# Half-yearly financial report

# 2016

Veolia Environnement
A Public Limited Company (Société Anonyme) with a share capital of euros 2 816 824 115
Corporate Headquarters: 36/38, avenue Kléber – 75116 PARIS - France
403 210 032 R.C.S. Paris

# First Part: Condensed interim consolidated financial statements – June 30,2016

## Consolidated financial statements

### Consolidated statement of financial position

#### 1. Consolidated statement of financial position - assets

| *(€ million)* | | As of June 30, 2016 | As of December 31, 2015 |
|---|---|---|---|
| Goodwill | Note 6.1 | 4,918.8 | 4,619.6 |
| Concession intangible assets | Note 6.2.1 | 2,638.3 | 2,796.4 |
| Other intangible assets | Note 6.2.2 | 912.6 | 918.0 |
| Property, plant and equipment | Note 6.3 | 6,741.5 | 6,820.3 |
| Investments in joint ventures | Notes 5.2.2 | 1,908.4 | 2,155.8 |
| Investments in associates | | 446.3 | 461.8 |
| Non-consolidated investments | | 61.0 | 52.9 |
| Non-current operating financial assets | Note 5.4 | 1,612.2 | 1,734.2 |
| Non-current derivative instruments - Assets | Note 7.2.2 | 32.6 | 58.9 |
| Other non-current financial assets | Note 7.1.2 | 460.5 | 758.4 |
| Deferred tax assets | | 1,126.9 | 1,154.5 |
| **Non-current assets** | | **20,859.1** | **21,530.8** |
| Inventories and work-in-progress | Note 5.3 | 696.7 | 757.7 |
| Operating receivables | Note 5.3 | 8,894.3 | 8,797.2 |
| Current operating financial assets | Note 5.4 | 144.2 | 162.3 |
| Other current financial assets | Note 7.1.2 | 252.2 | 215.7 |
| Current derivative instruments - Assets | Note 7.2.2 | 125.5 | 72.8 |
| Cash and cash equivalents | Note 7.1.3 | 3,680.2 | 4,176.3 |
| Assets classified as held for sale (*) | | 366.4 | 175.8 |
| **Current assets** | | **14,159.5** | **14,357.8** |
| **TOTAL ASSETS** | | **35,018.6** | **35,888.6** |

*(*) As of June 30,2016, assets classified as held for sale concern Transdev Group in the amount of €186,4 million (see also Note 3) , Aton in Italy in the amount of €121.1 million and Bartin in France in the amount of 58.9 million.*

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

## 2. Consolidated statement of financial position - equity and liabilities

| *(€ million)* | | As of June 30, 2016 | As of December 31, 2015 |
|---|---|---|---|
| Share capital | Note 8.1.1 | 2,816.8 | 2,816.8 |
| Additional paid-in capital | | 7,161.2 | 7,165.6 |
| Reserves and retained earnings attributable to owners of the Company | | -2,065.7 | -1,644.1 |
| **Total equity attributable to owners of the Company** | Note 8.1 | **7,912.3** | **8,338.3** |
| Total equity attributable to non-controlling interests | Note 8.2 | 1,138.7 | 1,165.0 |
| **Equity** | | **9,051.0** | **9,503.3** |
| Non-current provisions | Note 9 | 2,084.4 | 2,068.1 |
| Non-current borrowings | Note 7.1.1 | 7,196.9 | 8,022.3 |
| Non-current derivative instruments - Liabilities | Note 7.2.2 | 140.3 | 114.7 |
| Deferred tax liabilities | | 1,099.5 | 1,117.1 |
| **Non-current liabilities** | | **10,521.1** | **11,322.2** |
| Operating payables | Note 5.3 | 9,492.9 | 10,070.6 |
| Current provisions | Note 9 | 538.1 | 479.1 |
| Current borrowings | Note 7.1.1 | 4,759.1 | 4,000.1 |
| Current derivative instruments - Liabilities | Note 7.2.2 | 130.3 | 87.6 |
| Bank overdrafts and other cash position items | Note 7.1.3 | 395.6 | 318.6 |
| Liabilities directly associated with assets classified as held for sale | | 130.5 | 107.1 |
| **Current liabilities** | | **15,446.5** | **15,063.1** |
| **TOTAL EQUITY AND LIABILITIES** | | **35,018.6** | **35,888.6** |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

## Consolidated income statement

| (€ million) | | Half-year ended June 30, 2016 | Half-year ended June 30, 2015 |
|---|---|---|---|
| **Revenue** | **Note 5.1** | **11,955.9** | **12,317.6** |
| Cost of sales | | -9,806.0 | -10,167.8 |
| Selling costs | | -280.5 | -276.5 |
| General and administrative expenses | | -1,164.5 | -1,218.0 |
| Other operating revenue and expenses | | -118.8 | 9.3 |
| **Operating income before share of net income (loss) of equity-accounted entities** | **Note 5.2** | **586.1** | **664.6** |
| **Share of net income (loss) of equity-accounted entities** | | **43.4** | **52.8** |
| o/w share of net income (loss) of joint ventures | Note 5.2.2 | 29.7 | 39.7 |
| o/w share of net income (loss) of associates | Note 5.2.2 | 13.7 | 13.1 |
| **Operating income after share of net income (loss) of equity-accounted entities** | | **629.5** | **717.4** |
| Net finance costs | Note 7.3.1 | -209.2 | -230.8 |
| Other financial income and expenses | Note 7.3.2 | 12.9 | 46.8 |
| **Pre-tax net income (loss)** | | **433.2** | **533.4** |
| Income tax expense | Note 10.1 | -130.2 | -124.2 |
| Share of net income (loss) of other equity-accounted entities | | 22.2 | 25.5 |
| **Net income (loss) from continuing operations** | | **325.2** | **434.7** |
| Net income (loss) from discontinued operations | | - | - |
| **Net income (loss) for the period** | | **325.2** | **434.7** |
| **Attributable to owners of the Company** | | **251.2** | **352.7** |
| Attributable to non-controlling interests | Note 8.2 | 74.0 | 82.0 |
| **NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY PER SHARE (1)** | | **-** | **-** |
| Diluted | | 0.33 | 0.51 |
| Basic | | 0.32 | 0.51 |
| **NET INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO OWNERS OF THE COMPANY PER SHARE [1]** | | - | - |
| Diluted | | 0.33 | 0.51 |
| Basic | | 0.32 | 0.51 |
| **NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO OWNERS OF THE COMPANY PER SHARE [1]** | | - | - |
| Diluted | | - | - |
| Basic | | - | - |

*(1) Basic earnings per share is calculated by dividing adjusted net income attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the period. Pursuant to IAS 33.9 and IAS 12, net income attributable to owners of the Company has been adjusted to take into account the cost of the coupon payable to holders of deeply subordinated securities issued by Veolia Environnement.*

*Diluted earnings per share is calculated by dividing adjusted net income attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the fiscal year plus the weighted average number of ordinary shares that would be issued following the conversion into ordinary shares of all potentially dilutive ordinary shares.*

*As of June 30, 2016, the weighted average number of shares outstanding is 566,191,549 (diluted) and 550,293,187 (basic). Dilutive instruments taken into account in the Earning Per Share calculation primarily concern the OCEANE convertible bonds issued on March 8, 2016 (see Note 7.1.1.1.)*

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

## Consolidated statement of comprehensive income

| *(€ million)* | Half-year ended June 30, 2016 | Half-year ended June 30, 2015 |
|---|---|---|
| **Net income (loss) for the period** | 325.2 | **434.7** |
| Actuarial gains or losses on pension obligations | -43.7 | -17.2 |
| Income tax expense | 4.8 | 6.9 |
| *Amount net of tax* | -38.9 | -10.3 |
| | | |
| **Other items of comprehensive income not subsequently released to net income** | **-38.9** | **-10.3** |
| ***o/w attributable to joint ventures (2)*** | ***-8.6*** | ***1.9*** |
| ***o/w attributable to associates*** | ***0.3*** | ***-0.3*** |
| Fair value adjustments on available-for-sale assets | -0.3 | 0.4 |
| Income tax expense | -0.3 | -0.1 |
| *Amount net of tax* | -0.6 | 0.3 |
| Fair value adjustments on cash flow hedge derivatives | -70.0 | 84.1 |
| Income tax expense | -4.0 | -2.0 |
| *Amount net of tax* | -74.0 | 82.1 |
| Foreign exchange gains and losses: | - | - |
| • on the translation of the financial statements of subsidiaries drawn up in a foreign currency | -148.0 | 314.7 |
| *Amount net of tax* | -148.0 | 314.7 |
| • on the net financing of foreign operations | 0.5 | -93.0 |
| • income tax expense | -0.1 | 0.8 |
| *Amount net of tax* | 0.4 | -92.2 |
| | | |
| **Other items of comprehensive income subsequently released to net income** | **-222.2** | **304.9** |
| ***o/w attributable to joint ventures (1)*** | ***-78.2*** | ***147.0*** |
| ***o/w attributable to associates*** | ***-9.6*** | ***10.1*** |
| **Total Other comprehensive income** | **-261.1** | **294.6** |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **64.1** | **729.3** |
| Attributable to owners of the Company | 19.4 | 595.2 |
| Attributable to non-controlling interests | 44.7 | 134.1 |

*(i) The share attributable to joint ventures mainly concerns:*

*For the half-year ended June 30, 2016: the fluctuation in foreign exchange translation reserves of the Chinese concessions (-€68.0 million)*
*For the half-year ended June 30, 2015: the fluctuation in foreign exchange translation reserves of the Chinese concessions (€133.5 million)*

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

## Consolidated cash-flow statement

| *(€ million)* | Notes | Half-year ended June 30, 2016 | Half-year ended June 30, 2015 |
|---|---|---|---|
| **Net income (loss) for the period** | | **325.2** | **434.7** |
| ***Net income (loss) from continuing operations*** | | ***325.2*** | ***434.7*** |
| ***Net income (loss) from discontinued operations*** | | **-** | **-** |
| Operating depreciation, amortization, provisions and impairment losses | | 727.4 | 604.1 |
| Financial amortization and impairment losses | | 1.1 | 4.1 |
| Gains (losses) on disposal of operating assets | | -17.9 | -9.8 |
| Gains (losses) on disposal of financial assets | | -40.5 | -65.6 |
| Share of net income (loss) of joint ventures | Notes 5.2.2 | -51.9 | -65.2 |
| Share of net income (loss) of associates | Notes 5.2.2 | -13.7 | -13.1 |
| Dividends received | Note 7.3.2 | -2.4 | -1.3 |
| Net finance costs | Note 7.3.1 | 209.2 | 230.8 |
| Income tax expense | Note 10 | 130.2 | 124.2 |
| Other items | | 27.9 | 13.3 |
| **Operating cash flow before changes in operating working capital** | | **1,294.6** | **1,256.2** |
| Change in operating working capital requirements | Note 5.3 | -686.1 | -628.0 |
| Income taxes paid | | -138.7 | -119.5 |
| ***Net cash from operating activities of continuing operations*** | | **469.8** | **508.7** |
| ***Net cash from (used in) operating activities of discontinued operations*** | | **-** | **-** |
| **Net cash from operating activities** | | **469.8** | **508.7** |
| Industrial investments, net of grants | | -504.7 | -510.4 |
| Proceeds on disposal of intangible assets and property, plant and equipment | | 33.7 | 44.6 |
| Purchases of investments | Note 3.1 | -417.4 | -42.1 |
| Proceeds on disposal of financial assets | Note 3.1 | 29.5 | 250.8 |
| Operating financial assets | | - | - |
| New operating financial assets | Note 5.4 | -44.4 | -49.9 |
| Principal payments on operating financial assets | Note 5.4 | 104.0 | 82.3 |
| Dividends received (including dividends received from joint ventures and associates) | | 40.8 | 54.4 |
| New non-current loans granted | | -106.3 | -59.4 |
| Principal payments on non-current loans | | 34.9 | 101.7 |
| Net decrease/increase in current loans | | 316.1 | -8.6 |
| ***Net cash used in investing activities of continuing operations*** | | **-513.8** | **-136.6** |
| ***Net cash used in investing activities of discontinued operations*** | | **-** | **-** |
| **Net cash used in investing activities** | | **-513.8** | **-136.6** |
| Net increase (decrease) in current borrowings | Note 7.1.1 | -369.3 | -763.6 |

| *(€ million)* | **Notes** | **Half-year ended June 30, 2016** | **Half-year ended June 30, 2015** |
|---|---|---|---|
| New non-current borrowings and other debts | Note 7.1.1 | 735.5 | 42.7 |
| Principal payments on non-current borrowings and other debts | Note 7.1.1 | -46.7 | -175.9 |
| Proceeds on issue of shares | Note 8.1 | 9.1 | - |
| Share capital reduction | | - | - |
| Transactions with non-controlling interests: partial purchases | Note 3.1 | -2.6 | -105.5 |
| Transactions with non-controlling interests: partial sales | | - | - |
| Proceeds on issue of deeply subordinated securities | | - | - |
| Coupons on deeply subordinated securities | Note 8.3 | -68.8 | -71.5 |
| Purchases of/proceeds from treasury shares | Note 8.1 | - | 0.1 |
| Dividends paid | Note 8.1 | -501.1 | -486.7 |
| Interest paid | Note 7.3.1 | -267.8 | -273.9 |
| ***Net cash from (used in) financing activities of continuing operations*** | | ***-511.7*** | ***-1,834.3*** |
| ***Net cash from financing activities of discontinued operations*** | | ***-*** | ***-*** |
| **Net cash from (used in) financing activities** | | ***-511.7*** | **-1,834.3** |
| Effect of foreign exchange rate changes and other | | -17.4 | 16.0 |
| **Increase (decrease) in external net cash of discontinued operations** | | - | - |
| **Net cash at the beginning of the year** | | **3,857.7** | **2,932.2** |
| **Net cash at the end of the year** | | **3,284.6** | **1,486.0** |
| Cash and cash equivalents | Note 7.1.3 | 3,680.2 | 1,732.9 |
| Bank overdrafts and other cash position items | Note 7.1.3 | 395.6 | 246.9 |
| **Net cash at the end of the year** | | **3,284.6** | **1,486.0** |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

## Statement ofchanges in equity

| *(€ million)* | Number of shares outstanding | Share capital | Additional paid-in capital | Deeply subordinated securities | Treasury shares | Consolidated reserves and retained earnings | Foreign exchange translation reserves | Fair value reserves | Equity attributable to owners of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Amount as of January 1, 2015** | **562,301,801** | **2,811.5** | **7,165.6** | **1,385.6** | **-436.7** | **-2,823.7** | **270.1** | **-60.2** | **8,312.2** | **1,167.2** | **9,479.4** |
| Issues of share capital of the parent company | | - | - | - | - | - | - | - | - | - | - |
| Proceeds on issue of deeply subordinated securities | | - | - | - | - | - | - | - | - | - | - |
| Coupon on deeply subordinated securities | | - | - | -71.5 | - | - | - | - | -71.5 | - | -71.5 |
| Parent company dividend distribution | | - | - | - | - | -384.0 | - | - | -384.0 | - | -384.0 |
| Elimination of treasury shares | | - | - | - | 0.1 | - | - | - | 0.1 | - | 0.1 |
| Share-based payments | | - | - | - | - | 2.4 | - | - | 2.4 | - | 2.4 |
| Third party share in share capital increases of subsidiaries | | - | - | - | - | - | - | - | - | - | - |
| Third party share in dividend distributions of subsidiaries | | - | - | - | - | - | - | - | - | -102.7 | -102.7 |
| Transactions with non-controlling interests | | - | - | - | - | -91.2 | - | - | -91.2 | 3.7 | -87.5 |
| **Total transactions with non-controlling interests** | | **-** | **-** | **-71.5** | **0.1** | **-472.8** | **-** | **-** | **-544.2** | **-99.0** | **-643.2** |
| Other comprehensive income | | - | - | - | - | -10.0 | 169.7 | 82.8 | 242.5 | 52.1 | 294.6 |
| Net income for the period | | - | - | - | - | 352.7 | - | - | 352.7 | 82.0 | 434.7 |
| **Total comprehensive income for the period** | | - | - | - | - | **342.7** | **169.7** | **82.8** | **595.2** | **134.1** | **729.3** |
| Other movements | | - | - | - | - | -2.4 | - | - | -2.4 | -15.8 | -18.2 |
| **Amount As of June 30, 2015** | **562,301,801** | **2,811.5** | **7,165.6** | **1,314.1** | **-436.6** | **-2,956.2** | **439.8** | **22.6** | **8,360.8** | **1,186.5** | **9,547.3** |

| (€ million) | Number of shares outstanding | Share capital | Additional paid-in capital | Deeply subordinated securities | Treasury shares | Consolidated reserves and retained earnings | Foreign exchange translation reserves | Fair value reserves | Equity attributable to owners of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Amount as of As of December 31, 2015** | **563,364,823** | **2,816.8** | **7,165.6** | **1,314.1** | **-436.5** | **-2,840.6** | **334.6** | **-15.7** | **8,338.3** | **1,165.0** | **9,503.3** |
| Issues of share capital of the parent company | **-** | - | - | - | - | - | - | - | - | - | - |
| Proceeds on issue of deeply subordinated securities | | **-** | **-** | - | **-** | **-** | **-** | **-** | - | **-** | - |
| OCEANE Equity component | | **-** | **-** | 17.6 | **-** | **-** | **-** | **-** | 17.6 | **-** | 17.6 |
| Coupon on deeply subordinated securities | | **-** | - | -68.8 | - | - | - | - | -68.8 | - | -68.8 |
| Parent company dividend distribution | | **-** | **-4.4** | - | - | -396.8 | - | - | -401.2 | - | -401.2 |
| Elimination of treasury shares | | **-** | **-** | - | - | - | - | - | - | - | - |
| Share-based payments | | **-** | - | - | - | 2.1 | - | - | 2.1 | - | 2.1 |
| Third party share in share capital increases of subsidiaries | | **-** | **-** | - | - | - | - | - | - | 9.1 | 9.1 |
| Third party share in dividend distributions of subsidiaries | | **-** | **-** | **-** | **-** | - | **-** | **-** | - | -99.9 | -99.9 |
| Transactions with non-controlling interests | | **-** | **-** | **-** | **-** | 0.3 | **-** | **-** | 0.3 | -1.7 | -1.4 |
| **Total transactions with non-controlling interests** | **-** | **-** | **-4.4** | **-51.2** | **-** | **-394.4** | **-** | **-** | **-450.0** | **-92.5** | **-542.5** |
| Other comprehensive income | | **-** | **-** | **-** | **-** | -38.9 | -117.8 | -75.2 | -231.9 | -29.2 | -261.1 |
| Net income for the period | | **-** | **-** | **-** | **-** | 251.2 | - | - | 251.2 | 74.0 | 325.2 |
| **Total comprehensive income for the period** | | **-** | **-** | **-** | **-** | **212.3** | **-117.8** | **-75.2** | **19.3** | **44.8** | **64.1** |
| Other movements | | **-** | **-** | **-** | **-** | 4.7 | - | - | 4.7 | 21.4 | 26.1 |
| **Amount As of June 30, 2016** | **563,364,823** | **2,816.8** | **7,161.2** | **1,262.9** | **-436.5** | **-3,018.0** | **216.8** | **-90.9** | **7,912.3** | **1,138.7** | **9,051.0** |

The dividend distribution per share was €0.73 in fiscal year 2016 and €0.70 in fiscal year 2015.

The total dividend paid recorded in the Consolidated Cash Flow Statement of -€501.1 million and -€486.7 million for the half-years ended June 30, 2016 and June 30, 2015, respectively, breaks down as follows:

| *(€ million)* | **Half-year ended June 30, 2015** | **Half-year ended June 30, 2016** |
|---|---|---|
| Parent company dividend distribution | -383.5 | -401.2 |
| Third party share in dividend distributions of subsidiaries | -103.2 | -99.9 |
| Scrip dividend | - | - |
| **TOTAL DIVIDEND PAID** | **-486.7** | **-501.1** |

# Notes

# NOTE 1: ACCOUNTING PRINCIPLES AND METHODS

The Group's condensed interim consolidated financial statements for the half-year ended June 30, 2016 were prepared under the responsibility of the Board of Directors, which met on July 29, 2016.

## 1.1 Accounting standards framework

### 1.1.1 Basis underlying the preparation of the financial information

Pursuant to European Regulation no.1606/2002 of July 19, 2002, as amended by European Regulation 297/2008 of March 11, 2008, the condensed interim consolidated financial statements of Veolia Group (the “Group”) for the half-year ended June 30, 2016 were prepared in accordance with IAS 34, Interim Financial Reporting. As they are condensed financial statements, they do not include all the disclosures required under IFRS for annual financial statements and must be read in conjunction with the Group financial statements for the year ended December 31, 2015.

The accounting principles used for the preparation of the condensed interim consolidated financial statements are in accordance with the IFRS standards and interpretations as adopted by the European Union. These standards and interpretations may be consulted at the following European Union website:

http://ec.europa.eu/internal_market/accounting/ias/index_en.htm.

These half-year financial statements have been drawn up in accordance with the principles used for the preparation of the 2015 consolidated financial statements, except for the items presented below and the specific requirements of IAS 34.

### 1.1.2 New standards and interpretations

The accounting policies and methods are presented in detail in consolidated financial statements for the year-ended December 31, 2015.

**TEXTS OF MANDATORY EFFECT FOR THE FIRST TIME WITHIN THE GROUP AS OF JANUARY 1, 2016 :**

- Amendments resulting from the IFRS annual improvement process (2012-2014 cycle);
- Amendments to IAS 1, Presentation of financial statements: Disclosure initiative;
- Amendments to IAS 16 and IAS 38, aimed at clarifying acceptable methods of depreciation and amortization;
- Amendment to IFRS 11, Joint Arrangements, providing guidance on how to account for the acquisition of an interest in a joint arrangement.
- Amendments resulting from the IFRS annual improvement process (2010-2012 cycle);
- Amendment to IAS 19, employee benefits : employee contribution to defined benefits plan, aimed at simplifying the accounting for contributions that are independent of the number of years of employee service.

