



# Introduction to SFR

January 2007



Frank Esser - Chairman and CEO - Member of Vivendi's Management Board  
Pierre Trotot - Senior Executive Vice President - Finance & Administration

# Agenda

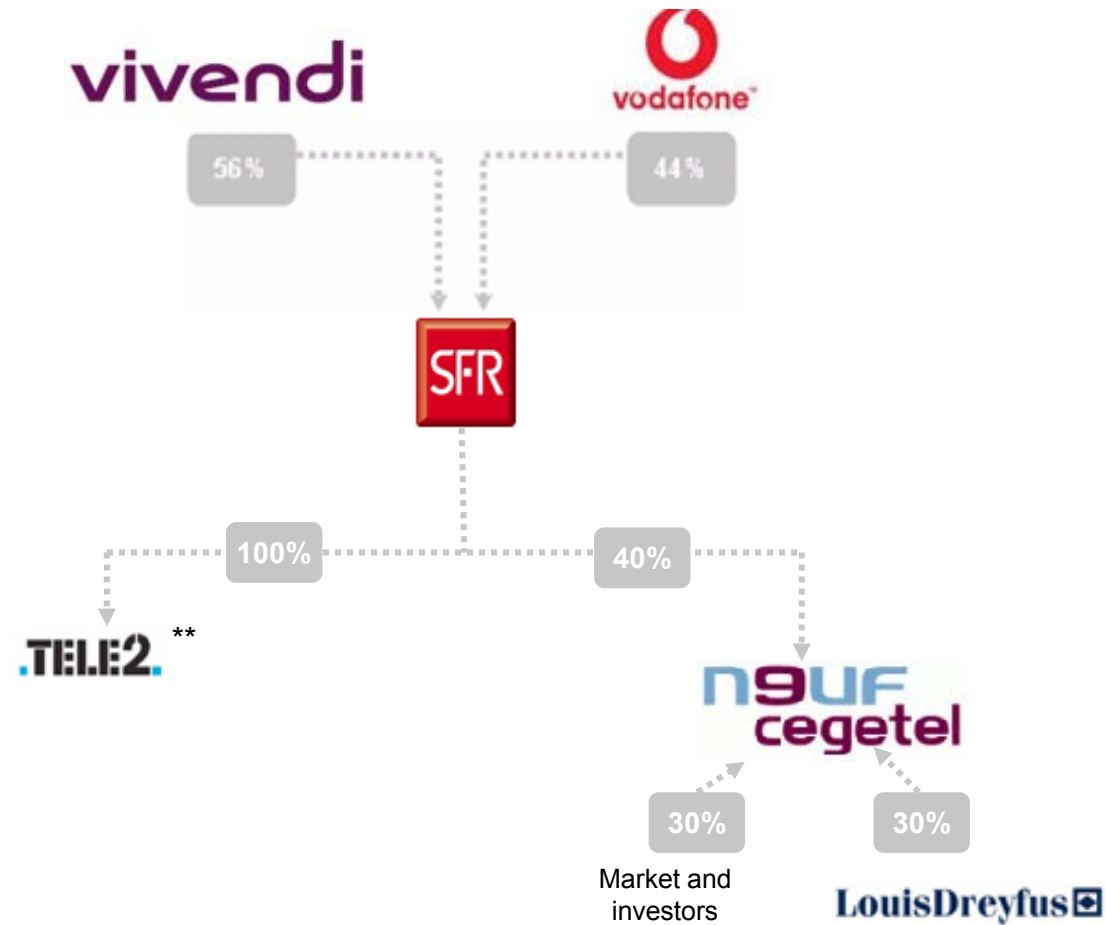
- 1. Overview and recent developments**
- 2. SFR Strategy**
- 3. Financials**

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- 1. Overview and recent developments**
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After acquisition\* of ADSL/fixed operations of Télé2 France:



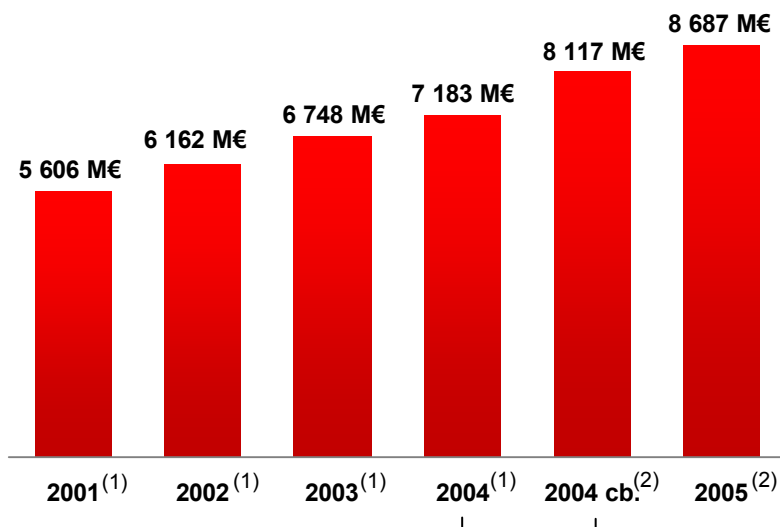
\* subject to competition authority approval

\*\* Fixed and ADSL operations

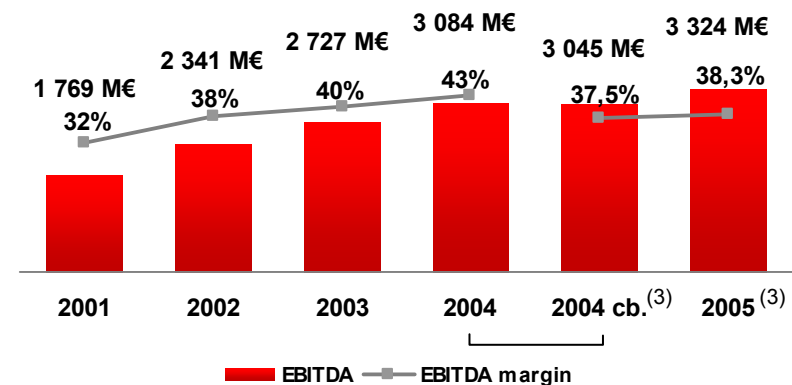
# SFR: a profitable growth model



Revenues evolution  
2001/2005



EBITDA and EBITDA margin evolution  
2001/2005



(1) Reported French Gaap

(2) IFRS and including mobile-to-mobile revenues (end of « bill and keep » as from 1.1.05)

(3) IFRS and excluding non recurring items

5 years of improving performance

## Key strengths

- **Number 2** French mobile operator with 34.6% market share at the end of December 2006
- **€8.678 bn** in revenues in 2006. **Mobile revenues up 0.5%** at €8.666bn. 37% EBITDA margin at the end of September 2006
- **17.9 M customers** at the end of December 2006 (+4% vs. LY) with improved customer mix (65% contract vs. 63.3% in Dec-05)
- **2.7 M 3G customers** at the end of December 2006 – Largest HSDPA network in Europe with 65% coverage
- **6.5 M Vodafone *live!* customers** at the end of December 2006
- **N.1 in customer satisfaction and customer care** in 2006 (TNS Sofres - BearingPoint)
- **N.1 in network quality** in latest 2006 ARCEP (French regulator) survey for the 3rd consecutive year
- **Distribution network:** 750 “Espace SFR”
- **40.5% stake** in Neuf Cegetel at an average cost of €12.5 per share (market price at €27.85 as of end January 2007)



