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## 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
- Recent credit-supportive strategic shift
- High business and geographic diversification
- Top-tier market positions

### Corporate Credit Rating

BBB+/Stable/A-2

### Weaknesses:

- Exposure to price competition at contract renewal time and renewal risk at maturity given limited infrastructure ownership
- Disappointing recent operating performance
- Moderate financial profile

## 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. The ratings are also supported by VE's recent substantial shift toward a less capital-intensive and hence more credit-protective strategy.

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. VE is moreover not immune to the current economic downturn: Given the slowdown that has affected both its waste and water activities and the poor performance of some recent acquisitions, the group has further revised its earnings guidance and now targets only flat growth in EBITDA in 2008 compared with 2007.

The group has responded promptly to its disappointing operating performance and a challenging environment by shifting to a more prudent strategy. It has indeed announced its aim of being free cash flow positive (after investments, disposals, and dividends) in 2009. This marks a very significant departure from recent years when the group was systematically free cash flow negative as a result of high growth in investments and a generous dividend policy. To generate positive free cash flow in 2009, the group will scale down substantially its net investments to €2 billion to €2.5 billion from the expected €3.9 billion for 2008 and €6.1 billion in 2007. VE has also announced disposals of totaling €1.5 billion to €2 billion over 2008 and 2009.

From an operational perspective, VE has stepped up its cost-cutting program to generate €400 million of savings by 2010. It is also vigorously tackling issues at underperforming recent acquisitions.

The group remains broadly diversified by contract and by business. It has leading positions in water (41% of first-half 2008 consolidated EBITDA before central costs of €46 million), waste (32%), energy services (20%), and transport (7%). It is also highly diversified geographically, with 58% of sales generated outside France in first-half 2008, notably in the rest of Europe as well as in the U.S. and Asia-Pacific.

VE's financial profile is moderate, reflecting the group's focus in recent years on growth and shareholder value. It is currently in line with our expectations for the ratings, with funds from operations (FFO) coverage of adjusted net debt in the 12 months to June 2008 of about 18.5%. VE's debt measures are likely to deteriorate somewhat by year-end in light of lower-than-expected earnings and still high investments. They are, however, expected to improve in 2009 on the back of the group's strategic shift.

### 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 currently has about €3.2 billion of immediately available cash, as well as a €4 billion backup line maturing in 2012 (of which €1,150 million is currently drawn), and €1,025 million of undrawn committed bilateral lines (of which €175 million matures in 2008 that VE is currently seeking to renew), €350 million in 2009, and €500 million in 2010. None of VE's bank lines contains financial covenants. VE has recently drawn, for the first time since its inception, on its €4 billion backup line to refinance its Polish operations (€350 million) and to make €800 million available in cash to cover the bulk of its commercial paper (CP) outstanding.

Factoring in VE's reduced investments in 2008 and its objective of slightly declining debt in 2009, the group has substantial liquidity to cover its short-term debt. In June 2008, VE's debt maturing over the next 18 months, i.e. until the end of 2009, stood at €3.4 billion, comprising:

- €0.7 billion of overdrafts;
- €302 million of bonds, €200 million of which was repaid in August 2008;
- €285 million of CP, which has since grown to €850 million;
- €430 million of receivable securitizations;
- €166 million of accrued interest; and
- €143 million corresponding to a put option by minorities on a waste business that VE majority owns.

The balance of €1.2 billion corresponds to bank debt at the level of operating companies and that is spread over a large number of companies. Except as stated for the bonds and the CP, these amounts have remained broadly stable since June 2008. Beyond 2009, VE has a total of €1.6 billion of debt maturing over 2010 and 2011; this is essentially bank debt, which the group aims to roll over.

