

Credit Analysis

Moody's Corporate Finance

October 2007

Veolia Environnement S.A.

Paris, France

Corporate Profile

A GLOBAL LEADER IN THE PROVISION OF OUTSOURCED SERVICES TO THE URBAN ENVIRONMENT

Headquartered in Paris, France, Veolia Environnement SA ("Veolia/the company/the group", rated A3/Prime-2, stable outlook) is a leading provider of outsourced services for the urban environment. The company, which was formerly part of Vivendi Group, was partially listed on the Paris and New York stock exchanges in July 2000 and October 2001 respectively. Over the next six years, Vivendi gradually reduced its holding in Veolia and, following the completion of an accelerated book building procedure in July 2006, no longer holds any shares in the company.

Veolia essentially operates through four divisions, grouped around intermediary holding companies, namely: Veolia Water (formerly Compagnie Generale des Eaux), the company's water and waste water division; Veolia Environmental Services, its waste division; Veolia Energy (Dalkia), its energy services division, and Veolia Transport, its transportation division. These four divisions are linked by a common strategic vision to provide services for the urban environment to a common customer base, comprising largely public authorities, industrial customers and non-industrial customers, such as IT companies, manpower companies and hospitals.

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This Credit Analysis provides an in-depth discussion of credit rating(s) for Veolia Environnement S.A. and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. [Click here to link.](#)



Moody's Investors Service

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Figure 1 Divisional Analysis (as at 31/12/2006)

Eur mil	Revenues	% of Total	Turnover Growth	Recurring Operating Income	% of Total	Recurring Operating Income Growth	Recurring Operating Margin
Water	10,087.6	35.2%	10.4%	1,163.4	52.4%	16.7%	11.5%
Waste Management	7,462.9	26.1%	10.6%	648.3	29.2%	17.1%	8.7%
Energy Services	6,118.4	21.4%	12.0%	377.7	17.0%	17.6%	6.2%
Transportation	4,951.5	17.3%	17.2%	100.1	4.5%	-14.3%	2.0%
Holding Companies	-	-	-	-67.3	-3.0%	-	-
Total	28,620.4	100.0%	11.9%	2,222.2	100.0%	16.7%	7.8%

Veolia is a leading outsourced services business, operating in more than 65 countries and employing approximately 300,000 people. It provides 116 million people with water, treats nearly 58 million tonnes of waste, supplies energy to hundreds of thousands of buildings, and transports 2.5 billion customers per year. The group's business model involves thousands of contracts for outsourced services and often requires the establishment of separate legal entities to contract with customers. The result is a complex group structure comprising almost 2,200 operating companies.

Key Developments Since Last Analysis

Key developments since Moody's last published an Analysis on the company in July 2006 have been:

Efficiency targets delivered – The three year efficiency programme announced by Veolia in September 2003 was concluded in December 2006, and has delivered total cost savings of EUR406 million, i.e. EUR106 million ahead of the targeted EUR300 million.

New investment programme and capital increase – On 12 June 2007, Veolia announced a capital increase of EUR2.6 billion, which will partially support its investment programme of between EUR15 billion and EUR20 billion for the period 2007-2009. This plan is anticipated to result in an increase in leverage, but Moody's expects the company's ratings to remain within the A3 category (see also below).

Acquisitions successfully implemented – Veolia has continued to strengthen its international presence in 2007 through medium-sized acquisitions, aimed at supporting growth and reinforcing the company's presence and competitive positions in its core markets.

On 27 April 2007, Veolia announced that it had signed an agreement with the Blackstone Group and Apax Partners, to acquire the German waste management group, Sulo. The enterprise value of this transaction was EUR1.45 billion, including financial debt and estimated after tax liabilities of approximately EUR950 million. The transaction will further cement Veolia's position in European waste management, and will strengthen its leadership position in the European recycling market. It will also enable Veolia to build its presence in the German waste market, which it regards as an attractive, consolidating market, offering good opportunities for growth.

On 31 May 2007, Veolia announced that it had signed an agreement for the acquisition of a controlling interest in TMT, the waste management and treatment subsidiary of Termomeccanica Ecologia in Italy. The transaction involves the acquisition by Veolia of 75% of TMT's shares, based on an enterprise value (for 100% of the company) of EUR338 million. Veolia has the option to raise its stake to 100% by 2012. The acquisition of TMT is in line with Veolia's strategy of strengthening its position in the Italian and Mediterranean markets.

