UNIVERSAL MUSIC GROUP B.V.

Private limited liability company

Gravelandseweg 80,

1217 EW - Hilversum - NETHERLANDS

Universal Music Group B.V.'s Independent Auditors' report on the review of the half-yearly unaudited consolidated condensed Financial Statements

July 28, 2021

ERNST & YOUNG et Autres
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S.A.S. à capital variable
438 476 913 R.C.S. Nanterre

Deloitte & Associés
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92908 Paris-La Défense Cedex
S.A.S. au capital de 2 188 160 €
572 028 041 RCS Nanterre

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July 28, 2021

To the Management Board of Universal Music Group B.V.,

Introduction

We have reviewed the accompanying half-yearly unaudited consolidated condensed Financial Statements ("Financial Statements") of Universal Music Group B.V. ("UMG") as at June 30, 2021.

Due to the global crisis related to the Covid-19 pandemic, the Financial Statements have been prepared and reviewed under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of our review procedures.

UMG's Management is responsible for the preparation and presentation of these Financial Statements in accordance with the basis set out in the Basis of preparation of the Financial Statements.

Our responsibility is to express a conclusion on these Financial Statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, which applies to a review of interim financial information performed by the independent auditor of the entity. A review of interim Financial Statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Financial Statements are not prepared, in all material respects, in accordance with the basis set in the Basis of preparation of the Financial Statements and IAS 34 – standard of the IFRS relating to interim financial reporting, as published by the International Accounting Standard Board (IASB) and endorsed by the European Union.

This report shall be governed by and construed in accordance with French law. The courts of France shall have exclusive jurisdiction in relation to any claim, dispute or difference concerning the engagement letter or this report, and any matter arising from them. Each party irrevocably waives any right it may have to object to an action being brought in any of those courts, to claim that the action has been brought in an inconvenient forum or to claim that those courts do not have jurisdiction.

Paris-La Défense, July 28, 2021

The Independent Auditors

ERNST & YOUNG et Autres	Deloitte & Associés
Claire PAJONA	Géraldine SEGOND

Half yearly unaudited* consolidated condensed financial statements

for the first-half year ended June 30, 2021

** The consolidated condensed financial statements for the half-year ended June 30, 2021 were subject to a limited review by UMG's independent auditors. The auditors' report follows the consolidated condensed financial statements.*

Unaudited consolidated condensed financial statements - June 30, 2021

Consolidated Condensed Statement of Earnings

(in millions of euros)	Note	Six months ended June 30, (unaudited) 2021	2020	Year ended December 31, 2020
Revenues	2	**3,831**	**3,459**	**7,432**
Cost of revenues		(2,047)	(1,820)	(3,917)
Selling, general and administrative expenses		(1,090)	(1,104)	(2,265)
Restructuring charges		(9)	(8)	(20)
Impairment losses on intangible assets acquired through business combinations	2	-	-	-
Income from equity affiliates - operational	10	(1)	(11)	(9)
Earnings before interest and income taxes (EBIT)		**684**	**516**	**1,221**
Interest	3	(9)	(6)	(15)
Income from investments	3	-	-	-
Other financial income	3	105	453	603
Other financial charges	3	(183)	(13)	(28)
		(87)	***434***	***560***
Earnings before provision for income taxes		**597**	**950**	**1,781**
Provision for income taxes	4	(144)	(214)	(412)
Earnings from continuing operations		453	736	1,369
Earnings from discontinued operations		-	-	-
Earnings		**453**	**736**	**1,369**
Of which				
Earnings attributable to shareowners		**452**	**735**	**1,366**
Non-controlling interests		1	1	3
Earnings per share	5			
Basic, earnings for the period attributable to ordinary equity holders of the parent		0.25	0.41	0.75
Diluted earnings for the period attributable to ordinary equity holders of the parent		0.25	0.41	0.75

Consolidated Condensed Statement of Comprehensive Income

(in millions of euros)	Note	For the six months ended June 30, (unaudited) 2021	2020	Year ended December 31, 2020
Earnings		**453**	**736**	**1,369**
Actuarial gains/(losses) related to employee defined benefit plans, net		-	1	6
Financial assets at fair value through other comprehensive income		-	-	2
Comprehensive income from equity affiliates, net		-	-	-
Items not subsequently reclassified to profit or loss		**-**	**1**	**8**
Foreign currency translation adjustments		24	(24)	(194)
Comprehensive income from equity affiliates, net	10	1	(1)	(6)
Other impacts, net		**-**	-	-
Items to be subsequently reclassified to profit or loss		**25**	**(25)**	**(200)**
Charges and income directly recognized in equity	6	**25**	**(24)**	**(192)**
Total comprehensive income		**478**	**712**	**1,177**
Of which				
Total comprehensive income attributable to shareowners		**477**	**711**	**1,174**
Total comprehensive income attributable to non-controlling interests		1	1	2

Consolidated Condensed Statement of Financial Position

(in millions of euros)	Note	June 30, 2021 (unaudited)	December 31, 2020
ASSETS			
Goodwill	7	1,386	1,369
Non-current content assets	8	3,523	3,512
Other intangible assets		-	1
Property, plant and equipment		247	254
Rights-of-use relating to leases	9	406	416
Investments in equity affiliates	10	95	72
Non-current financial assets	11	1,782	1,962
Deferred tax assets		369	414
Non-current assets		**7,808**	**8,000**
Inventories		85	79
Current tax receivables		3	1
Current content assets	8	729	677
Trade accounts receivable and other		1,112	1,088
Current financial assets		35	1
Cash and cash equivalents	12	901	1,141
Current assets		**2,865**	**2,987**
TOTAL ASSETS		**10,673**	**10,987**
EQUITY AND LIABILITIES			
Share capital		18,132	na
Additional paid-in capital		14,868	na
Retained earnings		(31,513)	1,432
Of which earnings attributable to shareowners		*452*	*1,366*
Non-controlling interests		-	-
Total equity	1, 13	**1,487**	**1,432**
Non-current provisions	14	342	335
Long-term borrowings and other financial liabilities	12	1	1
Shareowners borrowings	12,16	-	2,368
Deferred tax liabilities		774	828
Long-term lease liabilities		440	447
Other non-current liabilities		751	851
Non-current liabilities		**2,308**	**4,830**
Current provisions	14	98	137
Short-term borrowings and other financial liabilities	12	549	640
Short-term borrowings with Vivendi SE	12, 16	2,368	-
Trade accounts payable and other		3,741	3,843
Short-term lease liabilities	9	78	78
Current tax payables		44	27
Current liabilities		**6,878**	**4,725**
Total liabilities		**9,186**	**9,555**
TOTAL EQUITY AND LIABILITIES		**10,673**	**10,987**

na: not applicable

Consolidated Condensed Statement of Cash Flows

(in millions of euros)	Note	For the six months ended June 30, (unaudited) 2021	2020	For the year ended December 31, 2020
Operating activities				
EBIT		684	516	1,221
Adjustments		88	94	213
Content investments, net	8	(173)	(352)	(1,517)
Gross cash provided by operating activities before income tax paid		***599***	258	***(83)***
Other changes in net working capital		(172)	(118)	287
Net cash provided by operating activities before income tax paid		***427***	140	***204***
Income tax (paid)/received, net		(118)	(64)	(207)
Net cash provided by operating activities		**309**	76	**(3)**
Investing activities				
Capital expenditures		(23)	(37)	(66)
Purchases of consolidated companies, after acquired cash		(2)	(1)	(4)
Investments in equity affiliates	10	(23)	(1)	(2)
Increase in financial assets	11	(47)	-	(3)
Investments		***(95)***	***(39)***	***(75)***
Proceeds from sales of property, plant, equipment and intangible assets		5	-	-
Proceeds from sales of consolidated companies, after divested cash	3	117	-	11
Disposal of equity affiliates		-	1	1
Decrease in financial assets	11	-	-	15
Divestitures		***122***	***1***	***27***
Dividends received from equity affiliates	10	1	-	2
Dividends received from unconsolidated companies		1	1	-
Net cash provided by/(used for) investing activities		**29**	**(37)**	**(46)**
Financing activities				
Distributions to shareowners	13	(422)	-	(283)
Other transactions with shareowners		-	(11)	(11)
Dividends paid by consolidated companies to their non-controlling interests		(1)	(3)	(5)
Transactions with shareowners		***(423)***	***(14)***	***(299)***
Setting up of long-term borrowings and increase in other long-term financial liabilities		-	-	-
Principal payment on long-term borrowings and decrease in other long-term financial liabilities		-	-	-
Principal payment on short-term borrowings		-	-	-
Other changes in short-term borrowings and other financial liabilities	12	(103)	149	625
Interest paid, net		(9)	(6)	(15)
Other cash items related to financial activities		(9)	(1)	(3)
Transactions on borrowings and other financial liabilities		***(121)***	***142***	***607***
Repayment of lease liabilities and related interest expenses	3, 9	(40)	(43)	(91)
Net cash provided by/(used for) financing activities		**(584)**	**85**	**217**
Foreign currency translation adjustments of continuing operations		6	(20)	(35)
Change in cash and cash equivalents		**(240)**	**104**	**133**
Cash and cash equivalents				
At beginning of the period	12	**1,141**	1,008	1,008
At end of the period	12	**901**	1,112	1,141

Consolidated Condensed Statement of Changes in Equity

Six months ended June 30, 2021 (unaudited)

(in millions of euros, except number of shares)	Capital: Number of shares (in thousands)	Capital: Share capital	Capital: Additional paid-in capital	Capital: Subtotal	Retained earnings and other: Retained earnings	Retained earnings and other: Other comprehensive income	Retained earnings and other: Subtotal	Total equity
BALANCE AS OF DECEMBER 31, 2020	**-**	**-**	**-**	**-**	**1,915**	**(483)**	**1,432**	**1,432**
Attributable to Universal Music Group	-	-	-	-	*1,914*	*(482)*	*1,432*	*1,432*
Attributable to non-controlling interests	-	-	-	-	*1*	*(1)*	-	-
Contributions by/distributions to shareowners	**1,813,241**	**18,132**	**14,868**	**33,000**	**(33,422)**	**-**	**(33,422)**	**(422)**
Dividends paid by UMG B.V. – Vivendi SE	-	-	-	-	*(338)*	-	*(338)*	*(338)*
Dividends paid by UMG B.V. – Concerto and Scherzo	-	-	-	-	*(84)*	-	*(84)*	*(84)*
Contributions by shareowners of their UIM B.V. and UMG Inc. shares to UMG B.V. (refer Note 1)	*1,847,874*	*18,479*	*14,521*	*33,000*	*(33,000)*	-	*(33,000)*	-
Reduction in number of shares and effective capital contribution	*(34,633)*	*(346)*	*346*	-	-	-	-	-
Changes in UMG ownership interest in subsidiaries that do not result in a loss of control	-	-	-	-	-	-	-	-
CHANGES IN EQUITY ATTRIBUTABLE TO UNIVERSAL MUSIC GROUP (A)	**1,813,241**	**18,132**	**14,868**	**33,000**	**(33,422)**	**-**	**(33,422)**	**(422)**
Contributions by (distributions to) non-controlling interests	-	-	-	-	(1)	-	(1)	(1)
Dividends paid by subsidiaries to non-controlling interests	-	-	-	-	*(1)*	-	*(1)*	*(1)*
CHANGES IN EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (B)	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**	**(1)**
Earnings	-	-	-	-	453	-	453	453
Charges and income directly recognized in equity	-	-	-	-	-	25	25	25
TOTAL COMPREHENSIVE INCOME (C)	**-**	**-**		**-**	**453**	**25**	**478**	**478**
TOTAL CHANGES OVER THE PERIOD (A+B+C)	**1,813,241**	**18,132**	**14,868**	***33,000***	***(32,970)***	***25***	***(32,945)***	***55***
Attributable to Universal Music Group Shareowners	*1,813,241*	*18,132*	*14,868*	*33,000*	*(32,970)*	*25*	*(32,945)*	*55*
Attributable to non-controlling interests	-	-	-	-	-	-	-	-
BALANCE AS OF JUNE 30, 2021	**1,813,241**	**18,132**	**14,868**	**33,000**	**(31,055)**	**(458)**	**(31,513)**	**1,487**
Attributable to Universal Music Group Shareowners	1,813,241	18,132	14,868	33,000	(31,056)	(457)	(31,513)	1,487
Attributable to non-controlling interests	-	-	-	-	*1*	*(1)*	-	-

Six months ended June 30, 2020 (unaudited)

(in millions of euros, except number of shares)	Capital				Retained earnings and other			Total equity
	Number of shares (in thousands)	Share capital	Additional paid-in capital	Subtotal	Retained earnings	Other comprehensive income	Subtotal	
BALANCE AS OF DECEMBER 31, 2019	**-**	**-**	**-**	**-**	**3,275**	**(291)**	**2,984**	**2,984**
Attributable to Universal Music Group	-	-	-	-	*3,272*	*(290)*	*2,982*	*2,982*
Attributable to non-controlling interests	-	-	-	-	*3*	*(1)*	*2*	*2*
Contributions by/distributions to shareowners	**-**	**-**	**-**	**-**	**(2,428)**	**-**	**(2,428)**	**(2,428)**
Universal Music Group S.A.S. transferred to Vivendi SE	-	-	-	-	*(2,428)*	-	*(2,428)*	*(2,428)*
Changes in UMG ownership interest in subsidiaries that do not result in a loss of control	**-**	**-**	**-**	**-**	**(12)**	**-**	**(12)**	**(12)**
CHANGES IN EQUITY ATTRIBUTABLE TO UNIVERSAL MUSIC GROUP (A)	**-**	**-**	**-**	**-**	**(2,440)**	**-**	**(2,440)**	**(2,440)**
Contributions by (distributions to) non-controlling interests	-	-	-	-	(3)	-	(3)	(3)
Dividends paid by subsidiaries to non-controlling interests	-	-	-	-	*(3)*	-	*(3)*	*(3)*
CHANGES IN EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (B)	**-**	**-**	**-**	**-**	**(3)**	**-**	**(3)**	**(3)**
Earnings	-	-	-	-	736	-	736	736
Charges and income directly recognized in equity	-	-	-	-	-	(24)	(24)	(24)
TOTAL COMPREHENSIVE INCOME (C)	**-**	**-**	**-**	**-**	**736**	**(24)**	**712**	**712**
TOTAL CHANGES OVER THE PERIOD (A+B+C)	**-**	**-**	**-**	**-**	***(1,707)***	***(24)***	***(1,731)***	***(1,731)***
Attributable to Universal Music Group Shareowners	-	-	-	-	*(1,705)*	(24)	*(1,729)*	*(1,729)*
Attributable to non-controlling interests	-	-	-	-	*(2)*	-	*(2)*	*(2)*
BALANCE AS OF JUNE 30, 2020	**-**	**-**	**-**	**-**	**1,568**	**(315)**	**1,253**	**1,253**
Attributable to Universal Music Group Shareowners	-	-	-	-	*1,567*	*(314)*	*1,253*	*1,253*
Attributable to non-controlling interests	-	-	-	-	*1*	*(1)*	-	-