## Outlook

The stable outlook is underpinned by the resilience of VE's contractual revenues--despite the recent profit warnings--and the group's credit-supportive strategic shift of reducing investments. It also reflects our expectation that the group will maintain a financial profile in line with current ratings, i.e. FFO coverage of adjusted net debt at the upper end of the 15%-20% range. The ratings will come under pressure if VE's financial profile stays at or falls below the lower end of this range.

Given VE's recent operating performance and its financial profile, the ratings offer limited upside.

## Business Description

VE has four businesses: water (41% of first-half 2008 consolidated EBITDA before central costs of €46 million), waste (32%), energy services (20%), and transport (7%).

## Ratings Methodology

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

- 80% of the consolidated gross debt is at the level of the parent company Veolia S.A., excluding nonrecourse project finance and the joint venture subsidiaries, which this analysis does not take into account.
- 83% of Veolia S.A.'s debt is lent on through documented downstream loans to operating subsidiaries through two funding vehicles, VEES and VENA0, which cover Europe and the U.S., respectively.

## Business Risk Profile: Supported By Resilience And Visibility Of Earnings, Which Are Not However Immune To The Downturn

### 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. Such a business model is less capital intensive but is lower margin.

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, for which, besides operating assets, it also builds and/or upgrades assets on the 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.

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.

VE is also highly diversified geographically with 62% of its 2007 recurring EBIT derived outside of France, essentially in Europe. In France the group has a very solid position in its four businesses and is continuing to grow. It recorded sales growth of 7.1% at a compound annual growth rate (CAGR) in France between 2004 and 2007 with broadly stable EBIT margin and return on employed capital of 6.6% and 20.9% in 2007. VE generated 46% of its recurring 2007 EBIT in Europe outside France, especially in Germany (15%) and the U.K. (14%). The group also has a strong presence in Central and Eastern Europe.

Overseas, the group targets North America (7%) but also the Asia-Pacific region, in particular Australia, China, and South Korea.

VE benefits from the recurrent nature of its activities, 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. The group has thus been affected to some degree by higher fuel costs in 2008, which it has not been able to pass through to clients.

In addition, VE benefits 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). At the same time, VE holds a substantial and growing amount of relatively higher risk and shorter tenor contracts with industrial customers (30% of sales), notably in waste and energy services.

Despite these protective features, VE's operating performance has been disappointing in 2008. The group has now issued two profit warnings and is targeting only flat operating earnings in 2008. This weaker operating performance reflects that VE is not immune to the deterioration in the economic environment, even in its water business. Both the water and the waste businesses have been affected by lower volumes. Furthermore, the water business was affected in emerging markets by postponement of planned tariff increases. VE's weaker operating performance reflects also the impact of its rapid external growth in recent years. While the acquisition of U.K. waste operator Cleanaway has been a success, the contributions of more recent acquisitions such as German waste operator Sulo and Italian waste-to-energy operator TMT have been weak. This weaker operating performance could also reflect the complexity of VE's business with its very large number of subsidiaries, diversity of contractual and business models, growing geographic dispersion, and high labor intensity. At the end of 2007, the group had more than 319,000 employees, up from 215,000 in 2000.

In response, VE is stepping up its cost-cutting program with a view of achieving €400 million of savings by 2010. It is also vigorously tackling the issues at Sulo and TMT. It has changed the management of the former and is suing the seller of the latter.

More significantly, VE has announced a substantial shift in 2009 toward a less capital-intensive and hence more credit-protective strategy. It has indeed announced its intention to be free cash flow positive in 2009. This is a very meaningful departure from VE's previous strategy where it was systematically free cash flow negative given large growth in investments and a generous dividend policy. To become free cash flow generative in 2009, the group has drastically cut net capital expenditures to €2 billion to €2.5 billion from €6 billion in 2007 and to the €3.9 billion now projected in 2008. These net capital expenditures are after disposals €1.5 billion to €2 billion (of which €1 billion to be announced or completed by the end of the year).