The first-time application of these texts does not have a material impact for the Group.

**TEXTS WHICH ENTER INTO MANDATORY EFFECT AFTER JUNE 30, 2016 AND NOT EARLY ADOPTED BY THE GROUP:**

- IFRS 9, Financial Instruments;
- IFRS 15, Revenue from Contracts with Customers;
- IFRS 16, Leases;
- Amendment to IAS 7 , statement of cash flow, under its disclosure initiative ;
- Amendment to IAS 12, Income taxes, recognition of deferred tax assets for unrealized losses.

Subject to their definitive adoption by the European Union, these standards and standard amendments are of mandatory application for fiscal years beginning on or after January 1, 2017 or later. The Group is currently assessing the potential impact of the first-time application of these texts

### 1.1.3 Seasonality of Group's activities

Group activities are, by nature, subject to seasonal changes and climatic conditions. Therefore, in the Energy Services business, the majority of operating income is realized in the first and fourth quarters corresponding to heating periods in Europe. In the Water business, water consumption for domestic use and wastewater treatment are higher between May and September in the Northern hemisphere, where the Group conducts most of its activity.

Accordingly, the interim results of the Group for the half-year ended June 30, 2016 and certain key performance indicators such as working capital reflect the impact of these combined factors and therefore may not be extrapolated over the whole year.

## 1.2 Translation of foreign subsidiaries' financial statements

The exchange rates of the major currencies of non-euro countries used in the preparation of the consolidated financial statements were as follows:

| **Period-end exchange rate**<br>(one foreign currency unit = €xx) | As of June 30, 2016 | As of June 30, 2015 | **As of December 31, 2015** |
|---|---|---|---|
| U.S. Dollar | **0.9007** | 0.8937 | 0.9185 |
| Pound sterling | **1.2099** | 1.4057 | 1.3625 |
| Chinese renminbi | **0.1354** | 0.1442 | 0.1416 |
| Australian dollar | **0.6698** | 0.6873 | 0.6713 |
| Polish zloty | **0.2254** | 0.2386 | 0.2345 |
| Argentinian Peso | **0.0601** | 0.0984 | 0.0709 |
| Mexican Peso | **0.0485** | 0.0570 | 0.0529 |
| Brazilian Real | **0.2786** | 0.2882 | 0.2319 |
| Czech crown | **0.0369** | 0.0367 | 0.0370 |

| **Average exchange rate**<br>(one foreign currency unit = €xx) | **Half-year ended June 30, 2016** | **Half-year ended June 30, 2015** | **Year ended December 31, 2015** |
|---|---|---|---|
| U.S. Dollar | **0.8962** | 0.8955 | 0.9007 |
| Pound sterling | **1.2847** | 1.3645 | 1.3767 |
| Chinese renminbi | **0.1369** | 0.2415 | 0.1434 |
| Australian dollar | **0.6572** | 0.7005 | 0.6769 |
| Polish zloty | **0.2290** | 0.2415 | 0.2391 |
| Argentinian Peso | **0.0625** | 0.1015 | 0.0972 |
| Mexican Peso | **0.0496** | 0.0592 | 0.0568 |
| Brazilian Real | **0.2418** | 0.3021 | 0.2709 |
| Czech crown | **0.0370** | 0.0364 | 0.0366 |

## NOTE 2 : USE OF MANAGEMENT ESTIMATES IN THE APPLICATION OF GROUP ACCOUNTING STANDARD

Veolia may be required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosures of contingent assets and liabilities. Future results may be different from these estimates.

Underlying estimates and assumptions are determined based on past experience and other factors considered as reasonable given the circumstances. They act as a basis for making judgments necessary to the determination of the carrying amount of assets and liabilities, which cannot be obtained directly from other sources. Future values could differ from these estimates.

All these estimates are based on organized procedures for the collection of forecast information on future flows, validated by operating management, and on expected market data based on external indicators and used in accordance with consistent and documented methodologies.

Underlying estimates and assumptions are reviewed on an ongoing basis. The impact of changes in accounting estimates is recognized in the period the change is made if it affects this period only and in the period the change is made and prior periods if they are also affected by the change.

Accounting estimates underlying the preparation of the accounts were made in an uncertain economic and financial environment (Brexit, volatile financial markets, government austerity measures, fluctuations in commodity prices, etc.) making economic forecasting more difficult. With regards to Brexit and the outcome of the June 23, 2016 referendum, and beyond the macro-economic effects which still remain uncertain, the Group's exposure to foreign exchange transactional risks appears limited as of June 30, 2016, Group's activities being performed by subsidiaries operating in their own country and their own currency. Concerning the foreign exchange risk on assets, the Group has developed a policy which seeks to back foreign-currency financing and foreign currency derivatives with net foreign investments and ensuring that Group companies do not have a material balance sheet foreign exchange position that could generate significant volatility in foreign exchange gains and losses.

In this context, the consolidated financial statements for the period were prepared based on the current environment, particularly with respect to the estimates presented below.

Pursuant to the provisions of IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, the Group must exercise judgment in determining whether the criteria for recognizing an asset or group of assets as held for sale are met and in measuring these assets. Furthermore, discontinued operations are identified with respect to criteria also defined in IFRS 5. These assessments are reviewed at each period end taking account of any changes in facts or circumstances.

Notes mentioned hereafter are detailed in consolidated financial statements as of December 31, 2015.

Notes 5 and 6 concern goodwill and non-current asset impairment tests.

Note 7 describes the principles adopted for the determination of financial instrument fair values.

Note 10 concerns the Group's income tax expense. The income tax expense for the period is calculated by applying the estimated effective annual tax rate to the pre-tax income of the period, adjusted for any one-off items.

Notes 9 and 11 on provisions, the employee benefit obligation and contingent assets and liabilities, detail the provisions recognized by Veolia Environnement. Veolia determined these provisions based on best estimates of these obligations.

All these estimates are based on organized procedures for the collection of forecast information on future flows, validated by operating management, and on expected market data based on external indicators and used in accordance with consistent and documented methodologies.

In particular, in accordance with Group practice, discount rates used pursuant to IAS 36, *Impairment of Assets*, correspond to the weighted-average cost of capital calculated annually in each of the relevant geographic areas. A specific risk premium is included in the calculation of the weighted average cost of capital of entities located in countries outside the euro area and the following euro area countries: Spain, Ireland, Italy, Portugal and Slovenia.

At the June 30, 2016 period-end, rates were reviewed taking account of current conditions and the following methods were adopted:

- Application of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*: the discount rates used consist of a risk-free interest rate and a risk premium specific to the underlying assets and liabilities;

- Application of IAS 19 revised, *Employee Benefits*: commitments were measured using a range of market indices and, in particular the Iboxx index.

# NOTE 3: CONSOLIDATION SCOPE

## 3.1 Changes in Group's structure

### 3.1.1 Main changes in the first half of year 2016

#### ACQUISITION OF KURION

The acquisition of the US company, Kurion, announced by the Group on February 3, 2016, was closed on March 31, 2016 for a consideration of €319.1 million.

With the integration of Kurion, Veolia will now be able to provide all existing solutions and know-how in both nuclear facility cleanup and the treatment of low and medium-level radioactive waste. These new activities complete the Group's expertise in the treatment of hazardous waste.

This transaction has been accounted for pursuant to IFRS 3 revised on business combinations.

The transaction was completed for a total consideration of € 319.1 million, comprising a cash payment of € 316.8 million paid on the date of acquisition of control, and a deferred payment € 2.3 million to be paid in twelve months.

In addition, acquisition costs borne by the Group total €6.3 million.

Furthermore, shareholders granted the Group vendor warranties of up to € 27.0 million, covering notably operating, legal and tax risks.

Given the effective date of completion of the transaction, work on the valuation of Kurion's assets and liabilities, as required by IFRS 3, is in progress. The measurement and calculation of goodwill will be finalized within the 12 months following the acquisition date.

This transaction is therefore reflected by :

- The recognition of provisional goodwill of € 276.2 million, inside the Global businesses segment ;
- A financial investment of € 288.7 million (enterprise value), excluding acquisition costs, comprising the cash payment of € 316.8 million and Kurion cash acquired of € 28.1 million, presented in "Purchases of investments" in the Consolidated Cash Flow Statement.

#### ACQUISITION OF CHEMOURS' SULFUR PRODUCTS ASSETS IN THE UNITED-STATES

On June 13, 2016 Veolia North America has signed an agreement to take over Chemours' Sulfur Products division for $325 million (€ 293.0 million).

This division specializes in the treatment and recovery of sulfuric acid and gases produced during the refining process, which are regenerated into clean acid and steam used in a wide range of industrial activities. As a tuck-in to Veolia North America's Industrial Business, Chemours Sulfur Products division is an excellent complement to Veolia's existing business, and will reinforce its existing recovery and regeneration capabilities and technologies.

The parties should finalize this transaction in the second half of 2016, subject to closing conditions and the standard regulatory authorizations. As part of final negotiations, the Group paid US$9.75 million to Chemours to secure exclusive negotiation rights, recognized in other current financial assets.

Accordingly, an off balance-sheet item given in respect to the securities purchase commitment has been recognized in the amount of US$315.3 condensed interim financial statements as of June 30, 2016.

#### OTHER CHANGES

The group also performed less significant acquisitions in the period,, in particular in Brazil and the Czech Republic.

## 3.2 Transdev Group

The Group's 50% stake in Transdev Group is presented in "Investments in joint ventures" (continuing operations) and equity-accounted since December 31, 2013.

During the first half of 2016, discussions between Veolia and Caisse des dépôts et Consignations regarding the Group's withdrawal from Transdev led to significant progress. Negotiation agreements should be finalized soon.

Accordingly, as of June 30, 2016, and in compliance with IFRS 5 guidance, the 20% stake in Transdev Group to be sold within twelve months (during the second half of 2016), has been fixed and reclassified in "Assets classified as held for sale".

The residual 30% stake in Transdev Group remains accounted for under the equity method, as of June 30, 2016.

As of June 30, 2016, the Group's investment in Transdev Group is therefore €466.0 million, including €279.6 classified in "investments in joint ventures" and €186.4 classified in "assets held for sale" , compared with an equity value of €435.7 million as of December 31, 2015.

The following table presents summarized financial information for Transdev Group (at 100%) for the first half of 2016 and fiscal year 2015. This information reflects amounts presented in the joint venture's financial statements prepared in accordance with IFRSs, adjusted to reflect fair value adjustments performed on acquisition and adjustments recorded to comply with Group accounting principles, when applying the equity method.

| Summarized financial information - Transdev Group | As of June 30, 2016 | As of December 31, 2015 |
|---|---|---|
| Current assets | 1,664.3 | 1,524.9 |
| Non-current assets | 2,564.7 | 2,626.6 |
| **TOTAL ASSETS** | **4,229.0** | **4,151.5** |
| Equity attributable to owners of the Company | 903.9 | 849.6 |
| Equity attributable to non-controlling interests | 59.9 | 75.0 |
| Current liabilities | 1,858.0 | 1,803.5 |
| Non-current liabilities | 1,407.2 | 1,423.4 |
| **TOTAL EQUITY AND LIABILITIES** | **4,229.0** | **4,151.5** |

| INCOME STATEMENT | Half-year ended June 30, 2016 | Half-year ended June 30, 2015 |
|---|---|---|
| Revenue | 3,334.2 | 3,368.4 |
| Operating income | 71.8 | 84.4 |
| Net income for the year attributable to owners of the Company | 44.5 | 51.6 |

On March 30, 2016, following external refinancing, Transdev Group repaid in full the shareholder loan granted by Veolia in the amount of €345 million.

## 3.3 Off-balance sheet commitments related to consolidation scope

### 3.3.1 Commitments given

Off-balance sheet commitments given break down as follows:

| *(€ million)* | As of December 31, 2015 | As of June 30, 2016 | Maturing in: Less than 1 year | 1 to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Vendor warranties | 851.6 | 837.5 | 187.0 | 121.1 | 529.4 |
| Securities purchase commitments | 1.2 | 306.3 | 306.2 | - | 0.1 |
| Sale commitments | 0.3 | 0.3 | 0.3 | - | - |
| Other commitments relating to the consolidated scope | 39.7 | 37.5 | 25.5 | 11.6 | 0.4 |
| **TOTAL COMMITMENTS RELATING TO THE CONSOLIDATED SCOPE** | **892.8** | **1,181.6** | **519.0** | **132.7** | **529.9** |

The increase in securities purchase commitments between December 31, 2015 and June 30, 2016 mainly reflects the acquisition of Chemours' sulfur products assets in the United States (see Note 3.1.1).

**Vendor warranties** primarily comprise:

- warranties given on the divestiture of the investment in Berlin Water in the amount of €484.0 million;
- warranties given on the divestiture in 2004 of Water activities in the United States in the amount of €112.6 million;
- warranties given on the divestiture of the Group's activities in Israel in the amount of €47.0 million;
- warranties given on the divestiture of American and European wind energy activities in the amount of €38.2 million ;
- warranties given to EDF in connection with the Dalkia redistribution transaction, estimated at €25.0 million.

**Agreements with EDF**: Further to the completion of the redistribution transaction on July 25, 2014, Veolia Environnement granted EDF a call option covering its Dalkia International, renamed Veolia Energie International, shares exercisable should an EDF competitor take control of this company. Likewise, EDF granted Veolia Environnement a call option covering all of its Dalkia France shares, exercisable should a Veolia Environnement competitor take control. These call options are not included in the above table.

**Agreements with Caisse des dépôts et consignations**: Veolia Environnement granted Caisse des dépôts et consignations a call option covering all its Transdev Group shares exercisable in the event of a change in control of Veolia Environnement. This call option is not included in the above table.

### 3.3.2 Commitments received

Commitments received relating to the consolidated scope total €352.2 million as of June 30, 2016, compared with €175.4 million as of December 31, 2015. Movements in commitments received are mainly due to vendors warranties given in respect of acquisitions by the Group, in the Czech Republic, Brazil and United States.

## NOTE 4 : REPORTING BY OPERATING SEGMENT

The operating segments are components of the Group that engage in activities and whose operating results are reviewed by the Group Chairman and Chief Executive Officer (Chief Operating Decision Maker) to make decisions about resources to be allocated to the segment and assess its performance. Information presented to the Chief Operating Decision Maker is taken from the Group internal reporting system.

Financial information by operating segment is prepared in accordance with the same rules used to prepare the Consolidated Financial Statements.

In accordance with the provisions of IFRS 8 on the identification of operating segments and after taking account of regrouping criteria, the following segments are presented:

- **France;**
- **Europe excluding France;**
- **Rest of the World;**
- **Global Businesses;**
- **Other, including the various Group holding companies.**

The main financial aggregates, in Group share, are also presented for the Chinese Water concessions.

The main financial indicators by operating segment are as follows:

**Half-year ended June 30, 2016**

| *(€ million)* | France | Europe excluding France | Rest of the World | Global Businesses | Other | Total consolidated financial statements | Joint-ventures Data in Group share<br>Chinese Water concessions |
|---|---|---|---|---|---|---|---|
| Revenue | 2,688.3 | 4,203.6 | 2,832.6 | 2,218.6 | 12.8 | **11,955.9** | 324.5 |
| EBITDA | 353.3 | 701.3 | 399.0 | 116.8 | 9.9 | **1,580.3** | 75.9 |
| Operating income after share of net income (loss) of equity-accounted entities | -20.9 | 430.2 | 201.5 | 33.7 | -15.0 | **629.5** | 40.7 |
| Industrial investments net of subsidies | -141.5 | -178.6 | -142.2 | -32.9 | -9.5 | **-504.7** | -22.3 |

| Half-year ended June 30, 2015 | | | | | | | Joint-ventures Data in Group share |
|---|---|---|---|---|---|---|---|
| *(€ million)* | **France** | **Europe excluding France** | **Rest of the World** | **Global Businesses** | **Other** | **Total consolidated financial statements** | **Chinese Water concessions** |
| Revenue | 2,694.6 | 4,305.5 | 2,956.6 | 2,296.2 | 64.7 | **12,317.6** | 328.7 |
| EBITDA | 395.5 | 610.3 | 406.1 | 84.5 | 34.7 | **1,531.1** | 73.2 |
| Operating income after share of net income (loss) of equity-accounted entities | 120.9 | 338.2 | 216.0 | 28.6 | 13.7 | **717.4** | 36.0 |
| Industrial investments net of subsidies | -124.9 | -226.0 | -106.8 | -39.4 | -13.3 | **-510.4** | -72.1 |

The new EBITDA indicator reconciles with the former indicator, operating cash flow before changes in working capital, for half-years 2016 and 2015 as follows:

| *(€ million)* | | Half-year ended June 30, 2016 | Half-year ended June 30, 2015 |
|---|---|---|---|
| **Operating cash flow before changes in working capital** | **(A)** | **1,294.6** | **1,256.2** |
| o/w Operating cash flow from financing activities | **(B)** | -2.9 | 3.3 |
| **o/w Adjusted operating cash flow** | **(C)= (A)-(B)** | **1,297.5** | **1,252.9** |
| Less : | **(D)** | - | - |
| Renewal expenses | | 135.6 | +141.1 |
| Restructuring costs* | | 35.8 | +52.2 |
| Share acquisition and disposal costs | | 7.4 | +2.6 |
| Plus : | **(E)** | - | - |
| Principal payments on operating financial assets | | 104.0 | +82.3 |
| **EBITDA (*)** | **(C)+(D)+(E)** | **1,580.3** | **1,531.1** |

*(*) Restructuring costs  for the first half-year ended June 30, 2015 were primarily recognized in the France Water segment in the amount of € 36.4 million. For the half-year ended June 30, 2016  they were primarily recognized in the France Water segement and VWT.*

*(**) EBITDA, which replaces the former "Adjusted operating cash-flow" indicator since fiscal year 2015, comprises the sum of all operating income and expenses received and paid (excluding restructuring costs, renewal expenses and share acquisition and disposal costs) and principal reimbursements of OFAS.*

# NOTE 5 : OPERATING ACTIVITIES

## 5.1 Revenue

Revenue breaks down as follows:

| *(€ million)* | **Half-year ended June 30, 2015** | **Half-year ended June 30, 2016** |
|---|---|---|
| Sales of services | 9,735.9 | 9,529.9 |
| Construction | 1,656.2 | 1,479.4 |
| Sales of goods | 841.4 | 870.2 |
| Revenue from operating financial assets | 84.1 | 76.4 |
| **REVENUE** | **12,317.6** | **11,955.9** |

The decrease in revenue between June 30, 2015 and June 30, 2016 is primarily due to the impact of foreign exchange rate fluctuations of -€ 237.0 million.

Sales of services are primarily generated in Europe excluding France (€ 3,766.0 million), France (€ 2,249.7 million) and the Rest of the World (€ 2,689.1 million).

Construction revenue is primarily generated by the Global Businesses (€1,219.3 million).

Sales of goods are in the first half of 2016 primarily generated in France (€285.4 million), Germany (€221.5 million) and the United Kingdom (€117.4 million) and by the Global Businesses (€184.4 million).

A breakdown of revenue by operating segment is presented in Note 4.

## 5.2 Operating income

Operating income is calculated as follows:

| *(en millions d'euros)* | Half-year ended June 30, 2015 | Half-year ended June 30, 2016 |
|---|---|---|
| **Revenue** | **12,317.6** | **11,955.9** |
| **Cost of sales** | **-10,167.8** | **-9,806.0** |
| o/w : | | |
| • Renewal expenses | -141.1 | -135.6 |
| **Selling costs** | **-276.5** | **-280.5** |
| **General and administrative expenses** | **-1218.0** | **-1,164.5** |
| **Other operating revenue and expenses** | **9.3** | **-118.8** |
| o/w : | | |
| • Impairment losses on goodwill of fully-consolidated companies | 0.1 | 1.6 |
| • Impairment losses on equity-accounted companies | - | - |
| • Restructuring costs | 7.6 | -100.0 |
| • Employee costs - share based payments | -2.4 | -5.4 |
| • Net impairment losses on intangible assets, property, plant and equipment and operating financial assets | 4 | -7.8 |
| • Share acquisition costs | - | -7.2 |
| **Operating income before share of net income (loss) of equity-accounted entities** | **664.6** | **586.1** |
| **Share of net income (loss) of equity-accounted entities** | **52.8** | **43.4** |
| **Operating income after share of net income (loss) of equity-accounted entities** | **717.4** | **629.5** |

Restructuring costs recognized in the half-year ended June 30, 2016, primarily concern the transformation plan in the Water business in France and continuing productivity improvements.

### 5.2.1 Breakdown of provisions and impairment losses on non-current assets

Provision movements recognized in operating income in cost of sales in the half-year ended June 30, 2016 concern current and non-current assets and provisions (excluding working capital) in the amount of +€13.0 million and are primarily recorded in the France operating segment in the amount of €5.7 million, Europe excluding France in the amount of € 8.0 million and global businesses in the amount of € 7.9 million.

### 5.2.2 Joint ventures and associates

All equity-accounted companies, whether joint ventures or associates, with the exception of Transdev Group, represent an extension of the Group's businesses and are therefore allocated to the four operating segments.

The Group's investment in Transdev Group does not represent an extension of the Group's businesses within the meaning of the recommendation issued by the French Accounting Standards Authority (Autorité des Normes Comptables, ANC) on April 4, 2013, as the Group's continued aim is to withdraw from the transportation business, as detailed in Note 3.2.

