



# INVESTOR DAY

October 22<sup>nd</sup>, 2008



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# The evolution of Veolia Environnement

## 3 constants

- Strong organic growth
- Balanced profile and control of risks
- Strict profitability criteria

## 3 levers for value creation

- Historic base generating cash flow that is (i) recurring, (ii) 85% generated in Europe and (iii) benefits from high visibility
- Operating financial assets based on very secure contractual forms
- Assets invested on the basis of consistent profitability targets (WACC + 3%)

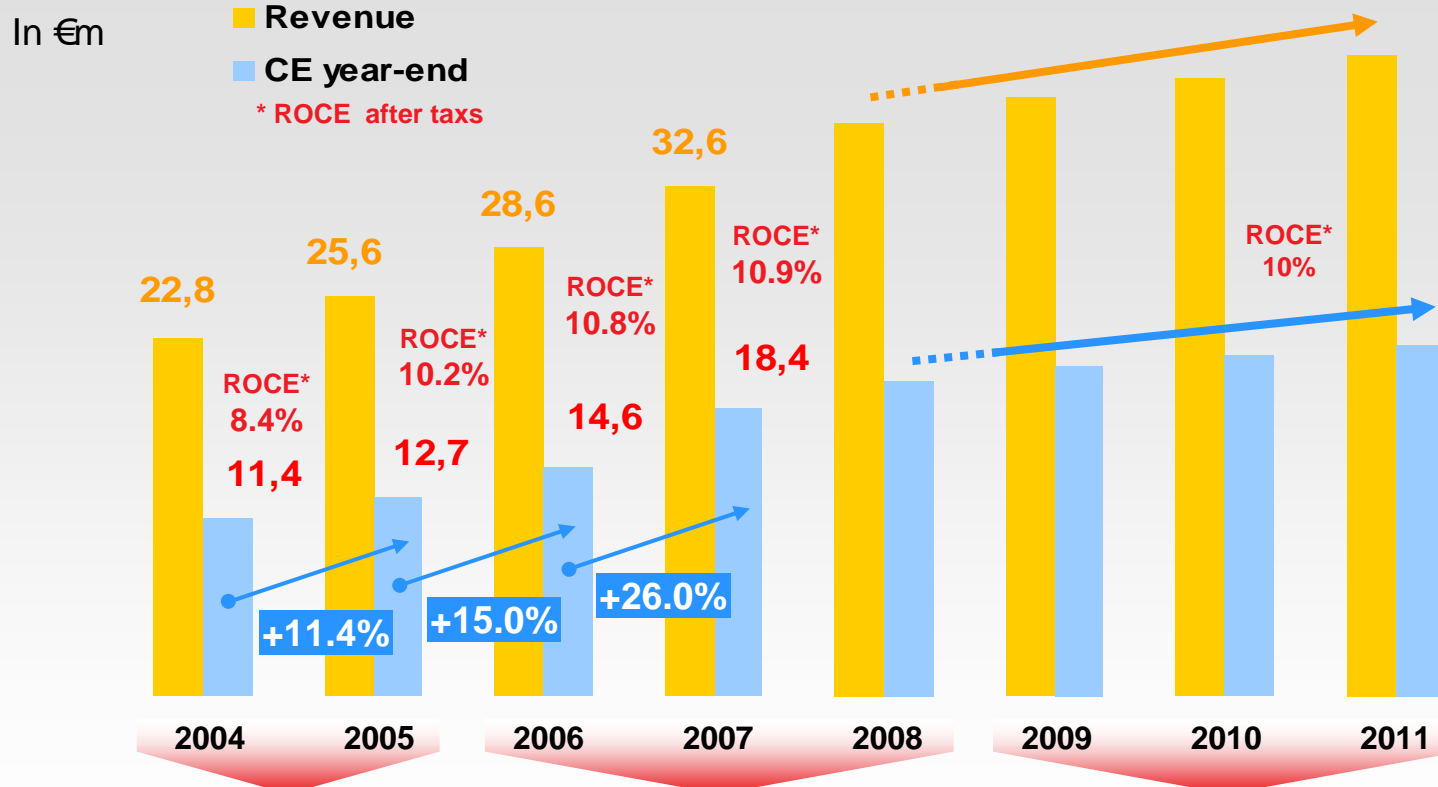


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- 1 Review of the evolution of the Group