## Water

VE's water business is the group's largest and its strongest by far, as 80% of sales are made under long-term contracts with stable municipal clients, while water consumption and demand are inherently stable. In addition, 75% of the divisional EBITDA is derived from Europe. That said, consumption 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 tends to shift according to weather. About half of the lower-than-expected volumes that VE experienced this year was attributable to the poor weather over the summer across Europe.

VE is the largest player in France in both water distribution and wastewater treatment, with market shares of 39% and about 28%, respectively. The French business is the division's largest earnings contributor by far (41% of divisional EBIT in 2007). 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" contracts. Under such contracts, VE runs assets that local authorities own and finance 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 (30% of divisional sales), particularly in Central and Eastern Europe. It is also well-established in Asia-Pacific (9%), especially Australia, South Korea, and China, as well as in the Middle East, Africa, and India (9%) and the Americas (6%). 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, where 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, or Chengdu in China, where it both finances the infrastructure and benefits from TOP contracts. The group also wholly 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. On the back of strong demand, this business is growing very fast: Sales reached €2.9 billion in 2007 from €1.9 billion in 2004. This growth has resulted into a strong improvement in profitability, with the EBIT margin rising to 3.4% in 2007 from 1.9% in 2004. The construction business complements well and opens opportunities for VE's core water distribution and treatment operations. However, as a construction business, it is more cyclical and exposed to cost overruns. It is also low margin, reflecting that it does not require any capital employed.

The EBITDA of VE's water business, which had been growing steadily in recent years, is likely to be flat this year given the lower-than-expected volumes (€40 million negative impact), deferral of planned tariff increases in some emerging markets (€30 million negative impact), postponement of some industrial projects (€20 million negative impact) and negative translation currency impacts of €30 million. This will result in a decline in the division's operating margins in 2008, which is also a function of the strong growth of the lower margin but much lower capital-intensive water plants construction business, which is projected to represent 30% of divisional sales this year.

The water division is aiming for sales CAGR of 6% to 9% until 2011, while maintaining its EBIT margin between 10% and 11%, and return on capital employed between 16% and 18% as more recent contracts arrive at maturity and on the back of further growth in the construction business.

## Waste

VE is the world's largest waste management company and the most diversified by geography. It 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 very exposed to more cyclical industrial and commercial clients, which accounted for 64% of its 2007 sales, the balance being derived from municipalities. In 2008, the division has been affected by lower waste volumes, but also by higher fuel and personnel costs as well as sharp volatility in recycled material prices (paper, scrap metal). The performance of recent acquisitions in Italy (TMT) and Germany (Sulo) has been moreover disappointing. As a

result, VE now expects the waste division's EBITDA to be flat in 2008.

Contracts in waste are generally much shorter than they are in water, except when significant investments are required. The profitability of contracts varies accordingly to investments, with the EBIT margin ranging from 4% to 9% in collection; 7% to 20% in sorting and recycling; 11% to 19% in hazardous waste processing; 5% to 30% in incinerators; and 15% to 35% in landfills. In Europe, the company is more focused on the more stable but lower margin municipal market. That said, it was negatively affected by lower volumes in France, Italy, and Germany in 2008. This was partially offset by the strong performance of the U.K. operations, especially of the large integrated PFI (public finance initiative) contracts. VE's strongholds in waste in Europe are France (37% of first-half 2008 divisional sales) where it is the leading operator with about 30% market share, the U.K. (16%) where the group has doubled in size with the 2006 acquisition of Cleanaway, and Germany where it has become a major player following the 2007 purchase of Sulo. The company 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. Unlike Europe, the U.S. has proven to be a disciplined market in 2008, where price increases have offset lower waste volumes.

The waste division is responding to the more challenging environment by stepping up cost-saving initiatives; vigorously tackling issues at recent acquisitions; disposing of noncore activities; and reducing investments. Following a period of sizable acquisitions, the division is now aiming to be free cash flow positive before disposals in 2009.