Year ended December 31, 2020

(in millions of euros, except number of shares)	Capital				Retained earnings and other			Total equity
	Number of shares (in thousands)	Share capital	Additional paid-in capital	Subtotal	Retained earnings	Other comprehensive income	Subtotal	
BALANCE AS OF DECEMBER 31, 2019	**-**	**-**	**-**	**-**	**3,275**	**(291)**	**2,984**	**2,984**
Attributable to Universal Music Group	-	-	-	-	*3,272*	*(290)*	*2,982*	*2,982*
Attributable to non-controlling interests	-	-	-	-	*3*	*(1)*	*2*	*2*
Contributions by/distributions to shareowners	**-**	**-**	**-**	**-**	**(2,711)**	**-**	**(2,711)**	**(2,711)**
Universal Music Group S.A.S. transferred to Vivendi SE	-	-	-	-	*(2,428)*	-	*(2,428)*	*(2,428)*
Distribution by Universal International Music B.V. paid to shareowners					*(283)*	-	*(283)*	*(283)*
Changes in UMG ownership interest in subsidiaries that do not result in a loss of control	**-**	**-**	**-**	**-**	***(13)***	**-**	**(13)**	**(13)**
CHANGES IN EQUITY ATTRIBUTABLE TO UNIVERSAL MUSIC GROUP (A)	**-**	**-**	**-**	**-**	**(2,734)**	**-**	**(2,724)**	**(2,724)**
Contributions by (distributions to) non-controlling interests	-	-	-	-	(5)	-	(5)	(5)
Dividends paid by subsidiaries to non-controlling interests	-	-	-	-	*(5)*	-	*(5)*	*(5)*
CHANGES IN EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (B)	**-**	**-**	**-**	**-**	***(5)***	-	**(5)**	**(5)**
Earnings	-	-	-	-	1,369	-	1,369	1,369
Charges and income directly recognized in equity	-	-	-	-	-	(192)	(192)	(192)
TOTAL COMPREHENSIVE INCOME (C)	**-**	**-**		**-**	**1,369**	**(192)**	**1,177**	**1,177**
TOTAL CHANGES OVER THE PERIOD (A+B+C)	**-**	**-**	**-**	**-**	***(1,360)***	***(192)***	***(1,552)***	***(1,552)***
Attributable to Universal Music Group Shareowners	-	-	-	-	*(1,358)*	(192)	*(1,550)*	*(1,550)*
Attributable to non-controlling interests	-	-	-	-	*(2)*	-	*(2)*	*(2)*
BALANCE AS OF DECEMBER 31, 2020	**-**	**-**	**-**	**-**	**1,915**	**(483)**	**1,432**	**1,432**
Attributable to Universal Music Group Shareowners	-	-	-	-	1,914	*(482)*	*1,432*	*1,432*
Attributable to non-controlling interests	-	-	-	-	*1*	*(1)*	-	-

Notes to the Consolidated Condensed Financial Statements

Note 1 Accounting policies and valuation methods

1.1 Basis of preparation of the Unaudited Consolidated Condensed Financial Statements

The Unaudited Consolidated Condensed Financial Statements of Universal Music Group (as defined below) for the half-year ended June 30, 2021 have been prepared by Universal Music Group B.V. ("UMG B.V.").

On February 26, 2021, Vivendi and the consortium led by Tencent contributed their respective 80% and 20% shares in both UMG Inc. and UIM B.V. share capital to UMG B.V. Following this contribution, Vivendi and Tencent respectively own 80% and 20% of UMG B.V., which owns 100% of UIM B.V. and 100% of UMG Inc.

The Consolidated Condensed Financial Statements of UMG have been drawn up based on the accounting data of UMG B.V. and its subsidiaries for the half-year ended June 30, 2021. They are presented and have been prepared in accordance with IAS 34 – *Interim Financial Reporting* as endorsed by the European Union (EU) and published by the IASB, with mandatory application as of June 30, 2021.

Amendments to IFRS standards applicable as from January 1, 2021, had no material impact on UMG's Consolidated Condensed Financial Statements, notably the amendments to the IFRS 9 – *Financial* Instruments, IFRS 7 – *Financial Instruments: Disclosures*, and IFRS 16 – *Leases* standards which relate to the Interest Rate Benchmark Reform (Phase 2).

As a reminder, UMG applied IFRS 16 with retrospective effect as from January 1, 2019 without restating comparative periods in the combined financial statements. In accordance with IFRS 16, the impact of the change of accounting standard was recorded by UMG in the opening balance sheet as of January 1, 2019; moreover, UMG applied this change of accounting standard to the Statement of Financial Position, Statement of Earnings and Statement of Cash Flows in 2019.

As a reminder, in 2018, UMG applied two new accounting standards:

- IFRS 15 – *Revenue from contracts with customers:* in accordance with IFRS 15, as from 2017, UMG applied this change of accounting standard to revenues; and
- IFRS 9 – *Financial instruments:* in accordance with IFRS 9, as from 2018, UMG applied this change of accounting standard to the Statement of Earnings and Statement of Comprehensive Income restating its opening balance sheet as of January 1, 2018.

UMG B.V. is a private limited company having its official seat in the Netherlands, which since February 26, 2021, is subject to the provisions of the Dutch commercial company law that are applicable to it in the Netherlands.

Context

Sale of 20% of Universal Music Group's share capital to a Tencent-led consortium

On December 31, 2019, Vivendi and a Tencent-led consortium, which includes Tencent Music Entertainment and other financial co-investors, entered into an agreement for a planned equity investment in Universal Music Group (UMG). This agreement provides for:

- the purchase by this consortium of 10% of UMG's share capital, based on an enterprise value of €30 billion for 100% of UMG's share capital; and

- an option for this consortium to acquire, on the same valuation basis, an additional interest of up to 10% of UMG's share capital until January 15, 2021.

On March 31, 2020, Vivendi completed the sale of 10% of UMG's share capital to a Tencent-led consortium.

On December 17, 2020, the consortium decided to exercise the option to acquire an additional 10% of UMG.

On January 29, 2021, Vivendi completed the sale of the additional 10% of UMG's share capital to a Tencent-led consortium, based on an enterprise value of €30 billion for 100% of UMG's share capital.

As from this date, the Tencent-led consortium owns 20% of UMG. In addition, a separate agreement was entered into on March 31, 2020, enabling Tencent Music Entertainment to acquire a minority interest in the share capital of the UMG's subsidiary that owns its operations China.

Planned sale of 10% of Universal Music Group's share capital to Pershing Square investment funds

On June 4, 2021, Vivendi and Pershing Square Tontine Holdings, Ltd. (PSTH) entered into discussions regarding the sale by Vivendi of 10% UMG's share capital to PSTH, prior to the distribution of 60% of UMG's share capital and its stock market listing.
This transaction would be based on an enterprise value of €35 billion for 100% of UMG's share capital, following the authorization given by Vivendi's shareholders at the General Shareholders' Meeting held on June 22, 2021, to distribute 60% of UMG's share capital and list the company.
On June 20, 2021, Vivendi announced that it had entered into an agreement with PSTH for the sale of 10% of the share capital of Universal Music Group B.V. (UMG B.V.). Closing of this transaction is subject to the non-exercise of withdrawal rights by PSTH shareholders and completion of U.S regulatory processes. The transaction was expected to be completed in the coming weeks, by September 15, 2021 at the latest.
On July 19, 2021, Pershing Square Tontine Holdings Ltd. (PSTH) informed Vivendi that it intends to assign its rights and obligations to acquire 10% of the share capital of Universal Music Group (UMG) under the agreements announced on June 20, 2021 to investment funds with significant economic interests or management positions held by Mr. William Ackman ("Pershing Square investment funds"). Vivendi decided to approve such request.
The condition regarding the exercise by PSTH shareholders of their redemption rights is no longer applicable to the amended transaction, which will only be contingent on the approval of US regulatory authorizations.

The equity interest in UMG eventually acquired will now be between 5 and 10%. Should it be less than 10%, Vivendi intends to sell the shortfall to other investors before the distribution of 60% of the share capital of UMG to Vivendi's shareholders, the payment of which is expected to occur on September 23, 2021.

Planned distribution of 60% of Universal Music Group's share capital and its listing on the stock market

On February 13, 2021, Vivendi announced that it will study the planned distribution of 60% of UMG's share capital and its listing by the end of 2021. This distribution, exclusively in kind, would take the form of an exceptional distribution ("special dividend"). The listing of UMG's shares, issued by its holding company, would be applied for on the regulated market of Euronext NV in Amsterdam, in a country that has been one of UMG's historical homes.

On February 26, 2021, Vivendi and the consortium led by Tencent contributed their respective 80% and 20% shares in both UIM B.V. and UMG Inc. to a unique holding UMG B.V., based on an equity value of €33 billion for 100% of UMG. This internal reorganization of the shareholding structure of UMG was scheduled as part of the agreement signed in December 2019 by Vivendi and the Tencent-led consortium, a prerequisite for the company's planned listing on the stock market. On March 29, 2021, a Vivendi Extraordinary Shareholders' Meeting was called to modify the company's by-laws and make this distribution in kind possible and pursue this project. Following the approval by 99.98% positive votes at the Vivendi's Extraordinary General Meeting of March

29, 2021, of an amendment to the company's by-laws, which now allows Vivendi to distribute dividends or interim dividends, reserves or premiums by way of the delivery of assets in kind, including financial securities.

On May 18, 2021, Vivendi announced that it will propose to set up a governance structure for Universal Music Group (UMG) N.V., which could be expected to list its shares on the Euronext Amsterdam stock exchange, consistent with the best policies and standards.

On June 22, 2021, in accordance with the recommendation of the *Autorité des marchés financiers* ("AMF", the French securities regulator) on the sale and acquisition of significant assets and of the AFEP-MEDEF Code, Vivendi's General Shareholders' Meeting was asked and issued a favorable opinion on the planned special distribution in kind of 60% of UMG's share capital to Vivendi's shareholders.

On June 22, 2021, the General Shareholders' Meeting approved in principle, the planned distribution of 60% of UMG and UMG N.V.'s listing on the Euronext Amsterdam stock exchange.

Scope of combination/consolidation

Until February 26, 2021, the arrangement that constituted the combined UMG group was not a legal entity in its own right and was made up of entities under the common control of Vivendi. Until this date, UMG's scope of combination principally comprised the entities held directly and indirectly by UMG Inc. and UIM B.V.

On February 26, 2021, Vivendi and the consortium led by Tencent contributed their respective 80% and 20% shares in both. UMG Inc. and UIM B.V. share capital to UMG B.V. based on an equity value of €33 billion for 100% of UMG. Following this contribution, Vivendi and the consortium led by Tencent respectively own 80% and 20% of UMG B.V. share capital, which owns 100% of UMG Inc. and 100% of UIM B.V. share capital without any change on UMG's scope of combination/consolidation.

The reorganization of its shareholding structure having no impact on UMG's scope of combination/consolidation, starting with the first quarter ended March 31, 2021, UMG's consolidated financial statements combine the same like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries in both the combined financial statements before this transaction and the consolidated financial statements after this transaction, in accordance with IFRS 10.B86(a).

Therefore, UMG's net equity remains unchanged before and after the contribution. As such, following the principle of continuity of financial statements, on February 26, 2021, in UMG B.V.'s consolidated financial statements, the contribution of €33 billion was directly recorded as an increase in equity attributable to UMG B.V. shareowners (€18.5 billion in share capital and €14.5 billion in additional paid-in capital), and the contribution of €33 billion was fully neutralized in UMG B.V.'s retained earnings.

The combination/consolidation scope is presented in Note 19 "List of combined entities".

Core Business

UMG is the worldwide leader in music, engaged in recorded music, music publishing and merchandising. It owns more than 50 labels covering all music genres. UMG is home to the greatest local and international artists of all time, including The Beatles, Rolling Stones, U2, Andrea Bocelli, Lady Gaga, Helene Fischer and more, as well as many of the biggest artists of the year, such as The Weeknd, Billie Eilish, Post Malone, and Taylor Swift.

- The recorded music business discovers and develops recording artists, marketing and promoting their music across a wide array of formats and platforms. Its activities also extend to other areas, such as live events, sponsorship, film and television.

- The music publishing business discovers and develops songwriters and owns and administers the copyright for musical compositions used in recordings, public performances and related uses, such as films and advertisements.
- The merchandising business produces and sells artist-branded and other branded products through multiple sales channels, including fashion retail, concert touring and the Internet. Its activities also extend to other areas, such as brand rights management.

Accounting conventions used when preparing the historical combined financial statements

As a reminder, as a first-time adopter, Combined Financial Statements were prepared for UMG for the fiscal years ended December 31, 2018, 2017 and 2016 in accordance with IFRS 1 – *First-Time Adoption of International Financial Reporting Standards*. In accordance with IFRS 1.D16, if a subsidiary adopts IFRS later than its parent company, the assets and liabilities in the subsidiary's opening balance sheet may be measured as either:

- the carrying amounts based on the subsidiary's contribution to the parent company's historical consolidated financial statements, after restating adjustments relating to the consolidation procedures and to the accounting for the business combination in which the parent acquired the subsidiary; or
- the carrying amounts as determined in accordance with IFRS 1, applied at the date of the subsidiary's transition to IFRS. In this case, the options in IFRS 1 applied by the subsidiary may differ from those applied by the parent.

Pursuant to the option provided in IFRS 1, UMG's first IFRS combined financial statements were prepared by measuring its assets and liabilities at the carrying amounts, based on UMG's contribution to Vivendi's historical financial statements, after eliminating adjustments relating to its consolidation by the Vivendi Group and to the impacts of accounting for the business combinations pursuant to which Vivendi acquired interests in UMG Inc. and UIM B.V. and their subsidiaries. As of January 1, 2016, the net book value of the goodwill arising from Vivendi's acquisition of UMG in December 2000 (€3,756 million) as well as the related cumulative translation adjustment (CTA) as of December 31, 2016, 2017 and 2018 (+€177 million, -€328 million and -€156 million, respectively), and as of December 31, 2019 and 2020 (-€70 million and -€417 million, respectively) and as of June 30, 2020 and 2021 (-€119 million and -€387 million, respectively), were reversed through adjustments to retained earnings.

