# Veolia Environnement S.A.

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# Veolia Environnement S.A.

## Major Rating Factors

| Corporate Credit Rating |
| --- |
| BBB+/Negative/A-2 |

**Strengths:**

- Leading position worldwide in water.
- Significant share of stable and recurrent revenues under long-term municipal contracts.
- Recent credit-supportive strategic shift.
- High business and geographic diversification.

**Weaknesses:**

- Pressures on profitability given dip in waste earnings.
- Financial profile at the low end of our expectations for the ratings.
- Limited ability to generate free cash flow.

## Rationale

The ratings on Veolia Environnement S.A. (VE) reflect its leading positions worldwide in water, which represented 45% of consolidated first-half 2009 EBITDA; focus, except in waste, on public sector clients with whom VE derives about 70% of its consolidated sales, generally under long-term contracts providing stable and recurring earnings; and wide-ranging diversity by business, contract, and geography. Also supportive of the ratings is VE's recent shift toward a less capital-intensive and more credit-protective strategy.

The strengths are, however, offset by declining earnings for the group's large and cyclical waste business (27% of first-half 2009 EBITDA). In addition, VE's financial profile, because of weaker earnings and its limited ability to generate free cash flow despite cuts in capital expenditures, is at the weak end of our expectations for the current ratings.

### Key business and profitability developments

VE has been weakened more by the economic downturn than we had expected. Its EBITDA dipped by 7.5% in the first nine months of 2009 given a steep decline at its large waste division (a negative 18% in the first nine months of 2009). The profitability of the more stable water and energy services businesses has, however, held up. Earnings for the much smaller transport business have continued to recover from a low base. The waste business was hit by a decline in industrial waste volumes and the steep drop in recycled commodity prices. The group's expansion in waste, through acquisitions in 2006 and 2007, heightened the negative impact of the earnings decline in this area.

### Key cash flow and capital-structure developments

The group has responded by shifting to a more prudent strategy. Its aims for 2009 are to generate a slightly positive discretionary cash flow, which marks a significant departure for the group. VE is also targeting for EBITDA minus capital expenditures of €2 billion. In addition, it has announced a €3 billion disposal program for 2009-2011, with €1 billion to be completed this year. Moreover, the group is also stepping up its cost-cutting efforts. While it is on track to meet all these objectives, this should not boost its financial profile given the pressures on earnings and cash flow.



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### Short-term credit factors

The 'A-2' short-term rating is supported by VE's satisfactory liquidity, its recent strategic shift, and the visibility that its contractual revenues provide.

VE had about €4.2 billion of immediately available cash as of June 2009, as well as a €4 billion backup line maturing in 2012 (of which €300 million is currently drawn), and €975 million of undrawn committed bilateral lines (of which €400 million mature beyond 2010). None of VE's bank lines contains financial covenants.

Factoring in VE's reduced investments and objective to be slightly discretionary cash flow positive in 2009, the group has substantial liquidity to cover its short-term debt. In June 2009, VE's debt maturing over the next 12 months stood at €3 billion, and the group is likely to renew a significant share (receivable securitizations, commercial paper, bank debt at the level of operating companies).

## Outlook

The negative outlook reflects the uncertainties in our view about VE's ability to improve its financial profile to levels in line with the ratings in the short term, especially coverage of net debt on an adjusted basis at the upper end of the 15%-20% range. This reflects continued pressures on profitability.

A lack of improvement in VE's financial profile would likely lead to a downgrade. Conversely, we could revise the outlook to stable if VE improves and maintains its financial profile at levels commensurate with the current ratings.

## Business Description

VE has four businesses: water (45% of first-half 2009 consolidated EBITDA before central costs of €46 million); waste (27%); energy services (20%); and transport (8%).

## Ratings Methodology

Standard & Poor's Ratings Services considers that debtholders at Veolia S.A., the group's parent company, do not face significant structural subordination under a default scenario. We therefore equalize the rating on VE's long-term senior unsecured debt with the long-term corporate credit rating on the group, reflecting that:

- 85% of the consolidated gross debt (excluding nonrecourse project finance and debt at joint venture subsidiaries, which we do not take into account for this analysis) on June 30, 2009, is at the level of the parent company Veolia S.A.
- 80% of Veolia S.A.'s debt is lent on through documented downstream loans to operating subsidiaries through two funding vehicles, VEES and VENAO, which cover Europe and the U.S., respectively.