# Veolia Environnement: strong organic growth



## Portfolio consolidation phase

- Strong organic growth

## Change in size/dimension

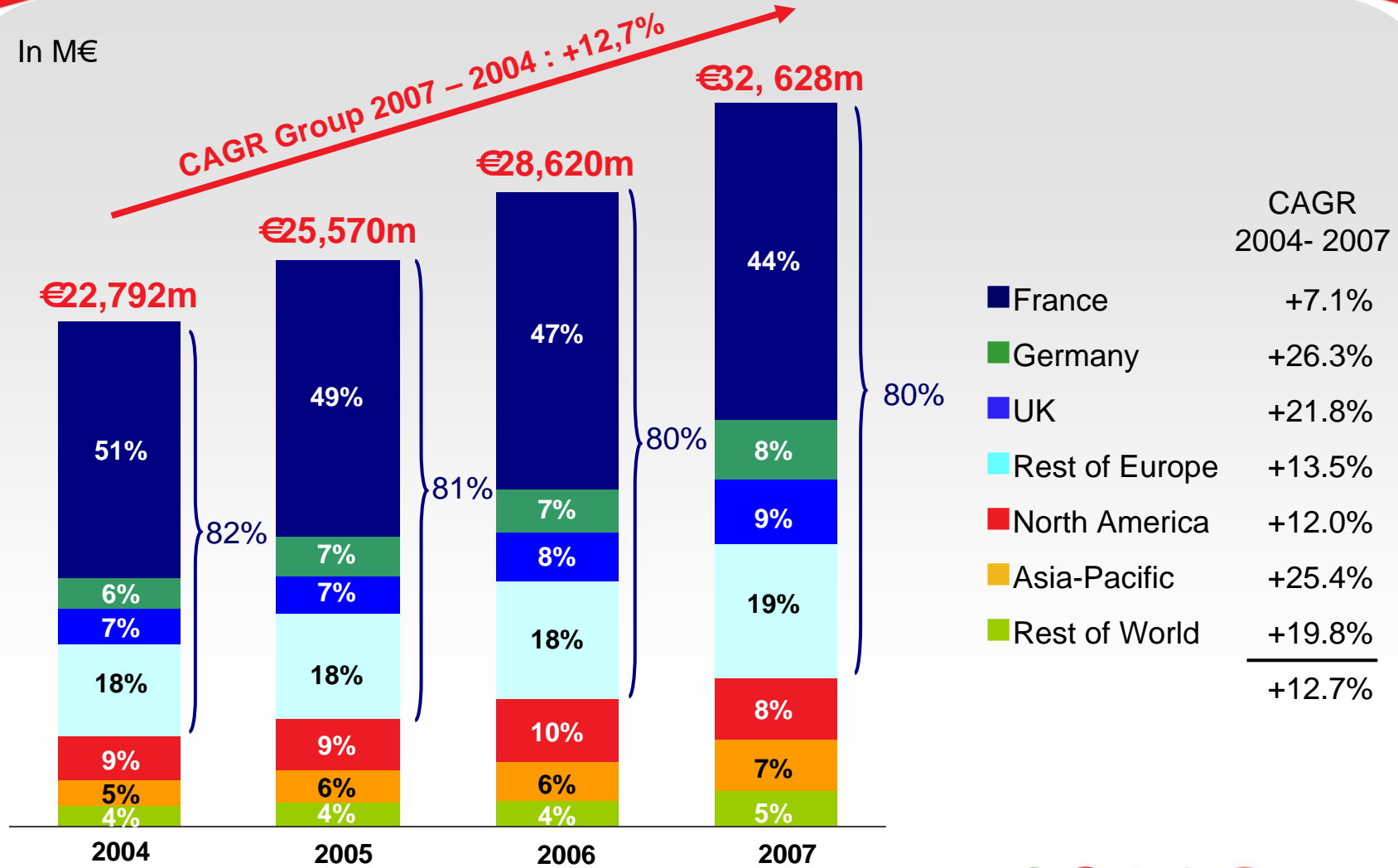
- Robust organic growth
- Strong external growth

## Projections

- Organic growth
- Adjustments in scope

# Targeted growth in business

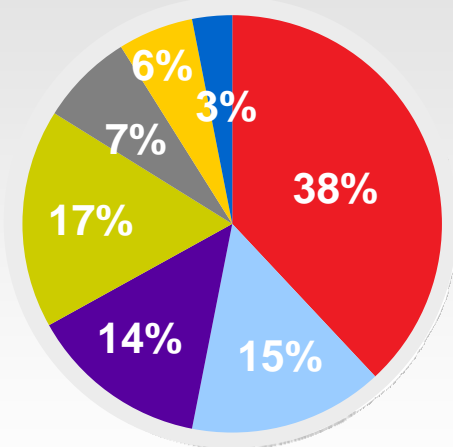
In M€



# A balanced geographical contribution

85% of recurring operating income generated in Europe

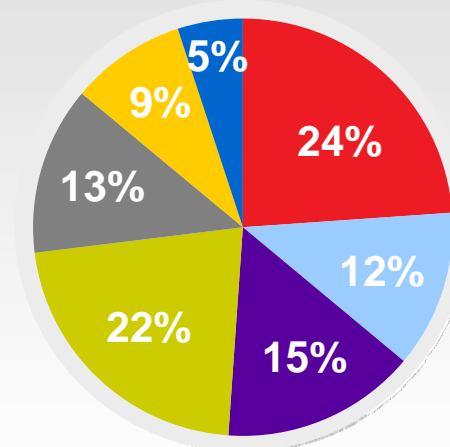
On December 31, 2007  
(€2.5bn)



■ France    ■ Germany    ■ UK  
■ North America    ■ Asia-Pacific

75% of capital employed located in Europe

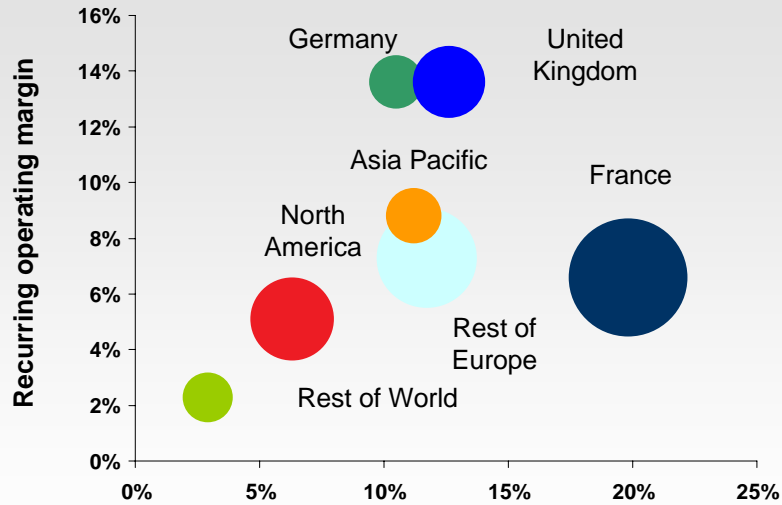
On December 31, 2007  
(€18.4bn)



