

October 1, 2007

Veolia Environnement S.A.

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Veolia Environnement S.A.

Major Rating Factors

Strengths:

- Stable and recurrent revenues under long-term municipal contracts
- About one-half of earnings derived from stable and resilient water business
- High business and geographic diversification
- Top-tier market positions

Weaknesses:

- Exposure to price competition at contract renewal time and renewal risk at maturity given limited infrastructure ownership
- Exposure to more volatile industrial clients
- Moderate financial profile
- Greater appetite for external growth

Corporate Credit Rating

BBB+/Stable/A-2

Rationale

The ratings on France-based environmental services group Veolia Environnement S.A. (VE) are underpinned by its leading positions worldwide in water utility and waste management activities, and its strong European presence in energy services. VE benefits from diversified and recurring revenues under long-term municipal concessions, and shorter term industrial outsourcing contracts.

These strengths are tempered by a focus on shareholder value and the group's moderate financial policy, given its focus on growth and the entailed large investment program of €15 billion-€20 billion between 2007 and 2009, including midsize acquisitions. The €2.6 billion capital increase completed in July 2007 has, however, restored the group's financial flexibility following a string of acquisitions.

In addition, as a result of its focus on operating service contracts rather than on owning assets, VE is exposed to a degree of price competition at renewal time and renewal risk at contract maturity.

The group is very diversified by contract and by business. It has leading positions in water (44% of first-half 2007 consolidated EBIT before central costs of €26 million), waste (30%); energy services (20%); and transport (6%). It is also very diversified geographically, with 55% of sales generated outside France in the first half of 2007, notably in the rest of Europe as well as the U.S. and the Asia-Pacific region.

VE continued to perform strongly in first-half 2007, with 9.5% growth at constant exchange rates in recurring EBIT. The group is now targeting growth in sales and EBIT of more than 12% for the full year. VE's profitability should continue to benefit from its sales growth, the maturing of the contracts signed in recent years, a focus on less capital-intensive contracts, the full impact of recently completed acquisitions, ongoing productivity improvements, and the expected recovery in earnings of the transport business.

VE's financial profile is moderate, reflecting the group's focus on growth and shareholder value. Funds from operations (FFO) coverage of adjusted net debt was 19.3% in 2006. The recently completed €2.6 billion capital

increase demonstrates, however, the group's commitment to maintaining a financial profile in line with current ratings and its internal target of unadjusted debt to EBITDA plus repayment of financial receivables of 3.5x-4x. The proceeds of this capital increase will not boost the group's debt measures, however, given VE's investment program, including midsize acquisitions of €15 billion-€20 billion between 2007 and 2009.

Short-term credit factors

The 'A-2' short-term rating is underpinned by the strong visibility provided by VE's contractual revenues, and by the group's satisfactory liquidity. VE had about €3 billion of immediately available cash at the end of June 2007, as well as a seven-year undrawn €4 billion back-up line put in place in 2005, and €1,075 million of undrawn committed bilateral lines, none of which contain financial covenants. These more than covered the group's €4.7 billion of short-term debt at the end of June 2007, of which €1.4 billion was CP outstanding.

VE has spread out its debt maturities, and therefore has limited maturities between 2008 and 2015.

Outlook

The stable outlook is underpinned by the good visibility provided by VE's contractual revenues. It also reflects that based on expected continued growth in earnings and cash flows and the recent €2.6 billion capital increase. VE has the flexibility within the 'BBB+' rating for its substantial investment program, including some midsize acquisitions. To sustain the ratings, VE must maintain FFO coverage of adjusted net debt at 15%-20%, but it cannot remain for too long at the lower end of that range. The ratings will come under pressure if VE's financial profile remains at or falls below the lower end of that range.

Although VE's business profile could sustain a higher rating, the group's growth strategy and shareholder focus, which make a significant improvement in its financial profile unlikely, mean that there is limited upside rating potential.