On 12 June 2007, and at the same time as announcing the above mentioned capital increase and investment programme, Veolia also announced the acquisition of Thermal North America Inc. ("TNAI") for a consideration reflecting an enterprise value of USD788 million. TNAI is the leading private player of district heating and

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cooling networks in North Eastern United States and California. Its acquisition will reinforce Veolia's presence in the United States, where the company is already active through Veolia Energy (Dalkia), and will give it the means to accelerate growth in this market at a time when major changes are starting to take place in US environmental policy.

Announcement re Covered Bonds – In January 2007, Veolia confirmed that it had received approval from the French banking authorities to set up a Société de Crédit Foncière ("SCF"), a regulated credit institution through which receivables from/loans to public entities can be refinanced. By using an SCF to issue covered bonds, Veolia would be able to further diversify its sources of funding, and improve its overall funding costs. Moody's understands that this proposal is still being considered/formulated by the company and will continue to monitor developments.

Management Strategy

MANAGEMENT'S STRATEGY IS TO PROVIDE OUTSOURCED SERVICES IN ITS CHOSEN MARKETS

Since its IPO in 2000, Veolia's management has pursued a consistent strategy focused on the organic expansion of outsourced services to the urban environment within the company's areas of expertise. Moody's believes that the consistency of management's adherence to its strategy and the manner of its execution have been key factors behind Veolia's improving profile in the market, and have been credit supportive. Key elements of this strategy are:

- long-term contracts;
- long-term relationships with public authorities, industrial customers and non-industrial customers (e.g. IT companies, manpower companies and hospitals, etc);
- four sectors of expertise, i.e. water, waste, energy services and transport;
- a focus on developed and dynamic (e.g. China) markets.

Veolia's strategy takes advantage of the continuing and increasing trend of outsourcing by public authorities and industrials against a backdrop of a rising burden of demands relating to regulation and environmental standards. To meet these obligations more efficiently, public authorities are outsourcing to the private sector, with the aim of obtaining greater value for money, operational rigour and expertise.

COMMON BUSINESS MODEL FACILITATES STRATEGIC IMPLEMENTATION ACROSS ACTIVITIES

Veolia has a common business model across its four divisions, based on establishing enduring relationships with public authorities or industrials for the provision of utility or utility-type services under long term contracts. As a result, in each of its businesses, Veolia is able to apply a similar approach aimed at achieving operational excellence from both a technological and cost perspective, fostering efficient use of natural resources, and pursuing growth and margin enhancement. The result is long term partnerships that are mutually beneficial for Veolia and its customers. Veolia's offering also allows it to cross-sell its services across its customer base, which in turn, gives it the opportunity to improve its competitive edge and increase margins. The company is increasingly focusing on this approach, with approximately one third of industrial contracts currently multi-divisional.

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MANAGEMENT'S CHALLENGE IS TO BALANCE COMMITTED GROWTH WITH FINANCIAL DISCIPLINE...

Veolia's turnover growth in 2006 was 11.9%¹ - of which 3.8% related to external growth - compared to 12.2%¹ in 2005 and 3.5%¹ in 2004. As part of its recently announced 2007-2009 investment plan, Veolia has committed to increase revenues by at least 10% per annum, over the medium term. Organic growth, combined with selective acquisitions, will be a key factor in Veolia delivering its committed value creation objectives, and Moody's notes that the challenge for management will be to achieve targeted growth within the company's investment criteria and ensure that investments generate an acceptable return on capital invested (ie an internal rate of return at least 3% higher than the average cost of capital). Whilst Moody's recognises that Veolia, with its spread of activities, has synergy opportunities that other companies may find hard to match, the challenge for the company will be to continue to maintain its financial discipline while delivering its committed targets.