- **€8.678 bn revenues** in FY 2006. **Mobile revenues up 0.5% at €8.666 bn** – Excluding the impact of the **regulated tariffs decrease**, the YoY growth would have been **+4.3%**
- **SFR ARPU at €455** at end of December-06 vs. 485€ in December-05, down **6.2% YoY** due to:
  - Decrease in regulated tariffs:
    - 24% decrease in mobile voice termination
    - 19% decrease in SMS termination at the beginning of 2006, followed by an additional 30% mid-september
  - A more than 10% decrease in voice tariffs charged to SFR customers following the launch of new tariffs plan
- **SFR AUPU at 327mns** up 10.5% YoY
- **Continued growth in data ARPU at €61**, +2.8% YoY : +17.4% in SMS volumes at 6.3bn, +70.8% in MMS volumes at 168M
- **Non-messaging data revenues account for 33%** of total data revenues at end Dec-06 vs. 29% at end Dec-05

### ■ Leadership on mobility

- Launch of 3G+ offer (HSDPA) in May 2006, largest HSDPA network in Europe
- MVNO agreements signed with Auchan in May 2006, number 1 in retail distribution sector and with Maroc Telecom, with an “ethnic” MVNO launched at the end of 2006
- Launch of “SFR Connect” in May 2006: agreements signed with Dell, Acer, Lenovo, HP
- 2006 Soccer World Cup on SFR mobile screens in exclusivity
- Launch of “Happy Zone” offer in October 2006

### ■ SFR “new reach”

- WiMax licences obtained in July 2006 (Ile-de-France and PACA), 10 sites opened in Ile de France end of Dec. 2006
- Increased stake in Neuf Cegetel to 40% - successful IPO in October 2006
- Acquisition of 100% of fixed/ADSL operations of Télé2 France (to be closed by end of 2006)
- Price per music track download divided by 2, to €0.99

### ■ Operational excellence

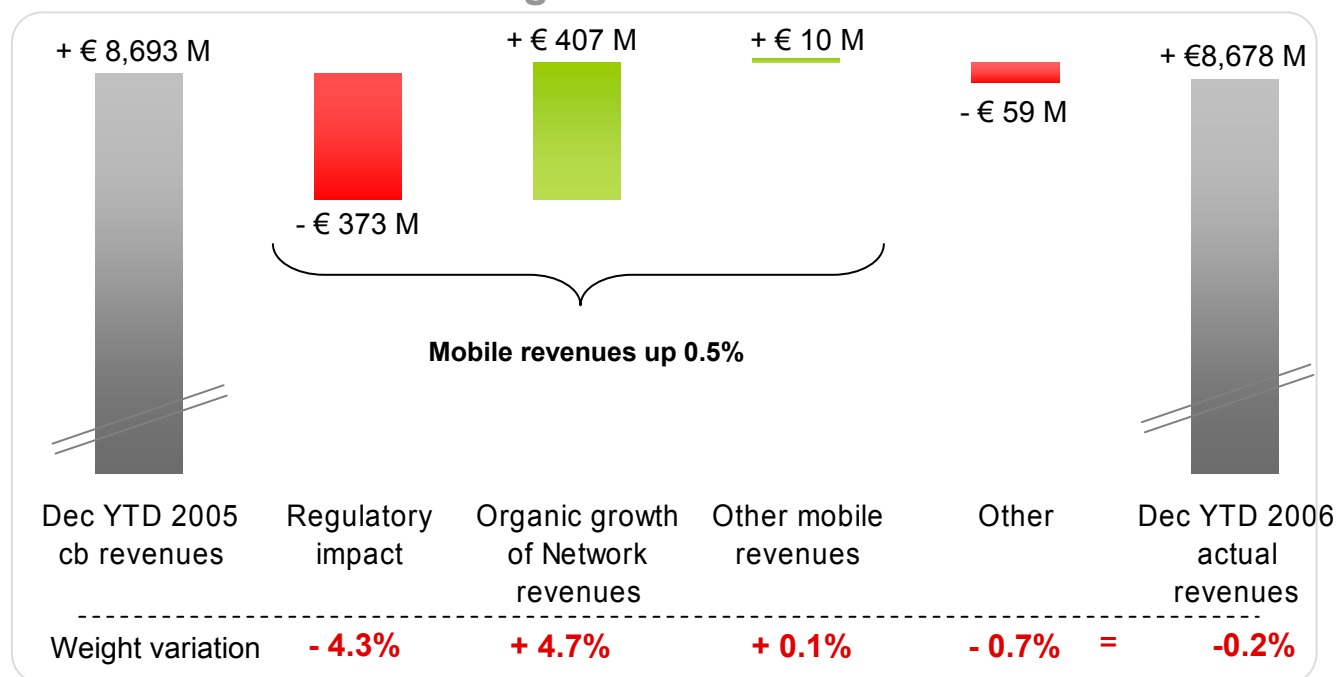
- Transition to an “all IP” network infrastructure as of 2009
- Number one in France for network quality survey for the third year (source: Arcep)



## 2006 performance: high level of EBITDA and EBITA

■ Dec YTD 2006 SFR revenues at €8.678 bn. Mobile revenues up 0.5% at €8.666bn and up +4.3% excl. regulatory impact

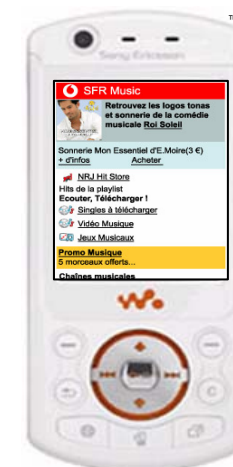
### Change in SFR revenues



■ Sustained EBITDA and EBITA at high level at the end of Sept.06

	Sept YTD 2005 cb	Sept YTD 2006	% change YoY
EBITDA	€2 600 M	€2 716 M	+4,5 %
EBITDA Margin	+40,2 %	+41,8 %	+1,6 pt
EBITA	€2 032 M	€2 095 M	+3,1 %
EBITA Margin	+31,4 %	+32,2 %	+0,8 pt

# December 2006 key Metrics (1/2)



	<u>2006</u>	<u>2005</u>	<u>Growth</u>
▪ Customers (in '000) *	17,883	17,198	+4.0%
▪ Vodafone live! customers (in '000) *	6,497	4,785	+35.8%
▪ 3G customers (in '000) *	2,686	1,003	X2.7
▪ EOP market share *	34.6%	35.8%	-1.2 point
▪ 12-month rolling blended ARPU (€/year) **	455	485	-6.2%
▪ 12-month rolling postpaid ARPU (€/year) **	596	648	-7.9%
▪ 12-month rolling prepaid ARPU (€/year) **	202	218	-7.3%
▪ Proportion of postpaid customers *	65%	63.3%	+1.7 point

\* Excluding wholesale customers (MVNO); \*\* Including mobile termination.