## Business Risk Profile: Pressures On Profitability Given Underperformance Of Waste

VE is proving less immune to the economic downturn than we expected as a result of its exposure to waste: Its EBITDA, which in 2008 was only stable at €4.1 billion thanks to a €170 million boost from acquisitions, declined



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by 7.5% in the first nine months of 2009. Management is now targeting full-year EBITDA of €3.9 billion. This underperformance is due to the steep decline in earnings at the large waste division (negative 18% in the first nine months). On the other hand, the profitability of the more stable water and energy services businesses is broadly stable, while earnings for the much smaller transport business are continuing to recover from a low base.

In response VE has implemented a radical shift in its strategy, drastically cutting capital expenditures and stepping up its cost-cutting efforts. However, a significant pickup in the group's earnings depends primarily on a recovery in the waste business, which in turn largely hinges on an improvement in economic conditions. The cut in capital expenditure moreover impairs the group's capacity for growth. This reflects that growth in environmental services is primarily driven by investments.

**Strategy**

VE's business risk profile differs from those of traditional utilities as it seeks to focus, in particular in water, on operating service contracts rather than owning utility infrastructure assets. Such a business model is less capital-intensive but lower margin.

Nonownership of the assets also implies a degree of exposure to price competition at renewal time, and renewal risk. VE's track record, leading positions, and ability to offer a full range of environmental services have, however, helped ensure very high renewal rates. Risks are further mitigated by the group's diversity--with its largest contract representing about 2% of sales--and large number of end-clients. The group has also been historically able to offset the margin pressures stemming from contract renewals.

Despite this focus, VE's capital expenditures are nevertheless sizable. This reflects that the group does not only enter into pure non-capital-intensive operating service contracts. It also enters into more capital-intensive contracts such as the Berlin water contract, in which, besides operating assets, it also builds or upgrades assets on behalf of the local authority, which it then operates. In light of the investments required, such contracts generate higher margins than the pure operating service contracts, but tend to have lower returns on capital employed. VE's capital intensiveness also reflects its dependence for growth on new contracts, which entail capital expenditures.

VE is highly diversified geographically with 60% of sales derived from outside France in the first half of 2009, of which more than half in Europe. It also benefits from the recurrent nature of a significant share of its activities--especially water distribution and treatment, a large share of its energy service activities, in particular the operation of cooling and heating networks, and its transport business--which tend to show little sensitivity to economic cycles. In addition, most contracts have pass-through arrangements for key operating costs albeit with some time lag and not for 100% of costs. VE benefits moreover from long-term contracts and derives about 70% of its sales from inherently stable local authorities: Tenors for municipal contracts generally vary between 12 and 25 years (12 years is the average in France).

The flip side of this diversity is the complexity of VE's business with its diversity of contractual and business models, and high labor intensity. At the end of 2008, the group had more than 336,000 employees, compared with 215,000 in 2000.

Despite these strengths, VE has been hurt by the economic downturn, especially its waste business, which is cyclical because it derives about 60% of its sales from industrial clients. VE's waste business was hit by a decline in industrial waste volumes. In addition, the waste division's recycling businesses were hurt by the drop in recycled commodities prices, especially paper and steel starting in the last quarter of 2008.



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The negative impact on VE of the decline in the waste division earnings were exacerbated by the group's expansion in this area, with the acquisitions of Cleanaway in the U.K., Sulo in Germany, and TMT in Italy in 2006-2007. Plus, VE has encountered operational issues at Sulo and to a lesser extent at TMT.

In response, VE is stepping up its cost-cutting efforts. It is now aiming for €440 million of savings by 2010, up from €400 million initially, on top of the €100 million of savings it is targeting for in the waste division this year. Given the nature of VE's clients, in particular its large share of public clients with whom productivity gains must be shared, it is uncertain how much of these savings will actually boost VE's earnings.