The scope of combination excludes as from January 1, 2016 Vivendi Holding I LLC ("VH I"), which was wholly-owned by UMG Inc. until the end of 2018 but had no impact on UMG's contribution to Vivendi's Statement of Financial Position. Therefore, these Combined Financial Statements eliminate the statement of income impacts for the years ended December 31, 2018, and 2017 relating to:

- the interest expense on a borrowing granted by VH I to UMG Inc.; and
- the related income tax effects, if any.

The scope of combination also excludes as from March 19, 2020 Universal Music Group S.A.S. ("UMG S.A.S."), which was merged into Vivendi S.E. as of that date.

Regarding the treatment of the change from combined group to consolidated group, the requirement of IAS 33.64 is applicable. The new legal entity represents the combination for all periods presented, as if it has always existed. Combined Financial Statements become retrospectively Consolidated Financial Statements for all period presented.

Intercompany transactions between UMG and other Vivendi Group's entities

Balances pertaining to current transactions between UMG entities and other entities in the Vivendi Group have been presented on the balance sheet as third-party assets or liabilities in the Consolidated Condensed Financial Statements. All loans and borrowings between UMG entities and other Vivendi Group entities have been presented as financial assets or liabilities in the Consolidated Condensed Financial Statements.

In accordance with IAS 24 – *Related Party Disclosures*, transactions between UMG and other Vivendi Group entities are presented in Note 16 "Related parties".

Earnings per share

Until February 26, 2021, as the combined group was not a legal entity, the number of shares outstanding was not determinable. Consequently, no earning per share data was presented.

Following the contribution by Vivendi and the consortium led by Tencent to UMG B.V on February 26, 2021, the number of shares outstanding is determinable.

In accordance with IAS 33.64, the number of ordinary or potential ordinary shares outstanding increasing as a result of the contribution, the calculation of basic and diluted earnings per share shall be adjusted retrospectively, for all periods presented. The calculation of earnings per share is presented in Note 5 "Earnings per share".

Translation of financial statements of foreign companies

Pursuant to IFRS 1.D13, in the Combined Financial Statements, the cumulative translation adjustment (CTA) accounted for in other comprehensive income (to be subsequently reclassified to profit or loss) was set to zero as of January 1, 2016. Therefore, the gain or loss on a subsequent disposal of any foreign operation of the consolidated UMG only includes translation differences recorded since January 1, 2016.

Except as described above, no adjustment was made in UMG's Consolidated Condensed Financial Statements to UMG's contribution to Vivendi's historical financial statements.

1.2 Compliance with accounting standards

The Consolidated Condensed Financial Statements of UMG for the half-year ended June 30, 2021 have been prepared in accordance with IAS 34 – *Interim Financial Reporting* as endorsed by the European Union (EU) and published by the IASB, with mandatory application as of June 30, 2021. As a result, the following provisions were applied:

- provisions for income taxes have been calculated on the basis of the estimated effective annual tax rate applied to pre-tax earnings; and
- compensation costs recorded for share-based compensation plans, employee benefits and profit-sharing have been included on a pro-rata basis of the estimated cost for the year, adjusted, if necessary, for any non-recurring events which occurred over the period.

Amendments to IFRS standards applicable as from January 1, 2021, had no material impact on UMG's Consolidated Condensed Financial Statements, notably the amendments to the IFRS 9 – *Financial* Instruments, IFRS 7 – *Financial Instruments: Disclosures*, and IFRS 16 – *Leases* standards which relate to the Interest Rate Benchmark Reform (Phase 2).

1.3 Presentation of the Consolidated Financial Statements

1.3.1 Consolidated condensed Statement of Earnings

The main line items presented in UMG's Consolidated Condensed Statement of Earnings are revenues, income from equity affiliates, interest, provision for income taxes, net earnings from discontinued or held for sale operations, and net earnings. The Consolidated Statement of Earnings presents a subtotal of Earnings Before Interest and Tax (EBIT) equal to the difference between charges and income (excluding financing activities, discontinued or held for sale operations, and income taxes).

The charges and income relating to financing activities consist of interest, income from investments, as well as other financial charges and income as presented in Note 3.

1.3.2 Consolidated condensed Statement of Cash Flows

Net cash provided by operating activities

Net cash provided by operating activities is calculated using the indirect method based on EBIT. EBIT is adjusted for non-cash items and changes in net working capital. Net cash provided by operating activities excludes the cash impact of financial charges and income and net changes in working capital related to property, plant and equipment, and intangible assets.

Net cash used for investing activities

Net cash used for investing activities includes changes in net working capital related to property, plant and equipment, and intangible assets as well as cash from investments (particularly dividends received from equity affiliates). It also includes any cash flows arising from the gain or loss of control of subsidiaries.

Net cash used for financing activities

Net cash used for financing activities includes net interest paid on borrowings, cash and cash equivalents, bank overdrafts, the cash impact of other items related to financing activities such as premiums from the early redemption of borrowings and the settlement of derivative instruments, as well as the cash payments for the principal amount of the lease liability and any interest thereon. It also includes cash flows from changes in ownership interests in a subsidiary that do not result in a loss of control (including increases in ownership interests).

1.3.3 Operating performance of each operating segment and the group

UMG considers Adjusted Earnings Before Interest and Tax (EBITA), Earnings Before Interest and Tax, Depreciation and Amortization (EBITDA) and Cash Flow From Operations (CFFO), all non-GAAP measures, to be relevant indicators of the group's operating and financial performance.

EBITA

UMG considers EBITA, a non-GAAP measure, to be a relevant measure to assess the performance of its operating segments as reported in the segment data. It enables UMG to compare the operating performance of operating segments regardless of whether their performance is driven by the operating segment's organic growth or by acquisitions. To calculate EBITA, the accounting impact of the following items is excluded from the income from EBIT:

- the amortization of intangible assets acquired through business combinations as well as other rights catalogs acquired;

- impairment losses on goodwill, other intangibles acquired through business combinations and other rights catalogs acquired; and
- other income and charges related to transactions with shareowners (except when directly recognized in equity).

EBITDA

UMG considers EBITDA, a non-GAAP measure, to be a relevant measure to assess the performance of its operating segments as reported in the segment data. It enables UMG to compare the operating performance of operating segments regardless of whether their performance is driven by the operating segment's organic growth or by acquisitions. To calculate EBITDA, the accounting impact of the following items is excluded from the income from EBIT:

- the depreciation of tangible, intangible and right of use assets;
- gains/(losses) on the sale of tangible, intangible and right of use assets;
- the amortization of intangible assets acquired through business combinations as well as other rights catalogs acquired;
- impairment losses on goodwill, other intangibles acquired through business combinations and other rights catalogs acquired;
- income from equity affiliates having similar operating activities; and
- restructuring charges, and other non-recurring items.

EBIT

UMG defines EBIT, as earnings, excluding taxes, interest, income from investments, and other financial income or expenses. EBIT is shown on the face of the Statement of Earnings.

Cash Flow from Operations (CFFO)

UMG considers cash flow from operations (CFFO), a non-GAAP measure, to be a relevant measure to assess the group's operating and financial performance. CFFO includes net cash provided by operating activities, before income tax paid, as presented in the Statement of Cash Flows, dividends received from equity affiliates and unconsolidated companies, as well as cash payments for the principal of the lease liability and any interest thereon, which are presented as financing activities in the consolidated statement of cash flows. It also includes capital expenditures, net that relate to cash used for capital expenditures, net of proceeds from sales of property, plant and equipment, and intangible assets, which are included in net cash used for investing activities, as well as income tax paid.

Net cash provided by operating activities of discontinued operations are excluded from CFFO.

Net Working Capital

UMG defines net working capital, as the movement in inventories, trade accounts and other receivables, trade accounts and other payables (including royalty payables) and other non-current liabilities. Net working capital excludes any content investments. Net Working Capital is shown on the face of the Statement of Cash Flows.

1.3.4 Consolidated Condensed Statement of Financial Position

Assets and liabilities that are expected to be realized, or intended for sale or consumption, within the entity's normal operating cycle (generally 12 months), are recorded as current assets or liabilities. If their maturity exceeds this period, they are recorded as non-current assets or liabilities.

1.4 Principles governing the preparation of the Consolidated Condensed Financial Statements

Pursuant to IFRS principles, the Consolidated Condensed Financial Statements have been prepared on a going concern basis, and on a historical cost basis, with the exception of certain assets and liabilities, for which IFRS 13 – *Fair Value Measurement* relating to measurement and disclosures applies. Relevant categories are detailed below.

The Consolidated Condensed Financial Statements include the financial statements of UMG and its subsidiaries after eliminating intragroup items and transactions.

Acquired subsidiaries are included in the Consolidated Condensed Financial Statements of the group as of the date of acquisition.

1.4.1 Use of estimates

The preparation of Consolidated Condensed Financial Statements in compliance with IFRS requires the group's management to make certain estimates and assumptions that they consider reasonable and realistic. Although these estimates and assumptions are regularly reviewed by Management, based, in particular, on past or anticipated achievements, facts and circumstances may lead to changes in these estimates and assumptions which could have an impact on the reported amount of group assets, liabilities, equity or earnings.

The main estimates and assumptions relate to the measurement of:

- revenue: estimates of provisions for returns and price guarantees (please refer to Note 14);
- goodwill and other intangible assets: valuation methods used to identify intangible assets acquired through business combinations (please refer to Note 7);
- goodwill, intangible assets with indefinite useful lives and assets in progress: assumptions relating to impairment tests performed on each of the group's cash-generating units (CGUs), future cash flows and discount rates are updated annually (please refer to Note 7);
- UMG content assets: estimates of the future performance of beneficiaries who received advances are recognized in the Statement of Financial Position (please refer to Note 8);
- provisions: risk estimates, performed on an individual basis, noting that the occurrence of events during the course of procedures may lead to a risk reassessment at any time (please refer to Note 14);
- share-based compensation: assumptions are updated annually, such as the estimated term, volatility and the estimated dividend yield (please refer to Note 15);
- lease liabilities and right-of-use assets, at the commencement date of each lease contract (please refer to Note 9):
  - assessing the lease term that relates to the non-cancellable period of the lease, taking into account all options to extend the lease that UMG is reasonably certain to exercise and all options to terminate the lease that UMG is reasonably certain not to exercise; and

- estimating the lessee's incremental borrowing rate, taking into account their residual lease term and their duration to reflect the interest rate of a loan with a similar payment profile to the lease payments.

- deferred taxes: estimates used for the recognition of deferred tax assets are updated annually with factors such as expected tax rates and future tax results of the group (please refer to Note 4); and
- certain financial instruments: valuation method at fair value is defined according to the three following classification levels (please refer to Note 11):
  - Level 1: fair value measurement based on quoted prices in active markets for identical assets or liabilities;
  - Level 2: fair value measurement based on observable market data (other than quoted prices included under Level 1); and
  - Level 3: fair value measurement based on valuation techniques using inputs for the asset or liability that are not based on observable market data.

  The fair value of trade accounts receivable and other, cash and cash equivalents, and trade accounts payable is a reasonable estimate of fair value, due to the short maturity of these instruments.

1.4.2 Principles of consolidation

For a list of UMG's major subsidiaries, joint ventures and associated entities, please refer to Note 19.

Consolidation

All companies in which UMG has a controlling interest, namely those in which it has the power to govern financial and operational policies to obtain benefits from their operations, are fully consolidated.

Control, as defined by IFRS 10 – *Consolidated Financial Statements*, is based on the three criteria below to be fulfilled cumulatively to assess if the parent company exercises control:

- a parent company has power over a subsidiary when the parent company has existing rights that give it the current ability to direct the relevant activities of the subsidiary, i.e., the activities that significantly affect the subsidiary's returns. Power may arise from existing or potential voting rights or contractual arrangements. Voting rights must be substantial, i.e., exercisable at any time without limitation, particularly during decision-making processes related to significant activities. Assessment of the exercise of power depends on the nature of the subsidiary's relevant activities, the internal decision-making process, and the allocation of rights among the subsidiary's other shareowners;
- the parent company is exposed, or has rights, to variable returns from its involvement with the subsidiary which may vary as a result of the subsidiary's performance. The concept of returns is broadly defined and includes, among other things, dividends and other economic benefit distributions, changes in the value of the investment in the subsidiary, economies of scale, and business synergies; and
- the parent company has the ability to use its power to affect the returns. Exercising power without having any impact on returns does not qualify as control.

Consolidated Financial Statements of a group are presented as if the group was a single economic entity with two categories of owners: (i) the owners of the parent company (UMG shareowners) and (ii) the owners of non-controlling interests (minority shareholders of the subsidiaries). A non-controlling interest is defined as the interest in a subsidiary that is not attributable, whether directly or indirectly, to a parent company. As a result, changes to a parent company's ownership interest in a subsidiary that do not result in a loss of control only impact equity, as control of the economic entity does not change. Hence, in the event of the acquisition of an additional interest in a consolidated entity after January 1, 2009, UMG recognizes the difference between the acquisition price and the carrying value of non-controlling interests acquired as a change in equity attributable to UMG shareowners. Conversely, any acquisition of control achieved in stages or a loss of control gives rise to profit or loss in the statement of earnings.

Accounting for joint arrangements

IFRS 11 – *Joint Arrangements* establishes principles for financial reporting by parties to a joint arrangement.

In a joint arrangement, parties are bound by a contractual arrangement giving these parties joint control of the arrangement. An entity that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties or a group of the parties control of the arrangement collectively. Once it has been established that all the parties or a group of the parties collectively control the arrangement, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement.

Joint arrangements are classified into two categories:

- joint operations: these are joint arrangements whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators. A joint operator shall recognize 100% of wholly-owned assets/liabilities, expenses/revenues of the joint operation, and its share of any of those items held jointly; and
- joint ventures: these are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers. Each joint venturer shall recognize its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 – Investments in Associates and Joint Ventures (please refer below).

Equity accounting

Entities over which UMG exercises significant influence as well as joint ventures are accounted for under the equity method.

Significant influence is deemed to exist when UMG holds, whether directly or indirectly, at least 20% of the voting rights in an entity unless it can be clearly established that UMG does not exercise a significant influence. Significant influence can be evidenced through further criteria, such as representation on the entity's board of directors or equivalent governing body, participation in policy-making of financial and operational processes, material transactions with the entity or the interchange of managerial personnel.

1.4.3 Foreign currency translation

The Consolidated Condensed Financial Statements are presented in millions of euros. The presentation currency of UMG is the euro.