...AND THE MANAGEMENT OF POTENTIAL RISKS RELATED TO GEOGRAPHICAL EXPANSION

Veolia's committed 10% per annum medium term revenue growth target is based partly on its strong presence in France and in the water segment, where sustainable turnover growth is low (growth from new French concessions is around 1% per annum), and partly on a growing presence in markets with higher growth rates, and on the start-up of new projects. Moody's notes that Veolia has already moved into certain countries in Asia (including China) and Eastern Europe to accelerate growth, and sees the challenge for management going forward to deliver committed value creation targets, while at the same time, prudently managing expansion in fast growing but developing and/or higher risk economies.

Key Rating Considerations

Veolia's low business risk profile is underpinned by its focus on long term contracts with creditworthy counterparties in a number of stable, cash generative business segments, particularly water and waste, and by the management of its contractual risks.

FOCUS ON LONG TERM CONTRACTS PROVIDES PREDICTABLE CASHFLOWS

Veolia's business model is based on building long term relationships with and providing high-quality services to its customers. This approach creates a strong base of repeatable revenues, resulting in a high degree of visibility around future revenue streams. Given the breadth of Veolia's business activities, it has many types of contract in place, but Moody's notes the following characteristics:

- contracts that involve a commitment of capital by Veolia tend to be longer;
- contracts with municipals tend to be longer than those with industrial or commercial companies, and
- contracts where the operator is, as part of the contract, either renewing or improving the standards of the assets operated tend to be longer.

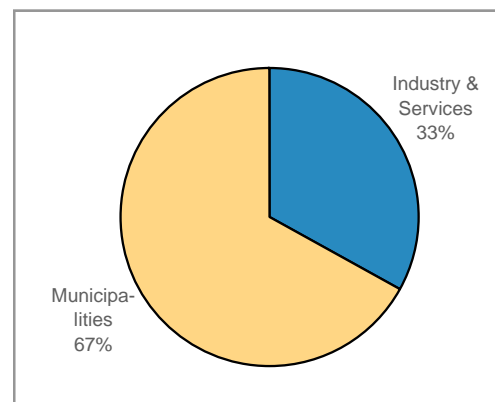
Veolia's contracts can therefore run for up to 30, or occasionally even 50, years, as for example in China, where Veolia is establishing a whole water and waste water treatment system, which it is first designing and constructing, and which it will then operate and, where necessary, expand capacity. In the French water sector, where Veolia replaces and upgrades equipment, contracts are typically 10 to 20 years and are subject to a maximum term of 20 years (although the Loi Sapin may represent a risk and lead to a decline in average contract terms in the medium term). By contrast, waste collection contracts (typically 1 to 5 years), transport management contracts (2 to 12 years) and energy services to industrials (6 to 7 years) tend to be shorter.

¹ At current exchange rates.

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Figure 2: Contracts overview and breakdown

Activity	Customer	Duration
Water	Contracts with public authorities	10 to 20 years
	Contracts with industrial & commercial customers	3 to 10 years
Waste	Collection contracts	1 to 5 years
	Treatment contracts (depending on service provided)	1 to 30 years
Energy Services	Urban heating systems	25 to 30 years
	Thermal & multi-technical installations	Up to 16 years
	Industrial utilities services	6 to 7 years
Transport	Management contracts	2 to 12 years
	Concession and operating	Up to 30 years

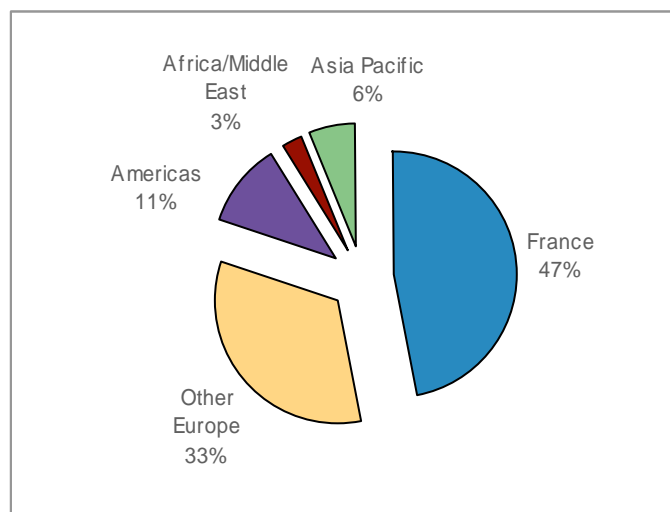


From a credit perspective, the make-up of Veolia's portfolio is important. Generally speaking, long term contracts where capital is required provide greater cashflow certainty, albeit with a potentially lower return on capital employed in the early years of the contract. Veolia's current approach, which involves a mix of contracts, therefore appears to be a prudent means of balancing cashflow certainty and returns on capital employed.