More significantly, VE has announced a substantial shift since early 2009 toward a less capital-intensive and therefore more credit-protective strategy. It is aiming and is on track to be discretionary cash flow positive in 2009. The group has drastically cut net capital expenditures, aiming to post EBITDA minus capital expenditures of €2 billion. This entails only about €2 billion of net capital expenditures in 2009, down from €3.6 billion in 2008 and €6 billion in 2007. These net capital expenditures correspond to about €3 billion of capital expenditures and €1 billion of disposals, of which the group had completed €0.7 billion on Sept. 30, 2009. Given VE's lack of financial flexibility, we do not believe that the appointment of Mr. Frérot as CEO in place of Mr. Proglio, who has become chairman, will alter this strategy.

Besides disposals, management is looking at the following transactions, which, if completed, could have some positive credit impact:

VE has entered into negotiations to merge its transport arm with Transdev, the transport subsidiary of state-owned bank Caisse des Dépôts et Consignations (CDC, AAA/Stable/A-1+). The enlarged company would be owned 50/50 by VE and CDC but fully consolidated by the former as it will manage it. The ultimate aim is to list a minority stake in the enlarged transport company possibly as early as 2010.

VE could also acquire the stake that Electricité de France S.A. (EDF; A+/Stable/A-1) holds in energy services company Dalkia. Dalkia is managed and consolidated by VE, which owns 66% of the company, with the remaining 34% held by EDF. In turn, Dalkia fully owns Dalkia France, as well as 76% of Dalkia International, which focuses largely on Europe (Italy, Eastern Europe, and the U.K.). EDF owns the remaining 24% of Dalkia International. Such a transaction, if completed, would have a slightly positive impact on VE's credit measures. This reflects that VE only proportionally consolidates Dalkia International's earnings and cash flow while it supports close to 100% of the debt because EDF did not participate in the funding of recent acquisitions.

### Water

VE's water business is the group's largest and its strongest by far because about 80% of sales are made under long-term contracts with stable municipal clients, and water consumption and demand are not cyclical. Moreover about 75% of divisional EBITDA is derived from Europe. That said, demand tends to decline by about 1% to 2% a year in developed markets as companies and households seek to better control their consumption. Moreover, demand shifts according to weather.

VE is the largest player in France in both water distribution and wastewater treatment, with market shares of about 39% and 28%, respectively. The French business is the division's largest earnings contributor by far (about 40% of divisional earnings). It is also the division's most profitable business in terms of returns on capital employed. This reflects the maturity of VE's domestic water business and its limited capital intensity in France where it primarily operates under favorable long-term (11 years on average) operations and maintenance (O&M) "affermage"



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contracts. Under such contracts, VE runs assets owned and financed by local authorities, and collects a tariff from customers. All contracts include automatic indexation clauses for the main variable costs.

Although contract renewal tends to result in significant operating margin declines, the French water business has managed to improve margins steadily in recent years thanks to additional services and constant productivity improvements in existing contracts.

Abroad, VE has strong positions in Europe excluding France (about 30% of divisional earnings), in particular Central and Eastern Europe. It is also well-established in Asia-Pacific, especially Australia, South Korea, and China, as well as in the Middle East, Africa, India, and the Americas. VE's water contracts abroad tend to be more capital-intensive although it does have some O&M contracts. In the U.S., it generally functions under design, build, and operate contracts, in which the public authority concerned assumes the financing of the required infrastructure, with VE in charge of operations, maintenance, repairs, and customer service--and usually benefiting from take-or-pay (TOP) arrangements. VE also operates under build, operate, and transfer contracts in Brussels, The Hague, and Chengdu in China, where it both finances the infrastructure and benefits from TOP contracts. The group also wholly owns Veolia Water Central Ltd. (A-/Watch Negative/--), formerly Three Valleys Water PLC, a water-only company covering the southeast U.K. and some parts of north London. As is customary in the U.K., Veolia Water Central owns the infrastructure and operating assets it uses, with no time limit.

VE is also the largest player worldwide in the construction of water treatment plants. The strong growth experienced by this business in recent years is slowing down following the commissioning of large projects abroad and the decline in the demand from industrial customers. Its like-for-like sales growth declined to 4.2% in the first nine months of 2009 from 12.7% in the first half. The construction business complements well and opens up opportunities for VE's core water distribution and treatment operations. As a construction business, it is, however, more cyclical and exposed to cost overruns. It is also low margin, reflecting that it does not require any capital employed.