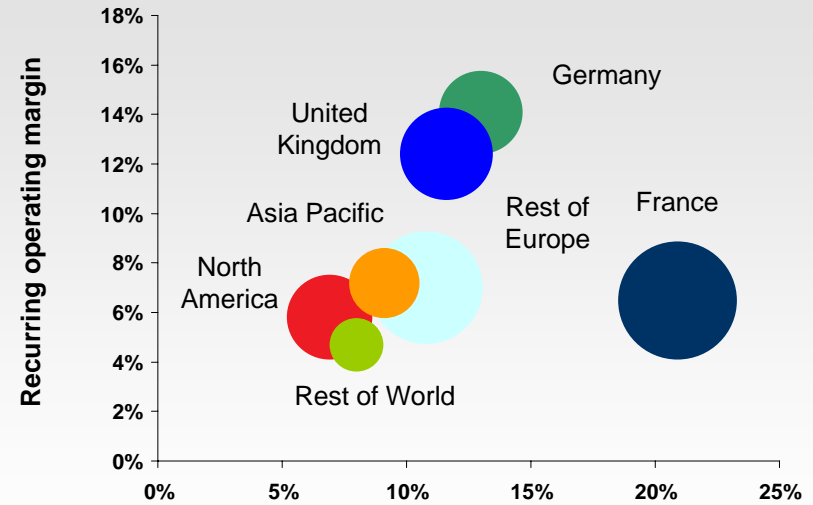
■ Rest of Europe  
■ Rest of World

# Operations in regions with high profitability

On December 31, 2005



On December 31, 2007



NB: The size of the circles represents the amount of capital employed by geographical region

Capital employed	2005	2007
● France	31.2%	24.2%
● Germany	6.5%	12.2%
● United Kingdom	11.9%	14.8%
● Rest of Europe	22.3%	22.4%
● North America	15.7%	12.8%
● Asia Pacific	6.8%	8.6%
● Rest of World	5.6%	5.0%

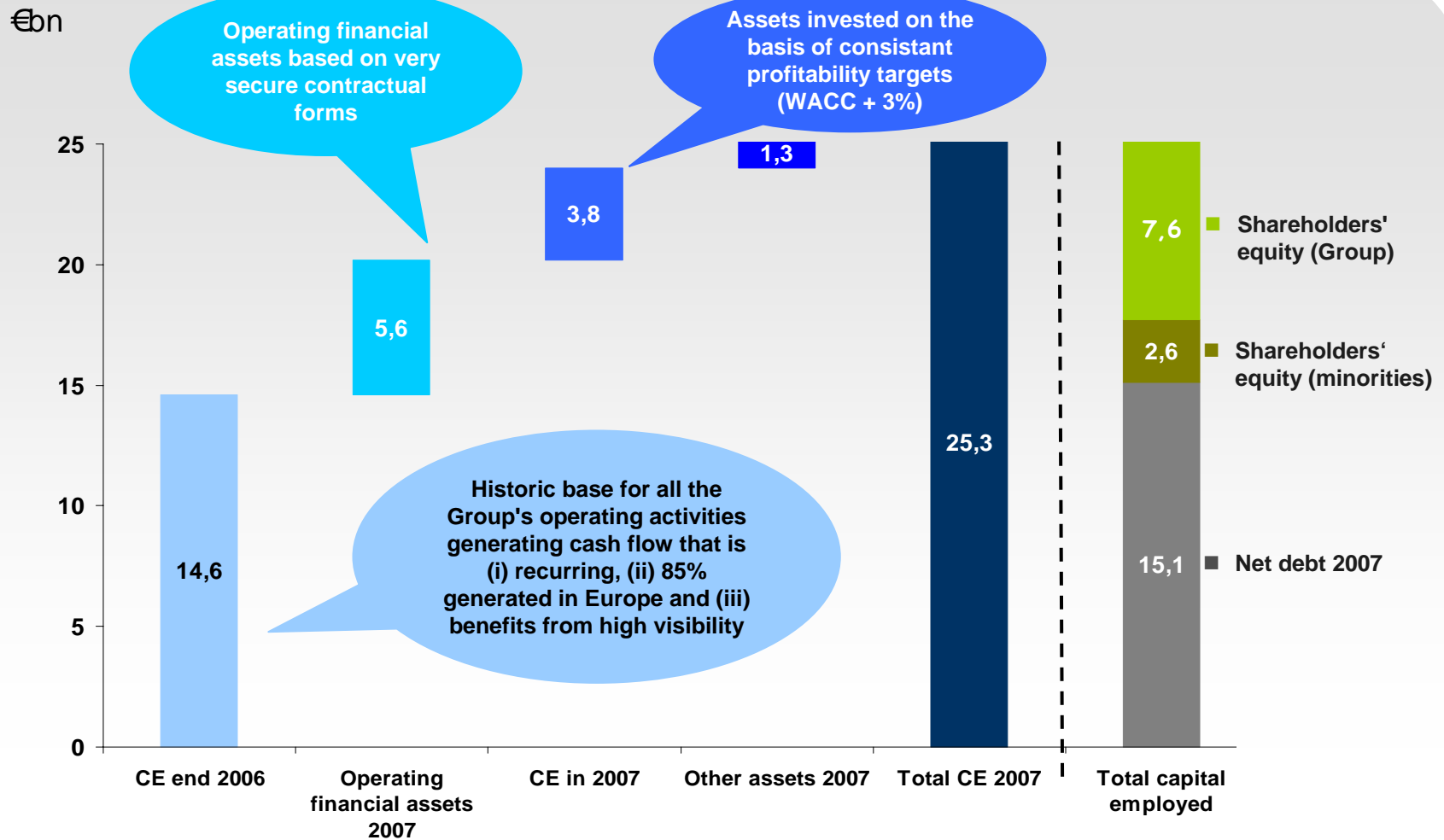
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Levers for value creation