FOCUS ON DEVELOPED MARKETS UNDERPINS VEOLIA'S CREDIT

Over 95% of Veolia's revenues are generated in markets with ratings of A3 or above, reflecting relatively stable political, legal and economic profiles. As shown in figure 3 below, France accounts for approximately 47% of revenues and the rest of Europe, including the fast growing Eastern European market, accounts for a further 33%. However, with activities in over 65 countries, Veolia's operations and outlook are global. The importance of its operations in Eastern Europe and Asia, where like-for-like turnover growth in 2006 was at least double-digit (compared to only 7.7% in France) will continue to grow. However, and whilst fast growing markets such as China and Korea are expected to be an increasingly important driver of revenue growth, they are unlikely to materially alter the balance of revenues or cashflow from credit worthy markets in the medium term. In short, Moody's considers Veolia's approach of generating cashflows in mature markets and investing them in growing markets as a classic strategy.

Figure 3: Geographic Revenue Analysis (as at 31/12/2006)



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BUSINESS RISK FACTORS

VEOLIA IS A LEADING PLAYER IN ITS CHOSEN MARKET SEGMENTS

Each of Veolia's four business segments has a leading, established position in its respective market. For example, Veolia Water is the world's leading water and waste water company, providing services to 116 million people and operating in 59 countries. The company has a particularly strong presence in France, where it holds approximately 40% of the water market and 25% of the waste water market, ahead of its two main competitors, Suez and Saur. The company is also the world's second largest waste company, with Veolia Environmental Services providing an integrated environmental service. It treats more than 58 million tonnes of waste per annum, and serves over 50 million customers in 36 countries in waste collection services.

Veolia also has a leading position in the European energy services sector through the 66% owned Veolia Energy (Dalkia)², the market leader in the UK, France and Central Europe. Veolia Energy (Dalkia) manages the energy requirements of hundreds of thousands of buildings in Europe and is a major private operator of public transport systems through Veolia Transport, which transports approximately 2.5 billion passengers per year.

The strength of Veolia's market positions – ie amongst the global or regional leaders in its chosen fields – is credit supportive. The stability of the sectors in which it operates, and Moody's expectation of above average returns and cashflow stability, also contribute positively to the assessment of the company's business risk profile.

CONTRACT RETENTION RATE AND TERM IS CRITICAL TO VEOLIA'S LONG TERM GROWTH

Veolia's contract driven business model is highly dependent on its ability to renew contracts at the end of their term. The company's ability to do this is dependent on its performance during the contract, its relationship with the customer and the price offered at renewal. Moody's notes that Veolia has a good record of renewing its contracts at expiry, with a retention rate of 95% in the water sector, 86% at Veolia Energy (Dalkia), and similar levels in its other business segments in 2006. Whilst data on trends in renewal rates is limited, Moody's notes that rising revenues suggest that renewal rates remain strong. Given how important this is to Veolia's long term stability, Moody's will continue to monitor for any deterioration in retention rates, or for any signs that retentions are impacting margins – and the consequential impact of such on credit quality.

The average contract term is also an important factor underpinning credit quality. Given Veolia's focus on contracts and relative lack of "owned" assets, Moody's considers that the company's credit quality is correlated to the average contract term and average debt maturity (reflecting the principle of matching assets/contract cashflows to liabilities). As such, any signs of a deterioration in average contract term or average debt maturity that exceeds the average contract term could indicate a decline in credit quality. To date, Veolia has managed to balance longer term, capital oriented contracts with shorter term operating contracts, and broadly maintain the average contract term. Moody's will continue to monitor this situation.

REVENUE GROWTH DEPENDS ON A CONTINUATION OF THE OUTSOURCING TREND

The health of the outsourcing market is also crucial for Veolia's long term prospects. Outsourcing continues to go from strength to strength, driven partly by increases in population, as public bodies and industrials seek to improve performance, concentrate capital on core activities, and focus on areas of expertise. This underpins Veolia's revised 12% revenue growth target for 2007, which it has increased from its 2006 target of 6% to 8%, and its medium term 10% per annum revenue growth target. Overall, Moody's view is that Veolia's long term health is closely linked to that of the out-sourcing market.