Foreign currency transactions

Foreign currency transactions are initially recorded in the functional currency of the entity at the exchange rate prevailing at the date of the transaction. At the closing date, foreign currency monetary assets and liabilities are translated into the entity's functional currency at the exchange rate prevailing on that date. All foreign currency differences are expensed, with the exception of differences resulting from borrowings in foreign currencies, which constitute a hedge of the net investment in a foreign entity. These differences are allocated directly to charges and income directly recognized in equity until the divestiture of the net investment.

Financial statements denominated in a foreign currency

Except in cases of significant exchange rate fluctuation, financial statements of subsidiaries, joint ventures or other associated entities for which the functional currency is not the euro are translated into euros as follows: the Consolidated Statement of Financial Position is translated at the exchange rate at the end of the period, and the Consolidated Statement of Earnings and the Consolidated Statement of Cash Flows are translated using average monthly exchange rates for the period. The resulting translation gains and losses are recorded as foreign currency translation differences in charges and income directly recognized in equity. In accordance with IFRS 1, UMG elected to reverse the accumulated foreign currency translation differences against retained earnings as of January 1, 2016. These foreign currency translation differences resulted from the translation into euros of the financial statements of subsidiaries that use foreign currencies as their functional currencies. Consequently, these adjustments are not applied to earnings on the subsequent divestiture of subsidiaries, joint ventures or associates whose functional currency is not the euro.

1.4.4 Revenues and associated costs

Revenues from contracts with customers are recorded when performance obligations promised in the contract are satisfied, and for an amount for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Revenues are reported net of discounts.

UMG has made the accounting of intellectual property licensing revenues a major point of attention.

Intellectual property licensing (musical works)

These licenses transfer to a customer either a right to use an entity's intellectual property as it exists at the point in time at which the license is granted (static license), or a right to access an entity's intellectual property as it exists throughout the license period (dynamic license).

Revenues are accounted for when the performance obligation promised in the contract is satisfied (static license) or over time upon satisfaction (dynamic license), i.e., when the seller transfers the risks and rewards of the right to use/access the intellectual property and the customer obtains control of the use/access of that license. Consequently, revenues from static licenses are recognized at the point in time when the license is transferred and the customer is able to use and benefit from the license. Revenues from dynamic licenses are accounted for over time, over the license period from the date the customer is able to use and benefit from the license.

Analysis of the Agent/Principal relationship in sales transactions involving a third party

If the nature of the entity's undertaking is a performance obligation to provide the specified goods or services itself, then the entity acts on its own behalf and it is "principal" in the sale transaction: it accounts for revenue the gross amount of consideration to which it expects to be entitled in exchange for the goods or services provided, and the commission due to the third-party as cost of revenues. If the entity arranges for a third-party to provide the goods or services specified in the contract, then it recognizes as revenues the net amount of consideration to which it expects to be entitled in exchange for the goods or services provided.

1.4.4.1 Revenue recognition by business segment

Recorded Music

The sales of recorded music (physical, digital downloading or streaming) are intellectual property licenses granted by UMG to distributors or digital platforms and which give them certain rights over the company's musical works. In its relationship with the distributor/digital platform and the end customer, UMG cannot be "principal", as the distributor or the digital platform is responsible for setting the transfer of control conditions of the right of use granted by the license to the end customer (broadcasting, price setting and conditions for reselling the physical devices).

Physical sales of recorded music (CDs, DVDs and Vinyls)

These intellectual property licenses are static licenses transferring to the customer a right to use UMG's recordings as they exist at the point in time at which the license is granted, i.e., on the physical device sold.

Revenues from the physical sales of recorded music, net of a provision for estimated returns (please refer to Note 1.4.4.2) and rebates, if any, are accounted for, either: (i) upon the sale to the distributor, at the shipping point for products sold free on board (FOB) or on delivery for products sold free on destination; or (ii) upon the sale to the final customer for consignment sales.

Digital sales of recorded music, via downloading or streaming by subscription or free of charge

These intellectual property licenses are generally dynamic licenses providing a right to access the entire catalog of recorded music as it exists throughout the license period considering potential add-ons to, or withdrawals from, the catalog during that period.

The consideration paid by the digital platform is variable in the form of a sales-based or a usage-based royalty. Revenues are then accounted for when these subsequent sales or usages occur. Revenues from digital sales of recorded music, for which UMG has sufficient, accurate, and reliable data from digital platforms, are recognized at the end of the month in which the sale or usage is made by the end customer. If such data is not available, revenues are recognized when the digital platform notifies UMG of the sale or usage by the end customer.

For digital sales of recorded music streaming by subscription or free of charge, certain contracts may include a non-refundable minimum guarantee which is generally recoupable and is in substance an advance payment. In the case of a dynamic license, the minimum guarantee is spread over the period to which it relates and takes into account the amount of royalties that are actually recoupable. The minimum guarantee is hence apportioned in accordance with the accounting for these royalties.

Music publishing

Music publishing relates to the use by a third party of the copyrights on musical works owned or administered by UMG, which are intellectual property licenses that UMG grants to the third party and which provides a right to access a catalog of recorded music, as these intellectual property licenses are dynamic licenses.

The consideration paid by the third-party, notably a collection society (e.g., a company for the collective management of intellectual property rights) is variable in the form of a royalty based on the usage by the third party. The variable consideration being accounted for when these subsequent usages occur, revenues from music publishing are accounted for when the collection society notifies UMG of the usage by the end customer and collectability is assured.

Merchandising

Revenues from merchandising are recognized either upon sale to the end customer, from direct sales during touring, concessions and over the internet; on delivery for sales by a third-party distributor; when a contract is signed; or when an invoice has been issued and the collectability is assured for sales of rights attached to merchandising products.

1.4.4.2 Other

Provisions for estimated returns and price guarantees are deducted from sales of products to customers through distributors. The provisions are estimated based on past sales statistics and take into account the economic environment and product sales forecast to final customers.

Selling, general and administrative expenses primarily include salaries and employee benefits, consulting and service fees, insurance costs, travel and entertainment expenses, administrative department costs, provisions for receivables and other operating expenses.

Advertising costs are expensed when incurred.

Slotting fees and cooperative advertising expenses are recorded as a reduction in revenues. However, cooperative advertising is treated as a marketing expense and expensed when its expected benefit is individualized and can be estimated.

1.4.5 Assets

1.4.5.1 Goodwill and business combinations

Pursuant to IFRS 1, UMG elected not to restate business combinations that occurred prior to January 1, 2016. Business combinations are recorded using the acquisition method. Under this method, upon the initial consolidation of an entity over which the group has acquired exclusive control:

- the identifiable assets acquired, and the liabilities assumed are recognized at their fair value on the acquisition date; and
- non-controlling interests are measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This option is available on a transaction-by-transaction basis.

On the acquisition date, goodwill is initially measured as the difference between:

(i) the fair value of the consideration transferred, plus the amount of non-controlling interests in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the previously held equity interest in the acquiree; and

(ii) the net fair value of the identifiable assets and liabilities assumed on the acquisition date.

The measurement of non-controlling interests at fair value results in an increase in goodwill up to the extent attributable to these interests, thereby leading to the recognition of a "full goodwill". The purchase price allocation shall be performed within 12 months after the acquisition date. If goodwill is negative, it is recognized in the Statement of Earnings. Subsequent to the acquisition date, goodwill is measured at its initial amount less recorded accumulated impairment losses (please refer to Note 7).

In addition, the following principles are applied to business combinations:

- on the acquisition date, to the extent possible, goodwill is allocated to each cash-generating unit likely to benefit from the business combination;
- contingent consideration in a business combination is recorded at fair value on the acquisition date, and any subsequent adjustment occurring after the purchase price allocation period is recognized in the Statements of Earnings;
- acquisition-related costs are recognized as expenses when incurred;

- in the event of the acquisition of an additional interest in a subsidiary, UMG recognizes the difference between the acquisition price and the carrying value of non-controlling interests acquired as a change in equity attributable to UMG shareowners; and
- goodwill is not amortized.

1.4.5.2 Content assets

Royalty advances to artists, songwriters, and co-publishers are capitalized as an asset when their current popularity and past performances provide a reasonable basis to conclude that the probable future recoupment of such royalty advances against earnings otherwise payable to them is reasonably assured. Royalty advances are recognized as an expense as subsequent royalties are earned by the artist, songwriter or co-publisher. Any portion of capitalized royalty advances not deemed to be recoverable against future royalties is expensed during the period in which the loss becomes evident. These expenses are recorded in cost of revenues.

Royalties earned by artists, songwriters, and co-publishers are recognized as an expense in the period during which the sale of the product occurs, less a provision for estimated returns.

1.4.5.3 Research and development costs

Research costs are expensed when incurred. Development expenses are capitalized when the feasibility and, in particular, profitability of the project can reasonably be considered certain.

Cost of internal use software

Direct internal and external costs incurred for the development of computer software for internal use, including website development costs, are capitalized during the application development stage. Application development stage costs generally include software configuration, coding, installation and testing. Costs of significant upgrades and enhancements resulting in additional functionality are also capitalized. These capitalized costs are amortized over 5 to 10 years. Maintenance, minor upgrades, and enhancement costs are expensed as they are incurred.

1.4.5.4 Other intangible assets

Intangible assets separately acquired are recorded at cost, and intangible assets acquired in connection with a business combination are recorded at their fair value at the acquisition date. The historical cost model is applied to intangible assets after they have been recognized. Assets with an indefinite useful life are not amortized but are subject to an annual impairment test. Amortization is accrued for assets with a finite useful life. Useful life is reviewed at the end of each reporting period.

Other intangible assets include trade names, customer bases and licenses. By contrast, music catalogs, trade names, subscribers' bases and market shares generated internally are not recognized as intangible assets.

1.4.5.5 Property, plant and equipment

Property, plant and equipment are carried at historical cost less any accumulated depreciation and impairment losses. Historical cost includes the acquisition cost or production cost, costs directly attributable to transporting an asset to its physical location and preparing it for its operational use, the estimated costs relating to the demolition and the collection of property, plant and equipment, and the rehabilitation of the physical location resulting from the incurred obligation.

When property, plant and equipment include significant components with different useful lives, they are recorded and amortized separately. Amortization is calculated using the straight-line method based on the estimated useful life of the assets. Useful lives of the main components are reviewed at the end of each reporting period and are as follows:

- buildings: 5 to 40 years;
- equipment and machinery: 3 to 8 years; and
- other: 2 to 10 years.

After initial recognition, the cost model is applied to property, plant and equipment.

UMG has elected not to apply the option available under IFRS 1, involving the remeasurement of certain property, plant and equipment at their fair value as of January 1, 2016.

1.4.5.6 Leases

UMG applies IFRS 16 with retrospective effect as from January 1, 2019 without restating comparative periods in the consolidated financial statements.

As licenses of intellectual property granted by a lessor and rights held by a lessee under licensing agreements being excluded from the scope of IFRS 16, the main lease contracts for UMG correspond to real estate leases for which UMG is the lessee.

Real estate leases for which UMG is the lessee are recorded at the commencement date and result in the recognition of a lease liability equal to the present value of future lease payments against a right-of-use asset relating to leases.

Please refer to Note 10 'Leases' to UMG's Combined Financial Statements for the years ended December 31, 2020, 2019 and 2018. The determination of the lease liability as of January 1, 2019 was made by:

1) analyzing operating leases for which contractual obligations were disclosed as off-balance sheet commitments until December 31, 2018;
2) assessing the lease term that relates to the non-cancellable period of the lease, and taking into account all options to extend the lease which UMG is reasonably certain to exercise and all options to terminate the lease which UMG is reasonably certain not to exercise. UMG determined that real estate lease terms in France are generally nine years; and
3) estimating the incremental borrowing rate as of January 1, 2019 of each lease contract, taking into account their residual lease term at this date and their duration to reflect the interest rate of a loan with a similar payment profile to the lease payments.

As of January 1, 2019, regarding the main impacts, it is specified that:

- for some leases, as permitted by IFRS 16, at the date of transition, UMG used hindsight; and
- UMG has applied the practical expedient provided by IFRS 16 to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

For each lease, the lease term assessment and incremental borrowing rate estimate are determined at the commencement date.

After initial recognition, the liability is:

- increased by the effect of undiscounting (interest expense on lease liabilities);
- decreased by the cash out for lease payments; and
- reassessed in the event of an amendment to the lease contract.

The right-of-use asset is recognized at cost at the effective date. The cost of the right-of-use asset includes:

- the lease liability;
- the initial direct costs (incremental costs of obtaining the lease);
- payments made prior to the commencement date less lease incentives received from the lessor;
- dismantling and restoration costs (measured and recognized in accordance with IAS 37); and
- the amortization period used is the lease term.

The lease liability is a current or non-current operating liability excluded from the calculation of Financial Net Debt. Depreciation of right-of-use assets is included in Adjusted Earnings Before Interest and Income Taxes (EBITA) and excluded from earnings before interest and tax depreciation and amortization (EBITDA). The effect of undiscounting the lease liability (interest expense on lease liabilities) is included in other financial charges. Cash payments for the principal of the lease liability and any interest thereon, which are presented as financing activities in the condensed statement of cash flows, impact Cash Flow From Operations (CFFO).

1.4.5.7 Asset impairment

Each time events or changes in the economic environment indicate a risk of impairment of goodwill, other intangible assets, property, plant and equipment, and assets in progress, UMG re-examines the value of these assets. In addition, in accordance with applicable accounting standards, goodwill, other intangible assets with an indefinite useful life, and intangible assets in progress are all subject to an annual impairment test undertaken in the fourth quarter of each fiscal year. This impairment test is performed to compare the recoverable amount of each Cash Generating Unit (CGU) or, if necessary, group of CGUs to the carrying value of the corresponding assets (including goodwill). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. UMG operates through different media and content businesses. Each business offers different products and services that are marketed through various channels. CGUs are independently defined at each business level, corresponding to the group operating segments. For a description of UMG’s CGUs and groups of CGUs, please refer to Note 7.

The recoverable amount is determined for each individual asset as the higher of: (i) its value in use; and (ii) its fair value (less costs to sell) as described hereafter. If the asset does not generate cash inflows that are largely independent of other assets or groups of assets, the recoverable amount is determined for the group of assets. In particular, an impairment test is performed by UMG for each CGU or group of CGUs, depending on the level at which UMG Management measures return on operations.

The value in use of each asset or group of assets is determined, subject to exceptions, as the discounted value of future cash flows (Discounted Cash Flow method (DCF) by using cash flow projections consistent with the budget of the following year and the most recent forecasts prepared by the operating segments.

Applied discount rates are determined by reference to available external sources of information, usually based on financial institutions’ benchmarks, and reflect the current assessment by UMG of the time value of money and risks specific to each asset or group of assets.