## JOINT VENTURES EXCLUDING TRANSDEV GROUP

| *(en millions d'euros)* | **Half-year ended June 30, 2015** | **Half-year ended June 30, 2016** |
|---|---|---|
| Share of net income (loss) of joint ventures | 39.7 | 29.7 |
| Share of net income (loss) of associates | 13.1 | 13.7 |
| **Share of net income (lossà of equity-accounted entities** | **52.8** | **43.4** |

The joint ventures described below represent all joint ventures other than Transdev Group.

| | **Share of Equity** | | **Share of net income (loss)** | |
|---|---|---|---|---|
| *(en millions d'euros)* | **As of June 30, 2015** | **As of June 30, 2016** | **Half-year ended June 30, 2015** | **Half-year ended June 30, 2016** |
| Chinese Water concessions | 1,548.5 | 1,466.4 | 14.4 | 16.3 |
| Other joint ventures | 171.6 | 162.4 | 25.3 | 13.4 |
| **TOTAL** | **1,720.1** | **1,628.8** | **39.7** | **29.7** |
| Impact in the Consolidated Income Statement on Net income from continuing operations (a)+(b) | | | - | - |
| **Share of net income (loss) of joint ventures (a)** | | | **39.7** | **29.7** |
| Impairment losses recognized in other operating revenue and expenses (b) | | | - | - |

The decrease in the value of the Chinese Water concessions between December 31, 2015 and June 30, 2016 is mainly due to movements in the Chinese renminbi in the amount of -€68 million.

**Unrecognized share of losses of joint ventures**

As all joint ventures are partnerships in which the Group exercises joint control, the share of any losses is recognized in full at the closing date.

## 5.3 Working capital

Net working capital includes "operating" working capital (inventories, trade receivables, trade payables and other operating receivables and payables, tax receivables and payables other than current tax), "tax" working capital (current tax receivables and payables) and "investment" working capital (receivables and payables in respect of industrial investments/disposals).

Movements in net working capital ("WCR") during the first six months of 2016 are as follows:

| *(€ million)* | **As of December 31, 2015** | As of June 30, 2016 |
|---|---|---|
| Inventories and work-in-progress, net | 757.7 | 696.7 |
| Operating receivables, net | 8,797.2 | 8,894.3 |
| Operating payables | -10,070.6 | -9,492.9 |
| **NET WORKING CAPITAL** | **-515.7** | **98.1** |

The change in net working capital includes an effect tied to the seasonality of the Group's businesses. Net working capital was €340.3 million as of June 30, 2015.

The €613.8 million change in Net working capital presented above includes the change in "operating" working capital presented under Changes in working capital in the cash flow statement of €611.3 million, the change in "tax" working capital included in Income taxes paid in the cash flow statement of -€2.9 million, and the change in "investment" working capital included under Industrial investments in the cash flow statement of €5.4 million.

### FACTORING

The Group has regular recourse to factoring.

Under these programs, certain subsidiaries have agreed to assign, on a renewable basis, trade receivables by contractual subrogation or assignment of receivables ("Dailly" type for France) without recourse against the risk of default by the debtor. The analysis of the risks and rewards as defined by IAS 39 led the Group to derecognize almost all the receivables assigned under these factoring programs. In addition, the transferor subsidiaries remain, in certain cases, responsible for invoicing and debt recovery, for which they receive remuneration but do not retain control.

Accordingly, receivables totaling €650.2 million were assigned under these programs in the first half of 2016, compared with €1,169.1 million in 2015. Receivables derecognized as of June 30, 2016 total €212.9 million, compared with €332.5 million as of December 31, 2015.

### DISCOUNTING AND ASSIGNMENT BY WAY OF SECURITY

Under Public-Private partnerships, Veolia subsidiaries can assign the fraction of future payments guaranteed by local authorities / private customers (recognized in financial receivables pursuant to IFRIC 12 or IFRIC 4-IAS 17) to the bodies funding the project, through discounting or assignment by way of security programs (such as Dailly programs in France).

For the majority of partnerships concerned by these financial receivable assignments, the assignment agreements negotiated and the contractual clauses agreed between the stakeholders are sufficient to satisfy the derecognition criteria set out in IAS 39. The residual risk retained by the companies (considered immaterial) is generally tied solely to late customer payment due to late/deferred invoicing of services by Group subsidiaries. Group subsidiaries are mandated by the financial institutions to manage the invoicing and recovery of the receivables covered by these programs. Veolia analyzed the management and recovery procedures falling to Group subsidiaries and concluded that these services did not constitute continuing involvement.

Two assignments by way of security performed in 2005 and 2006 in connection with the specific terms and conditions of finance lease agreements entered into by the Waste business operate differently and do not permit the derecognition of the receivables assigned. The assignment terms provide for the provision of a joint surety by the subsidiaries and their partners to the assignee financial institutions. Receivables of €68.1 million and finance lease obligations maturing in 2025 and 2026 of €69.5 million are recognized in Veolia's balance sheet as of June 30, 2016 in respect of these contracts (€70.9 million and €71.6 million, respectively, as of December 31, 2015).

## 5.4 Non-current and current operating financial assets

Movements in the value of non-current and current operating financial assets during the first six months of 2016 are as follows:

| *(€ million)* | As of December 31, 2015 | As of June 30, 2016 |
|---|---|---|
| Gross | 1,766.1 | 1,644.5 |
| Impairment losses | -31.9 | -32.3 |
| NON-CURRENT OPERATING FINANCIAL ASSETS | 1,734.2 | 1,612.2 |
| Gross | 171.8 | 153.7 |
| Impairment losses | -9.5 | -9.5 |
| CURRENT OPERATING FINANCIAL ASSETS | 162.3 | 144.2 |
| NON-CURRENT AND CURRENT OPERATING FINANCIAL ASSETS | 1,896.5 | 1,756.4 |

Movements in the net carrying amount of non-current and current operating financial assets in the half-year ended June 30, 2016 total -€140.1 million and mainly concern:

- New operating financial assets, net of acquisition liabilities of €1.1 million, in the amount of €43.3 million, mainly representing the increase in financial receivables for pre-existing contracts, in particular in the Europe excluding France operating segment in the amount of €21.5 million, and the Rest of the World operating segment in the amount of €17.8 million;

- Principal payments on operating financial assets of -€104.0 million, in particular in the Europe excluding France operating segment in the amount of -€39.2 million and the Rest of the World operating segment in the amount of -€57.8 million;

- Foreign exchange translation gains and losses on current and non-current operating financial assets of -€67.2 million mainly due to movements in the pound sterling (-€55.6 million) and the Chinese renminbi (-€9.9 million) against the euro.

## 5.5 Commitments relating to operating activities

### 5.5.1 Commitments given

Off-balance sheet commitments given break down as follows:

| (€ million) | As of December 31, 2015 | As of June 30, 2016 | Maturing in: Less than 1 year | Maturing in: 1 to 5 years | Maturing in: More than 5 years |
|---|---|---|---|---|---|
| Operational guarantees including performance bonds | 10,538.6 | 9,752.9 | 5,302.5 | 2,768.4 | 1,682.0 |
| Purchase commitments | 202.9 | 197.9 | 79.5 | 113.9 | 4.5 |
| **TOTAL COMMITMENTS RELATING TO OPERATING ACTIVITIES** | **10,741.5** | **9,950.8** | **5,382.0** | **2,882.3** | **1,686.5** |

The decrease in commitments given between December 31, 2015 and June 30, 2016 (-€790.7 million) is mainly due to the release in March 2016 of the performance warranty given by VWT to Shell Canada Energy (Carmon Creek) for -€418.8 million and foreign exchange translation gains and losses (-€197.7 million).

In addition to the commitments given quantified above, Veolia has also granted commitments of an unlimited amount in respect of completion or performance bonds and a waste construction and treatment contract in Hong Kong, in the Waste and Water businesses.

These commitments are limited to the duration of the related contracts and were approved in advance by the Board of Directors of Veolia Environnement.

Total commitments given in respect of construction activities of Veolia Water Technologies amount to €3,295.6 million as of June 30, 2016, compared with €3,189.7 million as of December 31, 2015.

Commitments given in respect of joint ventures (at 100%) total €687.7 million as of June 30, 2016 compared with €624.5 million as of December 31, 2015 and mainly consist of performance guarantees given to Al Wathba VB in the amount of €424.2 million and to Glen Water Holding in the amount of €89.6 million.

### 5.5.2 Commitments received

These commitments mainly consist of commitments received from our partners in respect of construction contracts.

They total €1,023.3 million as of June 30, 2016, compared with €1,090.9 million as of December 31, 2015.

Total commitments received in respect of Veolia Water Technologies activities amount to €579.0 million as of June 30, 2016, compared with €611.1 million as of December 31, 2015.

# NOTE 6: GOODWILL, INTANGIBLE ASSETS AND PROPERTY PLANT AND EQUIPMENT

## 6.1 Goodwills

### 6.1.1 Changes in goodwill

Goodwill breaks down as follows:

| *(€ million)* | **As of December 31, 2015** | As of June 30, 2016 |
|---|---|---|
| Gross | 5,725.7 | 6,021.1 |
| accumulated impairment losses | -1,106.1 | -1,102.3 |
| **NET** | **4,619.6** | **4,918.8** |

The net carrying amount of goodwill as of June 30, 2016 breaks down by operating segment as follows:

| *(€ million)* | **As of December 31, 2015** | As of June 30, 2016 |
|---|---|---|
| France | 1,183.9 | **1,219.3** |
| Europe excluding France | 2,235.8 | **2,170.2** |
| Rest of the World | 703.6 | **758.8** |
| Global Businesses | 487.8 | **764.5** |
| Other | 8.5 | **6.0** |
| **TOTAL GOODWILL** | **4,619.6** | **4,918.8** |

The main changes in goodwill in the first six months of 2016 are mainly attributable to :

- changes in scope of consolidation for €404.6 million, including €276.2 million of Kurion preliminary goodwill within Global business segment (See also Note 3.1.1.);
- foreign exchange losses attributable to fluctuations against the euro of the pound sterling (-€100.6 million), the polish zloty (-€9.6 million) and the US dollar (+€2.9 million).

### 6.1.2 Impairment tests

Goodwill and other intangible assets with indefinite useful life anre subject to annual impairment tests, in accordance with the Group’s timetable. Impairment tests have been performed on all Cash Generating Units.

No indication of loss in value was identified as of June 30, 2016, including for CGUs considered sensitive as of December 31, 2015.

Consequently, no additional impairment has been recognized as of June 30, 2016.

## 6.2 Intangible assets

### 6.2.1 Concession intangible assets

Concession intangible assets break down by operating segment as follows:

| (€ million) | As of June 30, 2016 | | | Net carrying amount as of december 31, 2015 |
|---|---|---|---|---|
| | Gross carrying amount | Amortization and impairment losses | Net carrying amount | |
| France | 1,324.9 | -676.1 | 648.8 | 646.4 |
| Europe excluding France | 2,298.7 | -1,045.0 | 1,253.7 | 1,379.1 |
| Rest of the World | 1,619.5 | -890.4 | 729.1 | 764.8 |
| Global Businesses | 27.7 | -21.0 | 6.7 | 6.1 |
| Other | - | - | - | - |
| **Concession intangible assets, net** | **5,270.8** | **-2,632.5** | **2,638.3** | **2,796.4** |

The -€158.1 million decrease in the net carrying amount of concession intangible assets is mainly attributable to:

- additions in the amount of €99.3 million (including €59.0 million in the France segment, €16.4 million in the Europe, excluding France segment and €23.9 million in the Rest of the World segment);
- amortization charges and impairment losses of €168.7 million;
- foreign exchange translation losses of €93.1 million (mainly attributable to fluctuations in the pound sterling against the euro).

### 6.2.2 Other intangible assets

Other intangible assets break down as follows:

| (€ million) | As of December 31, 2015 | As of June 30, 2016 |
|---|---|---|
| **Intangible assets with an indefinite useful life, net** | **15.4** | **14.4** |
| Intangible assets with a definite useful life, gross | 3,080.2 | 3,125.8 |
| Amortization and impairment losses | -2,177.6 | -2,227.6 |
| **Intangible assets with a definite useful life, net** | **902.6** | **898.2** |
| **Other intangible assets, net** | **918.0** | **912.6** |

There has been no material change in other intangible assets since December 31, 2015.

Other intangible assets comprise primarily the value of contracts acquired through business combinations ("contractual rights") for €364.5 million, fees paid to local authorities for public service contracts for €105.6 million, and acquired software for €158.3 million.

## 6.3 Property, plant and equipment

Movements in the net carrying amount of property, plant and equipment during the first six months of **2016** are as follows:

| *(€ million)* | As of December 31, 2015 | As of June 30, 2016 |
|---|---|---|
| Property, plant and equipment, gross | 17,427.1 | **17,504.0** |
| Depreciation and impairment losses | -10,606.8 | **-10,762.5** |
| **Property, plant and equipment, net** | **6,820.3** | **6,741.5** |

The €78.8 million decrease in property, plant and equipment is mainly attributable to:

- additions of €360.1 million (including €155.8 million in the Europe excluding France segment and €114.5 million in the Rest of the World segment);
- depreciation charges and impairment losses of €436.5 million;
- foreign exchange losses of €149.9 million (including -€115.7 million in the Europe excluding France segment and -€34.1 million in the Rest of the World segment), mainly attributable to the fluctuation against the euro of the pound sterling in the amount of -€63.6 million, the polish zloty in the amount of -€50.3 million, the Chinese renminbi in the amount of -€20.5 million and the US dollar in the amount of -€18.5 million.

The breakdown of property, plant and equipment by class of assets is as follows:

| | As of June 30, 2016 | | | |
|---|---|---|---|---|
| *(€ million)* | **Gross carrying amount** | **Depreciation and impairment losses** | **Net carrying amount** | **Net carrying amount As of December 31, 2015** |
| Land | 1,167.5 | -613.6 | 553.9 | 567.0 |
| Buildings | 2,917.3 | -1,709.1 | 1,208.2 | 1,274.2 |
| Technical installations, plant and equipment | 9,271.9 | -5,614.1 | 3,657.8 | 3,654.2 |
| Travelling systems and other vehicles | 1,979.4 | -1,498.8 | 480.6 | 480.4 |
| Other property, plant and equipment | 1,536.6 | -1,300.4 | 236.2 | 260.6 |
| Property, plant and equipment in progress | 631.3 | -26.5 | 604.8 | 583.9 |
| **PROPERTY, PLANT AND EQUIPMENT** | **17,504.0** | **-10,762.4** | **6,741.5** | **6,820.3** |

# NOTE 7: FINANCING AND FINANCIAL INSTRUMENTS

## 7.1 Financial assets and liabilities

Financial assets and liabilities mainly consist of:

- Borrowings and other financial liabilities, presented in Note 7.1.1;
- Other current and non-current financial assets, presented in Note 7.1.2;
- Cash and cash equivalents and bank overdrafts and other cash position items, presented in Note 7.1.3.;
- Derivative instruments, presented in Note 7.2.2.

### 7.1.1 Financial liabilities

Movements in non-current and current borrowings during the first six months of 2016 are as follows:

| | Non-current | | Current | | Total | |
|---|---|---|---|---|---|---|
| *(€ million)* | As of June 30, 2016 | As of December 31, 2015 | As of June 30, 2016 | As of December 31, 2015 | As of June 30, 2016 | As of December 31, 2015 |
| **Bond issues** | **6,541.9** | **7,291.2** | **1,306.2** | **400.2** | **7,848.1** | **7,691.4** |
| **Other borrowings** | **655.0** | **731.1** | **3,452.9** | **3,599.9** | **4,107.9** | **4,331.0** |
| **TOTAL CURRENT AND NON-CURRENT BORROWINGS** | **7,196.9** | **8,022.3** | **4,759.1** | **4,000.1** | **11,956.0** | **12,022.4** |

#### 7.1.1.1 NON-CURRENT AND CURRENT BOND ISSUES

**Breakdown of bonds**

Publicly offered or traded issuances included in non-current bonds total €5,717.2 million as of June 30, 2016, including €392.4 million (euro-equivalent) issued on the U.S. market and €697.5 million of bonds convertible and/or exchangeable for new and/or existing shares (OCEANE).

The portion of bonds reclassified as current borrowings in the first half of 2016 totaled €1,300.9 million and primarily concerned the euro bond line maturing in January 2017 in the amount of €620.5 million, the euro bond line maturing in June 2017 in the amount of €253.6 million, the CNY bond line maturing in June 2017 in the amount of €67.5 million (euro-equivalent) and the floating rate euro bond line maturing in May 2017 in the amount of €350.0 million.

**Change in bonds**

The increase in current and non-current bonds in the first-half of 2016 is mainly due to subscriptions for €700 million, repayments for -€421.6 million and foreign exchange change impacts for -€119.7 million.

Offering of bonds convertible into and/or exchangeable for new and/or existing shares

On March 8, 2016, Veolia Environnement completed an offering of bonds convertible and/or exchangeable for new and/or existing shares ("OCEANEs") maturing March 15, 2021 by way of a private placement without shareholders' preferential subscription rights, of a nominal amount of €700 million.

The Bonds will not bear interest and the issue price has been set at 102.75% of par, corresponding to an annual gross yield to maturity of -0.54%. The nominal unit value of the Bonds has been set at €29.99 representing a premium of 47.5% above the Company's reference share price on the issue date.

The OCEANE bonds convertible into and/or exchangeable for new and/or existing shares are recognized in accordance with IAS 32, Financial Instruments: presentation. Pursuant to this standard, where a financial instrument comprises different components with debt and equity characteristics, the issuer must classify these components separately according to their nature.

In this case, the debt component was measured, at the issue date, by discounting future cash flows at the market rate (adjusted for Veolia credit risk) for debt with similar characteristics but without a share conversion or redemption option.

The conversion option was then measured as the difference between the bond issue price and the fair value of the debt component and recorded in Consolidated reserves in equity.

Following this initial measurement of the debt and equity component, the debt component is subsequently measured at amortized cost. The interest expense on the debt is calculated at the effective interest rate of 0.0768% and recognized in net finance costs. The equity component is not remeasured.

Veolia received cash of €714.9 million and recognized a debt of €697.3 million in the accounts at the issue date.

Other movements of the period

Repayments are linked to the 2016 euro bond line maturing in February 12, 2016 in the nominal amount of €382 million. As a reminder, in 2015, the Group had already repaid the 2015 euro bond line maturing in June 2015 in the nominal amount of €1,032 million.

Foreign exchange impacts in the amount of -€ 119.7 million mainly concern the GBP bond line maturing in 2037 of €794.2 million (euro-equivalent) as of June 30, 2016.

**Breakdown of other borrowings**

Other borrowings transferred to current borrowings in the first half of 2016 totaled €76.9 million.

**Change in other borrowings**

Changes in current and non-current other borrowings is mainly due to the increase in treasury notes held by Veolia Environnement in the amount of €38.5 million, change in accrued interests in the amount of €60.2 million and a favorable foreign exchange impact in the amount of €205.1 million.

#### 7.1.1.2 INFORMATION ON EARLY DEBT REPAYMENT CLAUSES

**Veolia Environnement debt**

The legal documentation for bank financing and bond issues contracted by the Company does not contain any financial covenants, i.e. obligations to comply with a debt coverage ratio or a minimum credit rating which, in the event of non-compliance, could lead to the early repayment of the relevant financing.

**Subsidiary debt**

Certain project financing or financing granted by multilateral development banks to the Group's subsidiaries contain financial covenants (as defined above).

Based on due diligence performed within the subsidiaries, the Group considers that the covenants included in the Group's material financing agreements were satisfied (or had been waived by lenders) as of June 30, 2016.

### 7.1.2 Non-current and current financial assets

Other non-current and current financial assets break down as follows:

| | Non-current | | Current | | Total | |
|---|---|---|---|---|---|---|
| *(€ million)* | As of June 30, 2016 | As of December 31, 2015 | As of June 30, 2016 | As of December 31, 2015 | As of June 30, 2016 | As of December 31, 2015 |
| Gross | 521.0 | 817.2 | 288.9 | 253.4 | 809.9 | 1,070.6 |
| Impairment losses | -78.5 | -78.5 | -38.5 | -39.5 | -117.0 | -118.0 |
| **FINANCIAL ASSETS IN LOANS AND RECEIVABLES, NET** | **442.5** | **738.7** | **250.4** | **213.9** | **692.9** | **952.6** |
| **OTHER FINANCIAL ASSETS** | **18.0** | **19.7** | **1.8** | **1.8** | **19.8** | **21.5** |
| **TOTAL OTHER FINANCIAL ASSETS, NET** | **460.5** | **758.4** | **252.2** | **215.7** | **712.7** | **974.1** |

As of June 30, 2016, the main non-current and current financial assets in loans and receivables include particularly loans granted to equity-accounted joint ventures totaling €169.6 million, compared with €509.9 million as of December 31, 2015.

These loans mainly concern the Chinese Water Concessions in the amount of €120.1 million, as of June 30, 2016, compared with €116.0 million as of December 31, 2015.

As a reminder, these loans included the loan to Transdev Group in the amount of €345.0 million as of December 31, 2015, which was fully repaid in March 2016.

### 7.1.3 Cash and cash equivalents, bank overdrafts and other cash position items

Movements in cash and cash equivalents and bank overdrafts and other cash position items during the first six months of **2016** are as follows:

| *(€ million)* | **As of December 31, 2015** | As of June 30, 2016 |
|---|---|---|
| Cash | 921.2 | 900.1 |
| Cash equivalents | 3,255.1 | 2,780.1 |
| CASH AND CASH EQUIVALENTS | 4,176.3 | 3,680.2 |
| **Bank overdrafts and other cash position items** | **318.6** | **395.6** |
| **Net cash** | **3,857.7** | **3,284.6** |

(1) Fair value adjustments are recongnized in net finance costs.