Business Description

VE has four businesses: water (44% of first-half 2007 consolidated EBIT before central costs of €26 million), waste (30%); energy services (20%); and transport (6%).

Ratings Methodology

Standard & Poor's Ratings Services no longer considers that debt holders at Veolia S.A., the group's parent company, face significant structural subordination under a default scenario. The rating on VE's long-term senior unsecured debt has therefore been equalized with the corporate credit rating on the group.

The upgrade of the unsecured debt ratings reflects that:

- VE group has significantly reduced financial debt (excluding nonrecourse project finance and joint venture subsidiaries, which are not taken into account for this analysis) at the operating company level, to €2.7 billion in 2006 from €4 billion in 2004.
- Moreover, 70% of the financial debt of Veolia S.A.'s debt is lent on through documented downstream loans to its

subsidiaries. Although some of these subsidiaries are intermediate holding companies, Veolia S.A. is likely to increase the share of downstream loans to operating companies. What is more, the water intermediate holding company, which receives the most downstream loans, has some operating activity, and all intermediate holdings lend on to operating companies a significant share of the downstream loans received from Veolia S.A.

- We now understand that the financial assets that VE is considering securitizing will be initially relatively limited, and that such assets are essentially nonrecourse project finance and joint venture subsidiaries that are not taken into account for this analysis. In a nutshell, we believe that VE's plans in this respect are unlikely to significantly dent the group's asset base available to parent company creditors.

Business Risk Profile

Strategy

VE's business risk profile differs from those of traditional utilities as it focuses on operating service contracts rather than owning utility infrastructure assets. Although such a business model is less capital intensive than traditional utility activities, it is also lower margin.

Nonownership of the assets 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.

The credit strength of VE's business risk profile is underpinned by the recurrent nature of revenues under contract, which show little sensitivity to economic cycles. In addition, most contracts have pass-through arrangements for key operating costs. Tenors for municipal contracts, which account for 68% of VE's sales, generally vary between 12 and 25 years (12 years is the average in France). At the same time, VE holds a substantial and growing amount of relatively higher risk and shorter tenor contracts with industrial customers (32% of sales), notably in waste and energy services. VE's French contracts, most of which were renewed or signed in the early 1990s and have long tenors, have maturities spread between 2010 and 2020. The group's international contracts tend to have maturities spread between 2020 and 2030, reflecting that VE has expanded in earnest abroad more recently than in France. Thanks to its long-term contracts, at the end of 2006 VE had a backlog corresponding to 12 years of turnover.

Following a solid first half and recently announced acquisitions, Veolia has raised its sales and EBIT growth objectives for 2007 to 12%. Its objective for 2007-2009 is to grow sales by more than 10% per year by capitalizing on the growing worldwide trend of outsourcing environmental services. Although VE's organic growth remains strong, the group has an increased appetite for more risky external growth. Following the acquisition of U.K. waste operator Cleanaway for an enterprise value of €859 million in 2006, it has announced a string of purchases in 2007, especially those of:

- The German No. 2 waste management operator, Sulo, for an enterprise value of €1.3 billion;
- Italian waste-to-energy operator TMT for an enterprise value of €338 million (of which 25% will only be paid in 2011/2012);
- Thermal North America Inc. (TNAI), a leading U.S. heating and cooling system operator, for an enterprise value of \$788 million; and
- Unregulated U.K. water businesses from the Thames Water group for an enterprise value of €136 million.

In terms of geography, the group derived 54% of its sales outside of France in the first half of 2007, up from 52% in the same period of 2006. Besides France and Western Europe, VE is targeting new entrants to the EU in Central and Eastern Europe as well as the Asian markets, especially China, and large markets such as the U.S., where the outsourcing of environmental services is currently limited but likely to grow.

VE's profitability and return on capital should continue to benefit from its sales growth, the maturing of the contracts signed in recent years, a focus on less capital-intensive contracts, the full impact of recently completed acquisitions, ongoing productivity improvements, and the expected recovery in earnings of the transport business.