Perpetual growth rates used for the evaluation are those used to prepare budgets for each CGU or group of CGUs, and beyond the period covered, are consistent with growth rates estimated by the business by extrapolating growth rates used in the budgets, without exceeding the long-term average growth rate for the markets in which the group operates.

The fair value (less costs to sell) is the price that would be received from the sale of an asset or group of assets in an orderly transaction between market participants at the measurement date, less costs to sell. These values are generally determined based on market data (stock market prices or comparison with similar listed companies, with the value attributed to similar assets or companies in recent transactions) or, in the absence of such data, based on discontinued cash flows.

If the recoverable amount is lower than the carrying value of an asset or group of assets, an impairment loss equal to the difference is recognized in EBIT. In the case of a group of assets, this impairment loss is first recorded against goodwill.

The impairment losses recognized in respect of property, plant and equipment, and intangible assets (other than goodwill) may be reversed in a later period if the recoverable amount becomes greater than the carrying value, within the limit of impairment losses previously recognized. Impairment losses recognized in respect of goodwill cannot be reversed at a later date.

1.4.5.8 Financial assets

Financial assets are initially recognized at fair value corresponding, in general, to the consideration paid, which is best evidenced by the acquisition cost (including associated acquisition costs, if any). Thereafter, financial assets are measured at fair value or at amortized cost depending on which financial asset category they belong to.

From January 1, 2018, financial assets are classified into the accounting categories “financial assets at amortized cost”, “financial assets at fair value through other comprehensive income” and “financial assets at fair value through profit or loss”.

This classification depends on the entity‘s business model for managing the financial assets and on contractual terms enabling to determine whether the cash flows are solely payments of principal and interest (SPPI). The financial assets that contain an embedded derivative should be considered in full to determine whether their cash flows are SPPI.

Financial assets at fair value

These include financial assets at fair value through other comprehensive income, derivative financial instruments with a positive value (please refer to Note 11) and other financial assets measured at fair value through profit or loss. Most of these financial assets are actively traded in organized financial markets, as their fair value is calculated by reference to the published market price at the period end. Fair value is estimated for financial assets which do not have a published market price on an active market. As a last resort, when a reliable estimate of fair value cannot be made using valuation techniques in the absence of an active market, the group values financial assets at historical cost, less any impairment losses.

Financial assets at fair value through other comprehensive income include:

- Unconsolidated companies that are not held for trading: UMG elected to classify these into the category “fair value through other comprehensive income”. Unrealized gains and losses on financial assets at fair value through other comprehensive income are recognized in charges and income directly recognized in equity until the financial asset is sold, collected or removed from the Statement of Financial Position in another way, at which time the accumulated gain or loss previously reported in charges and income directly recognized in equity is transferred to retained earnings and never reclassified to profit or loss. Dividends and interest received from unconsolidated companies are recognized in profit or loss.

- Debt instruments held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Unrealized gains and losses on financial assets at fair value through other comprehensive income are recognized in charges and income directly recognized in equity until the financial asset is sold, collected or removed from the Statement of Financial Position in other ways, at which time the accumulated gain or loss previously reported in charges and income directly recognized in equity is expensed in other financial charges and income.

Other financial assets measured at fair value through profit or loss mainly consist of assets held for trading which UMG intends to sell in the near future (primarily marketable securities) and other financial assets unless it is measured at amortized cost or at fair value through other comprehensive income. Unrealized gains and losses on these assets are recognized in other financial charges and income.

Financial assets at amortized cost

Financial assets at amortized cost consist of debt instruments held within a business model whose objective is to hold financial assets to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. At the end of each period, these assets are measured at amortized cost using the effective interest method. If there is objective evidence that an impairment loss has been incurred, the amount of this loss, measured as the difference between the financial asset's carrying value and its recoverable amount (equal to the present value of estimated future cash flows discounted at the financial asset's initial effective interest rate), is recognized in profit or loss. Impairment losses may be reversed if the recoverable amount of the asset subsequently increases in the future.

Impairment of financial assets

UMG assesses the expected credit loss associated with its financial assets recognized at amortized cost and debt instruments recognized at fair value through other comprehensive income on a prospective basis. A loss allowance for expected credit loss based on probability of default is recognized at initial recognition. The loss allowance is updated for changes in these expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

To assess whether there has been a significant increase in credit risk, UMG compares the credit risk at the reporting date with the credit risk at the date of initial recognition based on reasonable forward-looking information and events, including credit ratings if available, significant adverse economic changes (actual or expected), financial or business environment that are expected to result in a material change in the borrower's ability to meet its obligations.

1.4.5.9 Inventories

Inventories are valued at the lower of cost or net realizable value. Cost comprises purchase costs, production costs and other supply and packaging costs. These are usually calculated using the weighted average cost method. Net realizable value is the estimated selling price in the normal course of business, less estimated completion costs and selling costs.

1.4.5.10 Trade accounts receivable

Trade accounts receivable are initially recognized at fair value, which is generally equal to their nominal value. Expected loss rates on trade receivables are calculated by the relevant operating entities over their lifetime from initial recognition and are based on historical data that also incorporates forward-looking information. In addition, account receivables from customers subject to insolvency proceedings or customers with whom UMG is involved in litigation or a dispute are generally impaired in full.

1.4.5.11 Cash and cash equivalents

The "cash and cash equivalents" category, defined in accordance with IAS 7, consists, on the one hand, of cash in banks and remunerated or unremunerated demand deposits which corresponds to cash, and, on the other hand monetary UCITS and other highly liquid investments with initial maturities of generally three months or less which correspond to cash equivalents.

Investments in securities, investments with initial maturities of more than three months without an early termination option and bank accounts subject to restrictions (blocked accounts), other than restrictions due to regulations specific to a country or activity sector (e.g., exchange controls), are not classified as cash equivalents but as financial assets.

Moreover, the historical performances of the investments are monitored regularly to confirm their cash equivalents accounting classification.

1.4.6 Assets held for sale and discontinued operations

A non-current asset or a group of assets and liabilities is held for sale when its carrying value may be recovered principally through its divestiture and not by its continued utilization. To meet this definition, the asset must be available for immediate sale and the divestiture must be highly probable. These assets and liabilities are recognized as assets held for sale and liabilities associated with assets held for sale, without offset. The related assets recorded as assets held for sale are valued at the lowest value between the fair value (net of divestiture fees) and the carrying value (i.e., at their cost less accumulated depreciation and impairment losses), and they are no longer depreciated.

An operation is qualified as discontinued when it represents a separate major line of business and the criteria for classification as an asset held for sale have been met or when UMG has sold the asset. Discontinued operations are reported on a single line of the Statement of Earnings for the periods reported, comprising the earnings after tax of discontinued operations until divestiture and the gain or loss after tax on sale or fair value measurement, less costs to divest the assets and liabilities of the discontinued operations. In addition, cash flows generated by discontinued operations are reported on a separate line of the Statement of Consolidated Cash Flows for the relevant periods.

1.4.7 Financial liabilities

Long-term and short-term borrowings and other financial liabilities include:

- bonds and credit facilities, as well as various other borrowings (including commercial paper and debt related to finance leases) and related accrued interest;
- obligations arising out of commitments to purchase non-controlling interests;
- bank overdrafts; and
- the negative value of other derivative financial instruments. Derivatives with positive values are recorded as financial assets in the Statement of Financial Position.

Borrowings

All borrowings are initially accounted for at fair value net of transaction costs directly attributable to the borrowing. Borrowings bearing interest are subsequently valued at amortized cost, applying the effective interest method. The effective interest rate is the internal yield rate that discounts future cash flows over the term of the borrowing. In addition, where the borrowing comprises an embedded derivative (e.g., an exchangeable bond) or an equity instrument (e.g., a convertible bond), the amortized cost is calculated for the debt component only, after separation of the embedded derivative or equity instrument. In the event of a change in expected future cash flows (e.g., redemption occurs earlier than initially expected), the amortized cost is adjusted against earnings to reflect the value of the new expected cash flows, discounted at the initial effective interest rate.

Derivative financial instruments

UMG uses derivative financial instruments to manage and reduce its exposure to fluctuations in interest rates, and foreign currency exchange rates. All instruments are either listed on organized markets or traded over-thecounter with highly-rated counterparties. These instruments include interest rate and currency swaps, and forward exchange contracts. All these derivative financial instruments are used for hedging purposes. At the inception of the hedging relationship there is the formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge.

Derivatives are initially measured at fair value on the settlement date and are subsequently remeasured at fair value on each succeeding reporting date. The recognition of subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if applicable, the nature of the hedged item and the type of hedging relationship designated. When these contracts qualify as hedges for accounting purposes, gains and losses arising on these contracts are offset in earnings against the gains and losses relating to the hedged item.

When forward contracts are used as hedging instruments, UMG only qualifies as hedging instruments the change in the fair value of the forward contract related to the variation of the spot exchange rate. Changes in the forward points are excluded from the hedging relationship and are recognized in the financial result.

Fair value hedge

When the derivative financial instrument hedges exposures to fluctuations in the fair value of an asset or a liability recognized in the Statement of Financial Position or of a firm commitment which is not recognized in the Statement of Financial Position, it is a fair value hedge. The instrument is remeasured at fair value in earnings, with the gains or losses arising on remeasurement of the hedged portion of the hedged item offset on the same line of the Statement of Earnings, or, as part of a forecasted transaction relating to a non-financial asset or liability, at the initial cost of the asset or liability.

Cash flow hedge

When the derivative financial instrument hedges cash flows, it is a cash flow hedge. The hedging instrument is remeasured at fair value and the portion of the gain or loss that is determined to be an effective hedge is recognized through charges and income directly recognized in equity, whereas its ineffective portion is recognized in earnings; when the hedged item is realized, accumulated gains and losses recognized in equity are released to the Statement of Earnings and recorded on the same line as the hedged item; as part of a forecasted transaction on a non-financial asset or liability, they are recognized at the initial cost of the asset or liability.

Net investment hedge

When the derivative financial instrument hedges a net investment in a foreign operation, it is recognized in the same way as a cash flow hedge. Derivative financial instruments which do not qualify as a hedge for accounting purposes are remeasured at fair value and resulting gains and losses are recognized directly in earnings, without remeasurement of the underlying instrument.

Furthermore, income and expenses relating to foreign currency instruments used to hedge highly probable budget exposures and firm commitments contracted pursuant to the acquisition of editorial content rights (including sports, audiovisual and film rights) are recognized in EBIT. In all other cases, gains and losses arising on the fair value remeasurement of instruments are recognized in other financial charges and income.

1.4.8 Other liabilities

Provisions

Provisions are recognized when, at the end of the reporting period, UMG has a legal obligation (statutory, regulatory or contractual) or a constructive obligation, as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the obligation can be reliably estimated. Where the effect of the time value of money is material, provisions are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. If the amount of the obligation cannot be reliably estimated, no provision is recorded and a disclosure is made in the Notes to the Consolidated Financial Statements.

Employee benefit plans

In accordance with the laws and practices of each country in which it operates, UMG participates in, or maintains, employee benefit plans providing retirement pensions, post-retirement health care, life insurance and post-employment benefits to eligible employees, former employees, retirees and such of their beneficiaries who meet the required conditions. Retirement pensions are provided for substantially all employees through defined contribution plans, which are integrated with local social security and multi-employer plans, or defined benefit plans, which are generally managed via group pension plans. The plan funding policy implemented by the group is consistent with applicable government funding requirements and regulations.

Defined contribution plans

Contributions to defined contribution and multi-employer plans are expensed during the year.

Defined benefit plans

Defined benefit plans may be funded by investments in various instruments such as insurance contracts or equity and debt investment securities, excluding shares in any UMG entity or debt instruments.

Pension expenses and defined benefit obligations are calculated by independent actuaries using the projected unit credit method. This method is based on annually updated assumptions, which include the probability of employees remaining with UMG until retirement, expected changes in future compensation and an appropriate discount rate for each country in which UMG maintains a pension plan. The assumptions adopted, and the means of determining these assumptions, are presented in Note 17 of the 2020 Combined Financial Statements. A provision is recorded in the Statement of Financial Position equal to the difference between the actuarial value of the related benefits (actuarial liability) and the fair value of any associated plan assets, and this includes past service costs and actuarial gains and losses.

The cost of defined benefit plans consists of three components recognized as follows:

- the service cost is included in selling, general and administrative expenses. It comprises current service cost, past service cost resulting from a plan amendment or a curtailment, immediately recognized in profit and loss, and gains and losses on settlement;
- the financial component, recorded in other financial charges and income, consists of the undiscounting of the obligation, less the expected return on plan assets determined using the discount rate retained for the valuation of the benefit obligation; and
- the remeasurements of the net defined benefit liability (asset), recognized in items of other comprehensive income not reclassified as profit and loss, mainly consist of actuarial gains and losses, i.e., changes in the present value of the defined benefit obligation and plan assets resulting from changes in actuarial assumptions and experience adjustments (representing the differences between the expected effect of some actuarial assumptions applied to previous valuations and the effective impact).

Where the value of plan assets exceeds benefit obligations, a financial asset is recognized up to the present value of future refunds and the expected reduction in future contributions.

Some other post-employment benefits, such as life insurance and medical coverage (mainly in the United States) are subject to provisions which are assessed through an actuarial calculation comparable to the method used for pension provisions.

1.4.9 Deferred taxes

Differences existing at closing between the tax base value of assets and liabilities and their carrying value in the Consolidated Statement of Financial Position give rise to temporary differences. Pursuant to the liability method, these temporary differences result in the accounting of:

- deferred tax assets, when the tax base value is greater than the carrying value (expected future tax saving); and
- deferred tax liabilities, when the tax base value is lower than the carrying value (expected future tax expense).

Deferred tax assets and liabilities are measured at the expected tax rates for the year during which the asset will be realized or the liability settled, based on tax rates (and tax regulations) enacted or substantially enacted by the closing date. They are reviewed at the end of each year, in line with any changes in applicable tax rates.

Deferred tax assets are recognized for all deductible temporary differences, tax loss carry-forwards and unused tax credits, insofar as it is probable that a taxable profit will be available, or when a current tax liability exists to make use of those deductible temporary differences, tax loss carry-forwards and unused tax credits, except where the deferred tax asset associated with the deductible temporary difference is generated by initial recognition of an asset or liability in a transaction which is not a business combination, and that, at the transaction date, does not impact earnings, nor tax income or loss.

For deductible temporary differences resulting from investments in subsidiaries, joint ventures and other associated entities, deferred tax assets are recorded to the extent that it is probable that the temporary difference will reverse in the foreseeable future and that a taxable profit will be available against which the temporary difference can be utilized.