Organic sales growth in water has slowed down to 0.9% in the first nine months of 2009 from 3% in the first half largely as a result of the slowdown in the construction of water treatment plants. We expect EBITDA for the water business to be broadly stable in 2009 (versus 0.6% growth in the first half). It benefits from cost cutting and some tariff increases, which are, however, offset by lower volumes in Europe and the lower contribution of the construction of water treatment plants business.

### Waste

VE is the world's second-largest waste management company but the most diversified by geography. It is the leading player in France (36% of 2008 divisional sales) with an about 30% market share, the U.K. (16%) where it operates a number of large integrated PFI or Private Finance Initiative contracts, and Germany (11%), following the acquisition of Sulo. It is also No.3 in the U.S., where it mainly serves industrial customers and has strong positions in industrial services, hazardous waste treatment, and waste-to-energy. The division is integrated and covers all stages of waste management, including collecting, sorting, recycling/recovery, and final disposal. It also covers all types of waste from municipal waste to industrial and commercial waste as well as hazardous waste. It is, however, the group's division most exposed to more cyclical industrial and commercial clients, which account for about 60% of its sales, with the balance derived from municipalities. Contracts in waste are moreover generally much shorter than they are in water, except when significant investments are required.

The low point in terms of the waste division's earnings appears to have been reached in the first half of 2009.



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Divisional EBITDA was down 23% in the first half but only down 8.5% in the third quarter. This reflects some stabilization of market conditions at a low point, however, as well as a slight recovery in the price of recycled commodities--especially paper and cardboard. The division has also started to benefit from its cost-cutting efforts. Further recovery in the division's earnings is likely to be gradual.

In the medium term, the waste business benefits from strong growth potential because of favorable global trends such as tighter regulation, the emphasis on recycling given growing scarcity, and the higher price of natural resources. It will, however, remain a cyclical business given the large share of sales generated with the private sector, in particular industrials.

### Energy services

Dalkia's main businesses are to manage the energy demand of its customers with a view of achieving energy savings; operate heating and cooling networks; and to a lesser extent generate local power, essentially from renewable sources, in particular biomass. It should continue to benefit from the growing demand for energy savings given high prices and growing carbon constraints.

Dalkia derives about a quarter of its sales from operating heating and cooling networks, an activity where it ranks No. 1 in Europe, especially Eastern Europe, with about a 30% share of the outsourced market. With the acquisition of TNAI, the company is now also a leading player in the U.S. This business is seasonal, with higher earnings in the first half of the year when heating requirements are at their highest. As a by-product of this activity, Dalkia operates co-generation plants, i.e. plants generating both power and heat, with an overall capacity of 4,300 megawatts (MW). About half of this capacity is in France where its output is sold to EDF under a 12-year contract at guaranteed prices. The balance is in Eastern Europe where it is exposed to some market risk.

Dalkia derived another about 20% of its sales from local authorities, serving municipal facilities but also housing estates. It is very well-established in this sector in France and Italy, which are the two countries where such activities are the most outsourced. Another about 25% of sales stems from industrial clients. In this activity, Dalkia is the leading player in France and the U.K. and has a growing presence in Eastern Europe. The company also has a large activity with hospitals. In this area, Dalkia is the leading player in France and Italy and is expanding worldwide. The company provides all these customers with energy management services (heating, sanitary hot water, air conditioning), but also maintenance as well as facilities management services.

Dalkia's contracts are well spread out, with the largest representing annual sales of €5 million, compared with divisional sales of close to €7.4 billion in 2008. Their length and profitability varies considerably depending on the service provided and the investment required.

As a result of this diversity by client and contract and the utility-like features of a significant share of its activities, Dalkia is only affected to a limited degree by the economic downturn, with negative organic sales evolution of 0.3% and EBITDA down slightly in the first nine months of 2009 (it was down 2.2% in the first half).

### Transport

The transport division covers passenger bus and rail services regulated by local authorities for urban, intercity, and regional transport. It is present in France (38% of 2008 divisional sales) and Europe, especially northern Europe (38%), and has recently expanded in the U.S. and Australia. About 90% of sales are derived from public customers under long operating contracts. Fares often do not fully cover operating costs, and so Veolia Transport is paid a contracted amount by the public authority. Veolia Transport is generally not exposed to traffic risk. It does not



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usually own or maintain the infrastructure it uses, so this business is not capital-intensive.

