.

Goodwill Amortization

In 2001, recurring goodwill amortization increased to almost E 1.7 billion, primarily due to the inclusion of a full twelve-months of goodwill amortization related to the merger with Seagram and Canal+.

Goodwill Impairment

Our 2001 annual review for impairment of the carrying value of long-lived assets resulted in a non-recurring, non-cash charge of E 13.5 billion. This charge is comprised of the following:

- E 3.1 billion for Universal Music Group;

- E 1.3 billion for Universal Studios Group;

- E 6.0 billion for Canal+ Group;

- E 1.6 billion for international telecoms and Internet assets;

- E 0.9 billion for Veolia Environnement (including E 0.3 billion minority interest); and

- E 0.6 billion for equity investments.

Minority Interest

In 2001, minority interest, at E 594 million, decreased 5%. The merger with Seagram and acquisition of an interest in Maroc Telecom increased minority interest by approximately E 174 million, and improved profitability at Cegetel Group increased minority interest by approximately E 247 million. Offsetting these increases were reductions of approximately E 459 million related to our environmental services businesses (including E 0.3 billion related to the goodwill impairment charge) and E 106 million related to the divestiture of non-core businesses.

Net Income (Loss) and Earnings (Loss) Per Share

A net loss of E 13.6 billion or E 13.53 per share (basic and diluted) was incurred in 2001, compared with net income earned of E 2.3 billion or E 3.63 per basic share in 2000.

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BUSINESS SEGMENT RESULTS

	YEAR ENDED DECEMBER 31,				
	ACTUAL			PRO FORMA(3)	
	2002(1)	2001	2000(2)	2002	2001
	(IN MILLIONS)				
REVENUES					
Cegetel Group	E 7,067	E 6,384	E 5,129	E 7,067	E 6,384
Universal Music Group	6,276	6,560	495	6,276	6,560
Vivendi Universal Entertainment	6,270	4,938	194	6,978	6,874
Canal+ Group	4,833	4,563	4,054	4,742	4,563
Maroc Telecom	1,487	1,013	--	1,487	1,351
Vivendi Universal Games(4)	794	657	572	794	657
	26,727	24,115	10,444	27,344	26,389
Other(5)(7)	1,385	1,289	2,667	1,385	1,344
Total Vivendi Universal (excluding businesses sold in 2002)	28,112	25,404	13,111	28,729	27,733
Veolia Environnement	30,038	29,094	26,294	--	--
	58,150	54,498	39,405	28,729	27,733
VUP assets sold during 2002(6)(7)	--	2,862	2,175	--	--
	58,150	57,360	41,580	28,729	27,733
OPERATING INCOME (LOSS)					
Cegetel Group	1,449	928	453	1,449	928
Universal Music Group	556	719	86	556	719
Vivendi Universal Entertainment	816	300	(13)	946	928
Canal+ Group	(325)	(374)	(341)	(295)	(374)
Maroc Telecom	468	387	--	468	475
Vivendi Universal Games(4)	63	18	(41)	63	18
	3,027	1,978	144	3,187	2,694
Holding & Corporate	(665)	(326)	(212)	(665)	(326)
Other(5)(7)	(485)	(244)	192	(485)	(255)
Total Vivendi Universal (excluding businesses sold in 2002)	1,877	1,408	124	2,037	2,113
Veolia Environnement	1,911	1,964	1,589	--	--
	3,788	3,372	1,713	2,037	2,113
VUP assets sold during 2002(6)(7)	--	423	110	--	--
	E 3,788	E 3,795	E 1,823	E 2,037	E 2,113

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(1) December 31, 2002, Vivendi Universal applied the option proposed in paragraph 23 100 of the French rules 99-02 and has presented the results of businesses sold during 2002 on one line in the consolidated statement of income as "equity in earnings of disposed businesses." Disposed businesses include all of Vivendi Universal Publishing's operations excluding Vivendi Universal Games, publishing activities in Brazil, the consumer press division (the divestiture of which was completed in February 2003) and Comareg (the divestiture of which was completed in May 2003).