# Veolia Environnement : 3 main levers for value creation



# Analysis of Group cash flow generation

## Operating activities

Operating cash flow	4,178
- Change in operating WCR	-167
- Return on OFA	-345
- Maintenance capital expenditures	-1,590
+ Industrial disposals	213
<b>Operational Cash flow</b>	<b>2,290</b>

## Operating activities

Return on Op. Fin. assets (OFA)	345
- New OFA	-334
+ Repayment of OFA	395
<b>Cash Flow from AFO</b>	<b>406</b>



## Sub-total Cash Flow from business activities

2,696

+ Financial CF and CF from discontinued activities	41
- Invests. excl. new projects and maintenance cap.exp.	-1,001
+ Disposal of financial assets	153
+ Increase in minority shareholders' equity	206
- Tax paid	-417
-Interest income paid	-786
+ Other (Dividends on equity consolidated shares & NC)	15

## Free cash flow before major projects

906



# Group operating activities generating recurring operating cash flow

- Stability and quality of operating cash flow, 85% of which is generated in Europe:

Operating cash flow	2005 proforma	2006	2007	Quote-part 2007
Total Group VE, of which :	2,110	2,112	2,290	100%
France	994	1,031	1,134	50%
United Kingdom	180	281	273	12%
Germany	175	98	160	7%
Czech Republic	132	124	179	8%
Other Europe	305	230	199	9%
North America	169	113	185	8%
China	41	69	46	2%
Asia Pacific excl. China	66	93	110	5%
<b>Detail by Division in €mln</b>				
Of which Water		1,050	1,050	1,000
Of which Waste		550	650	900
Of which Energy		400	300	300
Of which Transport		100	100	100



# Operating cash flow benefits from high visibility

- Length of contracts
- Weight of concession activities not very sensitive to economic conditions
- High rate of contract renewal
- Ability to generate productivity allowing us to maintain returns in mature zones over the longer term



# Length of contracts and weight of concession activities

Contract type	Legal form	Capital intensity	Typical length	Water	Energy	Waste	Transport
		POA/ (CE+ AFOs)		Contracts used	Contracts used	Contracts used	Contracts used
O&M	DPS, service concession	>2	5-15 yrs	•	•	•	•
DBO	DPS	>4	5-15 yrs	•	•	•	
Subcontracting	PW contracts, private contracts	>4	5-10 yrs	•	•	•	•
BOT	BOT, PPP, PFI	<1	10-25 yrs	•	•	•	
Concession	Concession, PFI	<1	10-30 yrs	•	•	•	
JV clients	Asset Co/Op Co	<1	10-50 yrs	•	•		
Industry	Outsourcing	<1	5-15 yrs	•	•		
Spot Contracts	PW contracts, private contracts	>1	<1 year	•	•	•	•
D&B	Construction	>4	<3 yrs	•			



# High rate of contract renewal (example France)

- **Water: a significant renewal rate - above 90%**
  - 2004-2007: €320m in renewed revenue, €29m lost, €31m won and net revenue won of €58m thanks to new DSP-type service contracts
  - Average residual length of existing contracts = 7 years - average length of newly won contracts greater than 11 years
- **Waste management:**
  - 2004-2007: €614m in renewed revenue, €183m lost, €291m won and net revenue won of €108m
  - A diversified industrial and tertiary client mix representative of the main sectors, with low exposure to any one sector (the four main business sectors making up the client portfolio represent only around 1/3 of revenue generated by industrial and tertiary clients)
- **Energy services: renewal rate above 80% (84% in 2007)**
  - More than offset by new contracts won and extensions, taking the average growth rate in France to +8.2% since 2003
  - 38,000 contracts in France. Average contract length of around 9 years (from 3 years on average for "Facility management" to 20 years for heating and cooling networks)
- **Transportation: a renewal rate of between 82% and 99% (2005-2007)**



# Operating financial assets: based on very secure contractual forms

In the framework of a service contract, assets financed on behalf of clients in return for a guaranteed payment or a series of future payments  
Example: concession contract with payment guarantee

- Assets with a limited useful life, which cannot be valued on multiples



**Balance sheet value on 31.12.2007: €5.6bn**

- Assets earning a market return



**6.1% in 2007**

- Assets whose sole risk is the counterparty risk



**Solid counterparties: mostly local authorities & significant industrial clients**

- Assets typically financed by dedicated financing



# Operating financial assets in the Group's accounts

	2007 (M€)
<ul style="list-style-type: none"><li>Balance sheet:(current and non-current operating financial assets): recorded at amortized cost with corresponding liability in Veolia's consolidated net debt</li></ul>	▶ 5,627.6
<ul style="list-style-type: none"><li>Income statement: Remuneration (i.e. interest payments) are a sub-line to revenue « of which revenue from operating financial assets » and thus also part of the operating cash flow before changes in working capital (EBITDA)</li></ul>	▶ 345.1
<ul style="list-style-type: none"><li>Statement of cash flow (inflow): repayment of the principal associated with operating financial assets is not recognized in the income statement but on the level of "cash flow from investing activities" in the statement of cash flow</li></ul>	▶ 394.7
<ul style="list-style-type: none"><li>Statement of cash flow (outflow): new operating financial assets, which represent capital expenditures for the year coming under the "financial assets model" are also recognized at the level of "cash flow from investing activities" in the statement of cash flow</li></ul>	▶ 420.5