# December 2006 key Metrics (2/2) except. for SAC/SRC data



	<u>2006</u>	<u>2005</u>	<u>Growth</u>
▪ Voice usage (minutes / month / customer) *	327	296	+10.5%
▪ Number of SMS sent (in bn)	6.3	5.4	+17.4%
▪ Number of MMS sent (in m)	168	98	+70.8%
▪ Net data revenues as a % of network revenues (%) **	12.9%	11.7%	+1.2 point
▪ Prepaid customer acquisition cost (€/gross add) at the end of Sept. 06	21	23	-9.4%
▪ Postpaid customer acquisition cost (€/gross add) at the end of Sept. 06	183	176	+4.2%
▪ Acquisition costs as a % of network revenues (%) at the end of Sept. 06	5.1%	5.4%	-0.3 point
▪ Retention costs as a % of network revenues (%) at the end of Sept. 06	4.3%	4.7%	-0.4 point

\* Excluding wholesale customers (MVNO); \*\* Including mobile termination.

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**1. Overview and recent developments**

**2. SFR Strategy**

**3. Financials**

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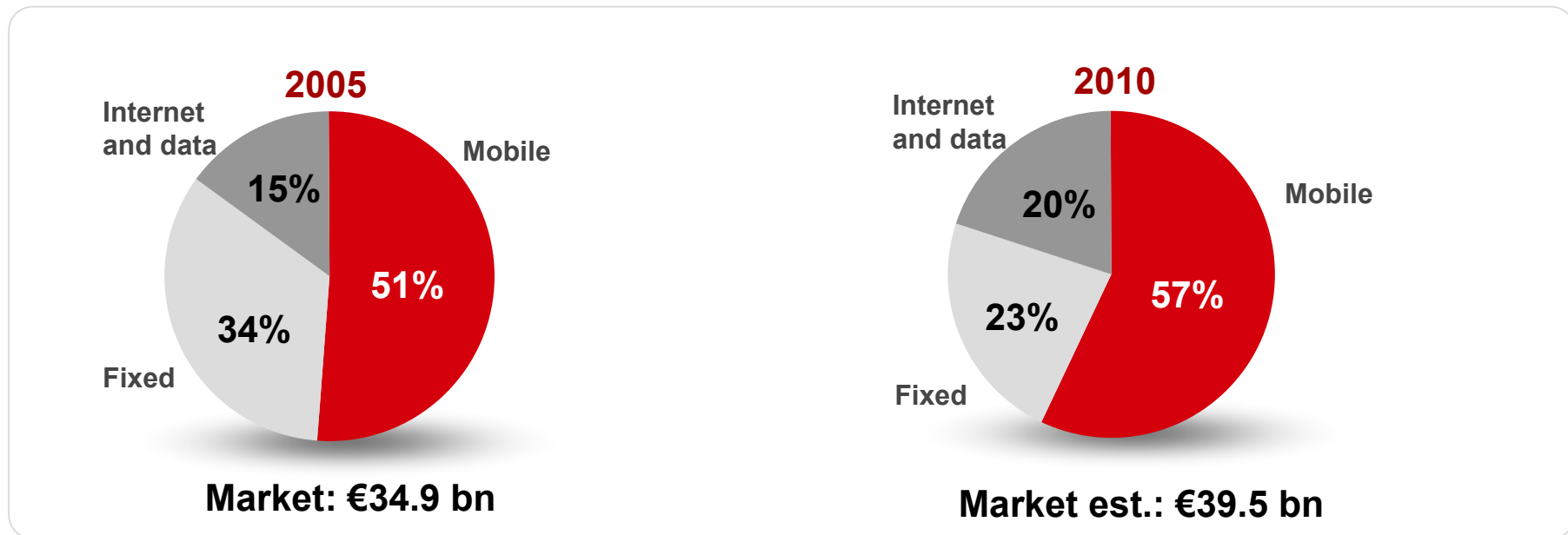
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## Mobility and internet are the two growth drivers for internet / telecom sector

Internet / telecom market evolution 2005 – 2010 estimates (source: Idate)



➔ SFR positioned on two growing segments

including: { + €4.7 billion for mobile  
+ €2.4 billion for internet

➔ SFR attacking fixed market



## « Mobile centric »

Continuity of usage  
through a personal and  
unconstrained service



- **94%** of SFR customers take their mobile phone everywhere
- **More than 1 third** of SFR customers use their mobile phone outside France, at least once a year

Mobility is the core of SFR's  
service offering



- **77 %** of mobile users think that mobile phone is simple to use
- **59%** of SFR customers record their contacts in their mobile phone directory

Entry point: the person

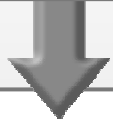


- **~40%** of communications made by mobile customers from their home is from their mobile phone
- **81%** of SFR customers consider their mobile phone as their main handset

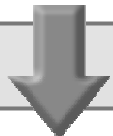


## Technical convergence

Technical convergence through a fixed point



The "box" is the core of service offering



Entry point: the home

VS

VS

VS



## "mobile centric"

Continuity of usage through a personal and unconstrained service



Mobility is the core of SFR's service offering



Entry point: the person



- Take advantage of the growth of mobile phone usage
- Mobility ≠ Technology

■ **Mobile customers are technology agnostic**

- technology should be transparent
- technology need to ease user experience

■ **usage is key:**

- a communicating handset: the mobile phone
- mobile usage is growing strongly
- and is naturally transitioning to the internet

■ **Content becomes digital**



**Mobility « by SFR » :**

- Continuity of usage
- Personalization



Strategy	Introduction
	<b>Mobile</b>
	New Reach
	Op. Excellence

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1. Overview and recent developments