(2) Reflects changes in accounting principles and financial statements presentation adopted in 2001, as discussed in "--Comparability--Changes in Accounting Principles and Financial Statement Presentation."

(3) The pro forma information illustrates the effect of the acquisitions of the entertainment assets of InterActiveCorp (formerly known as USA Interactive and prior thereto as USA Networks, Inc.), or USAi, in May 2002, Maroc Telecom in April 2001 and MP3.com in August 2001, and the disposition of certain interests in Veolia Environnement and Vivendi Universal Publishing, as if these transactions had occurred at the beginning of 2001. Additionally, the pro forma information includes the results of Universal Studios international television networks in Vivendi Universal Entertainment in both 2002 and 2001 (in the actual 2002 results, the results of Universal Studios international television networks were reported by Canal+ Group). This reclassification has no impact on the total results of Vivendi Universal. We believe that pro forma results may help the reader to better understand our business results as they include comparable operations in each year presented. However, it should be noted that the pre-acquisition results of an acquired business accounted for on a historical cost basis are not directly comparable to the post-acquisition results of acquired entities whose initial purchase price was allocated on a fair value basis. The pro forma results are not necessarily indicative of the combined results that would have occurred had the events actually occurred at the beginning of 2001.

(4) Formerly part of Vivendi Universal Publishing. Includes Kids Activities e.g. Adi/Adibou in France and Jumpstart in the US.

(5) Principally comprised of Vivendi Telecoms International, Internet, Vivendi Valorisation (previously reported in non-core businesses) and Vivendi Universal Publishing assets not sold during 2002 (Consumer Press Division, Comareg and the Brazilian operations -- Atica & Scipione).

(6) Comprised of Vivendi Universal Publishing's European publishing assets (excluding those described in note 5 above) and Houghton Mifflin sold in December 2002 and Vivendi Universal Publishing's Business to Business and Health divisions sold in June 2002.

(7) The presentation of "Other" and "Vivendi Universal Publishing assets sold in 2002" differs from the disclosure in our Business Segment Data in Note 12.2 to our Consolidated Financial Statements. In Note 12.2, "Publishing excluding Games" includes both assets sold and assets retained. In the table above, publishing assets sold are reflected as a separate line item.

CEGETEL GROUP

	YEAR ENDED DECEMBER 31,				
	ACTUAL			PRO FORMA	
	2002	2001	2000	2002	2001
	(IN MILLIONS)				
REVENUES					
Mobile	E 6,146	E 5,606	E 4,626	E 6,146	E 5,606
Fixed and Other	921	778	503	921	778
Cegetel Group	7,067	6,384	5,129	7,067	6,384
OPERATING INCOME (LOSS)					
Mobile	1,552	1,107	630	1,552	1,107
Fixed and Other	(103)	(179)	(177)	(103)	(179)
Cegetel Group	E 1,449	E 928	E 453	E 1,449	E 928

2002 versus 2001

In 2002, Cegetel Group's revenues increased 11% to E 7.1 billion and operating income increased 56% to E 1.4 billion. The improved results reflect strong performances at both our mobile and fixed telephony divisions.

Mobile:

In 2002, despite a slowdown in overall market growth, SFR's revenues increased 10% to E 6.1 billion. This revenue growth was driven primarily by growth in the number of customers, which increased 8% to 13.55 million (13.18 million customers excluding SRR, SFR's subsidiary in La Reunion, an overseas department of France). The number of prepaid customers increased 2% to 6.36 million, while the number of postpaid customers increased 13% to 7.19 million.

In 2002, SFR's operating income increased 40% to E 1.55 billion. The improvement in operating margin reflects the effect of economies of scale, as fixed costs are being spread over a larger revenue base, and reduced customer acquisition costs, which declined 5% year-on-year.