Cash and cash equivalents total €3,680.2 million, including €221.9 million "subject to restrictions" as of June 30, 2016.

The decrease in net cash mainly reflects the change in working capital requirements in the amount of -€686 million, the OCEANE bond offering in March 2016 for a nominal amount of €700 million, the repayment of the 2016 euro bond line in the nominal amount of -€382 million, the repayment of the Transdev Group current account for €345 million and financial investments for -€417 million linked to acquisitions of Kurion in the United States and Pedreira in Brazil.

As of June 30, 2016, the France segment held cash of €23.7 million, the Europe excluding France segment held cash of €213.1 million, the Rest of the World segment held cash of €253.1 million, the Global Businesses segment held cash of €134.0 million and the Other segment held cash of €276.2 million (including €192.7 million held by Veolia Environnement).

Surplus cash balances of other Group subsidiaries, not pooled at Veolia Environnement level, are invested in accordance with procedures defined by the Group.

As of June 30, 2016, cash equivalents were primarily held by Veolia Environnement in the amount of €2,700.7 million including monetary UCITS of €2,027.6 million and term deposit accounts of €673.1 million.

Bank overdrafts and other cash position items consist of credit balances on bank accounts and related accrued interest payable, corresponding to brief overdrafts.

## 7.2 Fair value of financial assets and liabilities

### 7.2.1 Disclosures on the fair value of financial assets and liabilities

The main financial asset and liability categories of the Group are unchanged on those identified on the preparation of the consolidated financial statements for the year ended December 31, 2015. In addition, differences between the fair value and net carrying amount of these main financial asset and liability categories have not materially changed since December 31, 2015.

### 7.2.2 Offsetting of financial assets and liabilities

As of June 30, 2016, derivatives managed under ISDA ("International Swaps and Derivatives Association") or EFET ("European Federation of Energy Traders") agreements are the only financial assets and/or liabilities covered by a legally enforceable master netting agreement. These instruments may only be offset in the event of default by one of the parties to the agreement. They are not therefore offset in the accounts.

Such derivatives are recognized in assets in the amount of €158.1 million and in liabilities in the amount of €270.6 million in the Consolidated Statement of Financial Position as of June 30, 2016.

## 7.3 Financial income and expenses

### 7.3.1 Net finance costs

Finance costs consist of interest payable on borrowings calculated using the amortized cost method and losses on interest rate derivatives, both qualifying and not qualifying as hedges.

Interest costs included in payments under lease finance contracts are recorded using the effective interest rate method.

Finance income consists of gains on interest rate derivatives, both qualifying and not qualifying as hedges and income from cash investments and equivalents.

Interest income is recognized in profit or loss when earned, using the effective interest method.

Finance costs and finance income represent the cost of borrowings net of income from cash and cash equivalents. In addition, net finance costs include net gains and losses on derivatives allocated to borrowings, irrespective of whether they qualify for hedge accounting.

Finance income totals €20.3 million, while finance costs total -€229.4 million for the first half of 2016.

Net finance costs presented in the Consolidated Cash Flow Statement reflect the net finance costs of continuing operations presented above and the net finance costs of discontinued operations of nil for the first half of 2016.

The heading “Interest paid” in the Consolidated Cash Flow Statement reflects the net finance costs of continuing and discontinued operations adjusted for accrued interest of -€60.2 million and fair value adjustments to hedging derivatives of +€1.6 million for the first half of 2016.

| *(€ million)* | **Half-year ended June 30, 2015** | **Half-year ended June 30, 2016** |
|---|---|---|
| Expenses on gross debt | -206.4 | -182.1 |
| Assets at fair value through the Consolidated Income Statement (fair value option) * | 14.6 | 12.2 |
| Net gains and losses on derivative instruments, hedging relationships and other | -39.0 | -39.3 |
| **NET FINANCE COSTS** | **-230.8** | **-209.2** |

** Cash equivalents are valued at faire valu through the Consolidated Income Statement*

For the half-year ended June 30, 2016, net gains and losses on derivative instruments, hedging relationships and other mainly include net losses on derivatives not qualifying for hedge accounting of -€38.7 million, mainly on foreign currency derivatives.

In addition, the charge relating to the ineffective portion of net investment hedges and cash flow hedges was not material in 2016 or 2015.

### 7.3.2 Other financial income and expense

Other financial income and expenses primarily include income on financial receivables, excluding I4 and I12 financial receivables, calculated using the effective interest rate method, capital gains and losses on disposals of financial assets, net of disposal costs, dividends, foreign exchange gains and losses, impairment losses on financial assets and the unwinding of discounts on provisions.

| *(€ million)* | **Half-year ended June 30, 2015** | **Half-year ended June 30, 2016** |
|---|---|---|
| Net gains and losses on loans and receivables | 9.6 | 8.8 |
| Capital gains and losses on disposals of financial assets, net of disposal costs | 63.0 | 40.6 |
| Net gains and losses on available-for-sale assets (1) | 1.8 | 3.0 |
| Assets and liabilities at fair value through the Consolidated Income Statement | 0.2 | -0.2 |
| Unwinding of the discount on provisions | -22.0 | -20.6 |
| Foreign exchange gains and losses | 4.0 | -5.4 |
| Other | -9.8 | -13.3 |
| **OTHER FINANCIAL INCOME AND EXPENSES** | **46.8** | **12.9** |

*(1)Including dividends received for € 1.3 million for the first half-year ended June 30, 2016 against € 2.4 for the first half year ended June 30, 2015*

In the first six months of 2016, other financial income and expenses include the impacts of disposals of financial assets and notably impacts related to fair-value remeasurement of previously-held equity interests in China and France.

In the first half of 2015, they primarily included the divestiture of the Group's activities in Israel.

## 7.4 Financing commitments

### 7.4.1 Commitments given

Off-balance sheet commitments given break down as follows:

| *(€ million)* | **As of December 31, 2015** | **As of June 30, 2016** | Maturing in | | |
|---|---|---|---|---|---|
| | | | Less than 1 year | 1 to 5 years | More than 5 years |
| Letters of credit | 225.1 | 209.0 | 201.8 | 2.0 | 5.2 |
| Debt guarantees | 206.3 | 203.9 | 48.5 | 129.1 | 26.3 |
| **TOTAL FINANCING COMMITMENTS GIVEN** | **431.4** | **412.9** | **250.3** | **131.1** | **31.5** |

Commitments given in respect of joint ventures (at 100%) total €10.8 million as of June 30, 2016 compared with €10.8 million as of December 31, 2015.

### 7.4.2 Commitments received

Commitments received total €166.8 million as of June 30, 2016 and €168.4 million as of December 31, 2015.

### 7.4.3 Collateral guaranteeing  borrowings

As of June 30, 2016, the Group has given €191 million of collateral guarantees in support of borrowings including €110.7 million in support of borrowings of its joint ventures.

# NOTE 8: EQUITY AND EARNINGS PER SHARE

## 8.1 Equity attributable to owners of the Company

### 8.1.1 Share capital

The share capital is fully paid-up.

#### 8.1.1.1 SHARE CAPITAL INCREASE RESERVED FOR GROUP EMPLOYEES

No new capital increases reserved for Group employees were performed during the first six months of 2016.

#### 8.1.1.2 NUMBER OF SHARES OUTSTANDING AND PAR VALUE

The number of shares outstanding was 563,364,823 as of June 30, 2016 and 563,364,823 as of December 31, 2015. The par value of each share is €5.

### 8.1.2 Offset of treasury shares against equity

Treasury shares are deducted from equity.

Gains or losses arising from the sale of treasury shares and related dividends are recognized directly in equity and do not impact the Consolidated Income Statement.

The Group held 13,814,845 of its own shares as of June 30, 2016, representing 2.5% of the Company's share capital.

The Group held 13,797,975 shares as of December 31, 2015, representing 2.5% of the Company's share capital.

### 8.1.3 Appropriation of net income and dividend distribution

The Combined General Meeting of April 21, 2016 set the cash dividend for 2015 at €0.73 per share. This dividend was paid from May 4, 2016 in the total amount of €401 million.

A dividend of €384 million was distributed by Veolia Environnement in 2015 and deducted from "Additional paid-in capital" and "Reserves".

### 8.1.4 Foreign exchange gains and losses

Accumulated foreign exchange translation reserves total €334.6 million as of December 31, 2015 (Group share).

The change in foreign exchange translation reserves primarily reflects fluctuations in the Chinese renminbi (+€86.3 million), the U.S. dollar (+€61.4 million), and the Hong Kong dollar (-€133.8 million).

Accumulated foreign exchange translation reserves total €216.8 million as of June 30, 2016 (Group share).

The change in foreign exchange translation reserves primarily reflects fluctuations in the Chinese renminbi (-€73.9 million), the US dollar (-€25.0 million), the Hong Kong dollar (+€23.9 million), the Australian dollar (-€19.9 million) and the pound sterling (-€3.9 million).

### 8.1.5 Fair value reserves

Fair value reserves attributable to owners of the Company total -€90.9 million as of June 30, 2016 and -€15.7 million as of December 31, 2015, and break down as follows:

| *(€ million)* | Available for-sale securities | Commodity derivatives hedging cash flows | Foreign currency derivatives hedging cash flows | Interests rate derivatives hedging cash flows | Total | o/w attributable to owners of the Company |
|---|---|---|---|---|---|---|
| **As of December 31, 2015** | **11.8** | **-14.5** | **-4.1** | **-9.9** | **-16.7** | **-15.7** |
| Fair value adjustments | -0.3 | 11.3 | 0.5 | -85.5 | -74.0 | -74.6 |
| Other movements | -0.3 | -0.3 | - | - | -0.6 | -0.6 |
| **As of June 30, 2016** | **11.2** | **-3.5** | **-3.6** | **-95.4** | **-91.3** | **-90.9** |

*Amounts are presented net of tax*

No material amounts were released to the Consolidated Income Statement in respect of interest rate derivatives hedging cash flows and recorded in finance costs and income.

## 8.2 Non-controlling interests

A breakdown of movements in non-controlling interests is presented in the Statement of changes in equity.

The decrease in non-controlling interests in the first six months of 2016 was primarily due to net income for the period and changes in consolidation scope offset by dividend distributions by subsidiaries and foreign exchange impacts.

Net income attributable to non-controlling interests is €74.0 million for the half-year ended June 30, 2016, compared with of €82.0 million for the half-year ended June 30, 2015.

In the first six months of 2016, this item primarily concerns minority interests in subsidiaries of the Europe excluding France (€50.5 million) and Rest of the World (€22.2 million) operating segments.

## 8.3 Deeply subordinated securities and OCEANE convertible bonds

### 8.3.1 Deeply subordinated securities

In January 2013, Veolia Environnement issued deeply subordinated perpetual securities in euros and pound sterling redeemable from April 2018. The issue comprised a euro tranche of €1 billion at 4.5% yield and a pound sterling tranche of £400 million at 4.875% yield.

This instrument is recognized in equity, pursuant to IAS 32.11 and given its intrinsic terms and conditions (no mandatory repayment, no obligation to pay a coupon, except in the event of a dividend distribution to shareholders or the buyback of own shares).

The coupon cost attributable to holders of deeply subordinated securities is -€68.8 million in the first hal of 2016 compared with -€71.5 million in 2015.

### 8.3.2 OCEANE convertible bonds

On March 8, 2016, Veolia Environnement issued convertible « OCEANE » type bonds.

The conversion option of this transaction, described in Note 7.1.1.1., may be settled solely in shares and is recognized in equity in the amount of €17.6 million as of June 30, 2016.

## NOTE 9 : PROVISIONS

Movements in non-current and current provisions during the first six months of **2016** are as follows:

| *(€ million)* | As of December 31, 2015 | As of June 30, 2016 |
|---|---|---|
| **Provisions excluding pensions and other employee benefits** | **1,743.5** | **1,782.5** |
| **Provisions for pensions and employee benefits** | **803.7** | **840.1** |
| **TOTAL Provisions** | **2,547.2** | **2,622.6** |
| **NON-CURRENT PROVISIONS** | **2,068.1** | **2,084.5** |
| **CURRENT PROVISIONS** | **479.1** | **538.1** |

Provisions as a whole increased by €75.4 million in the first six months, including €35.4 million in respect of the unwinding of the discount in the first-half of 2016.

Provisions excluding pensions and other employee benefits as of June 30, 2016, primarily include provisions for closure costs and post-closure costs (site rehabilitation, dismantling) of €653.5 million, accounted in the France segment in recycling and recovery waste activities for €234.0 million and in the Europe excluding France segment for €222.7 million

Movements in provisions excluding provisions for pensions and other employee benefits are not individually material and do not require specific comment.

Provisions for pensions and other employee benefits increased by €36.4 million over the half-year, mainly due to charges for the period of €33.1 million and provision reversals of -€34.3 million, offset by actuarial gains of €31.7 million and the impact of exchange rate fluctuations in the amount of -€11.1 million.

## NOTE 10 : TAXES

### 10.1 Income tax expense

The income tax expense (income) includes the current tax expense (income) and the deferred tax expense (income).

The income tax expense breaks down as follows:

| *(€ million)* | Half-year ended June 30, 2015 | Half-year ended June 30, 2016 |
|---|---|---|
| **Current income tax (expense) income** | **-133.6** | **-123.2** |
| France | -19.1 | -5.6 |
| Other countries | -114.5 | -117.6 |
| **Deferred tax (expense) income** | **9.4** | **-7.0** |
| France | 0.1 | 1.5 |
| Other countries | 9.3 | -8.5 |
| **TOTAL INCOME TAX EXPENSE** | **-124.2** | **-130.2** |

The income tax expense presented in the Consolidated Cash Flow Statement reflects the income tax expense of continuing operations presented above and the income tax expense of discontinued operations.

A number of French subsidiaries elected to form a consolidated tax group with Veolia Environnement as the head company (five-year agreement, renewed in 2016). Veolia Environnement is liable to the French treasury department for the full income tax charge, calculated based on the group tax return. Any tax savings are recognized at Veolia Environnement level.

The effective tax rate is detailed as follows:

| | Half-year ended June 30, 2015 | Half-year ended June 30, 2016 |
|---|---|---|
| Net income (loss) from continuing operations (a) | 434.7 | 325.2 |
| Share of net income (loss) of associates (b) | 13.1 | 13.7 |
| Share of net income (loss) of joint ventures (c) | 39.7 | 29.7 |
| Share of net income (loss) of other equity-accounted entities (d) | 25.5 | 22.2 |
| Income tax expense (e) | -124.2 | -130.2 |
| Net income from continuing operations before tax (f) = (a)-(b)-(c)-(d)-(e) | 480.6 | 389.8 |
| **Effective tax rate -(e)/(f)** | **25.8%** | **33.4%** |

### 10.2 Tax audits

In the normal course of their business, the Group entities in France and abroad are subject to regular tax audits. Revised assessments and identified uncertain tax positions in respect of which a revised assessment has not yet been issued are adequately provided, and provision amounts are regularly reviewed in accordance with IAS 37 criteria.

The tax authorities have carried out various tax audits in respect of both consolidated tax groups and individual entities. To date, none of these reviews have led to liabilities to the tax authorities materially in excess of amounts estimated during the review of tax risks.

In estimating the risk as of June 30, 2016, the Group took account of the expenses that could arise as a consequence of these audits, based on a technical analysis of the positions defended by the Group before the tax authorities. The Group periodically reviews the risk estimate in view of developments in the audits and legal proceedings.

On March 10, 2010, Veolia through its subsidiary VNA (formerly VENAO) received notices of proposed adjustments ("NOPAs") from the U.S. Internal Revenue Service (IRS) relating to a number of tax positions concerning its U.S. subsidiaries, including primarily tax losses resulting from the reorganization of the former U.S Filter (Worthless Stock Deduction), in the amount of USD 4.5 billion (tax base). They also relate to certain other issues relating to tax losses for the 2004, 2005 and 2006 tax years, in an aggregate amount of a similar order of magnitude as the Worthless Stock Deduction. The NOPAs are preliminary assessments that do not reflect a definitive audit position and are subject to change. These NOPA's were received following the request by the Group for a pre-filing agreement from the IRS in order to validate the amount of tax losses as of December 31, 2006.

Since 2010, the Group continues to discuss these NOPAs with the IRS with a view to resolving or narrowing the issues and the issuance of a formal assessment notice for any unresolved issues, which could be appealed within the IRS or in court. As of June 30, 2016, the remaining NOPAs, before any penalties, relate to the Worthless Stock Deduction for USD 4.5 billion (tax base). As the NOPAs are still subject to the continuing IRS audit process, there is no requirement at this time for any payment of taxes. Based on information available to the Company at the year-end, Veolia has not recorded any provision in its consolidated financial statements in respect of the NOPAs and has recorded a deferred tax asset in respect of a portion of these tax losses.

In the context of this audit, the IRS issued several summonses in reply to which VNA (formerly VENAO) submitted a number of documents. On January 5, 2013, considering the response to the summonses inadequate, the U.S. Department of Justice brought an action against VNA (formerly VENAO) before the U.S. District Court of the State of Delaware for enforcement of the summonses. These proceedings are now finished and VNA forwarded the required documents to the IRS at the end of August 2015. The IRS is still reviewing these documents and no formal notice has been received to date.

Furthermore, the audit launched in 2011 in respect of fiscal years 2007 and 2008 for all of the Group's U.S. entities is still ongoing. No revised assessments have been notified to date. A new audit covering fiscal years 2009 to 2011 was launched by the IRS at the end of 2013. This audit is still ongoing and no revised assessments have been notified to date.

## NOTE 11 : CONTINGENT ASSETS AND LIABILITIES

In accordance with IAS 37 criteria, management does not consider it appropriate to record a provision or, as the case may be, an additional provision, or to recognize deferred income with respect to the following legal or arbitration proceedings as of June 30, 2016, due to the uncertain nature of their outcome.

The main contingent assets and liabilities relating to legal or arbitration proceedings are presented below:

### North America

**United States – Water - Flint**

In April 2014, in an attempt to save money, the City of Flint, Michigan, switched its water supply source (previously provided from Detroit) and began treating Flint River water and distributing the treated water to its residents.

Soon after, Flint residents began to complain about its odor, taste and appearance. Between August 2014 and December 2014, Flint experienced a number of water quality issues resulting in violations of National Primary Drinking Water Regulations including Total Trihalomethanes (TTHM, which are disinfection byproducts) maximum contaminant level violations.

In February 2015, Flint hired a US subsidiary of the Company, Veolia Water North America Operating Services, LLC ("VWNAOS") for an analysis related to residual effects of chlorine process (TTHM), discoloration and taste and odor issues. The scope of work of this one-time (invoiced $40.000), four-week (160 hours) analysis did not include lead and copper tests. At that same time, City of Flint employees were conducting lead and copper testing.

On March 12, 2015, VWNAOS delivered its final report to Flint, then made available to the public. In its report, VWNAOS issued a broad set of recommendations to address TTHM compliance and improve water quality related to odor and discoloration. Most of the recommendations made by VWNAOS were ignored by the local authorities

On October 21, 2015, the office of the Governor of the State of Michigan commissioned the Flint Water Advisory Task Force to conduct an independent review of the Flint water crisis, including lead contamination of residents.

On March 21, 2016, Flint Water Advisory Task Force issued its final report, drafted after interviewing numerous individuals and reviewing many documents. The Task force report came to the conclusion that the responsibility for the Flint water crisis rested largely with several governmental agencies and the City of Flint. Notably, the report highlighted that the Michigan Department of Environmental Quality and the City of Flint did not require and implement corrosion control at the time of change of water supply source, contrary to what is required under the federal Lead & Copper Rule to avoid contamination of drinking water.

Since February 2016, numerous individual cases and several class actions have been filed before Michigan courts by Flint residents against a number of defendants including the State of Michigan, the Michigan Department of Environmental Quality and the US subsidiaries of the Company, which was itself subject to several class actions. Flint residents allege injury by exposure to toxins, including lead, contained within Flint River water and have levied an accusation of professional negligence.

On June 22, 2016, the State of Michigan's Attorney General filed a civil action against several corporations including VWNAOS and the Company itself, for their alleged role in the Flint water crisis. The Attorney General alleges that the acts and omissions of these companies constitute a professional negligence and fraud.

The Group strongly contests the merits of all these legal proceedings.

These lawsuits have been reported to the insurers.

**United States – HPD vs. TETRA Technologies**

In November 2007, HPD, an indirect subsidiary of the Company, entered into an engineering and equipment supply contract (the "Contract") with TETRA Technologies ("TETRA") for a new calcium chloride manufacturing plant located near El Dorado, Arkansas in the United States. The Contract contains clauses providing for delay and performance liquidated damages, a waiver of consequential damages, a limitation of liability capped at the amount of the Contract and an arbitration clause providing for mandatory arbitration of any disputes according to the rules of the American Arbitration Association. The amount of the Contract was fully paid by TETRA.

On March 23, 2011, TETRA filed an action against HPD in the local court of the state of Arkansas (the "Circuit Court of Union County") claiming that the plant's production does not comply with the expected quantities and concentration levels. TETRA is asserting claims against HPD for:

(i) principally, professional negligence and design errors and omissions, as well as fraud; to this end, TETRA alleges that the Contract is null and void, on the grounds that HPD was not licensed as an engineering company in the state of Arkansas;

(ii)alternatively, contractual breaches.

In April 2011, HPD asked the Circuit Court of Union County to apply the arbitration clause provided for by the Contract and to transfer the dispute to arbitration; in parallel, it contested being subject to the licensing requirement. On November 1, 2012, the Supreme Court of Arkansas granted HPD's request, which had been rejected by the Circuit Court of Union County in November 2011.