# ROCE is the main indicator of value creation

- ROCE: main indicator of management

Back to the economic approach linked to the selection criterion (WACC + 3%)

Recurring operating income as best measure of cash generation

Change in capital employed is a good approximation of growth investments

→ Link between capital intensity and pay-back

- Definition

$$\text{ROCE} = \frac{\text{Net income from operations}}{\text{Average capital employed during the year}}$$

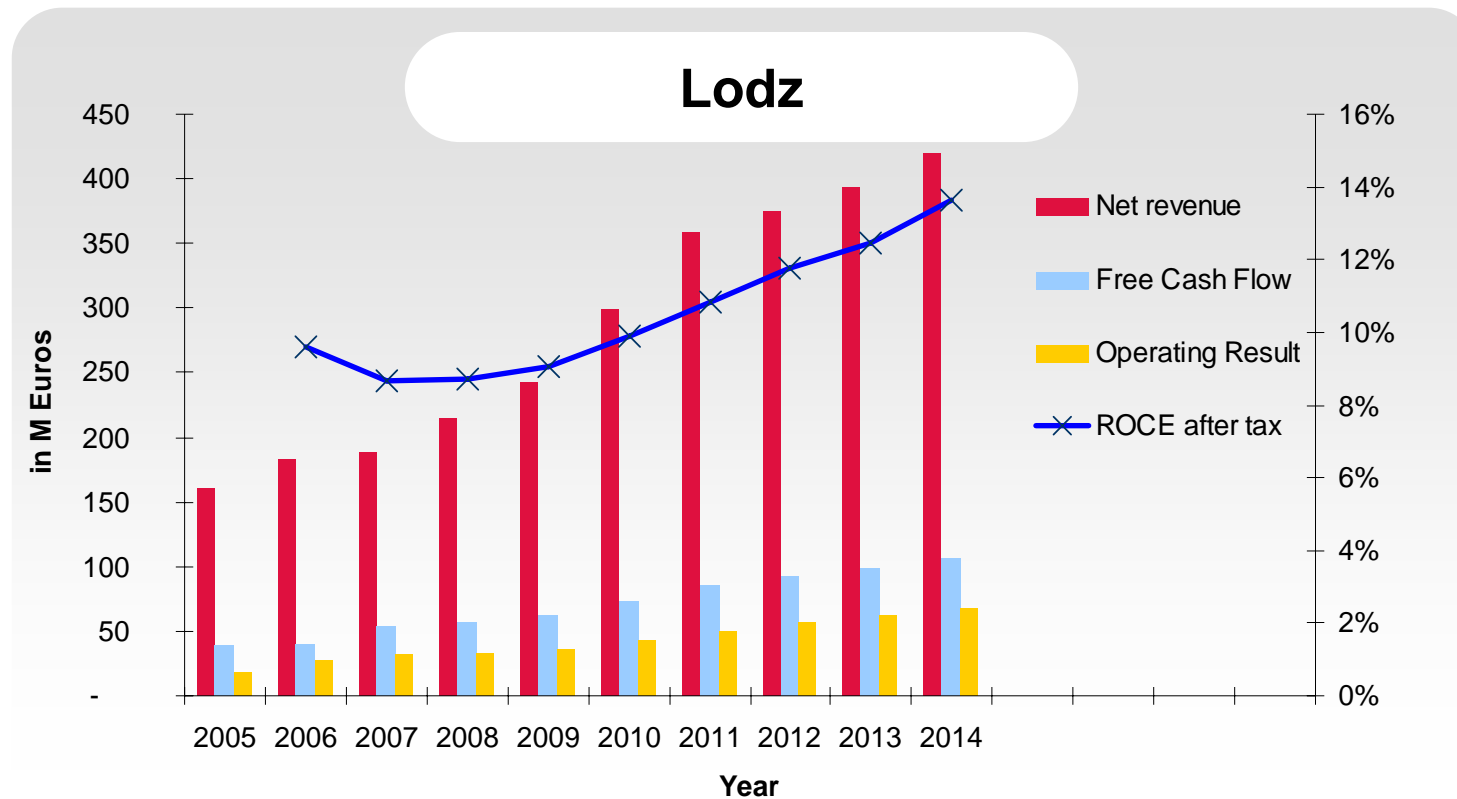
**Net income from operations** = Recurring operating income + Share of net income of associates  
– Income tax expense – Revenue from operating financial assets + Income tax expense allocated to operating financial assets

**Capital employed** = Intangible assets and property, plant and equipment, net + Goodwill, net of impairment  
+ Investment in associates + Operating and non-operating working capital requirements, net  
+ Net derivative instruments – Provisions - Other non-current debt