Fixed and Other:

In 2002, revenue generated by Cegetel Group's fixed telephony and other services grew 18% to E 921 million, primarily due to the introduction of customer pre-selection for local calls on January 1, 2002 and an increase in subscribers. Total voice traffic minutes increased 58% year-on-year, while data and Internet traffic revenues increased 11%.

Cegetel Group's fixed telephony and other services operating losses declined 43% year-on-year to E 103 million primarily due to increased revenues and continued cost control measures.

2001 versus 2000

In 2001, Cegetel Group's revenues increased 24% to E 6.4 billion and operating income more than doubled to E 928 million. The significantly improved results reflect the strong performance at both our mobile and fixed telephony divisions.

Mobile:

In 2001, SFR's revenues increased 21% to E 5.6 billion. SFR's revenue growth was driven primarily by growth in the number of customers, which increased 24% to 12.6 million customers (12.2 million customers excluding SRR, SFR's subsidiary in La Reunion). The number of prepaid customers increased 44% to 6.2 million, while the number of postpaid customers increased 9% to 6.4 million.

In 2001, SFR's operating income increased 76% to E 1.1 billion. The improvement in operating margin reflects the effect of economies of scale, as fixed costs are being spread over a larger revenue base, and reduced customer acquisition costs, which declined 23% year-on-year.

Fixed and Other:

In 2001, revenue generated by Cegetel Group's fixed telephony and other services grew 55% to E 778 million, primarily due to an increase in the number of subscribers. Total voice traffic minutes increased 36% year-on-year, while data and Internet traffic revenues increased 49%.

Cegetel Group's fixed telephony and other services operating losses increased 1% year-on-year to E 179 million primarily due to start-up costs on new business.

UNIVERSAL MUSIC GROUP

	YEAR ENDED DECEMBER 31,				
	ACTUAL			PRO FORMA	
	2002	2001	2000(1)	2002	2001
	(IN MILLIONS)				
REVENUES					
North America	E 2,772	E 2,921	E 179	E 2,772	E 2,921
Europe	2,588	2,655	229	2,588	2,655
Far East	588	671	60	588	671
ANZ/Africa	139	137	10	139	137
Latin America	190	176	17	190	176
Universal Music Group	6,276	6,560	495	6,276	6,560
OPERATING INCOME					
Universal Music Group	E 556	E 719	E 86	E 556	E 719

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(1) Includes twenty-three days of Universal Music Group's operations since the completion of the merger on December 8, 2000.

2002 versus 2001

The year 2002 was challenging for the music industry due to the combined effects of a downturn in the global economy, CD-R piracy and illegal downloading of music from the Internet and growing competition for consumer discretionary spending and shelf space at retail outlets. Worldwide music sales were down as the music market witnessed an estimated global market decline of 9.5%. Double-digit declines were experienced in the US, Japan and Germany, with only France of the world's five major music markets reporting growth.

While UMG outperformed the market, increasing its global market share, revenue declined 4% to E 6.3 billion due to the unfavorable market conditions and adverse currency movements, particularly the strengthening of the euro versus the dollar, and higher returns reserves. In constant currency, revenues declined 1%. In 2002, North American revenues were down 4% year-on-year due to the strengthening of the euro. On a constant currency basis, revenues were up 1% despite weak music market conditions, with sales in the overall North American music market estimated to have declined 10.6%. In Europe, where music sales are estimated to have declined 5.8%, UMG revenues were down 3% versus 2001, with solid growth in France more than offset by declines in UMG's European Music Club operations and in Germany. In Asia, where the music market is estimated to have declined 13.4%, UMG revenues were down 13% due to adverse currency movements, higher returns reserves and discounts. In constant currency, revenues were down 6%. Sales in the music market in ANZ/Africa were down an estimated 6.4% in 2002 after growing 5.9% last year. However, UMG revenues increased by 1% (5% in constant currency) due to a strong performance in South Africa. The Latin American music market contracted an estimated 8.2% in 2002. In this market, UMG revenues were down 13% due to adverse currency movements. In constant currency, revenues rose 4% with all key Latin America markets reporting growth.