The parties appointed the members of the arbitral tribunal. In a decision dated October 2, 2014, the tribunal confirmed its jurisdiction of the dispute and the Contract's exclusion of consequential damages. On January 29, 2015, TETRA asserted its claim for damages and interest at $86 million, of which $26.6 million is for past remedial action, $36 million for future remedial action and $24 million for lost profits. Since that time, the amount of Tetra's damage claim has changed and, in October 2015, it stood at $93 million.

TETRA suggested that the parties mediate their disputes which took place on March 8-9, 2016 in San Francisco, California without resolution.

The arbitration proceeding ran its course. Hearings were held on March 21 and April 15, 2016. The ruling is expected on November 25,2016.

This dispute was subject to claims under the insurance policy taken out by HPD. Zurich insurance company has reserved its rights with respect to the guarantee from which HPD benefited in the event of a potential unfavorable decision in the current proceeding. Zurich has agreed to participate in the mediation although it has made no commitment as to its level of participation in any settlement proposals.

## Central and Eastern Europe

**Romania**

In 2000, Apa Nova Bucuresti ("ANB"), Veolia Eau's Romanian subsidiary in which it holds a 74% stake, signed a 25-year concession agreement for water distribution and wastewater services with the city of Bucharest.

At the end of July 2015, the National Anticorruption Division of Ploiesti ("NAD") opened an investigation on influence peddling involving several persons and entities, including several Romanian subsidiaries of the Company.

ANB and certain of its managers or former managers are suspected of having purchased, between 2008 and 2015, the influence of three natural persons in order to obtain favorable decisions from Bucharest's public authorities, resulting in significant increases in water prices. In exchange for their influence, ANB allegedly made significant payments to companies controlled by these three persons or related persons, without these payments being proportionate to the services rendered, and without these services necessarily being real.

Since August 2015, ANB, as well as other subsidiaries of the Company with water and energy activities in Romania, have provided the NAD, at its request, with numerous documents.

Throughout October 2015, three managers or former managers of ANB were questioned by the NAD, and then placed under the status of "accused" ("*inculpat*") and under judicial supervision.

On October 30, 2015, ANB was placed under this same status, for bribery, buying influence, invasion of privacy, tax evasion and money laundering.

The investigation continues and ANB is cooperating with the NAD. To date, it only has partial access to the criminal case file.

**Lithuania - Energy**

Between 2000 and 2003, the Group signed a number of contracts with Lithuanian cities, of which the most significant was with the city of Vilnius in 2002 to rent, operate and modernize the heating and electricity production and distribution infrastructure. The Group made significant investments over the years for which it is awaiting a cost evaluation and a return on its investment.

The government publicly, and on numerous occasions, accused the Group of being responsible for high heating prices by waging a sustained campaign against it.

Several steps were thus taken by the authorities and public entities against the Lithuanian subsidiaries of the Group, UAB Vilniaus Energija ("UVE") and UAB Litesko ("Litesko").

*Actions to pass on consumer heating costs to UVE and Litesko:*

- With Vilnius's approval, UVE installed individual heat exchange sub-stations. In September 2011, the law governing the heating sector was amended to transfer the ownership of these sub-stations to apartment owners, without compensating the investors. Although the courts and the national commission for energy and price control (the "National Commission") recognized UVE's right to compensation, they nevertheless ruled that they lacked jurisdiction to enforce the exercise of such right. To date, UVE has still not received any compensation.

- In 2008 and 2009, UVE respectively proposed to Vilnius and the National Commission to invest in a smoke condenser. Both entities refused to approve this investment. Pursuant to the applicable regulations, UVE therefore invested on a private basis. However, in October 2014, the National Commission unilaterally reduced UVE's heating prices to capture the savings realized with the help of this condenser despite no legal basis. On

October 13, 2015, the administrative court rejected UVE's complaint against this decision. On October 27, 2015, UVE logged an appeal before the supreme administrative court. A date for the hearing has yet to be scheduled.

- On December 11, 2015, the regional administrative court of Vilnius cancelled the heating prices that the National Commission had established for UVE for a period of five years (2011-2015), by calling on the National Commission to retroactively reduce prices. UVE appealed on December 28, 2015 before the supreme administrative court; a hearing is scheduled for August 17, 2016. The appeal has suspensive effect.

*Actions to render the Group's combined heat power plants economically non-viable*

Vilnius' contract requires UVE to operate combined heat power plants, producing both heat and electricity, and to produce electricity for sale. The government established an annual electricity purchasing quota for the national public electricity company (Lesto) at a specific price, ensuring sufficient demand for electricity generated by the combined heat power plants.

The government decided to terminate the electricity purchasing quota system as of January 1, 2016. Without these quotas, the most important of the combined heat power plants operated by UVE, VE-3, is no longer economically viable. As a result, UVE notified the municipal heating network company, controlled by Vilnius, Vilniaus Silumos Tinklai ("VST"), that VE-3 would cease operating on January 1, 2016 and would be returned.

VST declared its refusal to take back VE-3, requiring UVE to bear the socio-economic costs resulting from the terminated quotas until the end of the agreement in March 2017.

*Actions to sanction the Group due to heat price increases*

- **Competition Council**

(i) UVE

On January 18, 2011, UVE signed a five-year biofuel supply agreement (the "Agreement") with a company in order to provide heat to the city of Vilnius, for which it manages the network. On February 25, 2013, the competition council of the Republic of Lithuania (the "Competition Council") decided to open an investigation regarding compliance of operators in biofuel production and distribution with Lithuanian competition law.

On December 2, 2015, the Competition Council imposed a €19 million fine on UVE for restricting competition under the Agreement. UVE believes that (i) the supplies involved were open to competition via a call for tenders and in accordance with applicable laws, (ii) the relevant biofuel market used by the Competition Council for its investigation is not justified and (iii) this fine is disproportionate as it is established on all of UVE's heating sales whereas only 15% of these sales are generated from biofuels.

On December 22, 2015, UVE initiated an appeal against this decision before the administrative court of Vilnius, which suspended the payment for the duration of the proceeding. A hearing has been scheduled for September 18, 2016.

(ii) Litesko

On August 2, 2001, a 15-year agreement was concluded between Litesko, the city of Alytus ("Alytus") and its municipal utility, Alytus Silumos Tinklai ("AST") to operate and modernize the heat infrastructure of Alytus. In June 2005, a ten-year extension was agreed upon (until 2026) in return for a commitment on Litesko's part to invest. In December 2007, Alytus requested an additional investment: a new biofuel plant. In exchange, Alytus agreed to allow Litesko to remain the owner of the plant after the agreement's expiration in 2026.

On September 9, 2015, the Competition Council concluded that Alytus had violated competition law by extending the agreement and by accepting that Litesko would remain the owner of the biofuel plant. It called upon Alytus to reconsider the commitments made in 2005 and 2007. On September 29, 2015, Litesko lodged an appeal against the Competition Council's decision before the administrative court of Vilnius which rejected such appeal on

February 29, 2016. Litesko filed an appeal on March 14, 2016 before the supreme administrative court, with suspensive effect.

On October 30, 2015, Alytus accepted the Competition Council's decision by not filing an appeal.

On January 15, 2016, Alytus informed Litesko that the commitments granted in 2005 and 2007 were null and void and that, consequently, the biofuel plant was to be transferred to AST on June 1, 2016. In both of these cases, the issue of compensation must be discussed. This letter describes Alytus' position without representing, at this stage, a legal claim and/or a final decision. In its letters dated May 24 and June 6, 2016, Alytus asked Litesko to provide it with the information necessary to resume activities, without waiting for the ruling of the supreme administrative court on the validity of the Competition Council's decision. On June 23; 2016, Litesko responded by proposing a meeting to discuss (i) Alytus' information request and (ii) the compensation to be paid by Alytus to Litesko pursuant to the agreement's expiration.

- Potential criminal liability of the managers of UVE and Litesko

In February 2012, an investigation was launched by the public prosecutor of Vilnius against the managers of UVE, Litesko and Dalkia Lietuva in connection with a natural gas purchase by UVE and Litesko, between 2003 and 2005, through a gas trading subsidiary, Dalkia Lietuva (liquidated in March 2014).

Although this gas purchase complied with the law, the public prosecutor brought charges of fraud and misuse of corporate assets before the court. Since October 2014, the court has been examining the case, and is currently hearing witnesses. The prosecutor was recused by the court in January 2015 after having pursued legal action against a witness favorable to the defense.

*Vilnius' refusal to pay heating invoices (€27) million*

Before the municipal elections of March 2015, the practice was that the invoices owed by UVE to the municipal water distribution utility of Vilnius (Vilniaus Vandenys) were offset by heating invoices owed by Vilnius to UVE. This compensation was formalized in a tripartite agreement.

Between the end of March 2015 and June 2015, Vilniaus Vandenys submitted three claims against UVE for the payment of UVE's debts (€15 million). UVE lost its three claims (on January 27, March 1 and April 18, 2016, respectively) at lower court level and will appealed the decision.

UVE filed its claim before the courts on August 17, 2015 for payment of Vilnius's heating invoices (€27 million) until July 2015. On June 9, 2016, the court upheld UVE's claim for a total of €25.2 million (including interest on late payments) and divided the settlement into 48 monthly payments. Vilnius appealed on June 29, 2016. UVE also appealed on July 8, 2016 to contest the term of the payments.

On May 30, 2016, UVE filed a claim against Vilnius for payment of heating invoices for a total of €5.6 million for the period from August 2015 to March 2016.

*Proceeding initiated against Lithuania before the International Center for the Settlement of Investment Disputes ("ICSID").*

Given the numerous legal actions and decisions described above, which are both inequitable and discriminatory, on January 26, 2016, the Group filed a request for arbitration against Lithuania before the International Center for the Settlement of Investment Disputes ("ICSID"). The Group considers it suffered damages in excess of €100 million.

### Italy – Environmental Services

As a result of a severe economic imbalance in the concession contracts of its two principal subsidiaries, Termo Energia Calabria ("TEC") and Termo Energia Versilia ("TEV"), and as a result of chronic late payments by the concession authorities to those companies, the Veolia Servizi Ambientali Tecnitalia S.p.A ("VSAT") group, which specializes in waste incineration in Italy, was compelled to file on April 18, 2012 a request for an amicable settlement procedure with creditors, called *concordato preventivo di gruppo* ("CPG") with La Spezia Civil Court. On March 20, 2013, La Spezia Civil Court acknowledged that the majority of creditors had voted in favor of the CPG. On July 17, 2013, the Court approved the CPG. Several creditors appealed this ruling before the Genoa Court of Appeals, which reversed the decision on January 9, 2014.

On March 12, 2014, the judge of the Genoa Court of Appeals rejected the request to suspend the January 9, 2014 decision filed by the companies of the VSAT group. The March 12, 2014 ruling is contrary to established case law and to the position of the Italian Supreme Court; it represents an isolated decision and a reversal in case law.

In light of the foregoing, on May 19, 2014, the companies of the VSAT group filed a request for the opening of judicial liquidation proceedings (*fallimento*) with La Spezia Court, which decided on June 25, 2014 to place these companies under judicial liquidation in a single procedure and appointed two receivers. One creditor requested that the receivers and reporting judge appointed by the La Spezia Court be removed. A hearing took place before such court on August 29, 2014, and the court subsequently rejected the request on September 23, 2014. The creditor then lodged an appeal before the Genoa Court of Appeals, which also rejected the request on December 29, 2014. A first hearing was held on March 4, 2015 before La Spezia Court to discuss the current liabilities of the companies of the VSAT group with the creditors of the group. Three other hearings, on the same topics, were held on April 8, April 29 and May 27, 2015.

On November 20, 2015, the bankruptcy judge prepared a statement of liabilities and adjudicated the admission of claims by Veolia Servizi Ambientali ("VSA"), the Italian holding company of the VSAT group. On December 22, 2015, a creditor opposed this admission. Following this opposition, the court scheduled a first appearance hearing of the parties for March 23, 2016. The court ordered an exchange of pleadings and remanded the case to the hearing of October 12, 2016.

Additionally, on April 3, 2014, the Company was informed of a notice of the Reggio Calabria (Calabre) prosecutor's office relating to the conclusion of the preliminary investigation with the indictment of certain former TEC executives, certain TEC site managers, the former Calabria extraordinary commissioner and deputy commissioners, and certain transporters and managers of private landfills, as well as TEC as a legal entity. The alleged facts include fraud in the execution of the concession contract, illegal traffic of waste in an organized syndicate, fraud against a public legal person, fraud in public markets and allegations of corruption. The Reggio Calabria prosecutor's office requested that the indicted individuals and legal entity (TEC) face trial before the Criminal Court. A preliminary hearing was held on March 7, 2016.

The hearing was postponed several times. The next hearing is scheduled for October 4, 2016.

## Other segments

### Société Nationale Maritime Corse Méditerranée ("SNCM")

On November 20, 2015, the Marseille commercial court issued a judgment establishing a plan for the sale of SNCM's assets and activities to the Rocca group and declared the subsequent judicial liquidation of SNCM. In early January 2016, the Rocca group started entering into possession of SNCM's assets and activities included within the scope of the sale, in accordance with the deadline set by the court. In the middle of February 2016, the group Rocca signed the acts of acquisition, so becoming an owner of the ships of the SNCM, which it allocated to its subsidiary MCM.

By its decision of December 4, 2015, the Marseille commercial court approved the transactional agreement under which the bodies of the proceeding waive all requests for payment for insufficient assets, proceedings for liability and personal sanctions against Transdev and Veolia, in exchange for Transdev and Veolia's irrevocable withdrawal of their claims declared as SNCM's liabilities, and the payment of damages provided for by the transactions signed on May 28, 2015 and December 3, 2015, these two transactions being conditional on one another.

In parallel, at the end of November 2015, the Corsica Maritima consortium, whose application to take over SNCM was dismissed by the Marseille commercial court, lodged an appeal in third-party proceedings before such court, seeking to cancel the decision of November 20 and to reexamine the proposals. Corsica Maritima withdrew its claim at the hearing of March 8, 2016.

In February, 2016, the group Rocca transferred to the Corsica Maritima consortium its parts in MCM (renamed Corsica Linea). The works council of Corsica Linea was against the transfer and lodged an appeal before the Marseille commercial court. It withdrew its claim at the hearing of July 12, 2016.

Moreover, the process of judicial liquidation of SNCM continues.

**Other segments - Regional aid to passenger road transportation**

Transdev Group was informed by a letter from the President of the Ile-de-France Regional Council dated March 3, 2014, that on June 4, 2013, the Paris Administrative Court had instructed the Ile-de-France Region to proceed with the recovery of subsidies granted to operators under the plan for the improvement of public transportation services. These subsidies were deemed to be illegal state aid by a decision of the Paris Administrative Court of Appeals of July 12, 2010, on the grounds that no notification was made to the European Commission. According to the terms of the letter, this restitution obligation could affect certain of Transdev Group's subsidiaries that may have benefited from these subsidies, because the Paris Administrative Court of Appeals rejected on December 31, 2013 the Ile-de-France region's request for a stay of implementation on the restitution injunction. The Region appealed the decision of June 4, 2013; this appeal does not stay the injunction.

This first notification was also sent to other regular line operators in the outer Paris suburbs. This request for repayment is a legal dispute between the Ile-de-France Region and an occasional transportation company, and no subsidiary of the Transdev Group is a party to it. Although the Region mentions in its letter an estimated regional subsidized amount of approximately €98.7 million (not including interest) attributed to Transdev Group's subsidiaries, this estimate remains uncertain due to the complexity of the assessment resulting from, (i) the length of time the plan has existed, (ii) the number of operators that received the subsidies, a large number of which have since restructured/consolidated their activities, and (iii) the plan's operating rules, which involve local authorities with evolving scopes of responsibility and which are either intermediaries (the sums paid by the Region passing through them) or economic beneficiaries under the plan.

If the Ile-de-France Region were to issue a recovery order, the Transdev Group or its concerned subsidiaries would lodge an appeal with suspensive effect before the administrative court.

At this stage, Transdev Group maintains the position that the local authorities (departments, municipal associations, towns, among others), rather than Transdev Group, are, in almost all cases, the direct recipients of this financial aid because they benefit from contractual terms with reduced prices for transportation services billed to these local authorities.

Transdev Group, together with OPTILE (*Organisation Professionnelle des Transports d'Ile-de-France*, an association of all the private companies that operate regular lines in the Ile-de-France Transportation Plan), intends to contest any potential claims for repayment and intends to take legal action necessary to defend its interests.

Finally, in a press release dated March 11, 2014, the European Commission announced that, following a complaint filed in 2008, it is opening an in-depth investigation into the subsidies granted to companies that operate public transportation services in Ile-de-France. It also stated that the total amount of subsidies between 1994 and 2008 equaled €263 million according to French authorities and involved 235 recipients. In particular, the Commission will verify whether the recipients took on additional costs related to a public service obligation, and, if so, whether or not their services were subject to overcompensation. Lastly, the Commission stated that its investigation will focus on a similar system of subsidies that may have continued after 2008. The opening of an in-depth investigation does not in any way affect the outcome of the ongoing investigation described above.

As this decision was published on May 9, 2014 in the Official Journal of the European Union, Transdev Group had until June 9, 2014 to submit its comments as an interested third party. By letter of May 27, Transdev Group requested a one-month time period to reply, which it obtained. On July 9, 2014, Transdev Ile-de-France filed, on its own behalf and on that of all the entities of the group active in Ile-de-France, observations in addition to those filed by OPTILE in the interest of all its members. These observations, accompanied by an economic expert's report, suggest the total neutrality of the disputed aid for the transporters, which in reality benefits local communities, and the corresponding impossibility to seek any restitution whatsoever from the companies. Given developments in case law that took place after the filing of their submissions, the concerned companies, as interested third parties, drafted an additional note that was submitted to the Commission by OPTILE on June 21, 2016.

In parallel, on February 27, 2015, Transdev Ile-de-France (as well as other interested members of OPTILE) filed before the Paris Administrative Court of Appeals:

- an application as a third party against the decision rendered by the same Court on July 12, 2010 that had stated that the subsidies in question were illegal, in which proceedings it was not a party;
- voluntary intervention, before the same Court, in the context of the appeal filed by the Ile-de-France Region against the decision of the Paris Administrative Court on June 4, 2013, asking that the Ile-de-France Region issue, as a consequence of the proceeding cited above, the enforcement orders allowing the recovery of the disputed aid. Under this proceeding, on May 26, 2015, Transdev Ile-de-France filed a statement of additional observations for a stay of proceedings pending the forthcoming ruling of the European Commission or, at least, pending the ruling of the Paris Administrative Court of Appeals under the third-party proceeding (see above).

By two decisions of November 27, 2015, the Paris Administrative Court of Appeals:

- rejected the third-party proceeding of Transdev Ile-de-France;
- required the Ile-de-France region to determine the amounts that should be returned by each beneficiary company of the aid plan, taking into account the nature of the subsidized investments and the type of transportation activity that was conducted, and to proceed with the recovery of the aid within a nine-month period. The Ile-de-France region indicated to the Administrative Court of Appeals that it would be extremely difficult for it to calculate the amount of the subsidies to be recovered , but the Court decided that the region was not entitled to invoke the practical difficulties it faced to recover the subsidies;

On January 27, 2016, Transdev Ile-de-France lodged an appeal against the decision to reject their third-party proceeding, which the supreme administrative court (conseil d'état) admitted on July 12, 2016.

## NOTE 12: RELATED PARTY TRANSACTIONS

The Group identifies related parties in accordance with the provisions of paragraph 9 of IAS 24 revised, Related Party Disclosures.

There has been no material change in related-party transactions since December 31, 2015, except lines of credit granted to Transdev Group of €180 million (maturing December 2016) and the €200 million credit line which had been extended to March 3, 2017, which were cancelled following the Transdev Group refinancing.

## NOTE 13: POST-CLOSING EVENTS

### 12.1 Bartin Recycling

On July 20, 2016, the Derichebourg group will acquire the Veolia subsidiary Bartin Recycling.

The transaction will be completed following approval by the French competition authorities.

Bartin Recycling, a Veolia subsidiary specializing in collecting and recycling ferrous and non-ferrous metals, operates around 20 sites in France where it recovers scrap metal, new production waste, demolition material, etc., from recovery or dismantling onsite through to its sale to industry as a secondary raw material. A major stakeholder in industrial recycling in France, the company recovers and recycles up to 450,000 metric tons of metal a year.

Veolia's end-of-life material dismantling and deconstruction business (aircraft, ships, rail rolling stock and industrial facilities) is not concerned by this divestment.

### 12.2 Transdev Group

On July 29, 2016, the Board of Directors authorized an agreement to facilitate the shareholder reorganization of Transdev Group (Transdev), including Veolia's withdrawal.

Prior to this transaction, Transdev would disburse €20 million in dividends, of which €10 million would be paid to the Group.

Under the terms of the agreement, Caisse des Dépôts would acquire 20% of Transdev's capital for €220 million, given that 50% of the capital is valued at €550 million. After this first step, Caisse des Dépôts would own 70% of Transdev's capital and would have exclusive control of the company, while Veolia would retain 30% on a transitional basis.

As soon as possible, after this transaction, Veolia and Caisse des Dépôts would begin their search for a new shareholder interested in acquiring Veolia's remaining 30% stake to support Transdev's future development. At the end of a two-year period, Veolia could exercise a put option toward Caisse des Dépôts, priced at the initial valuation. This initial price could be re-negotiated downward if external and exceptional events not within Transdev management control were to significantly impact the 2017 fiscal year.  Caisse des Dépôts would have a call option valued at the same price.

If Veolia were to sell its share in Transdev to a third party, within two years and at a price higher than €330 million, the additional capital gain would be split equally between Veolia and Caisse des Dépôts

If Caisse des Dépôts were to acquire the 30% remaining stake in Transdev held by the Group (after the two year period), and were to then sell this stake within twelve months of the purchase , the gain on sale would be split equally with the Group.