**Average capital employed for the year:** average of capital employed at opening and closing

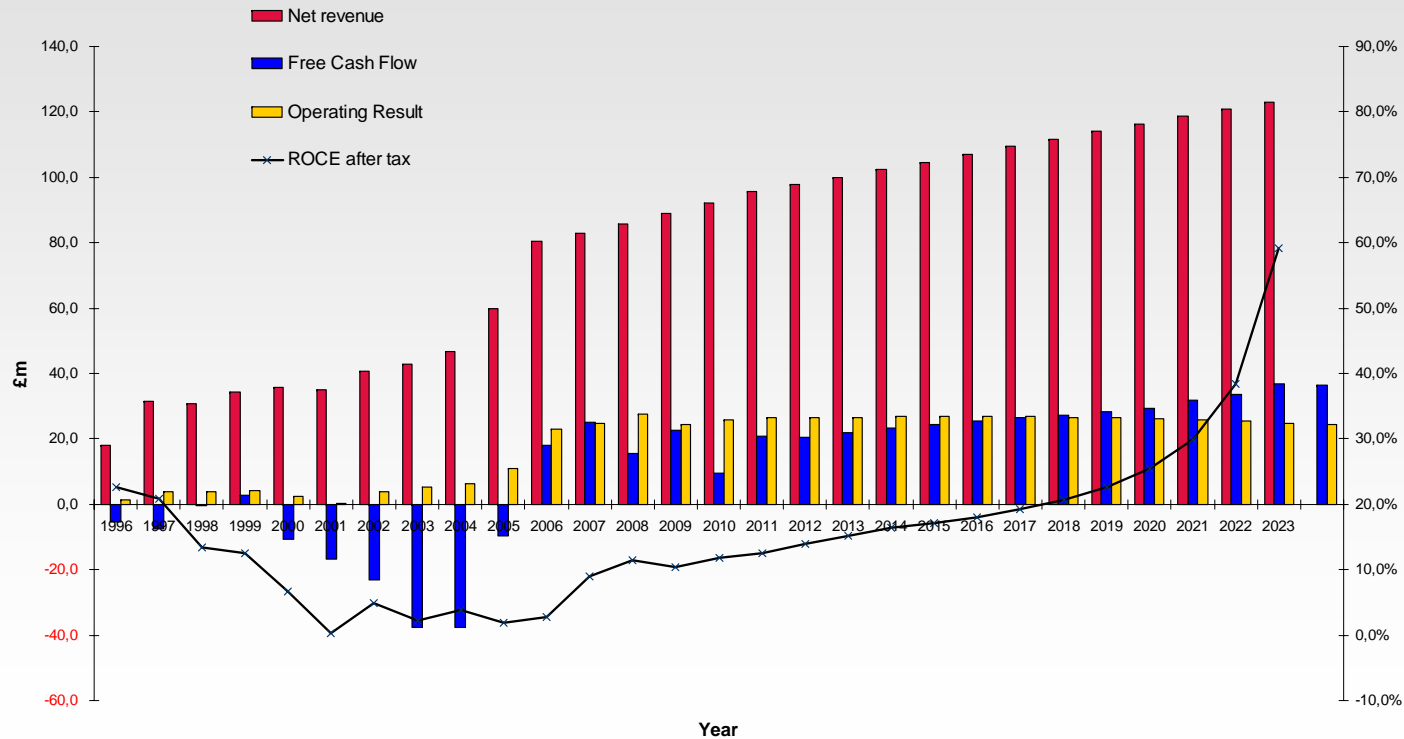


# Examples of value creation: Veolia Energy in Poland

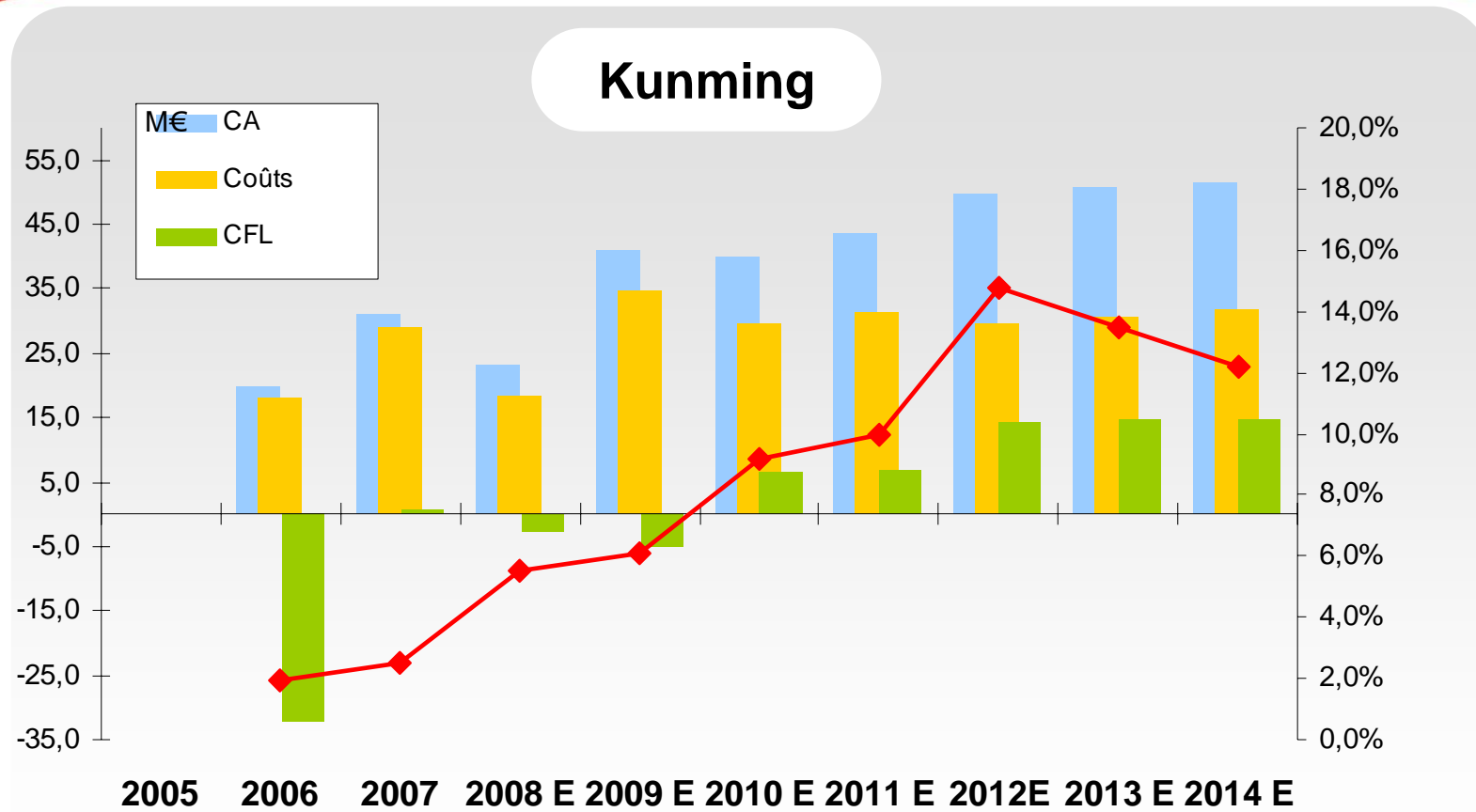


# Examples of value creation: Waste management in the U.K.

## Hampshire



# Examples of value creation: Veolia Water in China



# Impact of recent acquisitions on Group profitability

- Our portfolio of activities includes large assets that are not yet at maturity:
  - Major projects 2006: €1.4bn
    - Acquisition of Cleanaway in the UK notably
  - Major projects 2007: €4bn, including €900 mln in organic growth
    - Acquisitions of Sulo in Germany, of the leading private heating and cooling network in North America (TNAi), of TMT in Italy and of non-regulated water activities in the United Kingdom primarily

**These major projects represent almost one third of Group capital employed at end 2007**

- The 2007 assets today have a dilutive impact on the Group ROCE.