² The remaining 34% is owned by Electricite de France.

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There are though, a number of factors that could impact Veolia's rate of revenue growth:

- i) **The amount of capital committed** – One of the reasons that outsourcing has become popular is that it can also bring in capital. It is interesting to note, however, that in recent years, the use of asset intensive build, operate and transfer (“BOT”) and build, own and operate (“BOO”) models has declined. If Veolia were willing to commit more capital to contracts, it could probably increase its revenue growth rate.
- ii) **Performance of the underlying outsourcing market** – Veolia is, to an extent, dependent on the rate of growth in the outsourcing market and any slowdown or trend towards bringing services back in-house could impact its ability to hit its targets.
- iii) **Contract performance** – As long as Veolia is perceived as a “safe pair of hands” and a reliable counterparty, its leading reputation is secure. However, this is dependent on a continuing robust operating performance and good relationship management. Any notable deterioration or failure in either of these areas could have a negative impact on the company's contract retention rates, and thus its credit quality.
- iv) **Competition** – Whilst competition in Veolia's markets is intense, with many national competitors, there are few companies that can match its reach and reputation. Moody's notes that one of Veolia's traditional competitors, Suez (rated A2, under review for upgrade) - which is still involved in a potential merger with Gaz de France (rated Aa1, under review for downgrade) - appears to be focusing more on energy. Consequently, Moody's believes that competition for large and complex international projects requiring a proven track record is not as intense as it has been in the past.

CREDITWORTHY COUNTERPARTIES REDUCES FINANCIAL EXPOSURES

A strength of Veolia's business from a credit perspective is that its medium and long term contracts are largely with various public or quasi-public authorities (such as municipalities, cities, urban transport authorities) and industrial and non-industrial customers. Across the group, approximately 67% of Veolia's revenue is generated from contracts with public authorities, and 33% is derived from industrial and commercial customers. Such counterparties have low credit risk, and in Veolia's developed markets, are often backed by the tax base of a Aaa rated government credit (such as France). Moreover, and given that Veolia provides a range of services without which urban areas or industrial facilities could not operate, it can be difficult for outsourcers to remove the company once it is providing these services because of the risk that provision of such might suffer.

DIVERSITY OF REVENUE STREAMS INCREASES CASHFLOW CERTAINTY

A fundamental element of Veolia's credit strength is the diversity of its cashflow sources, not only across its four core industrial sectors, but also by geography and counterparty. Veolia has thousands of contracts in place and the cashflow diversity this creates leaves it relatively independent of the economic cycle of any one sector or country.

Veolia's largest market is France (see figure 3 above), which accounts for around 47% of revenues, split between water (36%), waste (23%), energy services (26%), and transport (15%). Each of these sectors is utility or utility-like and, whilst not fast growing, shows steady growth through the economic cycle.

VEOLIA'S CONTRACT DRIVEN BUSINESS MODEL IS DEPENDENT ON CAREFUL RISK ALLOCATION

Veolia's business model is focused on outsourced service contracts and is therefore dependent on effective contract structuring to mitigate and allocate risks. Moody's believes that over time, Veolia has developed strong contractual frameworks that enable it to effectively allocate the risks of a contract, and thereby minimise its exposure to those risks (which it can manage using its operational and technical skills). The success of Veolia's contractual structuring was evidenced by the lack of liabilities arising from the termination of the Connex SouthEast contract in the UK in 2003. Although the company does carry some project risk exposures, for example the volume of waste deliveries on some contracts, transportation numbers and BOO project power price risks, Moody's believes these to be relatively small in the context of the group as a whole.