In addition as part of the agreement, Veolia would take ownership of Transdev's stake in SNCM for a total price of €1 and would guarantee Caisse des Dépôts, Transdev and their subsidiaries against any damages which could arise from SNCM and its subsidiaries.

This project for Caisse des Dépôts to take control of Transdev will be presented to the employee representative bodies and submitted for approval to the relevant authorities in order to be completed.

Both parties are keen to finalize this operation by the end of 2016.

## NOTE 14: MAIN COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2016, Veolia Environnement Group accounted for a total of 2,244 companies, and 1,592 companies excluding Transdev Group.

The list of main subsidiaries has not significantly changed since December 31, 2015, except the acquisition of Kurion.

# Second Part: Operating and Financial Review - Condensed interim consolidated financial statements for the half-year ended june 30, 2016

## 1. Major events of the period

### 1.1 GENERAL CONTEXT

The Group's performance during the first half of 2016 was marked by a significant improvement in half-year results in line with annual objectives:

- Revenue of €11,956 million, down 1.0% at constant exchange rates. Excluding the impact of Construction activities and energy prices, revenue increased 1.5% at constant exchange rates.
- The variation of revenue improved significantly in the second quarter of 2016, increasing 0.1% at constant exchange rates (compared with a 2.1% fall in the first quarter), and increasing 1.9% excluding the impact of Construction revenue and energy prices (compared with 1.2% growth in the first quarter);
- EBITDA of €1,580 million, up 5.6% at constant exchange rates. EBITDA growth accelerated in the second quarter, increasing 6.9% at constant exchange rates, compared with 4.4% growth in the first quarter;
- Current EBIT of €750 million, up 8.2% at constant exchange rates (+11.0% at constant exchange rates in the second quarter, compared with +5.9% in the first quarter);
- Current net income, Group share of €342 million and €301 million excluding net capital gains and losses on financial disposals, up 15.7% compared with the first half of 2015;
- Net financial debt of €8,678 million, down €199 million excluding exchange rate impacts vs. June 30, 2015 (€9,223 million);
- Robust cost savings : €121 million in savings have already been achieved in the first half of 2016;

### 1.2 CHANGES IN GROUP STRUCTURE

#### COMPLETED ACQUISITIONS

- Kurion

The acquisition of the US company, Kurion, announced by the Group on February 3, 2016, was closed on March 31, 2016 for a total consideration of €319.1 million.

With the integration of Kurion, Veolia will now be able to provide all existing solutions and know-how in both nuclear facility clean-up and the treatment of low and medium-level radioactive waste. These new activities further enhance the Group's expertise in the treatment of hazardous waste

The transaction was completed for a total consideration of €319.1 million, comprising a cash payment of €316.8 million paid on the date of acquisition of control and a deferred payment of €2.3 million to be paid in 12 months.

- Pedreira

On May 31, 2016, the CDR Pedreira landfill site in Brazil was acquired for a consideration of €65 million. This transaction is integral to the Group's business development strategy in Latin America.

- Prague Left Bank

On June 1, 2016, Veolia completed the acquisition of Prazska Teplarenska LPZ which owns and operates thermal plants and heating networks in two districts located on the Prague left bank, for an enterprise value (100%) of €71 million.

### ACQUISITIONS IN PROGRESS BY THE GROUP

- Acquisition of Chemours' Sulfur Product assets in the United States

On June 13, 2016, Veolia North America signed an agreement to take over Chemours' Sulfur Products division for a consideration of US$ 325 million (€293 million).

This division specializes in the treatment and regeneration of sulfuric acid and sulfer gas produced during the refining process, which are regenerated into clean acid and steam used in a wide range of industrial activities. As a tuck-in to Veolia North America's Industrial Business, Chemours' Sulfur Products division is an excellent complement to Veolia's existing business, and will reinforce its existing recycling and regeneration capabilities and technologies.

The parties should finalize this transaction in the second half of 2016, subject to closing conditions and the standard regulatory authorizations.

### DIVESTITURES

- Termination of the SADE divestiture process

## 1.3 GROUP FINANCING

### OFFERING OF BONDS CONVERTIBLE INTO AND/OR EXCHANGEABLE FOR NEW AND/OR EXISTING SHARES

On March 8, 2016, Veolia Environnement completed an offering of bonds convertible into and/or exchangeable for new and/or existing shares (OCEANEs) maturing March 15, 2021, by way of a private placement without shareholders' preferential subscription rights, for a nominal amount of €700 million.

The bonds will not bear interest and the issue price has been set at 102.75% of par, corresponding to a negative actuarial yield to maturity of -0.54%. The nominal unit strike price of these bonds was set at €29.99 representing a premium of 47.5% above the Company's reference share price on the issue date.

Veolia received cash of €714.9 million and recognized a debt of €697.3 million in the accounts at the issue date.

See Note 7.1.1 to the condensed interim consolidated financial statements for the half-year ended June 30, 2016 for information related to the accounting treatment of this operation.

### CHANGES IN BONDS OUTSTANDING

On February 12, 2016, Veolia Environnement repaid the 2016 euro-denominated bond line with a nominal value of €382 million.

### CONFIRMATION OF THE CREDIT OUTLOOK

In May and June 2016, S&P and Moodys confirmed Veolia's credit rating as A-2/BBB with a stable outlook and P-2 / Baa1 also with a stable outlook, respectively.

### DIVIDEND PAYMENT

The Combined General Meeting of April 21, 2016 set the dividend for fiscal 2015 at €0.73 per share. This dividend was paid in cash beginning May 4, 2016 in the total amount of €401 million.

## 1.4 TRANSDEV GROUP

On March 30, 2016, following external refinancing, Transdev Group repaid in full the shareholder loan granted by Veolia in the amount of €345 million.

During the first half of 2016, discussions between Veolia and Caisse des dépôts et Consignations regarding the Group's withdrawal from Transdev led to significant progress. Negotiation agreements should be finalized soon.

See Notes 3 and 13 to the condensed interim consolidated financial statements for the half-year ended June 30, 2016.

## 1.5 CHANGES IN GOVERNANCE

### COMBINED SHAREHOLDERS' MEETING, APRIL 21, 2016

The Combined Shareholders' Meeting of Veolia Environnement took place at the Maison de la Mutualité in Paris on Thursday, April 21, 2016, chaired by Mr. Antoine Frérot, Chairman and Chief Executive Officer of the Company. At the Meeting, shareholders approved all the resolutions on the agenda.

In particular, shareholders:

- approved the Company and consolidated financial statements for fiscal year 2015;
- set the cash dividend for fiscal year 2015 at €0.73 per share. The dividend was paid from May 4, 2016;
- renewed the terms of office of Mr. Jacques Aschenbroich and Mrs. Nathalie Rachou and appointed Mrs. Isabelle Courville and Mr. Guillaume Texier, as directors for a four-year term expiring at the end of the shareholders' meeting convened to approve the financial statements for the year ended December 31, 2019;
- issued a favorable opinion on the compensation due or awarded for fiscal year 2015 and expected 2016 compensation for Mr. Antoine Frérot, the Company's Chairman and Chief Executive Officer;
- renewed all financial authorizations granted to the Board of Directors;
- authorized the Board of Directors to grant free and performance shares to employees of the Group and corporate officers of the Company.

After this Combined Shareholders' Meeting, Veolia Environnement's Board of Directors consists of seventeen directors, including two directors representing employees and six women (40%), as well as two non-voting members (censeurs):

- Mr. Antoine Frérot, Chairman and Chief Executive Officer;
- Mr. Louis Schweitzer, Vice-Chairman and Senior Independent Director;
- Mrs. Homaira Akbari;
- Mr. Jacques Aschenbroich;
- Mrs. Maryse Aulagnon;
- Mr. Daniel Bouton;
- Caisse des Dépôts et Consignations, represented by Mr. Olivier Mareuse;
- Mrs. Isabelle Courville;
- Mrs. Clara Gaymard;
- Mrs. Marion Guillou;
- Mr. Baudouin Prot;
- Qatari Diar Real Estate Investment Company, represented by Mr. Khaled Al Sayed;
- Mrs. Nathalie Rachou;
- Mr. Paolo Scaroni;
- Mr. Guillaume Texier;

- Mr. Pavel Páša, Director representing employees;
- Mr. Pierre Victoria, Director representing employees;
- Mr. Paul-Louis Girardot, non-voting member (censeur);
- Mr. Serge Michel, non-voting member (censeur).

The four Board Committees are now comprised as follows:

- Accounts and Audit Committee: Mr. Daniel Bouton (Chairman), Mrs. Homaira Akbari, Mr. Jacques Aschenbroich, Mrs. Nathalie Rachou and Mr. Pierre Victoria (Director representing employees).
- Nominations Committee: Mr. Louis Schweitzer (Chairman), Mrs. Maryse Aulagnon and Mr. Paolo Scaroni.
- Compensation Committee: Mr. Louis Schweitzer (Chairman), Mr. Daniel Bouton, Mrs. Clara Gaymard, Mrs. Marion Guillou and Mr. Pierre Victoria (Director representing employees).
- Research, Innovation and Sustainable Development Committee: Mr. Jacques Aschenbroich (Chairman), Mrs. Marion Guillou and Mr. Pavel Páša (Director representing employees).

## 1.6 EVENTS SUBSEQUENT TO JUNE 30, 2016

### BARTIN RECYCLING

On July 20, 2016, Veolia signed an agreement to sell its subsidiary, Bartin Recycling to the Derichebourg group.

The transaction will be completed following approval by the French competition authorities.

Bartin Recycling, a Veolia subsidiary specializing in collecting and recycling ferrous and non-ferrous metals, operates around 20 sites in France where it recovers scrap metal, new production waste, demolition material, etc., from recovery or dismantling onsite through to its sale to industry as a secondary raw material. A major stakeholder in industrial recycling in France, the company recovers and recycles up to 450,000 metric tons of metal a year.

Veolia's end-of-life material dismantling and deconstruction business (aircraft, ships, rail rolling stock and industrial facilities) is not concerned by this divestment.

### TRANSDEV

On July 29, 2016, the Board of Directors authorized an agreement to facilitate the shareholder reorganization of Transdev Group (Transdev), including Veolia's withdrawal.

Prior to this transaction, Transdev would disburse €20 million in dividends, of which €10 million would be paid to the Group.

Under the terms of the agreement, Caisse des Dépôts would acquire 20% of Transdev's capital for €220 million, given that 50% of the capital is valued at €550 million. After this first step, Caisse des Dépôts would own 70% of Transdev's capital and would have exclusive control of the company, while Veolia would retain 30% on a transitional basis.

As soon as possible, after this transaction, Veolia and Caisse des Dépôts would begin their search for a new shareholder interested in acquiring Veolia's remaining 30% stake to support Transdev's future development. At the end of a two-year period, Veolia could exercise a put option toward Caisse des Dépôts, priced at the initial valuation. This initial price could be re-negotiated downward if external and exceptional events not within Transdev management control were to significantly impact the 2017 fiscal year. Caisse des Dépôts would have a call option valued at the same price.

If Veolia were to sell its share in Transdev to a third party, within two years and at a price higher than €330 million, the additional capital gain would be split equally between Veolia and Caisse des Dépôts

If Caisse des Dépôts were to acquire the 30% remaining stake in Transdev held by the Group (after the two year period), and were to then sell this stake within twelve months of the purchase , the gain on sale would be split equally with the Group.

In addition as part of the agreement, Veolia would take ownership of Transdev's stake in SNCM for a total price of €1 and would guarantee Caisse des Dépôts, Transdev and their subsidiaries against any damages which could arise from SNCM and its subsidiaries.

This project for Caisse des Dépôts to take control of Transdev will be presented to the employee representative bodies and submitted for approval to the relevant authorities in order to be completed.

Both parties are keen to finalize this operation by the end of 2016.

## 2. Accounting and financial information

To enhance the presentation of its operating performance and improve comparability with other sector companies, the Group uses alternative performance measures to communicate the Group's financial results: EBITDA, Current EBIT and Current Net income.

These financial indicators are defined in Section 3.8.3 of the 2015 Registration Document.

They are also reconciled with the financial indicators utilized in the financial statements:

- see Section 4 of the condensed interim consolidated financial statements for the half-year ended June 30, 2016 for a reconciliation of EBITDA with Operating cash flow before changes in working capital;
- refer to Section 2.3.7 of this operating and financial review for a reconciliation of Current EBIT with Operating income as presented in the consolidated income statement, and a reconciliation of Current Net income with Net income as presented in the consolidated income statement.

### 2.1 KEY FIGURES

Group results break down as follows:

| *(in € million)* | Half-year ended June 30, 2015 | **Half-year ended June 30, 2016** | Δ | Δ at constant exchange rates |
|---|---|---|---|---|
| Revenue | 12,317.6 | 11,955.9 | -2.9% | -1.0% |
| EBITDA | 1,531.1 | 1,580.3 | +3.2% | +5.6% |
| *EBITDA margin* | *12.4%* | *13.2%* | | |
| Current EBIT (1) | 712.1 | 749.7 | +5.3% | +8.2% |
| Current net income – Group share | 321.2 | 341.7 | +6.4% | +10.1% |
| Current net income – Group share, excluding capital gains and losses on financial disposals net of tax | 260.2 | 301.1 | +15.7% | |
| Net income – Group share | 352.7 | 251.2 | -28.8% | |
| Industrial investments | 565 | 553 | | |
| Net free cash-flow (2) | (76) | (105) | | |
| Net Financial debt | 9,223 | 8,678 | | |

*(1) Including the share of current net income of joint ventures and associates viewed as core Company activities.*

*(2) Net free cash flow corresponds to free cash flow from continuing operations, and is equal to the sum of EBITDA, dividends received, operating cash flow from financing activities, and changes in operating working capital requirements, less net industrial investments, current cash financial expense, cash taxes paid, restructuring charges and renewal expenses.*

The main foreign exchange impacts were as follows:

| ***Foreign exchange impacts** for 1H2016 vs. 1H2015* | *%* | *in € million* |
|---|---|---|
| *Revenue* | *-1.9%* | *(237)* |
| *EBITDA* | *-2.3%* | *(36)* |
| *Current EBIT* | *-2.9%* | *(21)* |
| *Current net income* | *-3.7%* | *(12)* |
| *Net financial debt (vs. December 2015)* | *+3.7%* | *+298* |
| *Net financial debt (vs. June 2015)* | *+3.8%* | *+346* |

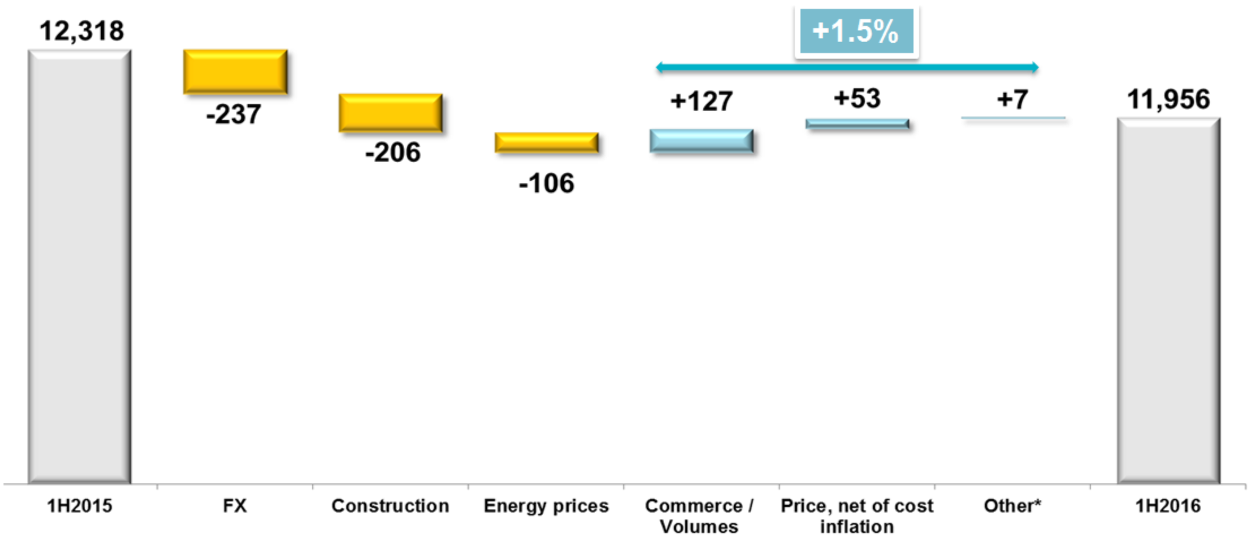
## GROUP CONSOLIDATED REVENUE

Group consolidated revenue for the half-year ended June 30, 2016 was €11,955.9 million, compared with €12,317.6 million for the same period in 2015, down -1.0% at constant exchange rate. Excluding Construction revenue and the impact of lower energy prices, revenue increased +1.5% at constant exchange rates.

The revenue trend improved in the second quarter of the year with growth of +0.1% at constant exchange rates (versus -2.1% in the first quarter) and +1.9% excluding the Construction business and the impact of energy prices (versus +1.2% in the first quarter).

The municipal sector generated 55% of the first half of 2016 revenue (i.e. around €6.6 billion), and the industrial sector generated 45% (i.e. around €5.4 billion).

The decrease in revenue between 2015 and 2016 breaks down by main impact as follows:




*(*) including consolidation scope*

The foreign exchange impact on revenue was -€237.0 million (-1.9% of revenue) and mainly reflects the fluctuation of the pound sterling (-€69.4 million), the Argentine peso (-€43.5 million), the Australian dollar (-€31.1 million), the Polish zloty (-€26.2 million), the Japanese yen (+€14.6 million), the Mexican peso (-€14.2 million), the Brazilian real (-€13.5 million) and the Chinese renminbi (-€13.3 million).

The decrease in Construction revenue (-€206 million, representing -1.7% of Group revenue) essentially concerns Veolia Water Technologies and SADE (-1.3%), as well as the completion of construction work on incinerators in the United Kingdom (-€34 million).

Group revenue was affected by the decline in energy prices (-0.9%), primarily in the United States and to a lesser extent in Germany and Central Europe.

The positive business momentum (Commerce/Volumes impact) of +€127 million was due to:

- an increase in volumes, in line with the good performance of Hazardous waste activities, the Energy business in Asia, Latin America (Water and Waste), Waste activities in the United Kingdom, Germany (Waste and Energy) and Africa and the Middle-East. These positive effects were partially offset by a decrease in Water volumes in France (-€8 million) and a downturn in industrial services in North America and Australia;
- good business momentum with contract wins in Waste in Germany and the United Kingdom and the commissioning of new assets (particularly the Leeds incinerator in the United Kingdom and the hazardous waste incinerator in Changsha in China);
- a negligible weather impact: favorable in Central Europe, but negative in the United States.

Favorable price / tariff effects were the result of tariff indexation that remains favorable although moderate in Water in France (+0.2%), municipal Water in the United States, and in Argentina.

"Other" changes include changes in consolidation scope (+€38 million), primarily relating to transactions performed in 2015: divestiture of Group activities in Israel (-€36.2 million), acquisition of Altergis in the Energy sector in France (+€36.1 million), divestiture of an entity in the Czech Republic (-€23.4 million) and acquisition of an entity in the Netherlands (+€20.4 million).

By segment, this change in revenue compared to the half-year ended June 30, 2015 breaks down as follows:

- Revenue declined slightly in France (-0.2%):
  - the Water business reported stable revenue thanks to positive commercial impacts (Ileo contract in Lille), mitigated by weak tariff indexation (+0.2%) and lower volumes (-1%);
  - Waste business revenue fell -1.6%: despite the good level of incineration activities and landfill volumes, revenue was impacted by a drop in municipal collection volumes and a decrease in recycled material prices and volumes.
- Slight revenue diminution in Europe excluding France (-0.3% at constant exchange rates). After a decrease of -0.9% at constant exchange rates in the first quarter, revenue improved in the second quarter (+0.3%).
  - revenue fell -3.2% at constant exchange rates in the United Kingdom to €1,057.1 million, but was stable excluding the Construction business following completion of the Leeds incinerator;
  - revenue increased +2.8% at constant exchange rates in Germany to €845.6 million, despite the negative impact of a fall in energy prices in the first quarter thanks to good Waste volumes;
  - in Central & Eastern Europe, revenue was stable overall at €1,458.0 million (-1.0% at constant exchange rates). The negative impact of a first quarter fall in energy prices was partially offset by a positive weather effect, the start-up of biomass cogeneration in Hungary, and good volumes invoiced in the Water business, especially in the Czech Republic.

- Revenue was stable in the Rest of the World segment, with a marked improvement in the second quarter of +1.9% at constant exchange rates, following a -2.4% drop in the first quarter.

  - revenue fell -9.4% at constant exchange rates in North America to €868 million, penalized by the fall in energy prices, a negative weather impact and the decrease of industrial services, despite a slight improvement in industrial services in the second quarter and the implementation of adjustment measures.

  - strong revenue growth in Latin America (+8.5% at constant exchange rates), Africa/Middle East (+9.1%) and Asia (+2.9%), while Australia (-3.2% at constant exchange rates) was penalized by a decrease in industrial services.