Despite these reduced investments, the division targets 5% to 7% CAGR for sales up to 2011 with broadly stable operating margins and returns on capital employed. This growth is to be driven by the improvement in the contribution of recent acquisitions and growth in recycling/recovery. The waste business should also continue to benefit from favorable global trends such as tighter regulation and the growing scarcity and higher price of natural resources. However, their impact in the short term will be largely mitigated by the current challenging economic conditions.

### **Energy services**

VE is involved in energy services through Dalkia, in partnership with Electricité de France S.A. (EDF; AA-/Watch Neg/A-1+). VE owns 66% of Dalkia, with the remaining 34% held by EDF. In turn, Dalkia wholly owns Dalkia France (56% of divisional sales in 2007), 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. EDF did not participate in the 2007 acquisition of U.S. cooling and heating network operator TNAI, which VE therefore wholly owns.

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 locally generate power, essentially from renewable sources--in particular biomass.

Dalkia derived 25% of its 2007 sales from operating heating and cooling networks, an activity where it ranks No. 1 in Europe, especially Eastern Europe, with a 31% 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 cogeneration plants, i.e. plants generating both power and heat, with an overall capacity of 4,300 megawatts. 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 20% of its 2007 sales from local authorities, serving municipal facilities but also housing estates. It is very well-established in this sector in France and Italy, the two countries where such activities are the most outsourced. Another 2% of sales stemmed 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 derived 14% of its sales from 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 relatively well spread out. Their length and profitability vary considerably depending on the service provided and the investment required.

Thanks to the growing demand for energy savings, given high prices and growing carbon constraints, Dalkia plans CAGR in sales of 5% to 7% up to 2011 with a slight increase in its EBIT margin to 7%, while maintaining a return on employed capital of 13% to 14%. It will seek to achieve this in a context of reduced capital expenditures as it aims to be free cash flow positive next year.

### **Transport**

The transport division covers passenger bus and rail services that local authorities regulate for urban, intercity, and regional transport. It is present in France (39% of divisional sales in 2007) as well as the north of Europe (38%), and has recently expanded in the U.S. and Australia. Of 2007's sales, 91% were 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. 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 thus provides the group with a foothold from which to offer other services.

Despite unfavorable conditions, especially the increase in oil prices (for a full-year negative impact of €35 million), the division is targeting an improvement in operating earnings in 2008. In the first half of the year, EBITDA was up 12.5%. Over the next years, the division is targeting CAGR in sales of 6% to 8% with stronger growth in EBIT, to be driven by the strategy of focusing on key markets (France, the U.S., and northern Europe), while exiting unprofitable or noncore markets such as Denmark in 2007 and tackling unprofitable contracts. The division also aims to reap €80 million of cost savings by 2010.

It currently generates the bulk of its earnings from France, where its operations are mature and cash generative (free operating cash flow represented 4.2% of domestic sales in 2007).

## **Financial Risk Profile: Credit-Supportive Shift Toward A Much Less Capital-Intensive Strategy Boosts Financial Risk**

Table 1

Reconciliation Of Veolia Environnement S.A. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. €)*				
--Fiscal year ended Dec. 31, 2007--				
Veolia Environnement S.A. reported amounts				
	Debt	Operating income (before D&A)	Interest expense	Cash flow from operations
Reported	18,212.4	4,299.4	969.6	3,634.6
Standard & Poor's adjustments				
Operating leases	1,738.6	103.5	103.5	392.0
Postretirement benefit obligations	345.6	3.6	17.1	14.4
Surplus cash and near cash investments	(2,483.6)	--	--	--
Share-based compensation expense	--	65.4	--	--
Asset retirement obligations	393.6	--	40.4	(9.9)
Reclassification of nonoperating income (expenses)	--	--	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	(700.7)
Reclassification of working-capital cash flow changes	--	--	--	167.1
Minority interests	--	--	--	--
Other	--	(465.0)	--	2.3
Total adjustments	(5.8)	(292.5)	161.0	(134.8)
Standard & Poor's adjusted amounts				
	Debt	EBITDA	Interest expense	Funds from operations
Adjusted	18,206.6	4,006.9	1,130.6	3,499.8

\*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.