In 2002, operating income at UMG declined 23% (19% in constant currency) to E 556 million reflecting reduced margins on lower levels of activity and higher Artist and Repertoire (A&R) development costs and royalty costs, which were partly offset by reductions in overhead and marketing costs and gains on the sale of UMG's share of MTV Asia, real estate and other assets.

UMG continues to focus on strengthening its worldwide leadership position and believes that it has a strong 2003 release schedule. However, the worldwide music market is expected to further decline in 2003. In this challenging environment, UMG continues to win market share. Despite continued focus on cost control, operating margin is expected to decline.

2001 versus 2000

As 2000 results only include twenty-three days of UMG operations since the completion of the merger on December 8, 2000, a comparison between 2001 and 2000 results is not meaningful.

VIVENDI UNIVERSAL ENTERTAINMENT

	YEAR ENDED DECEMBER 31,				
	ACTUAL			PRO FORMA	
	2002	2001	2000(1)	2002	2001

(IN MILLIONS)

REVENUES					
Universal Pictures Group............	E 3,877	E 3,615		E 3,927	E 3,803
Universal Television Group..........	1,522	333		2,199	2,134
Universal Parks & Resorts and Other(2).........................	871	990		852	937
Vivendi Universal Entertainment...	6,270	4,938	194	6,978	6,874
OPERATING INCOME (LOSS)					
Universal Pictures Group............	662	376		648	365
Universal Television Group..........	430	11		573	649
Universal Parks & Resorts and Other(2).........................	(276)	(87)		(275)	(86)
Vivendi Universal Entertainment...	E 816	E 300	E (13)	E 946	E 928

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(1) Includes twenty-three days of VUE (formerly USG) operations since the completion of the merger on December 8, 2000.

(2) Other includes primarily Spencer Gifts and Universal Operations Group.

2002 versus 2001

Vivendi Universal Entertainment (VUE) revenues in 2002 increased 27% to E 6.3 billion principally due to the acquisition of the entertainment assets of USAi in May 2002. On a pro forma basis, VUE revenues increased 2% (5% on a constant currency basis) to E 7 billion, driven by increased revenues of Universal Pictures and Universal Television, which were partially offset by lower revenues at Universal Parks & Resorts and Other.

VUE operating income reached E 816 million, up 172% on an actual basis. On a pro forma basis, VUE's operating income increased 2% (6% on a constant currency basis) to E 946 million, primarily as a result of strong video sales at Universal Pictures, partially offset by lower results at Universal Television, Universal Parks & Resorts and Other.

Full year highlights by business segment, on a pro forma basis, include:

Universal Pictures:

Universal Pictures' revenues were E 3.9 billion, an increase of 3% versus the prior year (7% increase on a constant currency basis). The studio benefited from strong performance in home video and television, driven by prior years' theatrical releases, which included such titles as The Mummy, The Mummy Returns, The Fast and the Furious, and American Pie 2.

Operating income increased 78% (85% on a constant currency basis) versus the prior year to E 648 million. Results were driven by strong video performance combined with lower film amortization expense as a result of a less robust 2002 film slate. The 2003 film slate includes several major releases, including Bruce Almighty, The Hulk, 2 Fast 2 Furious, Dr. Seuss' Cat in the Hat and Peter Pan. The commercial success of these films will be a particularly important factor for results in 2003.

Universal Television:

Universal Television revenues were E 2.2 billion, an increase of 3% from the prior year (6% increase on a constant currency basis). Universal Television Production's revenues increased 15%, to E 1 billion, due to increased license fees for continuing series, such as the Law & Order franchise and Just Shoot Me, and the success of new series, such as American Dreams. These results were partially offset by lower advertising revenues at Universal Television Networks as a result of the weak advertising market.