Although it prefers to focus on operating service contracts, VE's business model is less capital intensive than those of traditional asset-owning utilities. VE's capital expenditures are nevertheless sizable. This reflects that VE has ambitious growth targets but also that it 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 and/or upgrades assets on the behalf of the local authority, which it will then operate. In light of the investments required, such contracts generate higher margins than the pure operating service contracts, but their return on capital tends to be lower. VE currently finances entirely on its balance sheet the investments entailed by these contracts.

The group's maintenance capital expenditures rose to €742 million in first-half 2007, from €550 million in first-half 2006. Capital expenditures for growth represented €973 million in first-half 2007, versus €815 million in the same period the year before. For the full year, taking in account both capital expenditures and acquisitions, VE's investments net of disposals are set to amount to €6 billion-€6.5 billion. Between 2007 and 2009, VE's overall investments are likely to represent €15 billion-€20 billion, in other words €5 billion--€6.6 billion a year, compared with about €3.5 billion-€4 billion in previous years.

VE's businesses are highly labor intensive. Combined with the group's growing geographic dispersion, this could at some point constrain growth. In 2006, the group had more than 298,000 employees, compared with 215,000 in 2000.

Water

VE's water business, which is the group's largest, is its strongest by far, as the bulk of sales are made under long-term contracts with stable municipal clients and water consumption and demand are inherently stable.

VE's French water subsidiary, Compagnie Générale des Eaux (47% of divisional sales in first-half 2007), is the largest player in France in both water distribution and wastewater treatment, with market shares of about 40% and about 30%, respectively. It operates in France primarily under favorable long-term "affermage" contracts, under which it runs facilities owned and financed by local authorities, and collects a tariff from customers. All contracts include automatic indexation clauses for the main variable costs.

In the mature French market, Compagnie Générale des Eaux achieved organic sales growth of 3.9% in the first half of 2007, mainly thanks to a continued strong increase in its services and works activities.

VE's international water business continues to grow rapidly, with 11.5% organic sales growth in the first half of 2007 driven by European operations (5.4% growth), and even more so by those in Africa and the Middle East (more than 20% growth) and Asia, where sales growth was 50% thanks to new contracts in China in particular.

VE's water contracts abroad tend to be more capital intensive. 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, in which it both finances the infrastructure and benefits from TOP contracts. The group also fully owns Three Valleys Water PLC (A-/Stable/--), a water-only company covering the southeast U.K. and some parts of north London. As is customary in the U.K., Three Valleys 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 through Veolia Water Solutions & Technologies, whose profitability has improved markedly in recent years owing to greater contract selectivity. This activity remains low margin and, as a result of its construction focus to cost overruns, exposed. It complements well, however, the group's core water distribution and treatment operations.

The water division maintained a solid recurring EBIT margin of 11% in the first half of 2007, reflecting some sales growth and cost cutting in France; improved contributions from international operations; and the improvement in Veolia Water Systems' profitability. About two-thirds of divisional earnings are generated outside France, which primarily reflects the limited capital intensity of French water contracts.

Waste

VE is the world's second-largest waste management company. It is integrated and covers all stages of waste management, including collecting, sorting, recycling, disposal, and final treatment of hazardous and nonhazardous waste. This division generates more than 60% of its sales with more volatile industrial clients, and the balance with municipalities. Except for incinerators, contracts in waste are generally much shorter than they are in water.

In Europe, the company is more focused on the more stable but lower margin municipal market. VE is the leading operator in France (39% of divisional sales in first-half 2007) with a market share of about 30%, and is well established in a number of other European markets, especially the U.K., where the group has doubled in size with the acquisition of Cleanaway, and where it is the operator for a number of large integrated contracts. The company also has a profitable and large U.S. business, which mainly serves industrial customers and has strong positions in industrial services, hazardous waste treatment and waste-to-energy.