## Accounting

VE reports under International Financial Reporting Standards, and has been applying since 2005 the International Financial Reporting Interpretations Committee (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 (€5.6 billion as of the end of 2007). This concerns contracts where in addition to being an operator, VE builds/upgrades and finances on the behalf of local authorities the necessary assets, which it then usually operates. Under such contracts, VE has a long-term financial receivable over the 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. This 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 FFO the principal repayments for these operating financial assets (€361 million in 2007). 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 with VE's FFO, even though the overall capital employed at €5.5 billion is large,

reflecting that the group's core business is indeed operating service contracts, in which it manages assets that a grantor owns and funds.

To calculate VE's debt ratios, Standard & Poor's adds to reported debt capitalized operating leases (€1.7 billion), postretirement benefit obligations (€345 million), and decommissioning liabilities for landfills (€393 million), while cash is adjusted for restricted amounts (€632 million at the end of 2007).

Standard & Poor's also adjusts EBITDA and FFO for renewal expenditure. Whereas Veolia's accounts show annual renewal charges of €358.4 million in 2007 as a depreciation charge after EBITDA in the profit and loss and as capital expenditure in the cash flow statement, we treat these 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 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 sales of assets (€106.6 million in 2007).

In addition, as detailed above we add back to VE's FFO the principal repayments of operating financial assets (€360.7 million).

### **Corporate governance/Risk tolerance/Financial policies**

Although VE has already reduced investments in 2008, which are now projected to represent €3.9 billion after disposals, it is still expected to be free cash flow negative this year. Combined with weaker than expected earnings, this is likely to result in a moderate weakening in the group's financial profile at the end of 2008. At year-end 2007, VE's coverage of adjusted average net debt by FFO was 19.2%, while EBITDA interest cover was 3.5x. Despite likely continued pressures on earnings given challenging economic conditions and lower investments, VE's financial profile should improve in 2009 given its credit-supportive shift to be free cash flow positive next year.

This credit-supportive strategic shift demonstrates VE's commitment to its current ratings. It also addresses the group's key credit weakness, its negative free cash flow generation in recent years, and hence substantially mitigates the credit impact of lower-than-expected earnings.

This shift marks a radical departure from recent years when VE was systematically significantly free cash flow negative as a result of high growth in investments and a generous dividend policy. VE's negative free cash flow amounted to €450 million (after a €2.6 billion equity issue) in 2007 and €804 million in 2006. To sustain the ratings, VE needs to maintain coverage of adjusted debt by FFO at the upper end of the 15%-20% range.

### **Cash flow adequacy**

In order to be free cash flow generative in 2009, VE will drastically cut investments net of disposals to €2 billion to €2.5 billion. Maintenance capital expenditures, which the group intends to keep below 5% of sales, are to represent €1.8 billion, which will be complemented by about €1.2 billion of growth investments essentially in projects that are already underway. These €3 billion of capital expenditures will be offset by €500 million to €1 billion of disposal proceeds.

The group aims to have announced or completed €1 billion of disposals by the end of this year. As of the end of August, VE had already completed €360 million of disposals, which correspond to recurring sales of industrial assets (€366 million in 2006) and had announced another €374 million that includes €300 million for the Clemessy/Crystal energy services business. These proceeds are not expected to have a significant earnings or cash

flow impact.

The group also intends to manage more tightly its working capital requirements. While negative in recent years given the group's rapid growth, working capital is not a significant cash outflow for VE given the positive contribution in this respect of the transport and water plant construction business.