The carrying value of deferred tax assets is reviewed at each closing date, and revalued or reduced to the extent that it is more or less probable that a taxable profit will be available to allow the deferred tax asset to be utilized. When assessing the probability of a taxable profit being available, account is taken, primarily, of prior years' results, forecasted future results, non-recurring items unlikely to occur in the future and the tax strategy. As such, the assessment of the group's ability to utilize tax losses carried forward is to a large extent judgment-based. If the future taxable results of the group proved to differ significantly from those expected, the group would be required to increase or decrease the carrying value of deferred tax assets with a potentially material impact on the group's Statement of Financial Position and Statement of Earnings.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability results from goodwill or initial recognition of an asset or liability in a transaction which is not a business combination, and that, at the transaction date, does not impact earnings, tax income or loss.

For taxable temporary differences resulting from investments in subsidiaries, joint ventures and other associated entities, deferred tax liabilities are recorded except to the extent that both of the following conditions are satisfied: the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future.

Current tax and deferred tax shall be charged or credited directly to equity, and not earnings, if the tax relates to items that ae credited or charged directly to equity.

Share-based compensation

With the aim of aligning the interests of executive management and employees of Vivendi and its subsidiaries, of which some UMG's employees, with its shareholders' interests by providing them with an additional incentive to improve the company's performance and increase its share price on a long-term basis, Vivendi maintains several share-based compensation plans (share purchase plans, performance share plans and bonus share plans) or other equity instruments based on the value of the Vivendi share price (stock options), which are settled either in equity instruments or in cash. Grants under these plans are approved by Vivendi's Management and Supervisory Boards. In addition, the definitive grant of stock options and performance shares is contingent upon the achievement of specific performance objectives set by Vivendi's Management and Supervisory Boards. Moreover, all granted plans are conditional upon active employment at the vesting date.

Share-based compensation is recognized as a personnel cost at the fair value of the equity instruments granted. This expense is spread over the vesting period, i.e., three years for stock option plans and for performance share plans (two years for performance shares granted before June 24, 2014), and two years for Vivendi's bonus share plans, other than in specific cases.

The cost of share-based compensation is allocated to UMG, pro rata to the number of equity instruments or equivalent instruments granted to their employees and recharged by Vivendi.

Vivendi uses a binomial model to assess the fair value of such instruments. This method relies on assumptions updated at the valuation date such as the calculated volatility of the relevant shares, the discount rate corresponding to the risk-free interest rate, the expected dividend yield, and the probability of relevant managers and employees remaining employed within the group until the exercise of their rights.

However, depending on whether the instruments granted are equity-settled or cash-settled, the valuation and recognition of the expense will differ:

Equity-settled instruments:

- the expected term of the option granted is deemed to be the mid-point between the vesting date and the end of the contractual term;
- the value of the instruments granted is estimated and fixed at grant date; and
- the expense is recognized with a corresponding increase in equity.

Cash-settled instruments:

- the expected term of the instruments granted is deemed to be equal to one-half of the residual contractual term of the instrument for vested rights, and to the average of the residual vesting period at the remeasurement date and the residual contractual term of the instrument for unvested rights;
- the value of instruments granted is initially estimated at grant date and is then re-estimated at each reporting date until the payment date and the expense is adjusted pro rata taking into account the vested rights at each such reporting date;
- the expense is recognized as a provision; and
- moreover, as plans settled in cash are primarily denominated in US dollars, the value fluctuates based on the EUR/USD exchange rate.

1.5 Related parties

UMG's related parties are those companies over which UMG exercises exclusive control, joint control or significant influence, UMG shareowners exercising joint control over joint ventures, non-controlling interests exercising significant influence over UMG subsidiaries, UMG corporate officers, management and directors and companies over which the latter exercise exclusive control, joint control, or significant influence.

The transactions with subsidiaries over which UMG exercises control are eliminated within the intersegment transactions (a list of UMG's major consolidated entities is set out in Note 19). Moreover, commercial relationships among UMG subsidiaries, aggregated in operating segments, are conducted on an arm's length basis on terms and conditions similar to those which would be offered by third parties. A portion of the operating costs of Vivendi SE's headquarters is allocated to UMG.

1.6 Contractual obligations and contingent assets and liabilities

Once a year, UMG and its subsidiaries prepare detailed reports on all contractual obligations, commercial and financial commitments and contingent obligations, for which they are jointly and severally liable and that are material to the group. These detailed reports are updated by the relevant departments and reviewed by senior management on a regular basis. To ensure completeness, accuracy and consistency of these reports, some dedicated internal control procedures are carried out, including (but not limited to) the review of:

- minutes of meetings of the shareholders, board and executive and other relevant committee meetings in respect of matters such as contracts, litigation, and authorizations of asset acquisitions or divestitures;
- pledges and guarantees with banks and financial institutions;
- pending litigation, claims (in dispute) and environmental matters as well as related assessments for unrecorded contingencies with internal and/or external legal counsels;
- tax examiner's reports and, if applicable, notices of reassessments and tax expense analyses for prior years;
- insurance coverage for unrecorded contingencies with the risk management department and insurance agents and brokers with whom the group contracted;
- related-party transactions for guarantees and other given or received commitments; and more generally, major contracts and agreements.

1.7 COVID-19 pandemic impacts

Although the COVID-19 pandemic is having a more significant impact on certain countries or businesses than others, in the first half of 2021, UMG has demonstrated resilience in adapting its activities to continue to best serve and entertain its customers, while reducing costs to preserve its margins.

UMG continually monitors the current and potential consequences of the crisis. It is difficult at this time to determine how it will impact UMG's results in 2021. UMG continues to make every effort to ensure the continuity of its activities, as well as to best serve and entertain its customers and audiences while complying with the guidelines of authorities in each country where it operates.

A review of the value of assets with an indefinite life, in particular the goodwill, was performed. Taking into account the performance achieved during the first half of the year, UMG did not identify any indications of a decrease in the recoverable amount compared to December 31, 2020.

Note 2 Segment data

Operating segment data

The group management evaluates the performance of its business segments and allocates necessary resources to them based on certain operating performance indicators (segment earnings and cash flow from operations). EBITDA and EBITA reflect the earnings of each business segment, as defined in Note 1.2.3 to the 2020 Combined Financial Statements.

Intersegment commercial operations are conducted on an arm’s-length basis on terms and conditions similar to those which would be offered by third parties.

Main aggregates of the Statement of Earnings

(in millions of euros)	Recorded music	Music publishing	Merchandis-ing and other	Corporate center	Elimination of interseg-ment trans-actions	**Total**
Six months ended 30 June 2021						
Revenues	3,137	564	138	-	(8)	**3,831**
EBITDA	749	134	-	(61)	-	**822**
EBITA	705	127	(1)	(78)	-	**753**
Six months ended 30 June 2020						
Revenues	2,771	573	121	-	(6)	**3,459**
EBITDA	590	132	1	(74)	-	**649**
EBITA	541	126	(0)	(100)	-	**567**
Year ended December 31, 2020						
Revenues	5,967	1,186	292	-	(13)	**7,432**
EBITDA	1,360	269	21	(163)	-	**1,487**
EBITA	1,259	257	19	(206)	-	**1,329**

Reconciliation of EBIT to EBITA and to EBITDA

	Six months ended June 30,		Year ended December 31,
(in millions of euros)	2021	2020	2020
EBIT (a)	**684**	**516**	**1,221**
Adjustments			
Amortization of intangible assets acquired through business combinations	69	51	108
Impairment losses on intangible assets acquired through business combinations	-	-	-
Other charges and income	-	-	-
EBITA	**753**	**567**	**1,329**
Adjustments			
Restructuring charges	9	8	20
Sale of tangible and intangible assets	(3)	1	1
Right-of-use - Depreciation of tangible assets	34	35	69
Depreciation	32	28	59
Other non-recurring items including income from equity affiliates	(3)	10	9
EBITDA	**822**	**649**	**1,487**

a. As reported in the consolidated condensed statement of earnings and as defined in Note 1.3.3

Recorded music revenues by geographic area

Recorded music revenues broken down by customer location:

(in millions of euros)	Six months ended June 30, 2021		Six months ended June 30, 2020		Year ended December 31, 2020	
North America	1,554	*50%*	1,396	*51%*	2,940	*49%*
Europe	920	*29%*	838	*30%*	1,789	*30%*
Asia	428	*14%*	382	*14%*	801	*14%*
Latin America	107	*3%*	95	*3%*	181	*3%*
Rest of the world	128	*4%*	60	*2%*	256	*4%*
Recorded music revenues	**3,137**	***100%***	**2,771**	***100%***	**5,967**	***100%***

Segment assets and liabilities

Segment assets by geographic area

Segment assets include goodwill, content assets, other intangible assets, property, plant and equipment, rights-of-use relating to leases, equity affiliates, financial assets, inventories, shareowners loans and trade accounts receivable and other.

(in millions of euros)	June 30, 2021		December 31, 2020	
North America	5,721	*60%*	5,669	*55%*
Europe	3,423	*36%*	4,214	*41%*
Asia/Pacific	314	*3%*	305	*3%*
Latin America	74	*1%*	46	*1%*
Rest of the world	14	-	12	-
Total segment assets	**9,546**	***100%***	**10,246**	***100%***

Segment liabilities

Segment liabilities include provisions, other non-current liabilities, short-term and long-term lease liabilities and trade accounts payable and other. Segment liabilities amounted to €5,450 million as of June 30, 2021, compared to €5,691 million as of December 31, 2020.

Note 3 Financial charges and income

Interest

(in millions of euros)	Six months ended June 30,		Year ended December 31,
(Charge)/Income	2021	2020	2020
Interest expense on borrowings net (a)	(11)	(9)	(20)
Interest income from cash, cash equivalents and investments	2	3	5
Interest	**(9)**	**(6)**	**(15)**

a. Notably included net interest expense on borrowings from Vivendi SE, please refer to Note 12.

Other financial income and charges

(in millions of euros)	Six months ended June 30, 2021	Six months ended June 30, 2020	Year ended December 31, 2020
Capital gain on financial investments (a)	102	449	591
Effect of undiscounting assets	-	-	-
Expected return on plan assets related to employee benefit plans	1	1	3
Foreign exchange gain	1	2	-
Other	1	1	9
Other financial income	**105**	**453**	**603**
Capital losses on financial investments (a)	(170)	-	-
Downside adjustment on financial investments	-	-	-
Effect of undiscounting liabilities	-	(1)	(1)
Interest cost related to employee benefit plans	(2)	(2)	(5)
Interest expenses on lease liabilities	(8)	(9)	(18)
Foreign exchange loss	-	-	-
Other	(3)	(2)	(4)
Other financial charges	**(183)**	**(14)**	**(28)**
Net total	**(78)**	**439**	**575**

a. Included the loss on revaluation of the interests in Spotify and Tencent Music Entertainment for a net amount of €(170) million (compared to a gain of €449 million for the first half-year 2020). Also included a gain on disposal of UMG's interest in Alamo Records LLC for €100 million.

Note 4 Income taxes

UMG's income tax expense recognized in the Statement of Earnings for the first half of 2021 was €144m compared to €214 million for the first half of 2020 and €412 million for the full year 2020. The deferred tax income related to the revaluation through profit or loss of the interests in Spotify and other equity holdings is an income of €30 million for the first half of 2021, compared to an expense of €(110) million for the first half of 2020 and €(142) million for the full year 2020.

Note 5 Earnings per share

UMG B.V's consolidated earnings per share is presented below.

Until February 26, 2021, as the combined group was not a legal entity, the number of shares outstanding was not determinable. Consequently, no earning per share data was presented.

Following the contribution by Vivendi and the consortium led by Tencent to UMG B.V on February 26, 2021, the number of shares outstanding is determinable.

In accordance with IAS 33.64, the number of ordinary or potential ordinary shares outstanding increasing as a result of the contribution, the calculation of basic and diluted earnings per share shall be adjusted retrospectively, for all periods presented.

(in millions of euros)	Six months ended June 30,			
	2021		2020	
Earnings attributable to UMG shareowners	Basic	Diluted	Basic	Diluted
Earnings from continuing operations	452	452	735	735
Earnings from discontinuing operations	-	-	-	-
Earnings	**452**	**452**	**735**	**735**
Number of shares (in millions)	Basic	Diluted	Basic	Diluted
Weighted average number of shares outstanding	1,813	1,813	1,813	1,813
Potential dilutive effects related to share-based compensation	-	-	-	-
Adjusted weighted average number of shares	**1,813**	**1,813**	**1,813**	**1,813**
Earnings per share (in euros)				
Earnings from continuing operations attributable to UMG shareowners per share	0.25	0.25	0.41	0.41
Earnings from discontinuing operations attributable to UMG shareowners per share	-	-	-	-
Earnings attributable to UMG shareowners per share	**0.25**	**0.25**	**0.41**	**0.41**

(in millions of euros)	Year ended December 31,					
	2020		2019		2018	
Earnings attributable to UMG shareowners	Basic	Diluted	Basic	Diluted	Basic	Diluted
Earnings from continuing operations	1,366	1,366	972	972	897	897
Earnings from discontinuing operations	-	-	-	-	-	-
Earnings	**1,366**	**1,366**	**735**	**972**	**897**	**897**
Weighted average number of shares outstanding	1,813	1,813	1,813	1,813	1,813	1,813
Potential dilutive effects related to share-based compensation	-	-	-	-	-	-
Adjusted weighted average number of shares	**1,813**	**1,813**	**1,813**	**1,813**	**1,813**	**1,813**
Earnings per share (in euros)						
Earnings from continuing operations attributable to UMG shareowners per share	0.75	0.75	0.54	0.54	0.49	0.49
Earnings from discontinuing operations attributable to UMG shareowners per share	-	-	-	-	-	-
Earnings attributable to UMG shareowners per share	**0.75**	**0.75**	**0.54**	**0.54**	**0.49**	**0.49**

Note 6 Charges and income directly recognized in equity

Details of changes in equity related to other comprehensive income

	Items not subsequently reclassified to profit or loss		Items to be subsequently reclassified to profit or loss		
(in millions of euros)	Actuarial gains/(losses) related to employee defined benefit plans	Financial assets at fair value through other comprehen-sive income	Foreign currency translation adjustments	Other comprehensiv e income from equity affiliates, net	**Other comprehensive income**
Balance as of December 31, 2020	**(42)**	**(15)**	**(418)**	**(8)**	**(483)**
Charges and income directly recognized in equity	-	-	24	1	25
Items to be reclassified to profit or loss	-	-	-	-	-
Tax effect	-	-	-	-	-
Balance as of June 30, 2021	**(42)**	**(15)**	**(394)**	**(7)**	**(458)**

Note 7 Goodwill

(in millions of euros)	June 30, 2021	December 31, 2020
Goodwill, gross	1,468	1,451
Impairment losses	(82)	(82)
Goodwill	**1,386**	**1,369**

(in millions of euros)	June 30, 2021	December 31, 2020
Recorded Music	608	601
Publishing	680	674
Merchandising & Other	98	94
Closing balance	**1,386**	**1,369**

Changes in goodwill

(in millions of euros)	June 30, 2021	December 31, 2020
Opening balance	**1,369**	**1,488**
Impairment losses	-	-
Business combinations	2	7
Changes in foreign currency translation adjustments	15	(126)
Closing balance	**1,386**	**1,369**

UMG's financial reporting is managed at the level of operating segments consistent across the music industry (recorded music, music publishing, and merchandising).