The French operations enjoyed a strong first half in 2007, with organic sales growth of 5.8% driven by an increase in volumes collected and processed. Combined with productivity gains, this resulted in improved earnings. Growth continued to be strong abroad in the first half of 2007, with organic sales growth of 8.7% driven largely by the U.K. operations (11.1% organic growth). The increase in the division's recurring EBIT margin in the first half of 2007 to 9.3%, from 8.7% in the same period of 2006, was driven by the solid performance of the French operations, the integration of Cleanaway, and the full impact of the Sheffield and Nottinghamshire contracts in the U.K., as well as the higher contributions of the other European operations and of the large U.S. industrial business. The integration of recently completed acquisitions, the division's well-established position in landfills, and its increasing focus on higher value-added activities such as recycling or the growing waste-to-energy segment, should support its profitability in coming years.

Energy services

VE is involved in energy services through Dalkia, in partnership with Electricité de France S.A. (EDF; AA-/Negative/A-1+). VE owns 66% of Dalkia, with the remaining 34% held by EDF. In turn, Dalkia fully owns Dalkia France, a subsidiary that covers the French operations (56% of divisional sales in first-half 2007), as well as

76% of Dalkia International, which focuses largely on Europe (Italy, U.K., and Eastern Europe). EDF owns the remaining 24% of Dalkia International.

Dalkia's main business is the management of networks and the installation of heating and cooling systems, with a view to optimizing energy use by releasing all possible outputs of the energy conversion process, especially heat and steam. Dalkia does not usually own the systems it operates. Dalkia is a seasonal business with higher earnings in the first half of the year, during which heating requirements are at their highest.

The company also operates electricity generation facilities. In particular, it is the leader in cogeneration in France, where its output is sold to EDF under a 12-year contract, reviewed in 2005 to take in account steep increases in gas prices. Dalkia also provides energy management services (heating, sanitary hot water, and air conditioning) to public and industrial customers, and industrial services (maintenance).

Dalkia was affected in the first half of 2007 by the very mild winter, which had a €39 million impact on its EBIT, resulting in a recurring EBIT margin down to 7.6% in the period from 8.2% in the same period of 2006. This was mitigated outside France by new contracts and price increases in the key Eastern and Central European markets.

Transport

The transport division covers passenger bus and rail services for urban, intercity, and regional transport. It is present in France (39% of divisional sales in first-half 2007) and northern Europe, and has recently expanded in the U.S. and Australia. About 90% of sales are derived from public customers under long operating contracts. Veolia Transport is generally not exposed to traffic risk. It does not usually own or maintain the infrastructure it uses, so this business is not capital intensive.

Fares often do not fully cover operating costs, and so Veolia Transport is paid a contracted amount by the public authority in question, and seeks to improve profitability by cutting costs.

Although the profitability of the transport division is weak, VE considers that it is complementary to its other businesses. This reflects that transport is often the first service local authorities are prepared to outsource to private operators. It thus provides the group with a foothold through which the other divisions can gain access to local authorities.

The division generates the bulk of its earnings from France, in which it is well established. The contribution of the international operations remains weak, however, and was affected in the first half of 2007 by start-up costs linked to two large contracts in The Netherlands. As a result the division's recurring EBIT margin was down to 1.8% in first-half 2007. The division's profitability is expected to recover gradually on the back of a higher contribution from international operations.

Financial Risk Profile

Accounting

VE reports under IFRS, and in 2006 applied in advance the IFRIC 12 interpretations relative to concession accounting.

In 2005, VE had already applied the IFRIC 4 interpretation, which applies to nonconcession contracts. Under IFRIC 4, some of VE's tangible assets were reclassified as financial assets. The assets transferred corresponded to contracts

under which VE has financed assets on behalf of its customers in return for future payments. As such, these contracts are viewed under IFRS as containing "embedded leases" and are considered as financial assets.

The IFRIC 12 interpretation applies to concessions contracts. IFRIC 12 is applied to contracts under which:

- The grantor (usually a municipality) has control or defines the features of the service to be provided through the infrastructure (water distribution and waste, for example), to whom it should be provided, and its price; and
- The grantor has control over the residual value of the infrastructure at the expiry of the concession.