VE considers that the transport business is complementary to its other operations. This reflects that transport is often the first service local authorities are prepared to outsource to private operators. It therefore provides the group with a foothold for the proposition of other services.

Transport is proving resilient in 2009, with organic turnover growth over the first nine months of 1.3% stemming from both the French and the international operations. The division's EBITDA, which had risen by 5.7% in 2008, is growing further in 2009 (it was up by 12.4% in the first half). The improvement in profitability is driven by the division's strategy of focusing on key markets (France, the U.S., and Northern Europe), tackling unprofitable contracts abroad (the division still derives the bulk of its earnings from France), and cost savings.

## Financial Risk Profile

Despite its shift toward a more conservative strategy, the ongoing pressures on VE's profitability mean its financial profile is likely to continue to be at the low end of our expectations for the current ratings at the end of 2009. To sustain the ratings VE needs to improve its financial profile in the short term and in particular achieve FFO coverage of net debt on an adjusted basis at the upper end of the 15%-20% range.

### Accounting

**Table 1**

| Reconciliation Of Veolia Environnement S.A. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. €)* | | | | |
|---|---|---|---|---|
| | --Fiscal year ended Dec. 31, 2008-- | | | |
| **Veolia Environnement S.A. reported amounts** | | | | |
| | **Debt** | **Operating income (before D&A)** | **Interest expense** | **Cash flow from operations** |
| Reported | 20,749.3 | 4,321.0 | 1,039.4 | 3,750.0 |
| **Standard & Poor's adjustments** | | | | |
| Operating leases | 2,023.8 | 112.9 | 112.9 | 427.1 |
| Postretirement benefit obligations | 430.7 | 3.1 | 18.1 | 3.6 |
| Surplus cash and near cash investments | (3,169.6) | -- | -- | -- |
| Asset retirement obligations | 382.9 | -- | 39.0 | 1.6 |
| Reclassification of nonoperating income (expenses) | -- | -- | -- | -- |
| Reclassification of interest, dividend, and tax cash flows | -- | -- | -- | (831.8) |
| Reclassification of working-capital cash flow changes | -- | -- | -- | 80.9 |
| Minority interests | -- | -- | -- | -- |
| Other | (371.5) | (439.2) | -- | (32.1) |
| Total adjustments | (703.7) | (323.2) | 170.0 | (350.7) |
| **Standard & Poor's adjusted amounts** | | | | |
| | **Debt** | **EBITDA** | **Interest expense** | **Funds from operations** |
| Adjusted | 20,045.6 | 3,997.8 | 1,209.4 | 3,399.3 |



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**Table 1**

| Reconciliation Of Veolia Environnement S.A. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. €)* (cont.) |
| --- |
| *Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. |

VE reports under IFRS, and since 2005 has been applying the IFRIC 4 interpretation, which applies to nonconcession contracts, and since 2006 the IFRIC 12 interpretations relative to concession accounting. As a result of these interpretations, VE classifies a number of its contracts as financial operating assets (€5.8 billion as of the end of 2008). This concerns contracts where, besides being an operator, VE builds/upgrades and finances on behalf of local authorities the necessary assets, which it then usually operates. Under such contracts, VE has a long-term financial receivable to local authorities. The group finances up to 80% or 90% of these long-term receivables through debt, generally on a nonrecourse or a project-finance basis. The financial debt financing these assets is, however, fully consolidated in the group's accounts, reflecting that VE is the sole or majority shareholder of the structures raising the debt.

In other words, VE has a quasi-banking activity for its more capital-intensive contracts, which it currently finances on balance sheet. As long as the financing of receivables remains on balance sheet, we intend to add back to VE's funds from operations (FFO) the principal repayments for these operating financial assets (€358 million in 2008). Under IFRS, the principal repayments appear in the cash flow statement but below the FFO line, in the investment section. These repayments are relatively small compared to VE's FFO, even though the overall capital employed at €5.8 billion is large, reflecting that the group's core business is indeed operating service contracts, which involve managing assets owned and funded by a grantor.

