



# 10-Yr Euro zone Inflation Linked Bond




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# VE : a world leader in environmental services

Water	Waste Management	Energy Services	Transportation
			
<ul style="list-style-type: none"> <li>• No.1 worldwide in water services</li> <li>• 2004 revenue : €9.8 billion <sup>(1)</sup></li> <li>• over 100 million people provided with water and wastewater services worldwide</li> <li>• 67,800 <sup>(2)</sup> employees</li> <li>• Operations in 60 countries</li> </ul>	<ul style="list-style-type: none"> <li>• No.2 worldwide in waste management and a world leader in hazardous industrial waste management</li> <li>• 2004 revenue : €6.2 billion</li> <li>• more than 50 million people served worldwide</li> <li>• 78,700 <sup>(2)</sup> employees</li> <li>• Operations in 34 countries</li> </ul>	<ul style="list-style-type: none"> <li>• No.1 in Europe in energy services</li> <li>• 2004 revenue : €5.0 billion</li> <li>• 80,000 facilities managed</li> <li>• 43,300 employees</li> <li>• Operations in 38 countries</li> </ul>	<ul style="list-style-type: none"> <li>• No.1 private operator of surface passenger transportation in Europe</li> <li>• 2004 revenue : €3.6 billion</li> <li>• 2 billion passengers carried</li> <li>• 61,300 employees</li> <li>• Operations in 25 countries</li> </ul>

(1) 2004 Revenue under the new scope of consolidation

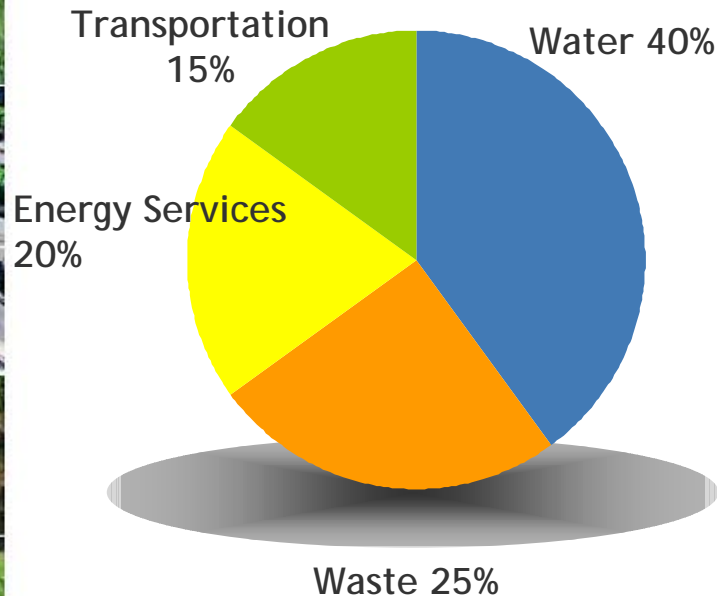
(2) For Water, Includes 1,633 employees of Proactiva; for Waste Management, includes 6,993 employees of Proactiva