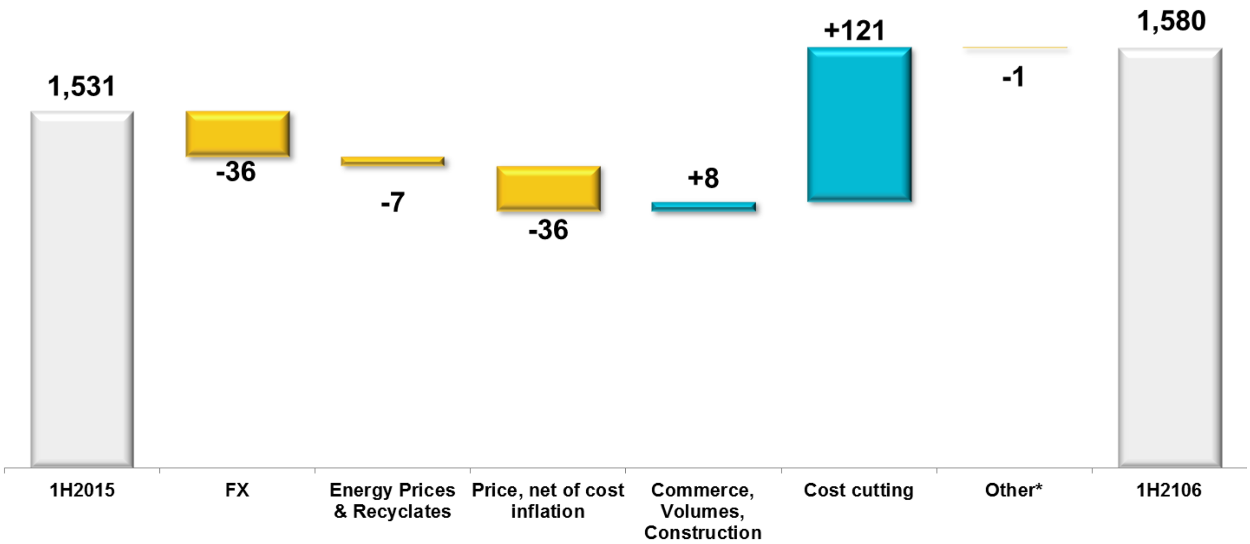
- Global Businesses: revenue fell -1.9% at constant exchange rates: solid growth in the Hazardous waste business (+4.2% at constant exchange rates), was offset by the progressive downsizing of Veolia Water Technologies activities.

## EBITDA

For the first half of 2016, the Group's consolidated EBITDA increased 5.6% at constant exchange rates to €1,580.3 million, compared with the half-year ended June 30, 2015. The EBITDA margin increased from 12.4% in the half-year ended June 30, 2015 to 13.2% in the same period ended June 30, 2016.

This increase in EBITDA was mainly due to operating efficiency, with cost savings of €121 million.

The increase in EBITDA between the first half of 2015 and the first half of 2016 breaks down by impact as follows:




*(*) including consolidation scope*

The foreign exchange impact on EBITDA was -€35.8 million and mainly reflects fluctuations of the pound sterling (-€9.7 million), South American currencies (-€8.6 million, primarily the Brazilian real and the Argentine peso) and the Polish zloty (-€7.1 million).

The impact of energy prices & recyclates (-€7 million) : the decline in heat and electricity prices was offset by the reduction in the purchase price of fuel used to produce heat and electricity. The impact of raw material prices is negative (-€5 million).

Prices, net of cost inflation, had a negative impact, notably in France.

Commerce / Volume / Construction impacts were favorable: the commissioning of new assets, good hazardous waste performance, favorable water volumes in Central & Eastern Europe and good activity in Latin America and Africa Middle East were compensated by the lower water volumes in France (due to weather), the ongoing negative impact of renegotiations in French Water (-€16 million), and the decline in industrial services activity in the United States and in Australia.

Cost-savings plans contributed €121 million to the increase in EBITDA, mainly as a result of operations efficiency (43%) and purchasing (35%).

"Other" changes include the consolidation scope impact (€3 million) mainly related to the divestiture of Group activities in Israel in 2015.

By segment:

- EBITDA declined in France:
  - in the Water business, cost savings only partially offset the decrease in volumes, weak tariff indexation, the negative effect of contractual negotiations and the impairment of receivables pursuant to the Brottes law;
  - in the Waste business, EBITDA was affected by the fall in the price of scrap metal and a non-recurring item that favorably impacted Bartin in 2015.
- Strong growth in EBITDA in Europe excluding France, and particularly:
  - in Central Europe, thanks to cost savings efforts and a favorable weather impact;
  - in the United Kingdom, thanks to the excellent performance of PFI installations;
  - in Germany, in line with solid Waste volumes and efficiency gains.
- Steady growth in the Rest of the World region, where the poor performance of the United States was offset by strong growth in China with an increase in volumes, the commissioning of the Changsha incinerator, and cost savings.
- In the Global Business segment, Veolia Water Technologies enjoyed the benefits of cost saving measures implemented in 2015 and Hazardous waste activities reported an excellent half-year.

## CURRENT EBIT

For the first half of 2016, the Group's consolidated current EBIT increased 8.2% at constant exchange rates to €749.7 million, compared with the half-year ended June 30, 2015.

This increase in Current EBIT was mainly due to:

- an improvement in Group EBITDA, particularly in the Europe excluding France and Global Businesses segments;
- a stable depreciation and amortization expense at constant exchange rates;
- provision reversals that were similar in each period;
- capital gains on disposals of industrial assets;
- the slightly negative variation (primarily change in consolidation scope and foreign exchange impact) of the contribution of equity-accounted entities.

The foreign exchange impact on Current EBIT was -€20.5 million and mainly reflects fluctuations of the pound sterling (-€6.0 million), South American currencies (-€4.5 million, including the Argentine peso), the Polish zloty (-€4.5 million) and the Chinese renminbi (-€3.9 million).

## NET FINANCIAL EXPENSE

Net cost of financial debt totaled -€209.2 million for the half-year ended June 30, 2016, compared with -€230.8 million for the half-year ended June 30, 2015.

The cost of net financial debt declined €21.6 million compared to the half-year ended June 30, 2015, including a €6 million positive exchange rate impact.

The decline in the cost of net financial debt resulted from the impact of repayment of the inflation indexed bond with cash in June 2015, bond refinancing under better conditions, active debt management and a positive exchange rate impact

Other financial income and expenses totaled €12.9 million for the half-year ended June 30, 2016, compared with €46.8 million for the half-year ended June 30, 2015. Other financial income and expenses included net capital gains and losses on financial divestitures of €40.6 million in the first half of 2016 (compared with €63.0 million in the first half of 2015), and notably impacts related to fair-value remeasurement of previously-held equity interests in China and France.

## INCOME TAX EXPENSE

The current income tax rate for the half-year ended June 30, 2016 is stable at 29.2%, compared with 30.0% for the same period in 2015.

## NET INCOME

Current net income attributable to owners of the Company increased to €341.7 million for the half-year ended June 30, 2016 from €321.2 million for the half-year ended June 30, 2015.

Excluding capital gains and losses on financial divestitures net of tax, current net income attributable to owners of the Company rose 15.7% to €301.1 million from €260.2 million for the half-year ended June 30, 2015.

Current net income attributable to owners of the Company per share was €0.60 (diluted) and €0.62 (basic) for the half-year ended June 30, 2016, compared with €0.59 (basic and diluted) for the half-year ended June 30, 2015.

Net income attributable to owners of the Company was €251.2 million for the half-year ended June 30, 2016, compared with €352.7 million for the half-year ended June 30, 2015.

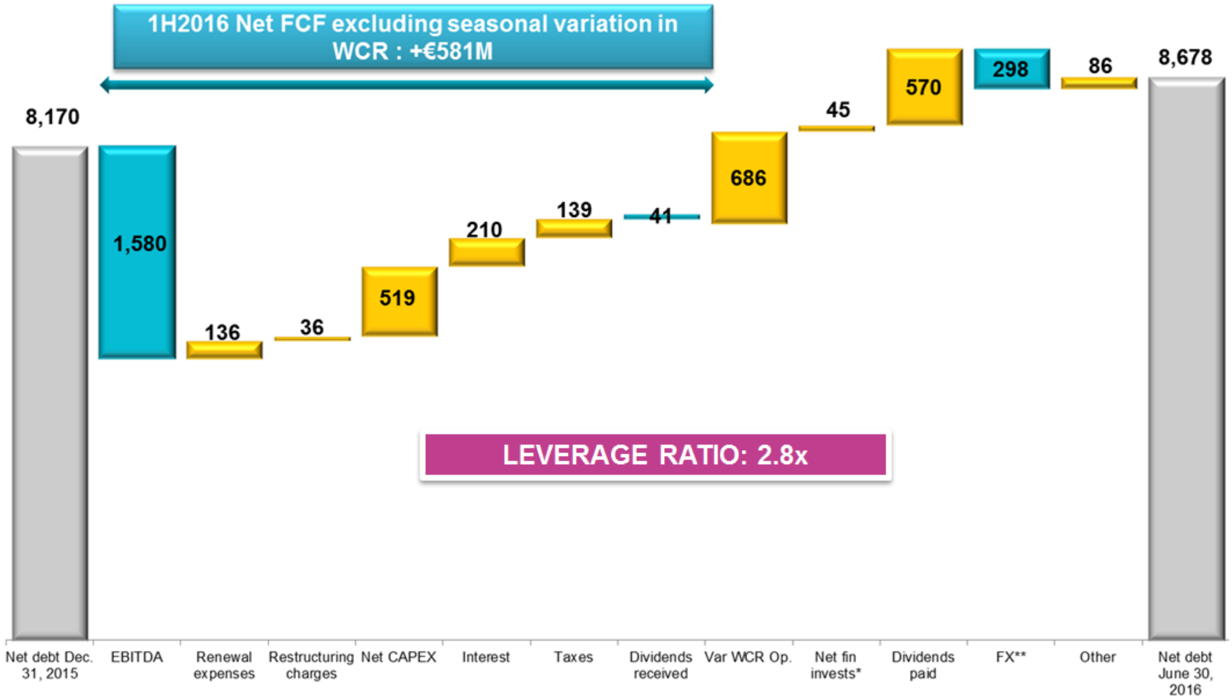
Other than factors already mentioned above, the decrease in net income attributable to owners of the Company was tied to other income statement items considered to be non-current, particularly restructuring charges and provisions recognized in the Water business in France and in other geographies.

Net income attributable to owners of the Company per share was €0.32 (diluted) and €0.33 (basic) for the half-year ended June 30, 2016, compared with €0.51 (basic and diluted) for the half-year ended June 30, 2015.

## NET FREE CASH FLOW AND NET FINANCIAL DEBT

Net free cash flow amounted to -€105 million for the half-year ended June 30, 2016, versus -€76 million for the half-year ended June 30, 2015.

The change in net free cash flow year-on-year mainly reflects the improvement in EBITDA, offset primarily by an unfavorable change in operating WCR.




* *including reimbursement of Transdev intercompany loan*

*** mainly UK pound sterling*

Overall, net financial debt totaled €8,678 million, up €806 million compared with €8,170 million for the year ended December 31, 2015, when excluding exchange rate impacts.

## 2.2 REVENUE

### 2.2.1 Revenue by segment

| Revenue (in € million) | Half-year ended June 30, 2015 | **Half-year ended June 30, 2016** | Δ 2016/2015 | Δ at constant exchange rates | Δ at constant exchange rates, excl. impact of Construction activities and energy prices |
|---|---|---|---|---|---|
| **France** | 2,694.6 | 2,688.3 | -0.2% | -0.2% | -0.1% |
| **Europe excluding France** | 4,305.5 | 4,203.6 | -2.4% | -0.3% | +1.8% |
| **Rest of the World** | 2,956.6 | 2,832.6 | -4.2% | -0.3% | +1.7% |
| **Global Businesses** | 2,296.2 | 2,218.6 | -3.4% | -1.9% | +5.1% * |
| **Other** | 64.7 | 12.8 | - | - | - |
| **Group** | **12,317.6** | **11,955.9** | **-2.9%** | **-1.0%** | **+1.5%** |

*(*) Global businesses include Hazardous waste activities, and Solutions and Technologies activities in Water (sensitive to Construction works fluctuations)*

The Y-Y trend in the second quarter of 2016 was marked by more favorable momentum, in all segments, with the exception of the Waste business in France.

| *Δ at constant exchange rates* | 1st quarter 2016 | 2nd quarter 2016 |
|---|---|---|
| *France* | +0.2% | -0.7% |
| *Europe excluding France* | -0.9% | +0.3% |
| *Rest of the World* | -2.4% | +1.9% |
| *Global Businesses* | -2.9% | -0.9% |
| ***Group*** | **-2.1%** | **+0.1%** |
| ***Total Group excluding the impact of Construction activities and energy prices*** | **+1.2%** | **+1.9%** |

## FRANCE

Revenue in France for the half-year ended June 30, 2016 was €2,688.3 million, down slightly by -0.2% year-on-year.

- Water revenue was stable vs. the first six months of 2015. The positive commercial impact of new contracts (particularly the Ileo contract in Lille) and tariff indexation of +0.2% were mitigated by unfavorable contractual renegotiations (renewal of the Greater Lyon contract and the transfer back of the Montpellier contract to the municipality), reduced Construction activity and a decrease in volumes sold (-1% due to the decrease of volumes distributed and poor weather conditions in the second quarter 2016);

- Waste revenue slipped -1.6%. Despite the good level of incineration activities and landfill volumes and positive commercial impacts (particularly in the sorting and recovery of industrial waste), revenue was impacted by a drop in municipal collection volumes and a decrease in recycled material prices and volumes (plastic and ferrous and non-ferrous scrap metals).

## EUROPE EXCLUDING FRANCE

Revenue in the Europe excluding France segment for the half-year ended June 30, 2016 amounted to €4,203.6 million, down -0.3% at constant exchange rates year-on-year. After a decrease of -0.9% at constant exchange rates in the first quarter, revenue improved in the second quarter reporting an increase of +0.3%.

Excluding the impact of Construction activities and energy prices, revenue increased +1.8% at constant exchange rates. This variation can be explained as follows:

- Central Europe: revenue slipped -1.0% at constant exchange rates, following a decrease in electricity volumes sold in Lithuania and the Czech Republic and a reduction in heating and electricity tariffs. These impacts were partially offset by an increase in Water volumes and prices in the Czech Republic, the start up of two cogeneration plants in Hungary (Debrecen and Nyiregyhaza) and a slightly favorable weather impact in Lithuania and Poland;

- United Kingdom and Ireland: -3.4% fall in revenue at constant exchange rates, mainly due to a decrease in Construction revenue. Revenue nonetheless benefited from the development of commercial collection activities (particularly the Sainsbury contract), new municipal contracts in the Waste business and the commissioning of the Leeds incinerator.

- Northern Europe: revenue increased +7.6% at constant exchange rates across all countries and particularly in Germany, where revenue enjoyed an upsurge in the second quarter in line with the increase in volumes of gas sold and growth in the solid waste business, despite the decrease in the price of Energy sold (electricity, gas and heating). Other Northern Europe countries also reported an increase in revenue, fueled by new contracts in Sweden;

- Italy: Energy business revenue fell 10.3% due to the restructuring of the commercial portfolio, the decrease in the price of gas and an unfavorable weather effect.

## REST OF THE WORLD

Revenue in the Rest of the World segment for the half-year ended June 30, 2016 was €2,832.6 million, down -0.3% at constant exchange rates compared to the prior year period. After a decrease of -2.4% at constant exchange rates in the first quarter, revenue improved significantly in the second quarter reporting an increase of +1.9%.

Excluding the impact of Construction activities and energy prices, Rest of the World segment revenue increased +1.7% at constant exchange rates.

Rest of the World revenue reflects solid growth across the region, with the exception of North America and Australia:

- In Latin America (+8.5% at constant exchange rates) growth accelerated in the second quarter in Argentina and Mexico. In Argentina, increased volumes under the Buenos Aires contract were accompanied by an increase in tariffs and partially offset by the scheduled end of the Avellaneda contract. In Ecuador, increased Water volumes under the Guayaquil contract were offset by the fall in Construction activities.

- Asia (+2.9% at constant exchange rates) reported increased revenue across most of the region. In China, revenue grew 1.2% at constant exchange rates, mainly in line with increased volumes sold in the Energy business (Harbin and Jiamusi heating networks and industrial contracts) and the commissioning of the Changsha incinerator in April 2016 and despite a decrease in energy prices (heating and electricity). Revenue growth in Japan accelerated in the second quarter of 2016, benefitting from the development of the customer service activity (launch of the Tokyo contract in 2015).

- In Africa and the Middle East, revenue growth (+9.1% at constant exchange rates) was boosted by higher electricity sales in Gabon, an increase in Construction activities and business development in the Middle East.

The good growth in the Rest of the World segment was offset by lower revenue in Australia (-3.2% at constant exchange rates) in the Waste business, where the increase in collection and landfill activities only partially offset the slump in industrial services.

Revenue also fell in North America (-9.4% at constant exchange rates), particularly in the first quarter of 2016 (-14.9% at constant exchange rate, and -3.4% in the second quarter), due to a drop in energy prices, a fall in heating volumes sold (due to a very mild winter), a downturn in industrial services and the end of a number of municipal Water contracts.

### GLOBAL BUSINESSES

The Global Businesses segment reported revenue for the half-year ended June 30, 2016 of €2,218.6 million, down -1.9% at constant exchange rates year-on-year. After a decrease of -2.9% at constant exchange rates in the first quarter, the revenue trend improved in the second quarter (-0.9%).

Excluding the impact of Construction activities and energy prices, revenue increased +5.1% at constant exchange rates.

The variation of revenue mainly due to:

- good growth in Hazardous waste activities (+4.2% at constant exchange rates), tied particularly to treatment and recovery activities (launch of the Paris subway line 14 worksite), landfill activities and an increase in industrial clean-up services;

- stable Construction activities at SADE: the fall in international activities following the postponement of projects and the downturn in construction in France were offset by good Telecom performance;

- the progressive downsizing of Veolia Water Technologies activities following the completion of major projects (Sadara and Az Zour North) and the decrease in Solutions activities.

### 2.2.2 Revenue by business

| Revenue (in € million) | Half-year ended June 30, 2015 | **Half-year ended June 30, 2016** | Δ 2016/2015 | Δ at constant exchange rates | Δ at constant exchange rates, excl. impact of Construction activities and energy prices |
|---|---|---|---|---|---|
| **Water** | 5,463.4 | 5,329.9 | -2.4% | -1.6% | +1.6% |
| **Waste** | 4,310.9 | 4,173.4 | -3.2% | 0.2% | +1.0% |
| **Energy** | 2,543.3 | 2,452.6 | -3.6% | -1.7% | +2.2% |
| **Group** | **12,317.6** | **11,955.9** | **-2.9%** | **-1.0%** | **+1.5%** |

#### WATER

Water revenue for the half-year ended June 30, 2016 declined 1.6% at constant exchange rates year-on-year, and increased +1.6% at constant exchange rates excluding the decrease in Construction activity and energy prices. This variation reflects:

- stable Operations activities. In France, the positive commercial impact of new contract wins (Lille) offset the unfavorable impact of contract renewals, the impact of a 1% decline in volumes and weak price indexations, while Central Europe benefited from good volumes;
- progressive downsizing of the Veolia Water Technologies business.

#### WASTE

Waste revenue was stable at constant exchange rates (+0.2%) compared with the first half of 2015, and increased +1.0% at constant exchange rates excluding the decrease in Construction activity.

The variation of Waste revenue was due to:

- a positive volume impact of +1.3% and service price impact of +0.9%;
- good resilience in France, and in the United Kingdom excluding Construction activities;
- weak performance in Industrial Services in the United States and Australia;
- good growth in hazardous waste (+4.2% at constant exchange rate).

#### ENERGY

Energy revenue for the half-year ended June 30, 2016 declined 1.7% at constant exchange rates year-on-year, and increased +2.2% at constant exchange rates excluding the decrease in energy prices (offset at the margin level). This variation reflects:

- an overall slight unfavorable weather impact (the weather impact is positive in Poland and Lithuania, but negative in the United States);
- the positive impact of the start-up of biomass cogeneration facilities in Hungary.

## 2.3 OTHER INCOME STATEMENT ITEMS

### 2.3.1 EBITDA

Variations in EBITDA by segment were as follows:

| *(in € million)* | Half-year ended June 30, 2015 | **Half-year ended June 30, 2016** | Δ 2016/2015 | Δ at constant exchange rates |
|---|---|---|---|---|
| France | 395.5 | 353.3 | *-10.7%* | *-10.7%* |
| Europe, excluding France | 610.3 | 701.3 | *+14.9%* | *+17.4%* |
| Rest of the World | 406.1 | 399.0 | *-1.7%* | *+3.2%* |
| Global Businesses | 84.5 | 116.8 | *+38.2%* | *+38.6%* |
| Other | 34.7 | 9.9 | - | - |
| **EBITDA** | **1, 531.1** | **1, 580.3** | ***+3.2%*** | ***+5.6%*** |
| **EBITDA margin** | **12.4%** | **13.2%** | | |

### 2.3.2 Current EBIT

Variations in Current EBIT by segment were as follows:

| *(in € million)* | Half-year ended June 30, 2015 | **Half-year ended June 30, 2016** | Δ 2016/2015 | Δ at constant exchange rates |
|---|---|---|---|---|
| France | 107.0 | 42.9 | *-59.9%* | *-59.9%* |
| Europe, excluding France | 340.0 | 432.7 | *+27.3%* | *+30.1%* |
| Rest of the World | 216.1 | 213.2 | *-1.3%* | *+4.1%* |
| Global Businesses | 33.1 | 70.3 | *+112.5%* | *+111.1%* |
| Other | 15.9 | (9.4) | - | - |
| **Current EBIT** | **712.1** | **749.7** | ***+5.3%*** | ***+8.2%*** |

The reconciling items between EBITDA and Current EBIT for the half-year ended June 30, 2016 and 2015 are as follows:

| *(in € million)* | Half-year ended June 30, 2015 | **Half-year ended June 30, 2016** |
|---|---|---|
| **EBITDA** | **1,531.1** | **1,580.3** |
| Renewal expenses | (141.1) | (135.6) |
| Net depreciation and amortization (1) | (768.7) | (785.0) |
| Share of current net income from joint ventures and associates | 52.8 | 43.4 |
| Provisions, fair value adjustments & other (2): | 38.0 | 46.6 |
| - Current impairment of property, plant and equipment, intangible assets and operating financial assets | 4.0 | 1.4 |
| - Gains or losses on industrial divestitures | 9.8 | 17.9 |
| - Net charges to operating provisions, fair value adjustments and other | 24.2 | 27.3 |
| **Current EBIT** | **712.1** | **749.7** |

(1) *Including principal payments on operating financial assets (OFA) of -€104 million for the half-year ended June 30, 2016 and -€82 million for the half-year ended June 30, 2015.*

(2) *Including gains and losses on industrial divestitures*

Net depreciation and amortization charges (-€681.0 million for the half-year ended June 30, 2016) are almost stable at constant exchange rates compared with the half year ended June 30, 2015 (-€686.7 million).