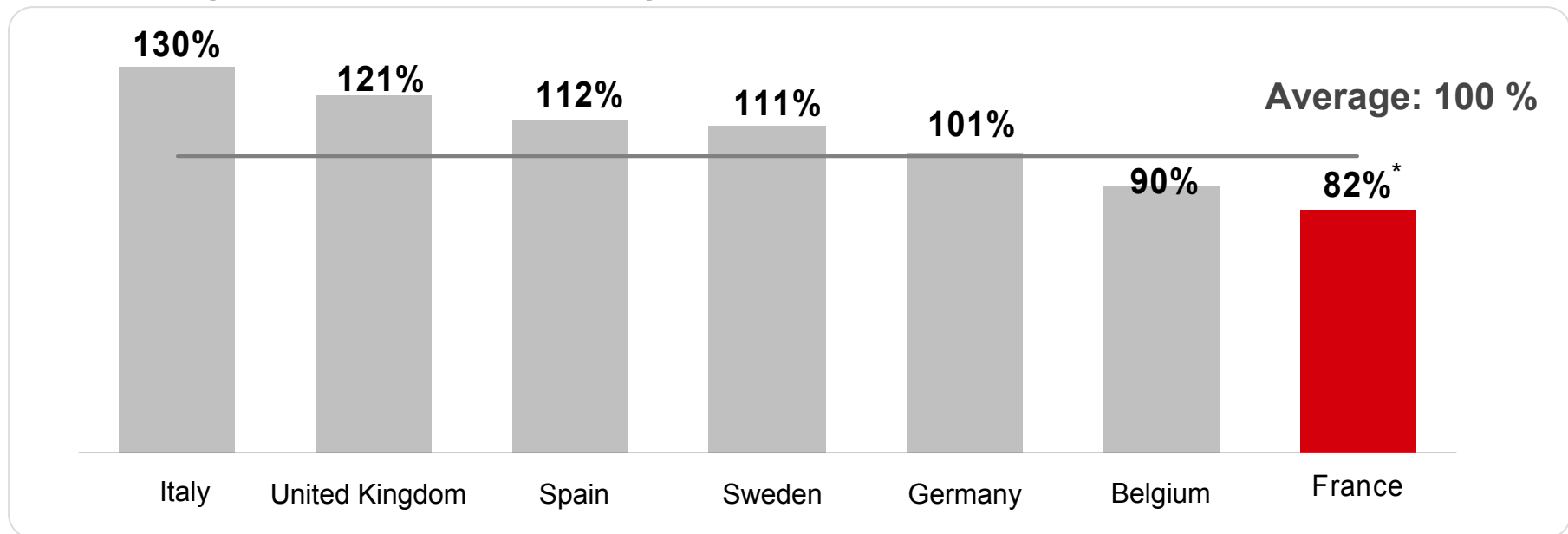
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## French mobile market has still strong growth potential

- 82% of mobile penetration at end December 2006

Mobile penetration in main European countries at end June 2006 (source Arcep)



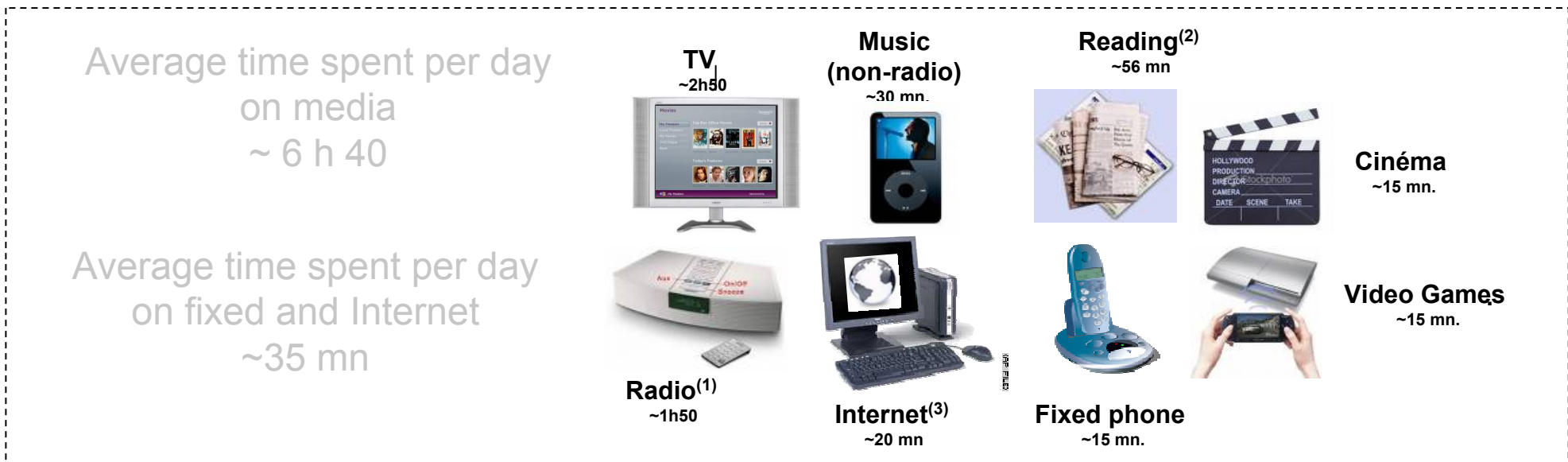
\* End of December figures for France



### Mobile penetration in France will grow:

- 100% in the short term
- 12 million potential new customers

## Mobile captures small share of consumers' time



Average time spent per day on media  
~ 6 h 40

Average time spent per day on fixed and Internet  
~35 mn

Additional consumer times to move to mobile

**Average time spent per day on mobile ~ 10 mn**  
Of which <1mn spent on mobile digital content



**Strong potential of growth for mobile content usage**

(1) Including when listening as background activity (2) Including newspapers, books, magazines (3) For personal use  
Source: panel data, INSEE, IFOP, Datamonitor, Estimates