To calculate VE's debt ratios, Standard & Poor's adds to VE's reported debt capitalized operating leases (€2 billion), postretirement benefit obligations (€431 million), and decommissioning liabilities for landfills (€383 million) and adjusts cash for restricted amounts (€680 million at the end of 2008). We also adjust VE's debt for fair value hedges. Accordingly, we reduced the group's debt by €371.5 million in 2008.

Standard & Poor's also adjusts EBITDA and FFO for renewal expenditure. Although Veolia's accounts show annual renewal charges of €390.3 million in 2008 as a depreciation charge after EBITDA in the profit and loss and as a capital expenditure in the cash flow statement, we treat them as operating expenditures. They are, therefore, subtracted from EBITDA and FFO. This reflects the status of renewal charges as recurrent cash costs, which are not specifically remunerated but are part of the initial tendering conditions, in particular for contracts or concessions that do not require a large upfront payment.

We also adjust EBITDA for exceptional capital gains on the sale of assets (€49.8 million in 2008).

In addition, as detailed above, we add back to VE's FFO the principal repayments of operating financial assets (€358 million in 2008).

### Corporate governance/Risk tolerance/Financial policies

VE's financial profile was at the low end of our expectations for the ratings in 2008 as a result of the combination of higher debt and lower-than-expected earnings, with FFO coverage of net debt on an adjusted basis of 17%. VE's EBITDA was stable in 2008 despite the contribution from acquisitions made in 2007, while reported net debt rose by €1.4 billion to €16.5 billion. The increase in debt resulted from still substantial gross capital expenditures of €4.7



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billion and €753 million of dividends, which were only partly offset by higher disposals of €761 million.

We do not believe that VE's financial profile will improve this year given the pressures on its earnings and our expectation of a broadly stable debt despite the steep reduction in the group's capital expenditures.

To sustain the ratings, VE needs to improve its financial profile in the short term and in particular achieve FFO coverage of net debt on an adjusted basis at the upper end of the 15%-20% range.

VE's shift toward a credit-supportive strategic shift highlights its commitment to its current ratings. The group's aim to generate a slightly positive discretionary cash flow in 2009 marks a radical departure from recent years in which VE was systematically significantly discretionary cash flow negative as a result of its high growth investments and generous dividend policy. VE's negative discretionary cash flow amounted to €1.4 billion in 2008, €450 million (after a €2.6 billion equity issue) in 2007 and €850 million in 2006.

VE is also aiming for EBITDA minus capital expenditures to represent €2 billion in 2009. It has also announced a €3 billion disposal program spread until 2011, of which €1 billion to be completed by year-end. The group is on track to meet all these objectives but this should not boost its financial profile given the pressures on its earnings and cash flow.

### Cash flow adequacy

In order to be discretionary cash flow positive in 2009, VE has drastically cut capital expenditures which over the full year are likely to represent about €3 billion (€2.3 billion over the first nine months) on a gross basis and be offset by €1 billion of disposals (€0.7 billion completed over the first nine months). VE has also offered its shareholders a scrip dividend whose take-up has been significant. As a result, the dividend outflow declined to €402 million in the first half of 2009 from €726 million in the first half of 2008.

Despite these efforts, we consider that it is likely that VE's net debt will remain stable. This highlights one of the group's key weaknesses--its limited ability to generate free cash flow. This is inherent to the environmental services sector and reflects maintenance capital expenditures of about 5% of sales and the sector's dependence on capital expenditures for growth.

### Capital structure/Asset protection

VE's prudent liquidity management is a key financial strength. The group has further extended its maturities and increased its liquidity by issuing €2.250 billion of bonds in the first half of 2009 versus only €44 million of redemptions.

**Table 2**

**Veolia Environnement S.A. -- Financial Summary***

**Industry Sector: Utility Company**

| | --Fiscal year ended Dec. 31-- | | | |
|---|---|---|---|---|
| | **2008** | **2007** | **2006** | **2005** |
| Rating history | **BBB+/Stable/A-2** | **BBB+/Stable/A-2** | **BBB+/Stable/A-2** | **BBB+/Stable/A-2** |
| **(Mil. €)** | | | | |
| Revenues | 36,205.5 | 32,628.2 | 28,620.4 | 25,570.4 |
| Funds from operations (FFO) | 3,399.3 | 3,499.7 | 3,356.2 | 2,616.6 |
| Capital expenditures | 3,492.9 | 2,937.3 | 2,495.2 | 2,133.9 |