Operating income decreased 12% from the prior year (down 9% on a constant currency basis) due to weakness in the advertising market in addition to higher programming costs from investments in new original programming at Universal Television Networks.

Universal Parks & Resorts and Other:

The Universal Parks & Resorts and Other segment revenues were E 852 million, down 9% versus the prior year (down 5% on a constant currency basis). Universal Parks & Resorts revenues, which represent roughly half of the segment's revenues, were down 11% on a constant currency basis as a result of lower management fees from theme park joint ventures and lower land sales. Lower theme park management fees reflect in part continued reduced travel and park visits following the September 11 terrorist attacks. Spencer Gifts' revenues were down 3% as a result of lower holiday sales.

Operating income decreased 220% versus the prior year (down 238% on a constant currency basis). Lower management fees from theme park joint ventures, reduced land sales and lower holiday sales at Spencer Gifts contributed to the decline, but the primary driver was a E 107 million charge taken at Spencer Gifts. The write down effectively reduces the asset value of this non-core asset to its current market value.

2001 versus 2000

As 2000 results only include twenty-three days of VUE operations since the completion of the merger of Vivendi, Seagram and Canal+ on December 8, 2000, a comparison between 2001 and 2000 results is not meaningful.

CANAL+ GROUP

	YEAR ENDED DECEMBER 31,				
	ACTUAL			PRO FORMA	
	2002	2001	2000	2002	2001
	(IN MILLIONS)				
REVENUES					
Pay-TV -- France....................	E 2,652	E 2,530	E 2,427	E 2,652	E 2,530
Film -- StudioCanal.................	455	429	328	455	429
Other...............................	1,726	1,604	1,299	1,635	1,604
Canal+ Group.....................	4,833	4,563	4,054	4,742	4,563
OPERATING INCOME (LOSS)					
Pay-TV -- France....................	182	182	154	182	182
Film -- StudioCanal.................	(91)	(162)	22	(91)	(162)
Other...............................	(416)	(394)	(517)	(386)	(394)

Canal+ Group	E (325)	E (374)	E (341)	E (295)	E (374)

2002 versus 2001

At Canal+ Group, revenues increased 6% to E 4.8 billion and operating losses declined by 13% to E 325 million. On a pro forma basis, which excludes the results of Universal Studios international television

networks (now reported by VUE), Canal+ Group reported 4% revenue growth to E 4.7 billion and a 21% improvement in operating losses to E 295 million.

Full year highlights by business line, on a pro forma basis adjusted as described above, include:

Pay-TV -- France:

In 2002, pay-TV revenues in France increased 5% to E 2.7 billion on overall subscription growth. At the end of 2002, in total, pay-TV activities in France (Canal+, CanalSatellite and NC Numericable) represented approximately 7 million subscriptions, an increase of 2% over the prior year end. At the French premium channel, Canal+, overall revenues were flat year-on-year as the full year impact of the 2001 fee increase was offset by a decline in subscriptions of 74,000. Canal+ ended the year with 4.8 million subscriptions. The revenue increase in the pay-TV -- France operations was attributable to the solid performance at CanalSatellite, which reached the two million subscription mark in December 2002 (representing a net increase of 224,000 new subscriptions). NC Numericable also performed strongly due to an increase in the number of subscribers to its Internet access service.

In 2002, operating income from pay-TV in France was unchanged at E 182 million. The performance improvement in the business units in 2002 was offset by the reversal of a provision in 2001 and a change in the consolidation of multiThematiques in 2002 (100% consolidation of the loss in 2002, compared to equity in 2001).

Film -- StudioCanal:

In 2002, StudioCanal's revenues were up 6% to E 455 million. Revenues from UK operations (Working Title) compensated for lower film library revenues in France and a decline in distribution revenues in Germany.

In 2002, StudioCanal reduced its operating loss by 44% to E 91 million. This loss is primarily attributable to the write-off of films on StudioCanal's balance sheet.