**Table 2**

<b>Veolia Environnement S.A. Peer Comparison*</b>					
	<b>Veolia Environnement S.A.</b>	<b>Sociedad General de Aguas de Barcelona S.A.</b>	<b>VINCI S.A.</b>	<b>Severn Trent PLC</b>	<b>United Utilities Water PLC</b>
Rating as of Nov. 12, 2008	BBB+/Stable/A-2	A/Stable/A-1	BBB+/Stable/A-2	A/Stable/A-1	A-/Stable/A-2
	<b>--Fiscal year ended Dec. 31, 2007--</b>	<b>--Fiscal year ended Dec. 31, 2007--</b>	<b>--Fiscal year ended Dec. 31, 2007--</b>	<b>--Fiscal year ended March 31, 2008--</b>	<b>--Fiscal year ended March 31, 2008--</b>
<b>(Mil. €)</b>					
Revenues	32,628.2	2,861.0	30,574.7	1,947.8	2,991.5
EBITDA	4,006.4	563.0	4,703.2	887.0	1,160.3
Operating income (bef. D&A)	4,333.0	581.0	4,787.0	889.0	1,157.1
Net income from cont. oper.	951.1	331.1	1,461.0	261.9	522.3
Funds from operations (FFO)	3,499.8	388.5	3,077.4	587.1	918.5
Capital expenditures	2,937.3	349.3	2,358.9	513.8	808.7
Debt	18,206.6	1,436.5	18,856.2	4,510.6	6,038.6
Equity	10,190.7	2,704.6	7,832.4	1,512.2	4,027.6
<b>Adjusted ratios</b>					
EBITDA/revenues (%)	12.3	19.7	15.4	45.5	38.8
Oper. income (bef. D&A)/revenues (%)	13.3	20.3	15.7	45.6	38.7
EBIT interest coverage (x)	2.4	2.7	3.7	2.3	2.5
EBITDA interest coverage (x)	3.5	4.1	5.4	3.3	3.2
Return on capital (%)	9.5	7.9	11.2	9.0	8.4
FFO/debt (%)	19.2	27.0	16.3	13.0	15.2
Debt/EBITDA (x)	4.5	2.6	4.0	5.1	5.2

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

**Table 3**

<b>Veolia Environnement S.A. Financial Summary*</b>			
	<b>--Fiscal year ended Dec. 31--</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Rating history	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2
<b>(Mil. €)</b>			
Revenues	32,628.2	28,620.4	25,570.4
Net income from continuing operations	951.1	758.1	621.5

**Table 3**

<b>Veolia Environnement S.A. Financial Summary*(cont.)</b>			
Funds from operations (FFO)	3,499.8	3,356.2	2,616.6
Capital expenditures	2,937.3	2,495.2	2,133.9
Debt	18,206.6	17,689.7	16,733.2
Equity	10,190.7	6,553.4	5,693.5
Debt and equity	28,397.3	24,243.1	22,426.7
<b>Adjusted ratios</b>			
EBITDA interest coverage (x)	3.5	4.0	3.7
FFO int. cov. (x)	3.5	4.0	3.5
FFO/debt (%)	19.2	19.0	15.6
Discretionary cash flow/debt (%)	(0.9)	1.5	0.4
Debt/debt and equity (%)	64.1	73.0	74.6
Return on common equity (%)	15.9	18.6	17.7

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

### Ratings Detail (As Of November 12, 2008)\*

#### Veolia Environnement S.A.

Corporate Credit Rating	BBB+/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Senior Unsecured (16 Issues)	BBB+
Short-Term Debt (1 Issue)	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

On June 30, 2008:  
 Up to 2009: €3.3 bil.  
 2010 and 2011: €1.6 bil.  
 2012 to 2013: €3.6 bil.  
 Beyond: €10.2 bil.

#### Related Entities

##### Three Valleys Water PLC

Issuer Credit Rating	A-/Stable/--
Senior Unsecured (1 Issue)	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.

#### Additional Contact:

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