Concession contracts covered by IFRIC 12 can no longer be accounted for as tangible assets. They must be accounted for as either financial or intangible assets.

Concession contracts are accounted for as financial assets if payment of the concession operator is guaranteed either directly or indirectly by the grantor. This is generally the case when VE builds assets to operate the concession on behalf of the grantor. It then has a financial receivable on the grantor, which is accounted for as a financial asset, and which either amortizes over the life of the concession or, in exceptional cases, at the expiry of the concession.

Conversely if the concession operator is paid directly by the public, which is generally the case in pure operating contract concessions where VE operates assets, which are financed and owned by the grantor, the concession assets are then accounted for as intangible assets. Such intangible assets are usually amortized over the life of the contract.

In a nutshell, this reclassification allows for a clearer presentation of VE's involvement in its contracts and in particular for a distinction between those contracts in which it has a purely operating role (intangible assets of €2.3 billion at the end of 2006 versus €2.1 billion in 2005) and those in which besides being an operator it also builds and finances the necessary assets (financial assets for concessions and IFRIC 4 for nonconcession contracts of €5.5 billion in 2006, an amount which is stable compared with 2005).

Importantly, while these changes are significant in terms of classification of the assets, they have no impact on either gross debt or cash.

Such asset reclassification has nevertheless an effect on VE's P&L and cash flow statement. Although such impacts are very limited for tangible assets reclassified as intangible assets, this is not the case for tangible assets reclassified as financial assets.

For these, the amounts corresponding to principal repayments no longer appear in the P&L accounts. Sales will now only include interest payments and no longer any principal repayment, as was the case under French GAAP. Conversely, financial assets are not depreciated, which boosts EBIT.

The principal repayments will only appear in the cash flow statement. They will, however, appear below the FFO line, in the investment section. Free cash flow is therefore unaffected, the decrease in FFO being offset for a similar amount by a new line in the investment section entitled "principal repayment of financial receivables," which covers both IFRIC 12 and IFRIC 4 assets.

Although these accounting changes modify the presentation of VE's accounts, especially that of its balance sheet, Standard & Poor's does not believe that they alter the group's underlying credit quality. As long as the financing of receivables remains on balance sheet, we intend to add back to VE's FFO the principal repayments under IFRIC 4 and IFRIC 12 (€438 million in 2006). Such amounts are relatively small, reflecting that VE's core business is indeed operating service contracts, in which it manages assets owned and funded by a grantor. Although it sometimes has

to finance assets to obtain contracts, the cash flow contribution of this "financial" activity is limited, even though the capital employed at €5.5 billion is significant. The funding of all of these financial receivables is currently on balance sheet, but VE is considering refinancing some of them through securitizations.

To calculate VE's debt ratios, Standard & Poor's adds to VE's reported debt capitalized operating leases (€1.7 billion), postretirement benefit obligations (€0.4 billion), while cash was adjusted for restricted amounts of €608 million at the end of 2006.

Standard & Poor's also adjusts EBITDA and FFO for renewal expenditure. Whereas Veolia's accounts show annual renewal charges of €368 million in 2006 as a depreciation charge after EBITDA in the P&L and as capital expenditure in the cash flow statement, we treat these as operating expenditure. 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.

In addition, as detailed above we add back to VE's FFO the IFRIC 4 and IFRIC 12 principal repayments (€438 million).