- Our goal: to increase FCF and the profitability of these new projects through the Efficiency Plan 2010 and specific action plans (e.g. Sulo).



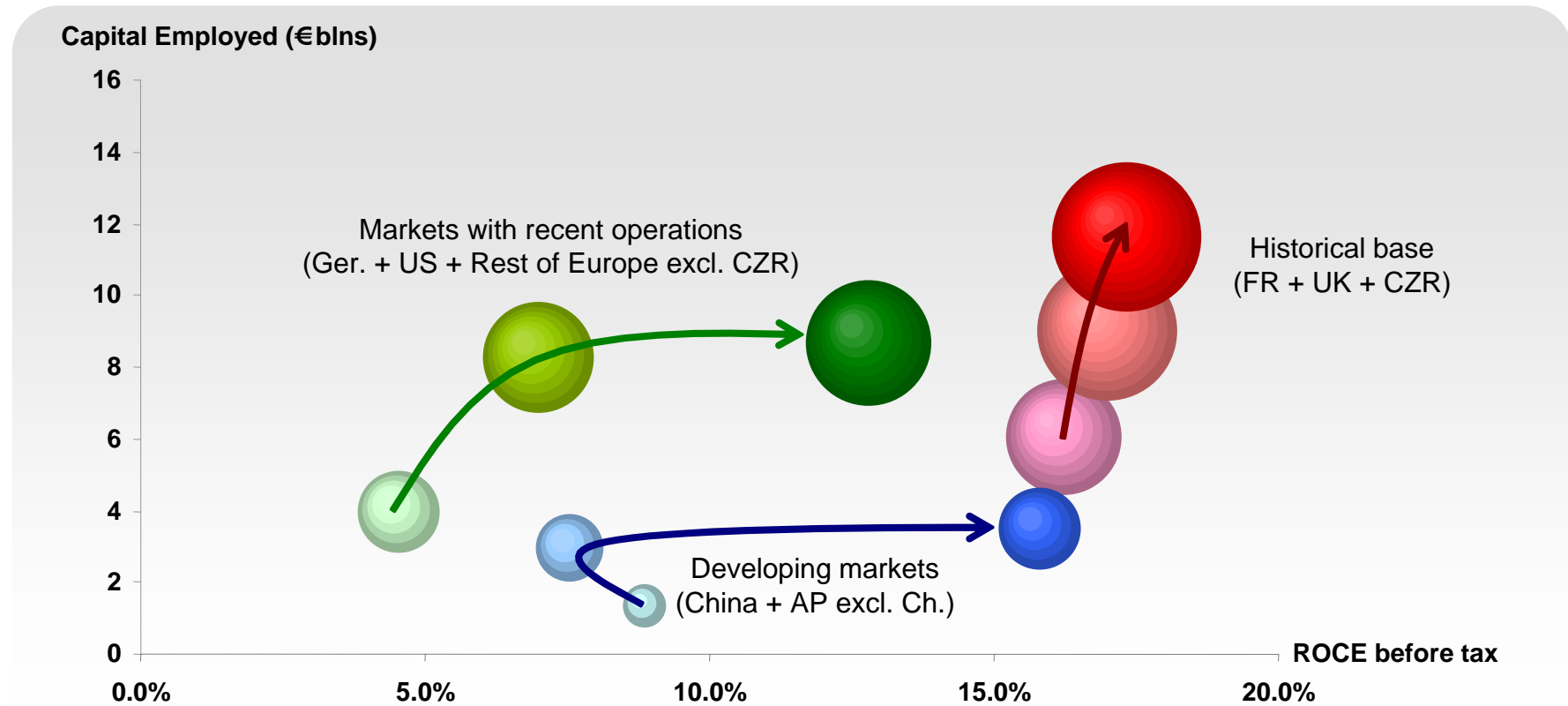
# Target medium-term ROCE before tax

## 3 main categories of operations

- **Historic base in all the Group's business lines**  
**Maintaining high levels of ROCE over the 2008-2014 period**
  - France: maintaining a ROCE of around 18%-20%
  - Czech Republic: maintaining a ROCE of around 16%-18%
  - United Kingdom: increase of around 1% to 12%-14%
- **Mature markets with recent operations for one or several Group business lines**  
**Gain of 2% looking to 2011 and an additional 2% looking to 2014**
  - North America
  - Germany
  - Rest of Europe
- **Developing markets**  
**Gain of at least 3% looking to 2011 and an additional 3% looking to 2014.**
  - Asia Pacific
  - Rest of World