Prior to February 26, 2021 Vivendi tested goodwill at the level of UMG. After the reorganization as disclosed in Note 1, UMG allocated goodwill in 2021 to groups of cash-generating units (sale of recorded music; exploitation of music publishing rights; merchandising) within UMG that are the lowest level within UMG at which goodwill is monitored for UMG's internal management purposes. Goodwill is therefore tested at the level of UMG's operating segments in 2021.

In 2019 and 2020, UMG was tested for impairment by comparing its carrying amount (including goodwill) with its recoverable amount. The recoverable amount is determined as the higher of the value in use determined by the discounted value of future cash flows (Discounted Cash Flow method (DCF)) and the fair value (less costs to sell), determined on the basis of market data (stock market prices, comparable listed companies, comparison with the value attributed to similar assets or companies in recent acquisition transactions). For a description of the methods used for the impairment test, please refer to Note 1.4.5.1.

During the fourth quarter of each year, the goodwill impairment test was performed at each CGU level based on valuations of recoverable amounts determined: in 2020 and 2019, referring to a recent transaction (please refer to the precision below). As a result, the Management concluded that, as of December 31, 2019 and 2020, the recoverable amount tested at each CGU level, significantly exceeded its carrying value.

As of June 30, 2021, the Management assessed whether there was any indication that any of the cash generating units ("CGU") may have become impaired during the first half of 2021.

On March 31, 2020, Vivendi sold 10% of UMG's share capital to the Tencent-led consortium based on an enterprise value of €30 billion for 100% of UMG's share capital.

On January 29, 2021, Vivendi sold an additional 10% of UMG's share capital to the Tencent-led consortium based on the same enterprise value of €30 billion for 100% of UMG's share capital.

On July 19, 2021, Pershing Square Tontine Holdings Ltd. (PSTH) informed Vivendi that it intends to assign its rights and obligations to acquire 10% of the share capital of UMG B.V under the agreements announced on June 20, 2021 to investment funds with significant economic interests or management positions held by Mr. William Ackman. Vivendi has decided to approve such request. This transaction is based on an enterprise value of €35 billion for 100% of the UMG BV share capital.

Notwithstanding the uncertainties created by the COVID-19 pandemic, the Management concluded that there were no triggering events that would indicate any reduction in the value of any CGU or group of CGUs, compared to December 31, 2020 and that any limited decrease in operating performances of the Merchandising CGU in 2020 and the first half of 2021 is unlikely to be lasting and should not affect its long-term outlook. In addition, an annual impairment test of the carrying value of goodwill and other intangible assets will be performed during the fourth quarter of 2021.

Note 8 Content assets and commitments

Content assets

	June 30, 2021			December 31, 2020
(in millions of euros)	Content assets, gross	Accumulated amortization and impairment losses	Content assets	Content assets
Music catalogs and publishing rights	4,424	(2,102)	2,322	2,330
Advances to artists and repertoire owners	1,930	-	1,930	1,859
Merchandising contracts and artists services	21	(21)	-	-
Content assets	**6,375**	**(2,123)**	**4,252**	**4,189**
Deduction of current content assets	(729)	-	(729)	(677)
Non-current content assets	**5,646**	**(2,123)**	**3,523**	**3,512**

Contractual content commitments

Commitments given recorded in the Statement of Financial Position: content liabilities

(in millions of euros)	June 30, 2021	December 31, 2020
Music royalties to artists and repertoire owners	2,379	2,315
Creative talent and employment agreements and others	387	456
Total content liabilities	**2,766**	**2,771**

Content liabilities are mainly recorded in "Trade accounts payable and other" or in "Other non-current liabilities" whether they are current or non-current, as applicable.

Off-balance sheet commitments: creative talent, employment agreements and others

Universal Music Group (UMG) routinely commits to pay agreed amounts to artists and other parties upon delivery of content or other products ("Creative talent and employment agreements"). Until the artist or the other party has delivered his or her content or until the repayment of an advance, UMG discloses its obligation as an off-balance sheet given commitment. While the artist or the other party is obligated to deliver content or another product to UMG (these arrangements are generally exclusive), this counterpart cannot be reliably determined and, thus, is not reported in received commitments.

Note 9 Leases

Rights-of-use relating to leases

As of June 30, 2021 the rights-of-use relating to leases amounted to €406 million (€416 million as of December 31, 2020) less the accumulated amortization and impairment losses for €365 million as of June 30, 2021 (€329 million as of December 31, 2020. These rights-of-use relate to real estate leases.

Changes in the rights-of-use

(in millions of euros)	June 30, 2021	December 31, 2020
Opening balance	**416**	**472**
Depreciation	(34)	(69)
Acquisitions/increase	24	39
Sales/decrease	-	-
Business combinations	-	-
Foreign currency translations and other	-	(26)
Closing balance	**406**	**416**

Maturity of lease liabilities

(in millions of euros)	June 30, 2021	December 31, 2020
Maturity		
< 1 year	78	78
Between 1 and 5 years	255	265
> 5 years	185	182
Lease liabilities	**518**	**525**

Lease-related expenses

The net lease-related expenses recorded in the Statement of Earnings amounted to €39 million for the first half of 2021 (compared to €45 million for the first half of 2020).

Note 10 Investments in equity affiliates

As of June 30, 2021 and December 31, 2020 the main company accounted for by Universal Music Group under the equity method was Vevo (a premium music video and entertainment platform).

	Voting interest	Voting interest	Net carrying value of equity affiliates	
(in millions of euros)	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
Vevo	49.2%	49.4%	62	62
Other	n/a	n/a	33	10
			95	**72**

Change in value of investments in equity affiliates

(in millions of euros)	June 30, 2021	December 31, 2020
Opening balance	**72**	**88**
Acquisitions	23	1
Business combinations	-	-
Income from equity affiliates	(1)	(9)
Change in other comprehensive income	1	(6)
Dividends received	-	(2)
Other	-	-
Closing balance	**95**	**72**

Note 11 Financial assets

	June 30, 2021			December 31, 2020		
(in millions of euros)	Total	Current	Non-current	Total	Current	Non-current
Financial assets at fair value through profit or loss						
Term deposits	-	-	-	-	-	-
Level 1 - Listed equity securities	1,631	-	1,631	1,862	-	1,862
Level 2						
Unlisted equity securities	43	-	43	43	-	43
Derivative financial instruments	19	-	19	-	-	-
Level 3 - Other financial assets	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income						
Level 1 - Listed equity securities	-	-	-	-	-	-
Level 2 - Unlisted equity securities	-	-	-	-	-	-
Level 3 - Unlisted equity securities	14	-	14	14	-	14
Financial assets at amortized cost	110	35	75	44	1	43
Financial assets	**1,817**	**35**	**1,782**	**1,963**	**1**	**1,962**

The three classification levels for the measurement of financial assets at fair value are defined in Note 1.4.1.

Listed equity portfolio

	June 30, 2021							
	Number of shares held	Ownership interest	Average purchase price (a)	Stock market price	Carrying value	Change in value over the period	Cumulative unrealized capital gain/(loss)	Sensitivity at +/-10 pts
	(in thousands)		(€/share)			(in millions of euros)		
Spotify (b)	6,487	3.35%	6.58	227.28	1,475	(195)	1,432	+147/147
Tencent Music Entertainment (c)	12,246	0.73%	na	12.77	156	(36)	156	+16/-16
Other	-	-	-	-	-	-	-	-
Total					**1,631**	**(231)**	**1,588**	

	December 31, 2020							
	Number of shares held	Ownership interest	Average purchase price (a)	Stock market price	Carrying value	Change in value over the period	Cumulative unrealized capital gain/(loss)	Sensitivity at +/-10 pts
	(in thousands)			(€/share)		(in millions of euros)		
Spotify (b)	6,487	3.37%	6.58	257.34	1,669	798	1,627	+167/-167
Tencent Music Entertainment (c)	12,246	0.74%	na	15.74	193	64	193	+19/-19
Other					-	(1)	-	
Total					**1,862**	**861**	**1,820**	

na: not applicable.

a. Includes acquisition fees and taxes.

b. Spotify shares have been listed since April 3, 2018.

c. Tencent Music Entertainment shares have been listed since December 12, 2018.

Note 12 Cash position and borrowings

Cash position

Universal Music Group (UMG)'s cash position comprises cash and cash equivalents, as well as loans to Vivendi. As defined by UMG, money market funds relate to financial investments, which satisfy the ANC's and AMF's decision released in November 2018.

(in millions of euros)	June 30, 2021	December 31, 2020
Loans to Vivendi SE	**146**	**815**
of which Universal Music Group Treasury with Vivendi	*146*	*815*
Cash and cash equivalents	**755**	**326**
of which cash equivalents	*301*	*220*
cash	*454*	*106*
Cash position	**901**	**1,141**

Borrowings and other financial liabilities

	June 30, 2021			December 31, 2020		
(in millions of euros)	Total	Long-term	Short-term	Total	Long-term	Short-term
Vivendi SE borrowings (a)	2,368	0	2,368	2,368	2,368	-
Credit lines drawn by UMG Inc. (b)	546	-	546	635	-	635
Bank overdrafts	2	-	2	5	-	5
Other	2	1	1	1	1	-
Borrowings at amortized cost	**2,918**	**1**	**2,917**	**3,009**	**2,369**	**640**
Derivative financial instruments	-	-	-	-	-	-
Borrowings and other financial liabilities	**2,918**	**1**	**2,917**	**3,009**	**2,369**	**640**

a. Corresponds to Universal International Music B.V.'s borrowing from Vivendi SE, to be settled on July 7, 2021, see below for more details.
b. Corresponds to credit lines drawn by UMG Inc. for €330 million (December 31, 2020: €213 million) on UMG Inc. credit lines and €216 million (December 31, 2020: €422 million) on Vivendi SE credit lines.
c. Refer to Note 17 for details on maturity of borrowings.

In the context of the planned distribution of 60% of UMG's share capital to Vivendi's shareholders and the listing of UMG's shares on the Euronext Amsterdam stock exchange, on March 24, 2021, UMG entered into an agreement concerning the setting up of a five-year €3 billion syndicated bank credit facility: a revolving credit facility of €2 billion and a term loan of €1 billion. UMG's ability to draw on these bank credit facilities was conditional upon its strict ring fencing from Vivendi, in particular the termination of UMG's cash pooling agreement with Vivendi, UMG Inc.'s inability to draw on Vivendi SE's bilateral credit facilities, and the repayment of UIM B.V.'s intra-group debt from Vivendi. On July 7, 2021, Vivendi and UMG completely separated their cash pooling and financing arrangements.

As a reminder, since 2020, UMG Inc. has been an additional borrower under five of Vivendi SE's eight bilateral credit facilities up to the aggregate limit of €750 million as of December 31, 2020, which was reduced to €450 million as of June 30, 2021. As of June 30, 2021, three of these credit facilities were drawn by UMG for €216 million.

In addition, UMG Inc. had its own credit facilities maturing in 2021 for an aggregate amount of $570 million, i.e., €470 million as of June 30, 2021, including a committed credit facility of €247 million maturing in September 2021. As of June 30, 2021, UMG Inc. had drawn on these credit facilities for an amount of €330 million, and on July 7, 2021, it repaid and cancelled them.

On March 24, 2021, UMG B.V. and UMG Inc. reached an agreement for a syndicated revolving bank credit facility of €2 billion (drawings made in euros for UMG B.V. and in US dollars for UMG Inc.) for a five-year period, with two one-year extension options.

On the same date, UMG B.V. entered into a term loan of €1 billion maturing in October 2026. The ability for UMG to draw on these bank credit facilities was conditional upon its strict ring fencing from Vivendi. On July 7, 2021, Vivendi and UMG completely separated their cash pooling and financing arrangements after the following transactions were implemented:

- the termination of UMGT S.A.S.'s cash pooling agreement with Vivendi SE, with Vivendi SE returning the deposited amount of €146 million as of June 30, 2021;
- the repayment by UMG Inc. of its drawings on Vivendi SE's bilateral bank credit facilities for €216 million as of June 30, 2021; and
- the repayment by UIM B.V. of its intra-group borrowing from Vivendi SE, for €2,368 million.

On July 7, 2021, to finance the repayment of UIM B.V.'s intra-group borrowing from Vivendi SE, UMG B.V. drew on its term loan of €1 billion, as well as on the revolving credit facility for €1.24 billion. In addition, UMG Inc. drew on the same credit facility for $500 million, i.e., €416 million.

UMG borrowings and intra-group investments with Vivendi

UMG's intra-group borrowings and deposit positions with Vivendi SE were as follows:

(in millions of euros)	July 7, 2021	June 30, 2021	December 31, 2020
Vivendi SE borrowings	-	(2,368)	(2,368)
Loans to Vivendi SE from UMG Treasury	-	146	815
Net total	**-**	**(2,222)**	**(1,553)**

Note 13 Equity

Universal Music Group (UMG) distributes its cash surpluses to shareowners through dividends and share capital reductions:

(in millions of euros)	June 30, 2021	December 31, 2020
Contributions by/distribution to shareowners	**422**	**2,711**
Contributions by shareowners of their UIM B.V. and UMG Inc. shares to UMG B.V. (c)	*-*	*-*
Distribution by UMG B.V. paid to Vivendi SE (d)	*338*	*-*
Distribution by UMG B.V. paid to Concerto and Scherzo (d)	*84*	*-*
of which Universal Music Group S.A.S. transferred to Vivendi SE (a)	*-*	*2,428*
Distribution by Universal International Music B.V. paid to shareowners (b)	*-*	*283*
Changes in UMG ownership interest in subsidiaries that do not result in a loss of control	**-**	**13**
Changes in equity attributable to Universal Music Group	**422**	**2,724**

a. On March 19, 2020, Universal Music Group S.A.S. was dissolved, with universal transmission of its property to Vivendi S.E.

b. Dividends distributed by UIM BV to Vivendi SE for €255 million and to Concerto for €28 million on September 23, 2020.

c. As described in Note 1, on February 26, 2021, Vivendi and the consortium led by Tencent contributed their respective 80% and 20% shares in both UIM B.V. and UMG Inc. to UMG B.V. based on an equity value of €33 billion for 100% of UMG's share capital. Following this contribution, Vivendi and Tencent respectively own 80% and 20% of UMG B.V. which own 100% of UIM B.V. and 100% of UMG Inc. without any change on UMG's scope of combination/consolidation and without any change in total equity. Therefore, UMG's net equity remains unchanged before and after the contribution. As such, following the principle of continuity of financial statements, on February 26, 2021, in UMG B.V.'s consolidated financial statements, the contribution of €33 billion was directly recorded as an increase in equity attributable to UMG B.V. shareowners (€18.5 billion in share capital and €14.5 billion in additional paid-in capital), and the contribution of €33 billion was fully neutralized in UMG B.V.'s retained earnings.

d. Dividends distributed by UMG BV to Vivendi SE for €338 million and to Concerto and Scherzo for a combined €84 million on April 29, 2021.