**A double digit growth still far away from the most advanced countries (USA: x3 vs. France)**

Number of minutes from a mobile phone in France

In million of minutes

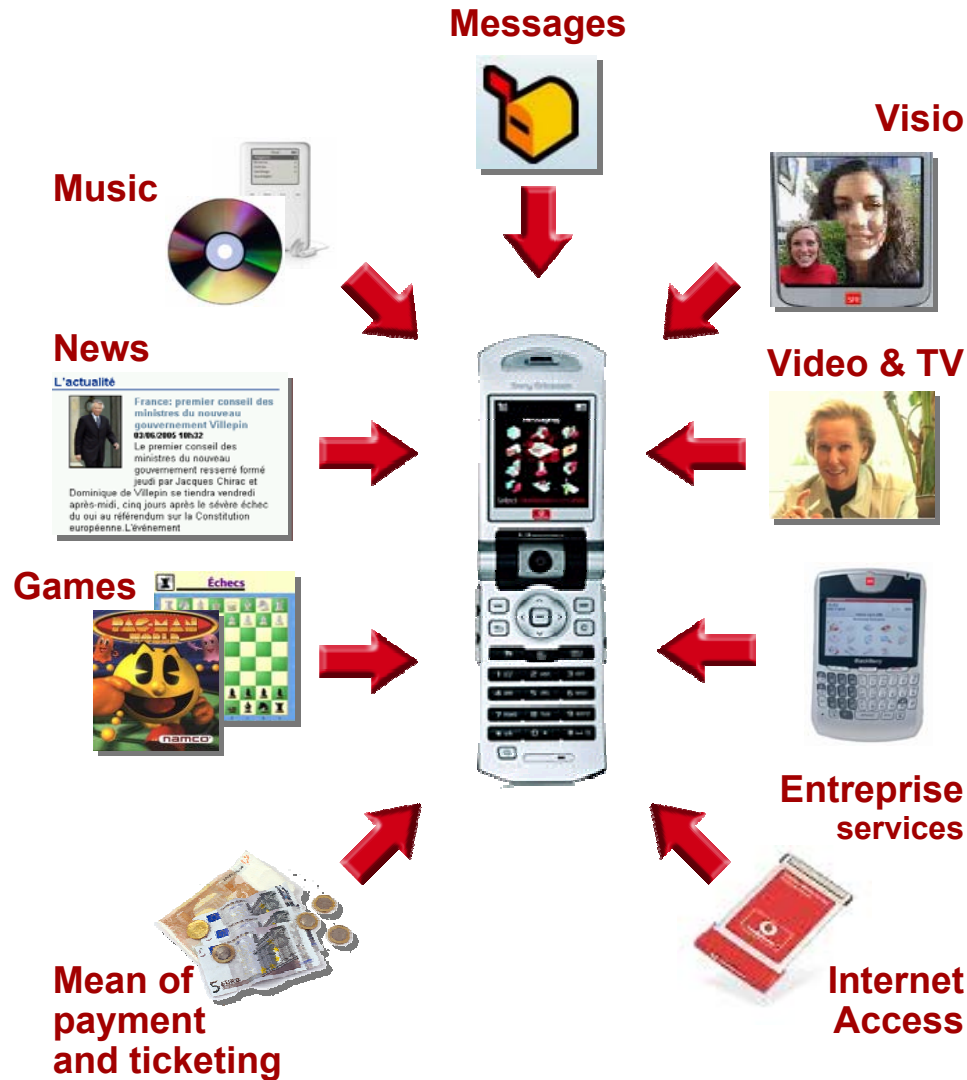


**SFR customers: 12-month rolling AUPU grew by +10.5% to 327 min/month (end of December 2006)**

Source: Arcep, SFR estimates

- **3G+ / data services: Quantum leap in user experience**
- **SFR is the first operator to launch 3G+ (HSDPA) in France in April 2006**
  
- End of December 2006:
  - 3G+ will be deployed on all of the SFR's 3G network
  - i.e. 65% of the French population
  
- One of the largest EU HSDPA network to date
  
- An evolving debit rate of 1.8 Mbit/s at launch and test at 3.6 Mbit/s in 2007

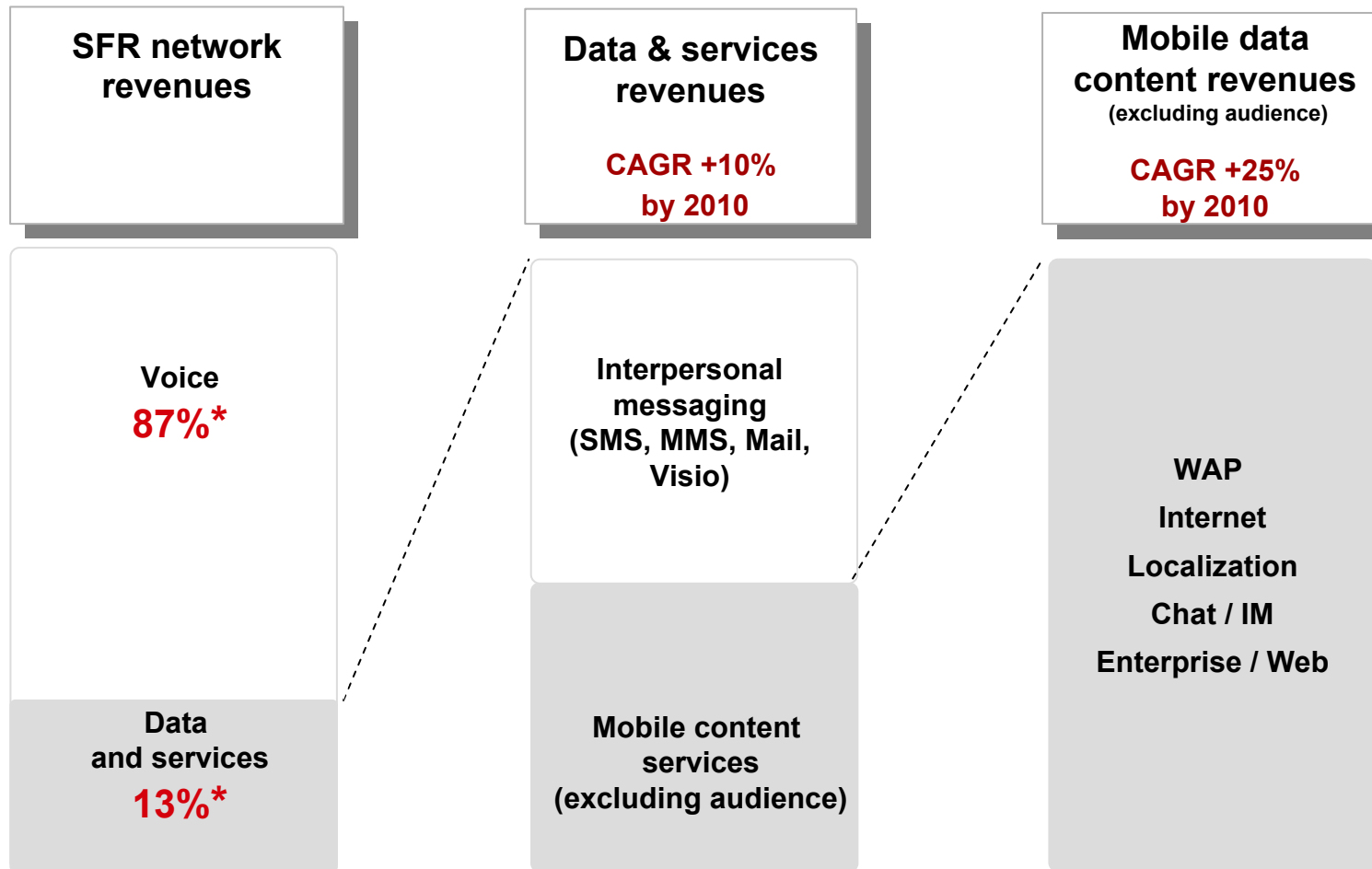
## Mobile data services at SFR are growing significantly



- **SMS and MMS:**
  - +17.4% of SMS and +70.8% of MMS in Dec YTD-2006 vs. Dec YTD-2005
- **Games:**
  - 600 games available, 4 M games downloaded in Dec YTD-2006
- **TV / Vidéo:**
  - 80 channels (CanalSat and TPS)
  - 14 M TV/Video sessions downloaded in Dec YTD-2006
  - Over 2 M sessions during the Soccer World Cup
- **Internet on mobile:**
  - +86% of blackberry and +69 PC Card in one year
  - Machine-to-machine base: +52 %



## Strong growth of mobile content services (excluding audience) driven by the internet, localization, chat/IM and enterprise



\* December YTD 2006





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**Fixed to Mobile substitution**