# Trends in ROCE before tax 2004 – 2008 – 2014 for the three main categories of operations



Figures for indicative purpose only



# Action plan 2008 - 2010

## Priority given to improvement in ROCE: 10% net end 2010

### Productivity improvement

Improvement in contribution of recent acquisitions

Implementation of "Efficiency 2010" plan: €400m in full year 2011

### Positive free cash flow<sup>(1)</sup> in 2009

Net investment target 2009: €2 bn to €2.5 bn

Tighter control of new investments and WCR

Acceleration of the asset disposal program

Geographical strengthening of organization to increase generation of commercial synergies

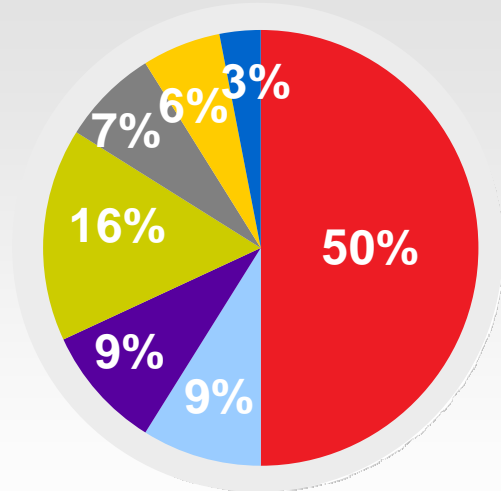
(1) Net of all investments and disposals



# Appendices

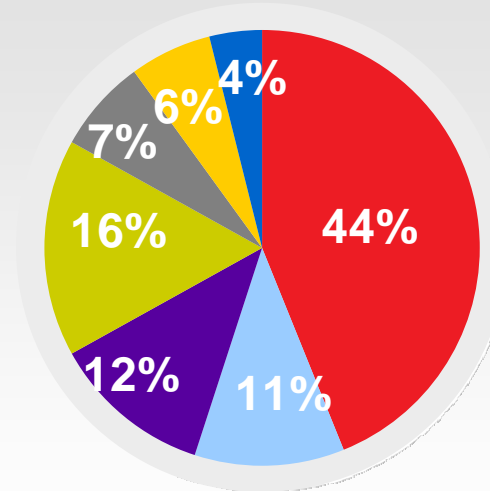
A balanced geographical contribution:  
over 80% of operating cash flow generated in Europe

On December 31, 2005



- France
- Germany
- UK
- North America
- Asia-Pacific

On December 31, 2007



- Rest of Europe
- Rest of World



# Capital employed 2007

In €m	31/12/06	31/12/07
Net tangible & intangible fixed assets	11,644	14,118
Goodwill	5,705	6,913
Investments in associates	241	292
Inventory & Work in progress	732	840
Operating receivables	10,969	12,459
Operating payables	- 11,269	- 12,945
Deferred tax, net	- 149	- 326
Tax on disposal of assets in North America & related restructuring	- 85	- 61
Working capital requirement	198	-33
Net derivative instruments	27	79
Provisions	- 3,023	- 2,964
Other long-term liabilities	-207	-
<b>Capitaux employés</b>	<b>14,585</b>	<b>18,405</b>



# Average capital employed 2007

In €m

31/12/06

31/12/07

Capital employed

14,585

**18,405**

**Average capital employed in 2007**

**16,495**



# Calculation of 2007 ROCE

In €m	31/12/07
<b>Recurring operating income</b>	<b>2,469</b>
Corporate tax	- 420
Tax loss linked to North American disposals & related restructuring	+ 24
Exceptional tax gain from recognition of tax deficits eligible for carryover in the USA	- 11
<b>Total tax expense</b>	<b>- 407</b>
Share of net income of associates	+ 17
Income from financing activities for third parties (revenue from OFA)	- 345
Tax allocated to financing activities for third parties (tax OFA)	+ 63
<b>Net income from operations</b>	<b>1,797</b>



# Calculation of 2007 ROCE

In €m	31/12/07
Net income from operations	1,797
Average capital employed in 2007	16,495
ROCE after tax	10.9%



# Free cash flow before new projects

In €m	2005 adj.	2006	2007
<b>Cash flow from operations<sup>(1)</sup></b>	<b>3,542</b>	<b>3,844</b>	<b>4,219</b>
Principal repayment of operating financial assets	+ 321	+ 438	<b>+ 395</b>
<b>Total cash generation</b>	<b>3,863</b>	<b>4,282</b>	<b>4,614</b>
Maintenance capital expenditures	- 1,212	- 1,411	<b>- 1,590</b>
New operating financial assets	- 513	- 361	<b>- 334</b>
Change in operating WCR	- 39	- 112	<b>- 167</b>
Tax paid	- 339	- 343	<b>- 417</b>
Interest paid	- 739	- 596	<b>- 786</b>
Change in capital reserved to minorities	+ 8	+ 82	<b>+ 206</b>
Growth and current development investments	- 834	- 1,010	<b>- 1,001</b>
Disposal of assets	+ 343	+ 355	<b>+ 366</b>
Others	+ 17	+ 15	<b>+ 15</b>
<b>Free cash flow before new projects</b>	<b>555</b>	<b>901</b>	<b>906</b>

<sup>(1)</sup> Cash flow from operations = EBITDA



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