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Veolia is also exposed to some residual contract risks through its 66% stake in the energy company, Dalkia Holdings, which it jointly owns with Electricite de France ("EDF", rated Aa1/stable outlook). However, since a decision in 2000 not to be involved in primary energy production, the focus of Veolia Energy (Dalkia) has been on energy services, maintenance, installation, and the optimisation of energy infrastructure management and price risks for third parties. Veolia Energy (Dalkia)'s own price risk exposures are therefore limited, albeit include some timing differences. Veolia's waste-to-energy plants are covered by French combined heat and power legislation under which EDF is obliged to purchase all the electricity produced at a fixed price, and are therefore not subject to wholesale price risk. Overall, Moody's views the Dalkia alliance with EDF as positive, bringing together, as it does, complementary skills and customers.

Moody's notes, however, that like most industrial companies, Veolia is impacted by higher energy prices - although it appears to be more Veolia Energy (Dalkia) and the transport business that are most affected. In 2006, the impact of higher energy prices on the company's profits was limited.

BUSINESS MODEL IS DRIVEN BY LONG-TERM RELATIONSHIPS WITH CUSTOMERS

Critical to Veolia's business model is the successful establishment and maintainance of long term relationships with its public authority and industrial/non-industrial customer base. Whilst Veolia has a good record of creating and nurturing these relationships, its success depends on continuing to build on its reputation. To do this, the company must not only continue to perform and meet the expectations of its customers but also manage increasingly complex multi-product activities, and meet rising performance targets. In fact, the strength of Veolia's relationships with its customers, and its resulting ability to either win new contracts or renew existing ones, is a continuing and ongoing positive or negative measure of its performance - and, ultimately, of its credit quality.

FINANCIAL RISK FACTORS

STRATEGIC REFOCUSING HAS STRENGTHENED VEOLIA'S FINANCIAL PROFILE...

Over the last few years, since the difficult period during and after its ownership by Vivendi, Veolia has focused on its core water, waste services, energy services and transport activities. This strategy, together with the disposals that followed its spin-off from Vivendi in 2000, has brought 2006 balance sheet reported net debt (after deducting cash and marketable securities and before Moody's adjustments) to approximately EUR14.6 billion - a slight increase over 2005, reflecting the EUR1.4 billion spent on major new projects during 2006.

Figure 4: Adjusted Net Debt Calculation

	2006	2005	2004
Eur Million		Restated	Restated
Gross Financial Debt	17,361.7	16,367.8	18,003.2
Fair Value on hedging instruments	-28.8	-161.0	-284.0
Cash & Marketable Securities	-2,724.4	-2,396.8	-4,849.6
Net Financial Debt	14,608.5	13,810.0	12,869.6
Operating Leases	2,976.6	2,553.0	2,079.6
Pensions	615.2	590.2	389.2
Put options	0.0	321.0	312.0
Debt guarantees	300.7	250.8	154.6
Net Adjusted Financial Debt	18,501.0	17,525.0	15,805.0

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... BUT THE RECENTLY ANNOUNCED EUR15 BN – EUR20 BN INVESTMENT PLAN IS EXPECTED TO RESULT IN AN INCREASE IN LEVERAGE

In June 2007, Veolia announced its investment programme for the period 2007-2009, which ranges between EUR15 billion and EUR20 billion. This plan is partially supported by the EUR2.6 billion capital increase finalised in July, and will enable Veolia to actively manage its capital structure to achieve its committed Debt Ratio Target³ of between 3.5x-4.0x, over the period 2007-2009. Whilst implementation of this investment programme is anticipated to result in an increase in leverage, Moody's expects the company's credit ratios to remain broadly in line with the agency's expectation of an A3 rated entity (ie RCF/Net Adjusted Debt of between 14% and 18%) during the period 2007-2009.

Moody's also notes that, although the plan includes small and medium sized acquisition opportunities, Veolia is not ruling out future larger acquisition opportunities. The company has not included such in its new investment plan though, and Moody's has not factored such activity into its current rating assessment.

CORE OPERATING BUSINESSES DELIVER STABLE CASHFLOWS

Veolia's financial risk profile is underpinned by the cashflows generated by its operating businesses. These cashflows are highly stable and predictable, accruing, as they do, from multi-year contracts with low credit risk counterparties, which is reflected in the stability of Veolia's EBITDA over the past five years (compared to its net income). The company's portfolio of thousands of contracts across its four divisions and the diversity of such by sector and by geographic spread, also provides strong credit support to its cashflows, as does its record of contract retentions.