Other:

Other is primarily non-core activities comprised of international pay-TV, including Telepiu, Canal+ Benelux, Canal+ Nordic, Cyfra+, Canal+ Technologies and Expand, which have been or are in the process of being sold. Other revenues, at E 1.6 billion, were stable year-on-year. Revenue growth generated by the international pay-TV business units reflects a 20% increase in international subscriptions but was offset by a revenue decline at Canal+ Technologies (due to the ITV Digital and Winfirst bankruptcies).

Operating losses improved slightly from E 394 million in 2001 to E 386 million in 2002. The improvement is primarily due to an approximate E 120 million reduction in operating losses at Telepiu reflecting increased revenues attributable to increased subscribers and reduced piracy following the introduction of new encryption technology. The reduced Telepiu losses were partially offset by restructuring costs at the holding company level.

2001 versus 2000

At Canal+ Group, revenues increased 13% to E 4.6 billion, while the operating loss increased 9.7% to E 374 million.

Pay-TV -- France:

Revenues increased 4% to E 2.5 billion primarily due to the strong performance of CanalSatellite. Total pay-TV France subscriptions at the end of 2001 were 6.8 million, a 2.5% increase compared to 2000, primarily reflecting digital platform growth, which added 224,000 subscriptions, up 14% compared to 2000.

Operating income increased 18% to E 182 million due to the strong performance by CanalSatellite.

Film -- StudioCanal:

At StudioCanal revenues increased 30% to E 429 million reflecting the success of several films produced and/or distributed, including Hannibal and Crimson River in Germany, and Brotherhood of the Wolf, Traffic, What Women Want, Belphegor and Bridget Jones's Diary in France. Video and DVD sales also increased, driven by the success of Scary Movie, Chicken Run, Scream 3, Jamel and Brotherhood of the Wolf.

An operating loss of E 162 million was incurred in 2001 compared to operating income earned of E 22 million in 2000, primarily due to higher film amortization on a larger film slate.

Other:

Other revenues, at E 1.6 billion, increased 23%, primarily due to the growth in European Pay-TV activities. Operating losses improved from E 517 million in 2000 to E 394 million in 2001. These losses were largely driven by Telepiu, which reduced its loss from its 2000 level but still suffered from piracy and increased churn. Canal+ Nordic strongly improved its performance in 2001, reducing its loss to near break-even, due to a significant decrease in churn.

MAROC TELECOM

	YEAR ENDED DECEMBER 31,				
	ACTUAL			PRO FORMA	
	2002	2001	2000	2002	2001
	(IN MILLIONS)				
REVENUES					
Maroc Telecom....................	E 1,487	E 1,013	NA	E 1,487	E 1,351

OPERATING INCOME					
Maroc Telecom.....................	468	387	NA	468	475

The actual 2001 results only include nine months of Maroc Telecom's operations since the completion of its acquisition in April 2001. In order to present meaningful comparative information for assessing earnings trends at Maroc Telecom, the following discussion focuses on pro forma results, which include twelve months of operations in both 2002 and 2001.

2002 versus 2001

In 2002, revenues at Maroc Telecom increased to E 1.5 billion in 2002, up 10%. On a constant currency basis, revenues were up by 14%. Revenues grew in both our fixed-line and mobile business, with the substantial increase in the mobile subscriber base accounting for most of the increase. Fixed-line and international revenues represented 62% of 2002 total revenues, with mobile revenue accounting for the remaining 38% on a constant currency basis. At December 31, 2002, Maroc Telecom had over 4.5 million mobile users.

Operating income decreased 1% (increased 1% on a constant currency basis) to E 468 million reflecting the impact of restructuring costs and amortization of the value of the acquired GSM license, both of which were recognized for the first time in 2002.

90

2001 versus 2000

The 2000 results do not include the operations of Maroc Telecom as it was only acquired in April 2001.

VIVENDI UNIVERSAL GAMES

	YEAR ENDED DECEMBER 31,	
	ACTUAL	PRO FORMA