**Internet ADSL + Audience models**



## SFR Core Offerings

SFR existing mobile offer



Happy Zone  
GSM / 3G – 3G+



## Option

Internet access



2G / 3G-3G+ / WiFi / WiMAX

ADSL

**Voice**

**Internet**

## Fixed to Mobile substitution: launch of “Happy Zone”



Strategy

Introduction

Mobile

New Reach

Op. Excellence

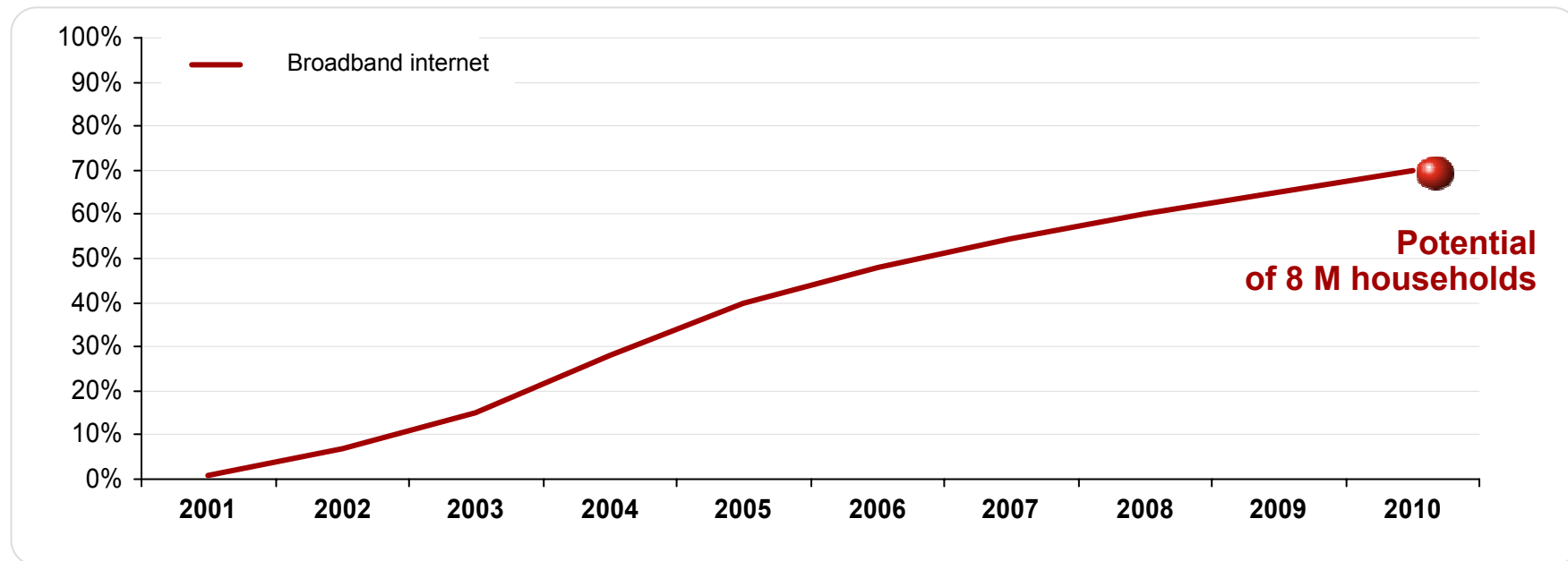
- Continuity of mobile usage at home and around enabled by 3G / 3G+ capacity
- Happy Zone assets:
  - Offerings with discounted tariffs for calls made from home
  - Customers keep their favorite handset
  - Coverage zone larger than the house
  - Large success in other European countries



## ADSL, the second driver for internet / telecom sector

- 47% of French households have broadband internet access at end September 2006

Penetration rate in French households estimates (Source: Idate)



ADSL penetration in France will grow:

- Expected to be 70% in 2010
- Potential of more than 8 million households

### Launch of ADSL for:

- Continuity of mobile services on the internet
- Value creation for mobile operators

- Objective: 15% of French ADSL market by 2011
  - SFR will launch ADSL offerings in May 2007
    - An option on top of mobile offerings
    - Continuity of mobile services on the internet
  - Strong assets in fixed and ADSL
    - Télé2 France acquisition:
      - ◆ Acceleration of SFR's ADSL strategy
      - ◆ Immediate credible player in ADSL
    - SFR and Neuf Cegetel, a long term partnership:
      - ◆ SFR and Télé2 are "Fixed VNOs" on the Neuf Cegetel ADSL network

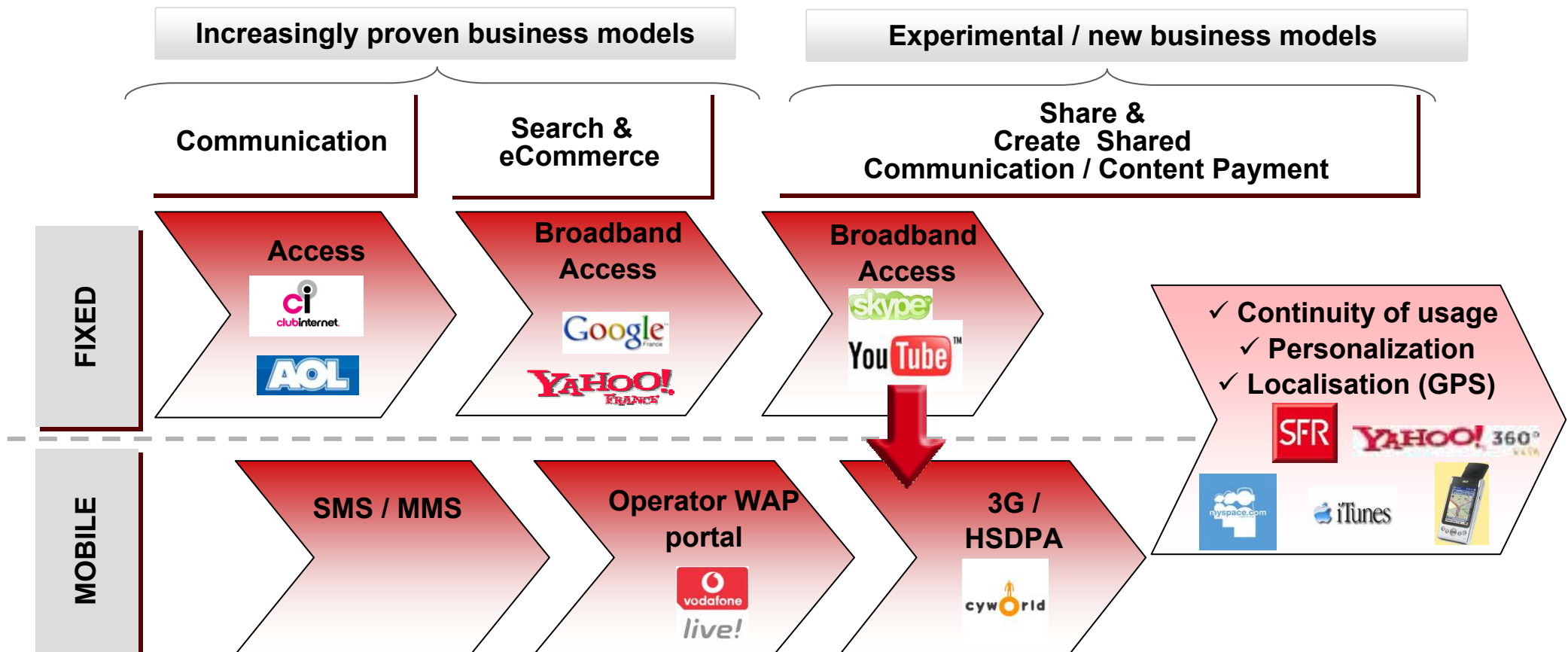


40% of



## Untapped revenue potential around audience for French mobile market

- Internet is naturally extended into mobile



## Success of first SFR's audience model

- Music on mobile and PC:
  - SFR Music: 4 M tracks downloaded in Dec. YTD 2006
  - Top 3 of legal downloading platforms in France
- Success of “SFR Jeunes Talents”
  - SFR strategy for community websites and web created content
- Continuity of SFR services on the web
  - Mobile environment accessible on the internet:
    - Synchronization of the directory
    - Self-care / shop on-line
    -