Recurring operating margin in 2006 improved to 7.8% (from 7.4% in 2005), and showed a further improvement to 8.0% in H107, benefiting from the EUR406 million of efficiencies delivered between 2004 and 2006 (vs the company's cost reduction savings target of EUR300 million). These measures are also expected to improve free cashflow, and have enabled management to exceed its committed target of an after tax return on capital employed of at least 10%, with ROCE of 10.8% in 2006.

Figure 5: Cash Flow Analysis

	2006	2005	2004
Eur Million		Restated	Restated
Gross Cash Flow before WC changes as reported	2,918.8	2,481.1	2,480.8
Reversal of Working Capital movement related to interest and taxes	-92.5	57.5	-87.3
Pension contributions in excess of service cost added back	6.4	14.6	0.0
Two-Thirds of operating lease expenses	330.7	283.7	231.1
Principal repayments on operating financial assets	438.1	320.6	275.7
Interest expense (net of tax relief) on put options	0.0	-7.3	-8.1
Cash Flow from Operations (FFO) as adjusted by Moody's	3,601.5	3,150.2	2,892.2
Dividends	-479.2	-374.0	-389.6
Retained Cash Flow (RCF) as adjusted by Moody's	3,122.3	2,776.2	2,502.6
FFO/Net Adjusted Debt	19.5%	18.0%	18.3%
RCF/Net Adjusted Debt	16.9%	15.8%	15.8%

³ Defined as net financial debt/cash flow from operations + repayment of operating financial assets.

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CHANGING REGULATION BRINGS SOME RISKS AND OPPORTUNITIES

Today, all businesses face changing standards and regulations, but few more than in waste and the provision of services to the public. Whilst Moody's believes that Veolia has adequately structured its contracts, maintains systems to control standards, and undertakes risk assessments, changing regulations or events could nevertheless pose risks. That said, tighter regulation of the waste sector appears more likely to create opportunities for Veolia as its customers seek to meet ever more complex requirements. In the case of carbon emissions, it is the customer rather than Veolia that is affected, with Veolia's role being to manage and minimise the financial impact - which may include additional maintenance or upgrades to facilities, both of which are likely to result in additional work for Veolia.

LIQUIDITY REMAINS STRONG

With EUR3.689 billion in cash, cash equivalents and marketable securities as at 30 June 2007, Veolia's liquidity profile is strong. The company has access to a EUR4 billion 7 year syndicated facility, which is currently undrawn, and to bilateral facilities - without triggers - of over EUR1 billion. Veolia also has a EUR4 billion Commercial Paper Programme in place, of which EUR1.433 billion was outstanding as at 30 June 2007. The group accesses the CP market on a daily basis and aims to cover a high proportion of its short term debt, including CP outstanding at any given time, by its undrawn committed bank lines and cash. Peak CP usage is not expected to exceed EUR2 billion at any point during the next 12 months. The company also has a EUR12 billion Euro Medium Term Programme in place, of which EUR8.993 billion was outstanding as at 30 June 2007.

As at 31 December 2006, the company's gross debt average maturity was 6.6 years, and as shown in figure 5 below, debt maturities are evenly spread.

Figure 5: Debt Maturities

	2006	2005
Bonds	8,417.5	7,857.9
<i>Of which:</i>		
<i>Maturity 1 to 2 years</i>	<i>1,059.3</i>	<i>550.8</i>
<i>Maturity 2 to 5 years</i>	<i>128.7</i>	<i>883.8</i>
<i>Maturity after 5 years</i>	<i>7,229.5</i>	<i>6,423.3</i>
Other LT Borrowings	5,584.1	5,864.9
<i>Of which:</i>		
<i>Maturity 1 to 2 years</i>	<i>1,622.9</i>	<i>1,798.0</i>
<i>Maturity 2 to 5 years</i>	<i>1,653.8</i>	<i>1,936.8</i>
<i>Maturity after 5 years</i>	<i>2,307.4</i>	<i>2,130.1</i>
ST Borrowings	2,904.1	2,138.2
Bank Overdrafts	456.0	506.8
Total	17,361.7	16,367.8

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CURRENT LEVEL OF DEBT LOCATED AT SUBSIDIARIES DOES NOT RAISE STRUCTURAL SUBORDINATION ISSUES