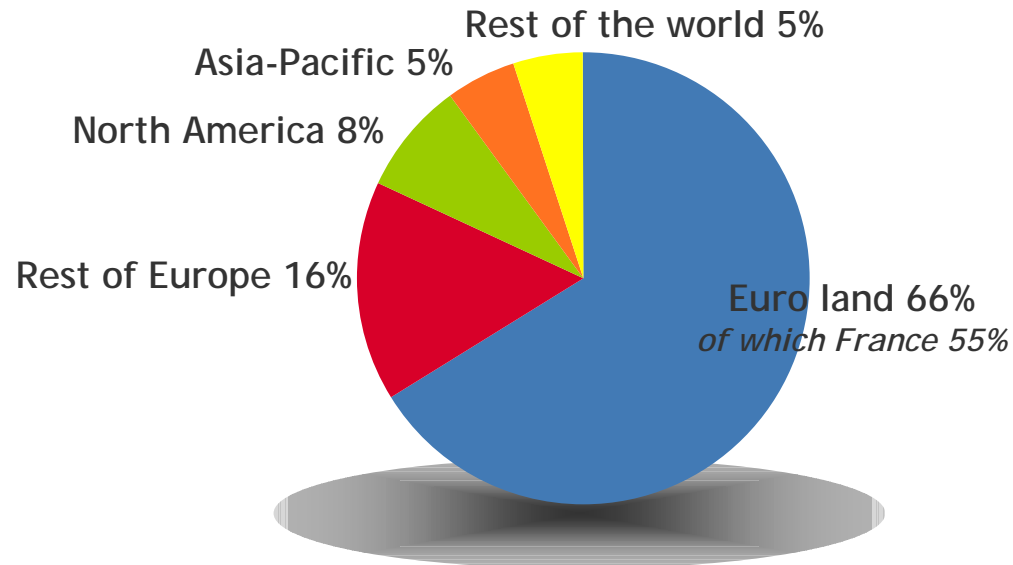
# A well balanced company

## 2004 Revenue under the new scope of consolidation <sup>(1)</sup>

Breakdown by division



Breakdown by geographical zone



2004 consolidated revenue <sup>(2)</sup>: €24.6bn

- (1) The "new scope of consolidation" excludes the North American assets sold in 2003 and 2004 (Surface Preparation, Everpure, Culligan and USFilter's equipment and short-term services businesses) and FCC (leading Proactiva to be proportionally consolidated at 50% for the whole of 2004)
- (2) On December 31, 2004, the company began applying the provisions of paragraph 23100 of CRC regulation 99-02, which allows companies to report their share of the net income of businesses sold during the year. On a separate line item of the income statement, these businesses are excluded from the new scope of consolidation and therefore do not contribute to consolidated revenue for the whole of 2004.

# 2004 highlights (1)

- 2004 key figures:
  - Revenue : **€24,645m**, up 4.4%<sup>(2)</sup>
  - EBITDA : **€3,313m**, up 7.8%<sup>(2)</sup>
  - EBIT : **€1,616m**, up 13.5%<sup>(2)</sup>
- Strategic refocusing completed (disposals of part of the water activities in the USA as well as the stake in FCC)
- Strengthened balance sheet
  - Significant decrease (-22%) in net debt down to **€9.8bn**
  - Free cash flow before disposals of non-core assets of **nearly €700m**, amounting to approximately €300m after dividend payments
- Net ROCE after-tax up more than 1.3 percentage points to **8.3%**

(1) French Gaap

(2) At constant exchange rate

# Strong first quarter 2005 performance

- Veolia's first quarter of reporting under International Financial Reporting Standards (IFRS)
- Revenue increased **10.7%** to **€6.2 billion**, including **9.6%** internal growth
- Operating income increased sharply: up **20%** to **€529 million**
  - Good contribution from all divisions
  - Increase driven by growing maturity of contracts, continued contribution from the cost efficiency plan and accelerated pace of growth
- Economic net financial debt at **€10.9 billion** versus €10.5 billion at year-end 2004 and €12.8 billion at January 1, 2004.
  - Slight increase versus year-end accounted for by acquisition of municipal services operation in Germany (Braunschweig Stadtwerke)

# VE : a low risk business profile

- Long-term contractual relationship with targeted clients
  - Municipal (75% of revenue), industrial and tertiary (25%)
- Long-term contracts with recurring and sustainable cash-flows
- Low exposure to emerging countries : less than 10% of revenue in countries rated  $\leq A-$
- Comfortable backlog  $\geq 12$  years
- Further consolidation of VE leadership in environmental services
- Clear and well-defined geographic positioning
  - Europe, North America and certain countries in the Asia-Pacific region

# Financial profile : key features

## ● Ratings :

- Moody's      Baa1 / P-2      Stable      (Annual Review : 13/05/05)
- S&P's        BBB+ / A-2      Stable      (Annual Review : 25/05/05)

● Net debt reduced by 22% from €12.5bn to €9.8bn at 31 December 2004

● Extension of the average maturity from 5.5 to 6.5 years at 31 December 2004

● Liquidity position: €8.9bn after the €1.5bn redemption of OCEANE convertible bonds on 3 January 2005

● Proportion of fixed-rate debt up from 50% to 62% after hedging at 31 December 2004

# Why a 10-Yr Euro zone Inflation Linked Bond ?

- Asset / Liability indexation matching : most of VE contracts are indirectly linked to inflation. With 66% of sales done in Euroland, exposure is natural to European Inflation.
- Extension of average debt maturity
- Optimisation of debt management : through diversification of liability with Floating rate note, Fixed rate and Inflation exposure.
- Investor base diversification
- Favourable market conditions