**SFR Music**  
Tous les produits mobiles liés à vos artistes préférés !

- Single
- Sonnerie
- Sonnerie vidéo
- Tonalité
- Mini-clip
- Logo

Découvrez aussi nos services exclusifs

- SFR Jeunes talents
- Radio DJ
- le Pass

**SFR JEUNES TALENTS**  
Les nouveaux artistes de la scène française

SFR Jeunes Talents

- Accueil
- Découvrir ce service
- L'espace des artistes
- Aide

**Vous avez du TALENT? LE MOBILE VOUS OUVRE LA VOIX**

SFR lance SFR Jeunes Talents : le 1er portail de Jeunes Talents sur le mobile

Faites découvrir à tous vos créations musicales ! Mettez en ligne vos maquettes sur le web et le mobile ... et figurez au catalogue de SFR Music !

> En savoir plus

Inscrivez-vous dès maintenant pour être en ligne dès l'ouverture du site !

> S'inscrire comme artiste

Ecoutez gratuitement et en intégralité les œuvres inédites de talents encore inconnus. Entrez votre email pour être averti dès l'ouverture du site SFR Jeunes Talents :

> Etre averti du lancement

1 Artistes déjà inscrits

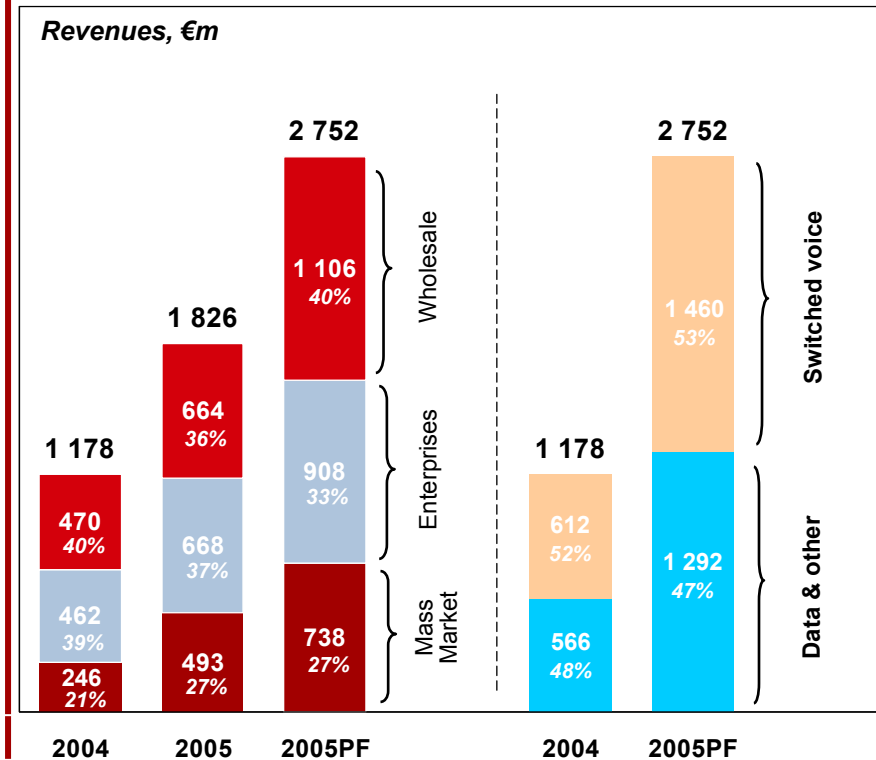


**SFR is the 1st shareholder of Neuf Cegetel with a 40% stake (average acquisition cost of €12.5 / share)**

## Neuf Cegetel key performance indicators as at end of June 2006

	Mass Market (MM)	Enterprises (ES)	Wholesale (WS)
<b>Data</b>	<ul style="list-style-type: none"> <li>1.4 M DSL customers</li> <li>ARPU of €32</li> </ul>	<ul style="list-style-type: none"> <li>124,000 data links</li> <li>ARPL of €312</li> </ul>	<ul style="list-style-type: none"> <li>c. 1 M data links</li> <li>ARPL of €22</li> </ul>
<b>Switched Voice</b>	<ul style="list-style-type: none"> <li>c. 1.9 M customers</li> <li>ARPU of c. €14</li> </ul>	<ul style="list-style-type: none"> <li>c. 1 billion min/month</li> <li>Average selling price of c. €3.7c/min</li> </ul>	<ul style="list-style-type: none"> <li>c. 3 bn min/month</li> <li>Average selling price of c. €1.7c/min</li> </ul>
<b>Other Products</b>		<ul style="list-style-type: none"> <li>Hosting (62% of Jet Multimedia)</li> </ul>	<ul style="list-style-type: none"> <li>Infrastructure, bandwidth, housing, etc.</li> </ul>

## Neuf Cegetel revenue breakdown







Strategy	Introduction
	Mobile
	New Reach
	Op. Excellence

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## Cost control to prepare future growth

### ■ Capex

- 3G / 3G+ already cover 65% of French population

### ■ Decrease in fixed and variable Opex costs

- Multi-year cost reduction program
- Stable network and IT Opex in 2007
- Emphasis on structure costs

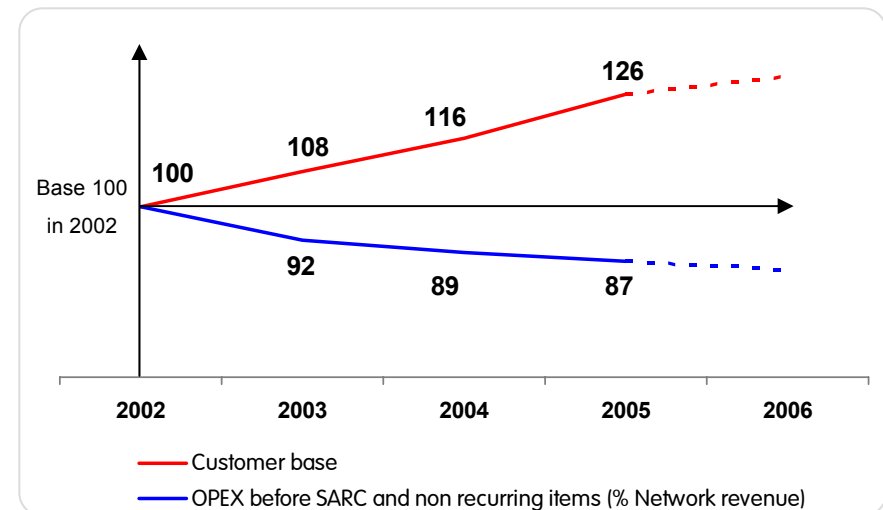
### ■ Prepared for future cost structure adjustments