Table 1

Reconciliation Of Veolia Environnement S.A. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. €)*				
--Fiscal year ended Dec. 31, 2006--				
Veolia Environnement S.A. reported amounts				
	Debt	Operating income (before D&A)	Interest expense	Cash flow from operations
Reported	17,361.7	3,910.2	783.8	3,389.6
Standard & Poor's adjustments				
Operating leases	1,712.0	99.2	99.2	361.5
Postretirement benefit obligations	434.9	5.6	13.9	10.5
Surplus cash and near cash investments	(2,116.4)	--	--	--
Share-based compensation expense	--	40.9	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	(582.6)
Reclassification of working-capital cash flow changes	--	--	--	111.8
Other	--	(419.0)	--	70.0
Total adjustments	30.5	(273.3)	113.1	(28.8)
Standard & Poor's adjusted amounts				
	Debt	EBITDA	Interest expense	Funds from operations
Adjusted	17,392.2	3,636.9	896.9	3,360.8

*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.

Corporate governance/Risk tolerance/Financial policies

VE's financial policy is moderate, reflecting the group's primary focus on growth and shareholder value. The group's leverage target (of reported financial debt to EBITDA plus repayment of financial receivables of 3.5x-4x) is thus relatively undemanding. VE's commitment to that target was, however, demonstrated by the €2.6 billion capital

increase it completed in July 2007 to refinance recent acquisitions. This capital increase was substantial and provides the group with some flexibility at current rating levels. Following the acquisitions announced since the beginning of the year and prior to this capital increase, VE's financial profile was, however, at the low end of our expectations for the ratings. Moreover, the proceeds of the capital increase will only temporarily boost VE's financial profile in light of the group's substantial investment program of €15 billion-€20 billion between 2007 and 2009.

VE's stated cash flow generation target is also relatively undemanding; the group aims to generate positive operating free cash flow before large projects and acquisitions (€901 million in 2006) but after maintenance and normal growth capital expenditures (€2.7 billion in 2006). Discretionary cash flow is, however, structurally negative (by €803 million in 2006) given VE's focus on growth and the entailed capital expenditures and acquisitions (€1,424 million in 2006), as well as the group's stated objective of growing dividends (€479 million in 2006 up from €374 million in 2005). Investments are only very partially offset by recurring disposals of about €300 million per year (€355 million in 2006).

VE's negative discretionary cash flow reflects its focus on growth, but also the relatively high capital intensity of its business model, especially when compared with its earnings and cash flow generation. In 2006, VE's overall capital expenditures and acquisitions represented €4.2 billion (€3.5 billion in 2005) compared with EBITDA before any adjustments of €3.8 billion (€3.5 billion in 2005), and FFO also before any adjustments of €2.9 billion (€2.5 billion in 2005).

Despite the recent substantial capital increase, the combination of the group's focus on growth, which entails significant investments including some acquisitions; its relatively undemanding leverage targets; and policy of growing dividends, makes it unlikely that its financial profile will improve significantly from current levels. At year-end 2006, VE's coverage of adjusted average net debt by FFO was 19.3%, while EBITDA interest cover was 4.1x. To sustain the ratings, VE needs to maintain coverage of adjusted debt by FFO between 15% and 20%, but cannot remain for too long at the lower end of that range.

Cash flow adequacy

The diversity by contract, geography, and business as well as the predictability and resilience of VE's earnings and cash flow are key sources of support for the ratings. Although recent acquisitions have essentially been outside water, which offers limited external growth opportunities, we expect the water business to nevertheless remain the group's main earnings contributor. Waste management is more competitive and cyclical than water, but the breadth and diversity of this division's operations as well as its focus on higher value-added segments and strong position in landfills, which are often de facto regional monopolies, provides comfort. The group is seeking to make its growth less capital intensive; however, its ambitious targets and increasing size mean that its investments are likely to continue to exceed internally generated funds. Based on the expected continued growth in its earnings and cash flows and the recent capital increase, the group has the flexibility within current ratings to pursue its substantial investment program.

Table 2

Veolia Environnement S.A. Peer Comparison						
	--Fiscal year ended Dec. 31, 2006--			--Fiscal year ended March 31, 2006--		
(Mil. €)	Veolia Environnement S.A.	Suez S.A.	VINCI S.A.	United Utilities PLC	Severn Trent PLC	
Corporate credit rating	BBB+/Stable/A-2	A-/Watch Pos/A-2	BBB+/Negative/A-2	A/Watch Neg/A-1	A/Stable/A-1	
Country	France	France	France	U.K.	U.K.	