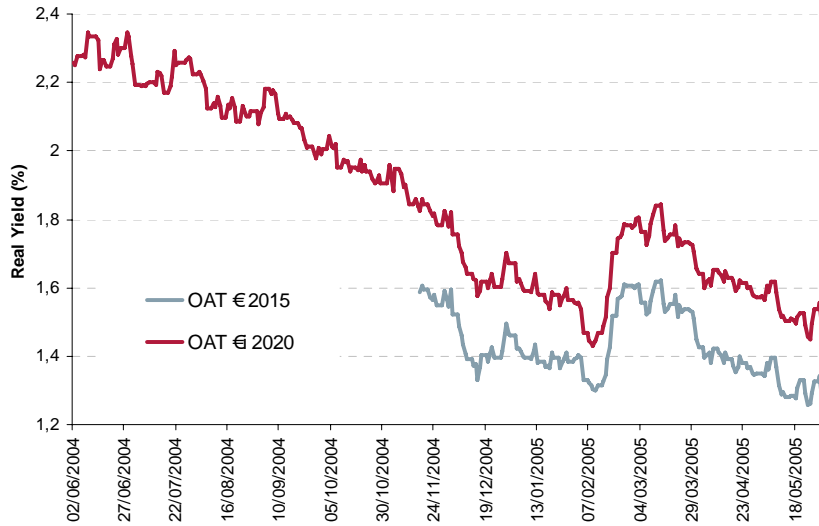
# Asset / Liability indexation matching : a few examples

- A significant part of the contracts is long term operating and maintenance contracts (water treatment, waste management, energy services, transportation, multi-services contracts)
- A large part of these contracts contains index links allowing an re-adjustment of revenues to the evolution of costs (indirectly linked to inflation).

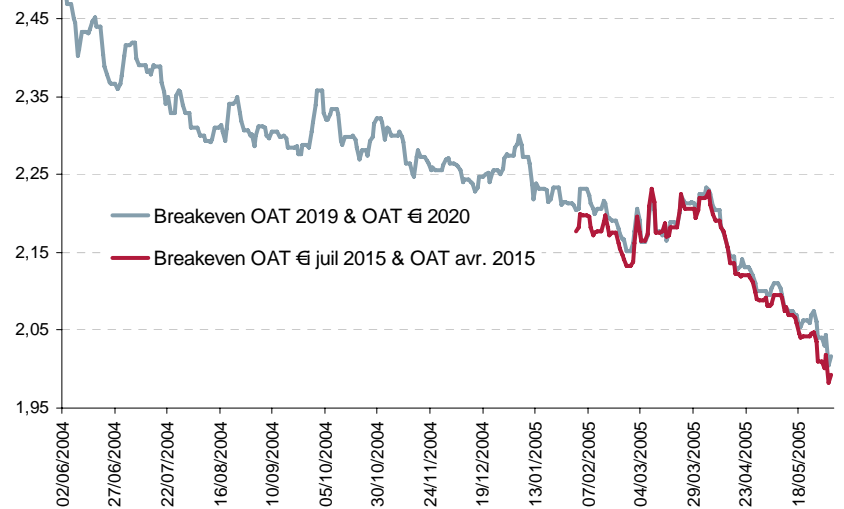
Examples :	Signing date	Maturity	Average annual indexed revenue
Municipal Contracts : Water France	NA	15 to 20-yr	€2,000m
Integrated multi-services contracts with public authorities : Germany	2005	16-yr	€330m
Integrated multi-services contracts with industrial company : East of France	2004	10-yr	€100m

# Historical market data

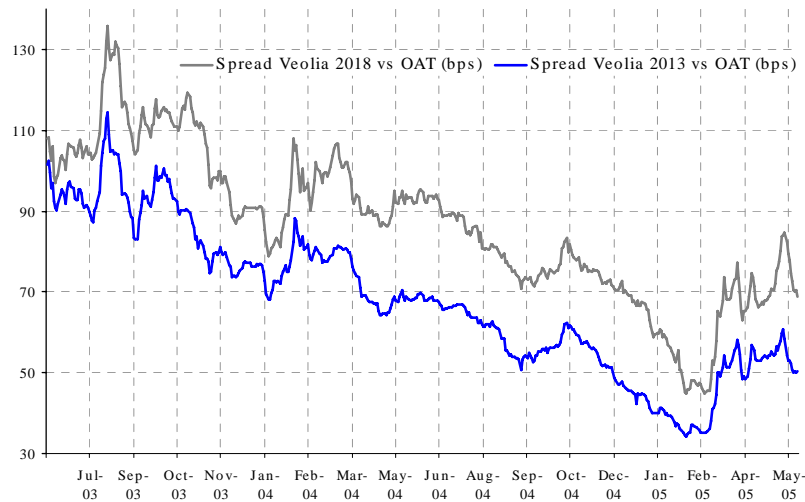
Real yields OAT€I 2015 and OAT€I 2020



Break even rates OAT€I 2015 and OAT€I 2020



Credit Spread  
Veolia Environnement vs OAT



All data as off June 1st, 2005





# Transaction overview

Issuer :	Veolia Environnement
Amount :	€500,000,000
Maturity :	2015 (10 years)
Inflation index :	HICP, excluding tobacco, for the Euro zone
Reference :	OAT €i 1.6% 2015
Purpose :	General needs (everything being equal, this bond issue substitutes to an other resource which VE would have contemplated and is not an additional financing)