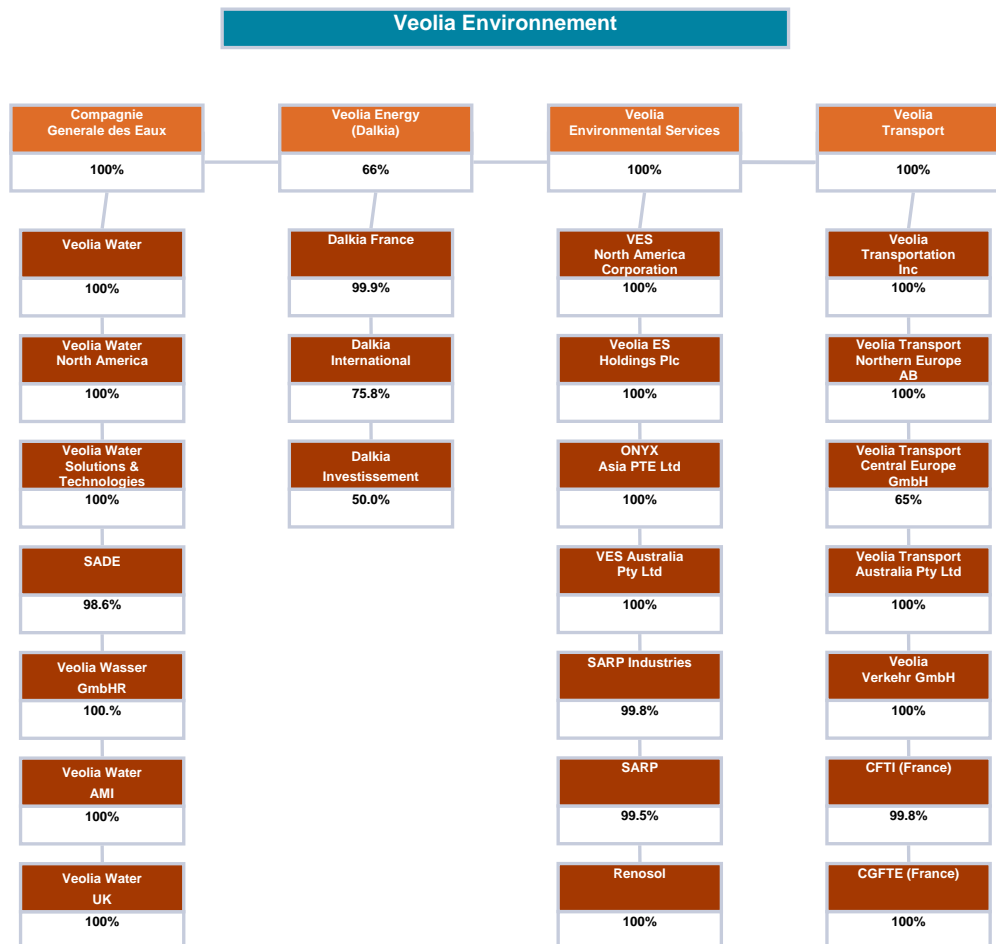
Because Veolia's business model often requires the establishment of separate legal entities to contract with customers, the result is a very complex group structure comprising almost 2,200 operating companies. However, as far as funding arrangements are concerned, Veolia adopts a policy of concentrating external debt at the holding company level - other than Project Finance debt and debt at proportionately consolidated entities - and funding the four principal business divisions via intercompany loans.

As at 31 December 2006, total gross external group debt amounted to EUR17.4 billion, of which approximately 25% was Project Finance debt and debt located at proportionately consolidated entities; all of which is non-recourse to the group. Of total gross external group debt with recourse to the group, approximately 20% was held at subsidiaries, and the balance of 80% was located at the parent. Moody's notes that Veolia is committed to reducing external financial liabilities at the subsidiary level in a timely manner, and does not consider that the current level of pure subsidiary debt is sufficient to warrant notching for structural subordination.

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Appendix

Veolia Illustrative Corporate Structure



Note: some of the companies shown are indirectly owned by Veolia

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Related Research

Rating Methodology:

- The Analysis of Off-Balance Sheet Exposures – A Global Perspective – July 2004 (Report Number: 87408)
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