Table 2

Veolia Environnement S.A. Peer Comparison(cont.)					
Revenues	28,620.4	44,289.2	25,853.1	3,455.9	3,292.9
EBITDA	3,636.9	6,125.8	4,002.8	1,480.3	1,104.3
Net income from continuing operations	758.1	3,606.3	1,270.4	457.3	324.1
Funds from operations (FFO)	3,290.8	4,893.4	2,672.0	989.3	818.2
Capital expenditures	2,495.2	2,367.6	2,330.4	871.0	555.4
Free operating cash flow	683.8	2,299.9	354.3	135.6	271.2
Debt	17,392.2	18,985.6	16,920.5	8,237.4	4,785.8
Common equity	4,333.4	19,892.3	8,842.3	3,772.4	2,721.0
Standard & Poor's adjusted ratios					
EBITDA/sales (%)	12.7	13.8	15.5	42.8	33.5
Operating income/sales (%)	13.8	13.7	15.8	42.6	34.1
EBIT interest coverage (x)	2.1	3.1	3.6	2.2	2.7
EBITDA interest coverage (x)	4.1	4.1	5.3	3.0	4.4
Return on capital (%)	7.7	10.7	14.3	8.0	7.9
FFO/debt (%)	19.3	25.8	15.8	12.0	17.1
Free operating cash flow/debt (%)	3.9	12.1	2.1	1.6	5.7
Debt/EBITDA (x)	4.8	3.1	4.2	5.6	4.3

Figures are fully adjusted, including for postretirement benefit obligations. Excess cash and investments netted against debt. Ratings as at Sept. 28, 2007.

Table 3

Veolia Environnement S.A. Financial Statistics		
	--Fiscal year ended Dec. 31--	
(Mil. €)	2006	2005
Rating history	BBB+/Stable/A-2	BBB+/Stable/A-2
Revenues	28,620.4	25,570.4
Net income from continuing operations	758.1	621.5
Funds from operations (FFO)	3,360.8	2,623.7
Capital expenditures	2,495.2	2,133.9
Free operating cash flow	753.8	450.3
Discretionary cash flow	274.6	76.3
Cash and investments	608.0	532.0
Debt	17,392.2	16,499.4
Equity	6,526.0	5,668.5
Debt and equity	23,918.1	22,167.9
Standard & Poor's adjusted ratios		
EBITDA interest coverage (x)	4.1	3.7
FFO interest coverage (x)	4.1	3.6
FFO/debt (%)	19.3	15.9
Discretionary cash flow/debt (%)	1.6	0.5
Debt/debt and equity (%)	72.7	74.4
Return on common equity (%)	18.6	17.7

Table 3**Veolia Environnement S.A. Financial Statistics(cont.)**

Figures are fully adjusted, including for postretirement benefit obligations. Excess cash and investments netted against debt.

Ratings Detail (As Of October 1, 2007)***Veolia Environnement S.A.**

Corporate Credit Rating	BBB+/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Senior Unsecured	BBB+
Short-Term Debt	
<i>Local Currency</i>	A-2

Corporate Credit Ratings History

09-Mar-2004	BBB+/Stable/A-2
06-May-2003	BBB+/Positive/A-2
18-Jun-2002	BBB+/Stable/A-2

Business Risk Profile

1 2 3 4 **5** 6 7 8 9 10

Financial Risk Profile

Moderate

Debt Maturities

(At Dec. 31, 2006)
 2007: € 2.9 bil.
 2008: € 2.6 bil.
 2009 to 2011: €1.8 bil.
 Beyond: €9.6 bil.

Related Entities**Three Valleys Water PLC**

Issuer Credit Rating	A-/Stable/--
Senior Unsecured	
<i>Local Currency</i>	A-

*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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