- UMTS strategy (incl. 900 MHz)
- Transition to an “all IP” network infrastructure as of 2009
- WiMax license (and spectrum)
- Site sharing

### ■ HR evolution 2007-2009

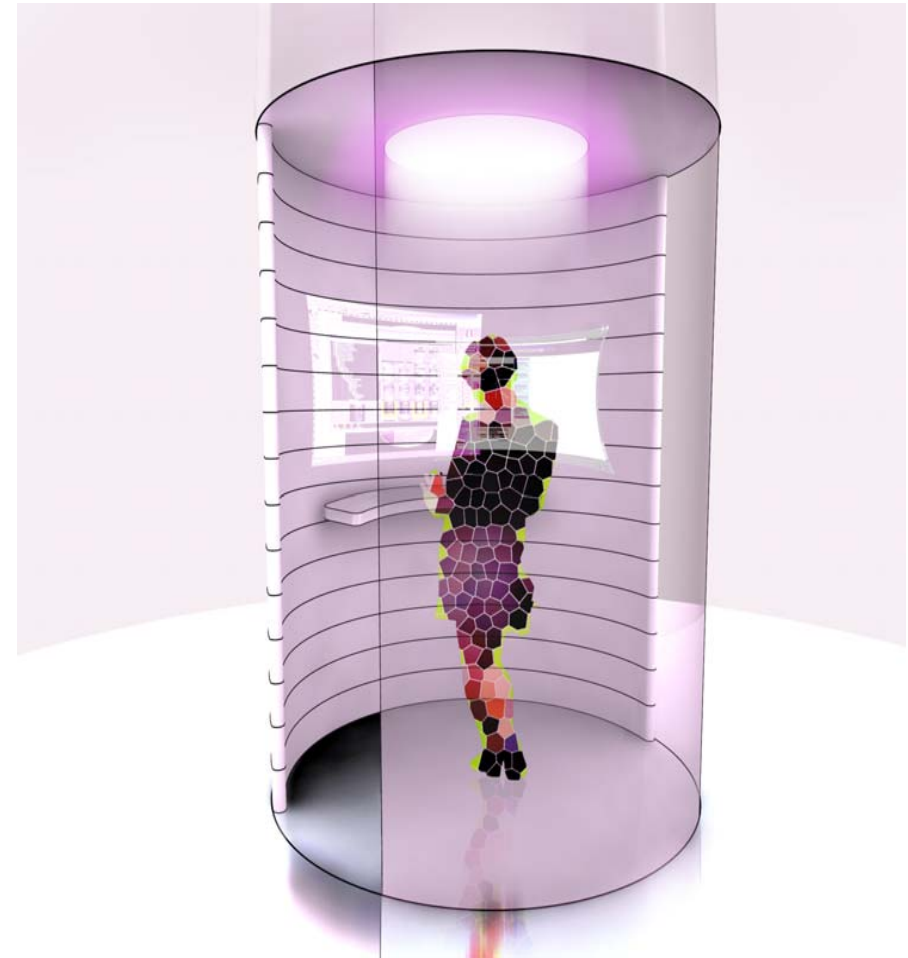
- Plan signed with trade unions to adapt and change competencies of SFR workforce

Opex & customer base evolution 2002 – 2006



## Distribution is key to support mobile, fixed and ADSL strategy

- More than 750 mobile shops in 2006
  - Strong geographical coverage
  - Secure higher quality of sales
  - Opportunity to sale additional services
    - ADSL and fixed
    - Digital content
    - Insurance
  
- Zoom on digital content: SFR Music Store
  - ~650 downloading access points in SFR shops by end 2007
  - SFR Music Store will open in Paris in September 2007





## ■ SFR has all the assets to win

- A close relationship with its 17.9 million mobile customers
- A strong brand
- A good quality of its 2G and 3G/3G+ networks
- A deep commercial network: 750 SFR stores
- A customer care service ranked number 1 in satisfaction surveys
- A 40% stake in the first fixed/internet alternative operator in France: Neuf Cegetel
- Strong interests in ADSL with an estimated proportionate 11% of French market

## ■ and a pragmatic and focused strategy

- SFR, leader on mobility
- “extended mobility” with new reach, personalization and continuity of usage:
  - Happy Zone at home and at the office
  - ADSL, an option for mobile customers



## ■ SFR : N.2 operator with strong momentum in a growing French mobile telecommunications market

- A growing French mobile market
- A focused strategy (“mobile centric” + ADSL)
- A strong commercial momentum
- Winning partnerships with Vivendi and Vodafone
- A strong financial profile

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# Simplified P&L statement – SFR Group



IFRS

in millions of euros	2004 pf.	2005	05 vs 04 pf	2006 Guidance
Revenues	8 117	8 687	+7%	“Stable to slight growth”
Reported EBITDA*	3 093	3 209	+4%	
<i>EBITDA margin</i>	<i>38,1%</i>	<i>36,9%</i>	<i>-1,2 pt</i>	
EBITDA excl. non recurring items	3 045	3 324	+9%	
<i>EBITDA margin excl. non recurring items</i>	<i>37,5%</i>	<i>38,3%</i>	<i>+0,8 pt</i>	
Reported EBITA*	2 338	2 422	+4%	“+8% to +10% growth”
<i>EBITA Margin</i>	<i>28,8%</i>	<i>27,9%</i>	<i>-0,9 pt</i>	“Grow to between 29.5% and 30.5% compared with 27.9% in 2005”
EBITA excl. non recurring items	2 290	2 537	+11%	
<i>EBITA margin excl. non recurring items</i>	<i>28,2%</i>	<i>29,2%</i>	<i>+1 pt</i>	

\* Actual 2005 includes Antitrust Council fine for €(220)m and +€105m favorable non recurring items, i.e. a total non recurring impact of €(115)m; 2004 pf includes +€48m of favorable non recurring items.

## Simplified Cash Flow Statement – SFR Group



IFRS

in millions of euros	2004 pf.	2005	05 vs 04 pf
EBITDA*	3 093	3 209	+4%
CAPEX	890	1 072	+20%
CFFO	2 242	2 268	+1%
Net debt	1 161	2 235	nm

\* Actual 2005 includes Antitrust Council fine for €(220)m and +€105m favorable non recurring items, i.e. a total non recurring impact of €(115)m; 2004 pf includes +€48m of favorable non recurring items.





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