Note 14 Provisions

(in millions of euros)	Note	June 30, 2021	December 31, 2020
Employee benefits (a)		255	258
Restructuring costs		9	11
Litigations	18	4	4
Other (b)		172	199
Provisions		**440**	**472**
Deduction of current provisions		(98)	(137)
Non-current provisions		**342**	**335**

a. Included deferred employee compensation as well as provisions for defined employee benefit plans, but excluded employee termination reserves recorded under restructuring costs.

b. Notably included litigation provisions for which the amount and nature are not detailed because such disclosure could be prejudicial to Universal Music Group.

Changes in provisions

(in millions of euros)	June 30, 2021	December 31, 2020
Opening balance	**472**	**500**
Addition	32	85
Utilization	(64)	(74)
Reversal	(8)	(43)
Business combinations	0	-
Divestitures, changes in foreign currency translation and other	8	4
Closing balance	**440**	**472**

Note 15 Share-based compensation plans

In 2021, no changes were made regarding UMG employee's participation in Vivendi's share-based compensation plans. No stock options of performance shares were granted in 2021 to UMG employees and senior executives in the first half-year of 2021.

Note 16 Related parties

UMG's related parties are the key executive managers and other related parties including:

- companies fully consolidated by UMG. The transactions between these companies have been eliminated for the preparation of UMG's Interim Financial Statements;
- companies over which UMG exercises a significant influence;
- all companies in which key executive managers or their close relatives hold significant voting rights;
- minority shareholders exercising a significant influence over UMG's subsidiaries;
- Vivendi Corporate and its consolidated entities (the "Vivendi Group"), as well as its related parties; and
- Bolloré Group and its related parties, given that Vivendi has been fully consolidated by Bolloré Group since April 26, 2017.

For the reorganization in 2021 and the main transactions by shareholders reference is made to Note 1 Basis of preparation of the unaudited consolidated condensed financial statements. For UMG's borrowings to Vivendi reference is made to Note 12. UMG distributes its cash surpluses to shareowners through dividends and share capital reductions (please refer to Note 13).

UMG's other related parties include companies over which UMG exercises a significant influence (e.g., Vevo and Duzy Dom). They also include Vivendi Corporate, its consolidated entities (e.g., Canal+ Group and Havas Group) and its related parties (e.g., Telecom Italia and Banijay Group Holding), as well as Bolloré Group, its subsidiaries and its related parties.

(in millions of euros)	June 30, 2021	December 31, 2020
Assets		
Shareowners loans	146	815
Trade accounts receivable and other	46	61
Of which Vevo	*34*	*31*
Duzy Dom	*8*	*8*
Telecom Italia	-	-
Havas Group	*1*	*1*
ULive	-	-
Vivendi Corporate	*3*	*19*
Current financial assets	-	-
Of which Vivendi Corporate	-	-
Liabilities		
Shareowners borrowings	2,368	2,368
Non-operating liabilities	-	-
Of which Vivendi Corporate	-	-
Trade accounts payable and other	1	1
Of which Havas Group	-	*1*
Vivendi Corporate	*1*	-
Bolloré Group	-	-
Canal+ Group	-	-
Income tax payable	-	-
Of which Vivendi Corporate	-	-

	Six months ended June 30,		Year ended December 31,
	2021	2020	2020
Statement of earnings			
Operating income	112	81	191
Of which Vevo	*100*	*69*	*164*
Duzy Dom	*5*	*6*	*13*
Telecom Italia	*1*	*1*	*1*
Canal+ Group	*1*	-	*1*
Havas Group	*3*	*3*	*7*
Vivendi Corporate	-	*1*	*1*
Other	*2*	*1*	-
Financial income	(8)	(8)	(17)
Of which Vivendi Corporate	*(8)*	*(8)*	*(17)*
Operating expenses	(6)	(19)	(48)
Of which Havas Group	*(2)*	*(4)*	*(11)*
Canal+ Group	-	-	-
Vivendi Corporate	-	*(13)*	*(30)*
Bolloré Group	*(4)*	*(2)*	*(5)*
Vivendi Village	-	-	-
Banijay Group Holding	-	-	-
Ingrooves Music Group	-	-	*na*
Other	-	-	-

na: not applicable.

Services billed by Vivendi Corporate

(in millions of euros)	Six months ended June 30, 2021	Six months ended June 30, 2020	Year ended December 31, 2020
Management fees	-	(7)	(15)
Share-based compensation plans	(3)	(7)	(10)
Other	3	1	(10)
Services billed by Vivendi Corporate	**0**	**(13)**	**(35)**

Note 17 Contractual obligations and other commitments

Universal Music Group (UMG)'s material contractual obligations and contingent assets and liabilities include:

- certain contractual obligations relating to the group's business operations, such as content commitments (please refer to Note 8), contractual obligations and commercial commitments recorded in the Statement of Financial Position, including leases and off-balance sheet commercial commitments, such as long-term service contracts and purchase or investment commitments;
- commitments related to UMG's consolidation scope made under acquisitions or divestitures such as share purchase or sale commitments, contingent assets and liabilities subsequent to given or received commitments related to the divestiture or acquisition of shares, commitments under shareholders' agreements and collateral and pledges granted to third parties over UMG's assets;
- commitments related to UMG's financing: undrawn confirmed bank credit facilities as well as the management of interest rate, foreign currency and liquidity risks; and
- contingent assets and liabilities resulting from legal proceedings in which UMG and/or its subsidiaries are either plaintiff or defendant (please refer to Note 18).

Contractual obligations and commercial commitments

		Minimum future payments as of June 30, 2021				Total minimum future payments as of
			Payments due in			
(in millions of euros)	Note	Total	1 year	2-5 years	After 5 years	December 31, 2020
Borrowings and other financial liabilities	12	2,918	2,917	1	-	3,009
Lease liabilities	9	518	78	255	185	525
Content liabilities	8	2,766	2,531	233	2	2,771
Consolidated statement of financial position items		**6,202**	**5,526**	**489**	**187**	**6,305**
Contractual content commitments		1,501	745	723	33	1,337
Commercial commitments		(4,919)	(1,610)	(3,309)	-	(3,975)
Net off-balance sheet commitments		**(3,418)**	**(865)**	**(2,586)**	**33**	**(2,638)**
Operating leases and subleases		na	na	na	na	na
Total		**2,784**	**4,661**	**(2,097)**	**220**	**3,667**

na: not applicable.

Off-balance sheet commercial commitments

(in millions of euros)	Minimum future payments as of June 30, 2021				Total minimum future payments as of
		Due in			
	Total	1 year	2-5 years	After 5 years	December 31, 2020
Given commercial commitments	43	32	11	-	46
Received commercial commitments (a)	(4,962)	(1,642)	(3,320)	-	(4,021)
Net total	**(4,919)**	**(1,610)**	**(3,309)**	**-**	**(3,975)**

a. Includes minimum guarantees to be received by UMG pursuant to distribution agreements entered into with third parties, notably digital platforms.

Note 18 Litigation

In the normal course of its business, Universal Music Group is subject to various lawsuits, arbitrations and governmental, administrative or other proceedings (collectively referred to herein as “Legal Proceedings”).

The costs which may result from these Legal Proceedings are only recognized as provisions when they are likely to be incurred and when the obligation can reasonably be quantified or estimated, in which case, the amount of the provision represents UMG’s best estimate of the risk and is based on a case-by-case assessment of the risk level, provided that UMG may, at any time, reassess such risk if events occur during such proceedings. Provisions recorded by UMG for all claims and litigation were €4m as of June 31, 2021 and €4 million as of December 31, 2020, (please refer to Note 14).

To the company’s knowledge, there are no Legal Proceedings or any facts of an exceptional nature (including any pending or threatened proceedings in which it is a defendant), which may have or have had in the previous 6 months a material effect on the company and on its group’s financial position, profit, business and property, other than those described herein.

The status of proceedings disclosed hereunder is described as of July 26, 2021.

Soundgarden, Hole, Steve Earle and the estates of Tom Petty and Tupac Shakur against UMG

On June 21, 2019, the groups Soundgarden and Hole, Steve Earle, Tom Petty's ex-wife and Tupac Shakur's estate filed a class action lawsuit against UMG in the Central District Court of California relating to a 2008 fire that allegedly destroyed thousands of archived recordings.

The plaintiffs alleged that UMG breached the terms of the contracts with the artists by failing to adequately protect the recordings. It is also argued that the Group should have shared the settlement proceeds received as a result of its negotiations with the insurance companies and NBC Universal. On July 17, 2019, UMG filed a motion to dismiss the lawsuit. On August 16, 2019, the plaintiffs filed an amended complaint removing Hole as a plaintiff and adding a number of claims. On September 6, 2019, UMG filed a new motion to dismiss. On March 13 and 23, 2020, most of the plaintiffs withdrew from the case, leaving Jane Petty (Tom Petty's ex-wife) as the only remaining plaintiff. On April 6, 2020, the Court granted UMG's motion to dismiss and dismissed Jane Petty's claims.

However, Jane Petty sought to pursue the case. On April 16, 2020, she filed an application for class certification, and, on April 27, 2020, she filed a second amended complaint. On May 18, 2020, UMG filed a motion to dismiss, which was granted on March 29, 2021, for lack of the plaintiff's standing, thereby closing this case.

John Waite, Syd Straw, The Dickies, Kasim Sulton and The Dream Syndicate against UMG Recordings, Inc.

On February 5, 2019, a class action lawsuit was filed against UMG Recordings, Inc. on behalf of a putative class of all recording artists who had requested the termination of their contracts with UMG pursuant to Section 203 of the Copyright Act which allows, under certain conditions, a creator who has contractually transferred the rights to his or her work to a third party to terminate such contract after 35 years. The complaint seeks to have the Court recognize the termination of the contracts of the artists involved in the litigation and also alleges copyright infringement, as UMG continued to use the recordings after the purported end date of the contract. On May 3, 2019, UMG Recordings filed a motion to dismiss. On June 15, 2019, the plaintiffs filed a First Amended Complaint adding artists Syd Straw, Kasim Sulton and The Dickies as additional plaintiffs. On August 31, 2020, a second Amended Complaint was filed, adding the Dream Syndicate as an additional plaintiff. On September 30, 2020, UMG and Capitol filed a response in which they made a counterclaim against plaintiffs Joe Ely and Syd Straw, alleging that they had exploited certain recordings without authorization. On November 18, 2020, following a settlement reached between UMG and Joe Ely, the Court acknowledged Joe Ely's withdrawal from the proceedings.

UMG Recordings, Inc. and Universal Music Publishing Group (along with the other major labels and publishers) against Cox Communications, Inc. and CoxCom LLC

On July 31, 2018, a complaint for copyright infringement was filed by UMG Recordings, Inc. and Universal Music Publishing Group (along with the other major labels and publishers including Sony and Warner) against Cox Communications, an Internet access and service provider, and its parent company CoxCom, for knowingly inducing and supporting copyright infringement by its customers, contrary to the provisions of the Digital Millennium Copyright Act (DMCA), which requires an Internet service provider to implement a termination policy against its repeat infringing customers. At the end of the trial, which took place in December 2019, the jury awarded the plaintiffs $1 billion in damages. Cox filed a motion seeking to reduce the amount of damages awarded to the plaintiffs. On January 21, 2021, the motion was dismissed, and the judge upheld the jury's verdict in the amount of $1 billion. Cox has indicated that it will appeal against this decision and has posted security to stay the execution of the judgment pending the appeal.

David Marks against UMG Recordings, Inc.

On May 13, 2021, David Marks, a former member of the Beach Boys, filed a class action lawsuit against UMG Recordings, Inc. in the U.S. District Court for the Central District of California for breach of contract and fraud. He alleges that UMG has understated the amount of royalties owed to him for streaming outside the United States. On July 7, 2021, UMG Recordings filed a motion to dismiss. On July 21, 2021, the plaintiff filed an amended complaint.

Note 19 List of consolidated entities

The number of legal entities consolidated or accounted for under the equity method by UMG is 470 as of June 30, 2021 (388 as of December 31, 2020). The major entities are presented in the table below.

		June 30, 2021		
	Country	Accounting Method	Voting Interest	Ownership Interest
Universal Music Group B.V.	Netherlands	C	*Parent entity – see Note 1*	
Universal Music Group, Inc.	United States	C	100%	*100%*
Universal Music Group Holdings, Inc.	United States	C	100%	*100%*
UMG Recordings, Inc.	United States	C	100%	*100%*
Vevo	United States	E	49.2%	*49.2%*
Universal International Music B.V.	Netherlands	C	100%	*100%*
Universal Music Entertainment GmbH	Germany	C	100%	*100%*
Universal Music LLC	Japan	C	100%	*100%*
Universal Music France S.A.S.	France	C	100%	*100%*
Universal Music Holdings Ltd.	United Kingdom	C	100%	*100%*
EMI Group Worldwide Holding Ltd.	United Kingdom	C	100%	*100%*
Universal Music Group Treasury S.A.S.	France	C	100%	*100%*

C: consolidated; E: equity affiliates.

Note 20 Subsequent events

The significant event that occurred between the closing date as of June 30, 2021 and July 28, 2021 (the date of UMG's Management Board meeting that approved the Consolidated condensed financial statements for the half-year ended June 30, 2021) was as follows:

On July 7, 2021, UMG entered into various treasury operations aimed at repaying its debt to Vivendi SE. Please refer to Note 12 for details.