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**Table 2**

| Veolia Environnement S.A. -- Financial Summary* (cont.) | | | | |
|---|---|---|---|---|
| Debt | 20,045.6 | 18,271.3 | 17,689.7 | 16,733.2 |
| Equity | 9,531.7 | 10,190.7 | 6,553.4 | 5,693.5 |
| Debt and equity | 29,577.3 | 28,462.0 | 24,243.1 | 22,426.7 |
| **Adjusted ratios** | | | | |
| FFO int. cov. (x) | 3.3 | 3.5 | 4.0 | 3.5 |
| FFO/debt (%) | 17.0 | 19.2 | 19.0 | 15.6 |
| Discretionary cash flow/debt (%) | (4.6) | (0.9) | 1.5 | 0.4 |
| Debt/debt and equity (%) | 67.8 | 64.2 | 73.0 | 74.6 |
| Return on common equity (%) | 3.0 | 15.9 | 18.6 | 17.7 |

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt.

**Table 3**

**Veolia Environnement S.A. -- Peer Comparison***

**Industry Sector: Utility Company**

| | Veolia Environnement S.A. | GDF SUEZ S.A. | VINCI S.A. | Sociedad General de Aguas de Barcelona S.A. |
|---|---|---|---|---|
| Ratings as of Jan. 4, 2010 | BBB+/Negative/A-2 | A/Positive/A-1 | BBB+/Stable/A-2 | A/Watch Neg/A-1 |
| | --Fiscal year ended Dec. 31, 2008-- | | | |
| **(Mil. €)** | | | | |
| Revenues | 36,205.5 | 75,066.0 | 34,055.6 | 2,950.5 |
| Net income from cont. oper. | 220.9 | 4,462.0 | 1,591.4 | 235.3 |
| Funds from operations (FFO) | 3,399.3 | 9,052.4 | 3,626.0 | 514.4 |
| Capital expenditures | 3,492.9 | 9,816.7 | 2,404.2 | 342.4 |
| Debt | 20,045.6 | 36,785.0 | 18,011.7 | 1,488.6 |
| Equity | 9,531.7 | 63,114.7 | 8,657.7 | 2,701.6 |
| **Adjusted ratios** | | | | |
| Oper. income (bef. D&A)/revenues (%) | 12.2 | 16.3 | 15.4 | 22.0 |
| EBITDA interest coverage (x) | 3.3 | 6.9 | 4.6 | 3.7 |
| Return on capital (%) | 7.0 | 9.4 | 12.1 | 12.8 |
| FFO/debt (%) | 17.0 | 24.6 | 20.1 | 34.6 |
| Debt/EBITDA (x) | 5.0 | 3.0 | 3.5 | 2.4 |

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt.

| **Ratings Detail** (As Of January 4, 2010)* | |
|---|---|
| **Veolia Environnement S.A.** | |
| Corporate Credit Rating | BBB+/Negative/A-2 |
| Commercial Paper | |
| *Local Currency* | A-2 |
| Senior Unsecured (18 Issues) | BBB+ |
| Short-Term Debt (1 Issue) | A-2 |
| **Corporate Credit Ratings History** | |
| 25-Mar-2009 | BBB+/Negative/A-2 |



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| **Ratings Detail** (As Of January 4, 2010)***(cont.)** | |
|---|---|
| 09-Mar-2004 | BBB+/Stable/A-2 |
| 06-May-2003 | BBB+/Positive/A-2 |
| **Business Risk Profile** | Strong |
| **Financial Risk Profile** | Significant |
| **Debt Maturities** | |
| On Dec. 31, 2008:<br>2009: €3.6 bil.<br>2010 and 2011: €1.5 bil.<br>2012 to 2013: €4.66 bil.<br>2014 and beyond: €10.9 bil. | |
| **Related Entities** | |
| **Metropolitan Biosolids Management LLC** | |
| Senior Secured (1 Issue) | BBB+/Negative |
| **Veolia Water Central Ltd.** | |
| Issuer Credit Rating | A-/Watch Neg/-- |
| Senior Unsecured (1 Issue) | A-/Watch Neg |

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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