The share of current net income from joint ventures and associates was derived from the Chinese entities in the Water and Waste businesses in the amount of €19.5 million, versus €19.4 million for the half-year ended June 30, 2015, and UK entities (Water and Waste) in the amount of €3.3 million (€8.9 million for the half-year ended June 30, 2015, due to changes in consolidation scope).

Capital gains or losses on industrial divestitures for the half-year ended June 30, 2016 mainly concerned the sale of a site in Singapore. This line item reflected Water transactions in France and an industrial asset divestiture in Germany in the half-year ended June 30, 2015.

In the half-year ended June 30, 2016, Net charges to operating provisions were non-significant individually. In the half-year ended June 30, 2015, this line item comprised a provision reversal for “Olivet” contracts in the Water business in France.

### 2.3.3 Analysis of EBITDA and Current EBIT by segment

#### FRANCE

| *In € million* | Half-year ended June 30, 2015 | **Half-year ended June 30, 2016** | Δ 2016/2015 | Δ at constant exchange rates |
|---|---|---|---|---|
| EBITDA | 395.5 | 353.3 | -10.7% | -10.7% |
| EBITDA margin | 14.7% | 13.1% | | |
| Current EBIT | 107.0 | 42.9 | -59.9% | -59.9% |

EBITDA in France fell during the period (-10.7% at constant exchange rates).

In the Water business, cost savings only partially offset contractual erosion of -€16 million (margin degradation), the negative impact of price effects, net of inflation, and the impairment of receivables pursuant to the Brottes law (-€12 million).

EBITDA also fell in the Waste business despite the benefit of cost savings and a decrease in the price of fuel purchases, due to a decrease in revenue, the fall in recycled material prices and volumes (scrap iron), unfavorable price effects net of inflation and the negative comparison effect of non-recurring items in 2015.

Current EBIT fell significantly in France due to the fall in EBITDA and the unfavorable comparison effect of the reversal of provisions for "Olivet" contractual risks and URSSAF social security risks in 2015.

#### EUROPE, EXCLUDING FRANCE

| *In € million* | Half-year ended June 30, 2015 | **Half-year ended June 30, 2016** | Δ 2016/2015 | Δ at constant exchange rates |
|---|---|---|---|---|
| EBITDA | 610.3 | 701.3 | +14.9% | +17.4% |
| EBITDA margin | 14.2% | 16.7% | | |
| Current EBIT | 340.0 | 432.7 | +27.3% | +30.1% |

The EBITDA of the Europe excluding France segment increased significantly in most countries and particularly:

- in the United Kingdom, in line with the excellent performance of PFI installations (commissioning of new Shropshire and Leeds assets) and the fall in the price of energy purchases;
- in Central Europe, EBITDA growth was particularly marked in Poland, Hungary and Lithuania;
- in Northern Europe, where Germany notably was driven by good Waste volumes.

The rise in EBITDA in the Europe excluding France segment also reflected cost savings efforts undertaken in all geographic areas.

Current EBIT in the Europe excluding France segment increased due to the improvement in EBITDA and the favorable variation in operating provisions.

## REST OF THE WORLD

| *in € million* | Half-year ended June 30, 2015 | **Half-year ended June 30, 2016** | Δ 2016/2015 | Δ at constant exchange rates |
|---|---|---|---|---|
| EBITDA | 406.1 | 399.0 | -1.7% | +3.2% |
| EBITDA margin | 13.7% | 14.1% | | |
| Current EBIT | 216.1 | 213.2 | -1.3% | +4.1% |

The increase in the EBITDA of the Rest of the World segment mainly concerns Asia, with continued good performance in the second quarter, in particular in China, Korea, India and Japan, thanks mainly to cost savings efforts.

The EBITDA of the other geographic areas of the Rest of the World segment recorded an upturn in the second quarter, notably in Latin America where EBITDA was stable but surged in the second quarter in Argentina.

In the United States, EBITDA decreased, affected by a mild winter and the negative impact of prices and volumes in the Energy business, despite cost savings efforts.

Current EBIT of the Rest of the World segment is up at constant exchange rate, in line with the increase in EBITDA and the stable results of the Chinese Water concessions, recorded within the share of net income (loss) of joint ventures and associates.

## GLOBAL BUSINESSES

| *in € million* | Half-year ended June 30, 2015 | **Half-year ended June 30, 2016** | Δ 2016/2015 | Δ at constant exchange rates |
|---|---|---|---|---|
| EBITDA | 84.5 | 116.8 | 38.2% | 38.6% |
| EBITDA margin | 3.7% | 5.3% | | |
| Current EBIT | 33.1 | 70.3 | +112.5% | +111.1% |

The EBITDA of the Global Businesses segment improved significantly compared to the prior year:

- in Construction activities (VWT and Sade), cost savings efforts and improvements in international margins offset contract erosion on certain contracts in Veolia Water Technologies;
- EBITDA rose in the Hazardous waste activity, driven by increased revenue and efficiency plans.

Current EBIT of the Global Businesses segment also rose as a result of the increase in EBITDA and the reversal of operating provisions following the resolution of litigation risks in the Construction activity.

### 2.3.4 Net financial expenses

| *(in € million)* | Half-year ended June 30, 2015 | **Half-year ended June 30, 2016** |
|---|---|---|
| **Net finance costs (1)** | **(230.8)** | **(209.2)** |
| Gains (losses) on disposals of financial assets (*) | 63.0 | 40.6 |
| Net gains / losses on loans and receivables | 9.6 | 8.8 |
| Net income (loss) on available-for-sale assets | 1.8 | 3.0 |
| Assets and liabilities at fair value through the consolidated income statement | 0.2 | (0.2) |
| Foreign exchange gains and losses | 4.0 | (5.4) |
| Unwinding of the discount on provisions | (22.0) | (20.6) |
| Other | (9.8) | (13.3) |
| **Other financial income and expenses (2)** | **46.8** | **12.9** |
| **Net financial expenses (1)+(2)** | **(184.0)** | **(196.3)** |

*(*) including costs of disposal of financial assets*

#### COST OF NET FINANCIAL DEBT

The cost of net financial debt amounted to -€209.2 million for the half-year ended June 30, 2016, versus -€230.8 million for the half-year ended June 30, 2015, down €21.6 million year-on-year.

The decline in the cost of net financial debt resulted from the impact of repayment of the inflation indexed bond with cash in June 2015, bond refinancing under better conditions, active debt management and a positive exchange rate impact.

The financing rate fell from 5.22% for the half-year ended June 30, 2015 to 4.97% for the half-year ended June 30, 2016.

#### OTHER FINANCIAL INCOME AND EXPENSES

Other financial income and expenses totaled €12.9 million for the half-year ended June 30, 2016, versus €46.8 million for the half-year ended June 30, 2015.

Other financial income and expenses included net capital gains and losses on financial divestitures of €40.6 million in the first half of 2016 (compared with €63.0 million in the first half of 2015), and notably impacts related to fair-value remeasurement of previously-held equity interests in China and France. They included capital gains on the divestiture of Group activities in Israel in the half-year ended June 30, 2015.

### 2.3.5 Income tax expense

The income tax expense for the half-year ended June 30, 2016 amounted to -€130.2 million, compared with -€124.2 million for the half-year ended June 30, 2015.

The tax rate for the half-year ended June 30, 2016 declined slightly to 29.2% (versus 30.0% for the half-year ended June 30, 2015) after adjustment for the impact of financial divestitures, and non-recurring items within net income of fully controlled entities and the share of net income of equity-accounted companies.

| *(in € million)* | Half-year ended June 30, 2015 | **Half-year ended June 30, 2016** |
|---|---|---|
| **Current income before tax (a)** | **528** | **553** |
| Of which share of net income of joint ventures & associates (b) | 53 | 43 |
| Of which gains (losses) on disposals of financial assets (c) | 66 | 41 |
| **Re-presented current income before tax : d=a-b-c** | **410** | **469** |
| **Tax expense on current income before tax (e)** | **(125)** | **(137)** |
| *Of which tax expense on divestiture (f)* | (2) | - |
| **Re-presented tax expense (g)= (e)-(f)** | **(123)** | **(137)** |
| **Re-presented tax rate on current income (g) / (d)** | **30.0%** | **29.2%** |

### 2.3.6 Share of net income of other equity-accounted entities

The net income of other equity-accounted entities (Transdev Group) totaled €22.2 million for the half-year ended June 30, 2016 (50% share), versus €25.5 million for the half-year ended June 30, 2015.

### 2.3.7 Current net income (loss) / Net income (loss) attributable to owners of the Company

The share of net income attributable to non-controlling interests totaled €74.0 million for the half-year ended June 30, 2016, compared with €82.0 million for the half-year ended June 30, 2015.

Net income attributable to owners of the Company was €251.2 million for the half-year ended June 30, 2016, compared with €352.7 million for the half-year ended June 30, 2015.

Current net income attributable to owners of the Company was €341.7 million for the half-year ended June 30, 2016, compared with €321.2 million for the half-year ended June 30, 2015.

Based on a weighted average number of outstanding shares of 550.3 million (basic) and 566.2 million (diluted), compared with 548.5 million as of June 30, 2015 (basic and diluted), earnings per share attributable to owners of the Company for the half-year ended June 30, 2016 was €0.33 (basic) and €0.32 (diluted), compared with €0.51 (basic and diluted) for the half-year ended June 30, 2015. Current net income per share attributable to owners of the Company was €0.62 (basic) and €0.60 (diluted) for the half-year ended June 30, 2016, compared with €0.59 (basic and diluted) for the half-year ended June 30, 2015.

The dilutive effect taken into account in the above earnings per share calculation concerns the OCEANE bonds convertible into and/or exchangeable for new and/or existing shares issued in March 2016.

Net income (loss) for the **half-year ended June 30, 2016** breaks down as follows:

| (in € million) | Current | Non-current | Total |
|---|---|---|---|
| EBIT | 749.7 | (120.2) | 629.5 |
| Cost of net financial debt | (209.2) | - | (209.2) |
| Other financial income and expenses | 12.9 | - | 12.9 |
| **Pre-tax income** | **553.4** | **(120.2)** | **433.2** |
| Income tax expense | (137.0) | 6.8 | (130.2) |
| Net income (loss) of other equity-accounted entities | - | 22.2 | 22.2 |
| Net income (loss) from discontinued operations | - | - | - |
| Non-controlling interests | (74.7) | 0.7 | (74.0) |
| **Net income (loss) attributable to owners of the Company** | **341.7** | **(90.5)** | **251.2** |

The reconciliation of Current EBIT with operating income, as shown in the income statement, is as follows:

| (in € million) | Half-year ended June 30, 2015 | **Half-year ended June 30, 2016** |
|---|---|---|
| **Current EBIT** | **712.1** | **749.7** |
| Impairment losses on goodwill and negative goodwill | 0.1 | 1.6 |
| Restructuring charges | 7.6 | (100.0) |
| Personnel costs –share-based payments | (2.4) | (5.4) |
| Non-current provisions and impairment of property, plant and equipment, intangible assets and operating financial assets | - | (9.2) |
| Share acquisition costs, with or without acquisition of control | - | (7.2) |
| **Total non-current items** | **5.3** | **(120.2)** |
| **Operating income** after share of net income of equity-accounted entities | **717.4** | **629.5** |

Restructuring charges for the half-year ended June 30, 2016 related to Water activities in France in the amount of -€62.8 million, and Global Businesses in the amount of -€25.6 million.

Net income (loss) for the **half-year ended June 30, 2015** breaks down as follows:

| (in € million) | Current | Non-current | Total |
|---|---|---|---|
| EBIT | 712.1 | 5.3 | 717.4 |
| Cost of net financial debt | (230.8) | - | (230.8) |
| Other financial income and expenses | 46.8 | - | 46.8 |
| **Pre-tax income** | **528.1** | **5.3** | **533.4** |
| Income tax expense | (124.9) | 0.7 | (124.2) |
| Net income (loss) of other equity-accounted entities | - | 25.5 | 25.5 |
| Net income (loss) from discontinued operations | - | - | - |
| Non-controlling interests | (82.0) | - | (82.0) |
| **Net income (loss) attributable to owners of the Company** | **321.2** | **31.5** | **352.7** |

# 3. Financing

## 3.1 CHANGES IN NET FREE CASH FLOW AND NET FINANCIAL DEBT

The following table summarizes the change in Net Financial Debt and net Free Cash Flow:

| *(in € million)* | Half-year ended June 30, 2015 | **Half-year ended June 30, 2016** |
|---|---|---|
| **EBITDA** | **1,531** | **1,580** |
| Net industrial investments | (521) | (519) |
| Change in operating WCR | (628) | (686) |
| Dividends received from equity-accounted entities and joint ventures | 54 | 41 |
| Renewal expenses | (141) | (136) |
| Restructuring charges | (52) | (36) |
| Financial items (current cash financial expense, and operating cash flow from financing activities) | (199) | (210) |
| Taxes paid | (120) | (139) |
| **Net free cash flow before dividend payment, financial investments and financial divestitures** | **(76)** | **(105)** |
| Dividends paid | (558) | (570) |
| Net financial investments | 169 | (391) |
| Change in receivables and other financial assets | 34 | 245 |
| Issue / repayment of deeply subordinated securities | - | 18 |
| **Free cash flow** | **(431)** | **(803)** |
| Effect of foreign exchange rate movements and other | (481) | 295 * |
| **Change** | **(912)** | **(508)** |
| Net financial debt at the beginning of the period | (8,311) | (8,170) |
| **Net financial debt at the end of the period** | **(9,223)** | **(8,678)** |

*(*) Effect of foreign exchange rate movements and other include the variation of the pound sterling in the amount of €246 million.*

Net free cash flow amounted to -€105 million for the half-year ended June 30, 2016, versus -€76 million for the half-year ended June 30, 2015.

The variation in net free cash flow for the first half of 2016 vs. the first half of 2015 mainly reflects the improvement in EBITDA, offset in particular by the unfavorable movement in operating WCR.

Excluding seasonal impacts on operating WCR (-€686 million in 2016 and -€628 million in 2015), net free cash flow for the half-year ended June 30, 2016 was €581 million, compared with €552 million for the half-year ended June 30, 2015.

## 3.2 INDUSTRIAL AND FINANCIAL INVESTMENTS

### 3.2.1 Industrial investments

Total Group gross industrial investments, including new operating financial assets, amounted to €553 million in the first half of 2016, compared with €565 million in the same period in 2015.

Industrial investments, excluding discontinued operations, break down by segment as follows:

| **Half-year ended June 30, 2016** *(in € million)* | Maintenance and contractual requirements | Discretionary growth | Total gross industrial investments | Industrial divestitures | Total net industrial investments |
|---|---|---|---|---|---|
| France | 137 | 5 | 142 | (11) | 131 |
| Europe excluding France | 170 | 30 | 200 | (8) | 192 |
| Rest of the World | 126 | 38 | 164 | (11) | 153 |
| Global Businesses | 35 | 3 | 38 | (4) | 34 |
| Other | 9 | - | 9 | - | 9 |
| **Total industrial investments** | **477** (1) | **76** | **553** (2) | **(34)** | **519** |

*(1) Of which maintenance investments for €283 million, and contractual investments for €194 million.*

*(2) Of which new OFAs in the amount of €44 million*

| **Half-year ended June 30, 2015** *(in € million)* | Maintenance and contractual requirements | Discretionary growth | Total gross industrial investments | Industrial divestitures | Total net industrial investments |
|---|---|---|---|---|---|
| France | 115 | 11 | 126 | (15) | 111 |
| Europe excluding France | 209 | 50 | 259 | (22) | 237 |
| Rest of the World | 110 | 12 | 122 | (3) | 119 |
| Global Businesses | 42 | 1 | 43 | (3) | 40 |
| Other | 15 | - | 15 | (1) | 14 |
| **Total industrial investments** | **491** (3) | **74** | **565** (4) | **(44)** | **521** |

*(3) Of which maintenance investments for €297 million, and contractual investments for €194 million.*

*(4) Of which new OFAs in the amount of €50 million*

At constant exchange rates, gross industrial investments were stable compared with the first half of 2015 (+0.4%).

Gross industrial investments for maintenance and contractual requirements totaled €477 million, versus €491 million for the half-year ended June 30, 2015.

Gross discretionary growth industrial investments were stable compared with the first half of 2015 and mainly concerned:

- in 2016, projects in Australia (sorting center and composting facility) and network extension in the Energy business in Bulgaria and Poland;
- in 2015, the construction of the Leeds and Shropshire incinerators in the United Kingdom and network extension in the Energy business in Central Europe.

### 3.2.2 Financial investments and divestitures

Financial investments amounted to -€439 million as of June 30, 2016 (including acquisition costs) and include notably the acquisition of Kurion (-€295 million), of Pedreira (-€65 million), and of the Prague Left Bank district heating network (-€58 million). As of June 30, 2015, financial investments (-€142 million) were mainly related to the purchase of minority stakes in the Water business in Central & Eastern Europe.

Financial divestitures of €48 million as of June 30, 2016 (including divestiture costs) do not include individually significant amounts. As of June 30, 2015, financial divestitures (€311 million) included the divestiture of Group activities in Israel.

## 3.3 OPERATING WORKING CAPITAL

The change in operating working capital requirements (excluding discontinued operations) was -€686 million for the half-year ended June 30, 2016, compared with -€628 million for the half-year ended June 30, 2015.

The change in operating working capital requirements compared to December 31, 2015, is mainly due to seasonal effects.

## 3.4 LOANS TO JOINT VENTURES

The change in receivables and other financial assets was primarily due to the reimbursement by Transdev Group of the shareholder loan in the amount of €345 million.

Loans to equity-accounted entities totaled €169.6 million as of June 30, 2016 (versus €585.1 million as of June 30, 2015) and included loans to the Chinese concessions of €120.1 million (€113.9 million as of June 30, 2015). As of June 30, 2015, loans to equity-accounted entities also included loans to Transdev Group of €405.4 million repaid in full as of June 30, 2016.

## 3.5 EXTERNAL FINANCING

### 3.5.1 Structure of net financial debt

| *(in € million)* | Note | As of June 30, 2015 | **As of June 30, 2016** |
|---|---|---|---|
| Non-current borrowings | 7.1.1 | 7,803.7 | 7,196.9 |
| Current borrowings | 7.1.1 | 2,914.8 | 4,759.1 |
| Bank overdrafts and other cash position items | 7.1.3 | 246.9 | 395.6 |
| **Sub-total borrowings** | | **10,965.4** | **12,351.6** |
| Cash and cash equivalents | 7.1.3 | (1,732.9) | (3,680.2) |
| Fair value gains (losses) on hedge derivatives | | (9.9) | 6.3 |
| **Net Financial Debt** | | **9,222.6** | **8,677.7** |

As of June 30, 2016, net financial debt after hedging is borrowed 93% at fixed rates and 7% at floating rates.

The average maturity of net financial debt was 8.9 years at June 30, 2016 compared with 8.2 years at June 30, 2015.

The leverage ratio for the half-year ended June 30, 2016, i.e. the ratio of closing Net Financial Debt (NFD) to 12-months rolling EBITDA as of June 2016, decreased compared to June 30, 2015:

| | As of June 30, 2015 | **As of June 30, 2016** |
|---|---|---|
| Leverage ratio *(Closing NFD / EBITDA to June)* | 3.2 | 2.8 |

### 3.5.2 Group liquidity position

Liquid assets of the Group as of June 30, 2016 break down as follows:

| *(in € million)* | As of June 30, 2015 | **As of June 30, 2016** |
|---|---|---|
| Veolia Environnement : | | |
| Undrawn syndicated loan facility | 2,962.5 | 3,000.0 |
| Undrawn MT bilateral credit lines | 400.0 | 925.0 |
| Undrawn ST bilateral credit lines | 500.0 | - |
| Letter of credit facility | 195.9 | 35.0 |
| Cash and cash equivalents | 918.0 | 2,893.4 |
| Subsidiaries: | | |
| Cash and cash equivalents | 814.9 | 786.8 |
| **Total liquid assets** | **5,791.3** | **7,640.2** |
| **Current debts and bank overdrafts and other cash position items** | | |
| Current debt | 2,914.8 | 4,759.1 |
| Bank overdrafts and other cash position items | 246.9 | 395.6 |
| **Total current debt and bank overdrafts and other cash position items** | **3,161.7** | **5,154.7** |
| **Total liquid assets net of current debt and bank overdrafts and other cash position items** | **2,629.6** | **2,485.5** |

The decrease in net liquid assets mainly reflects upcoming bond maturities before June 30, 2017, including the euro-denominated bond maturing in January 2017, for a nominal amount of €606 million, the euro-denominated bond maturing in June 2017 for a nominal amount of €250 million, and the renminbi denominated bond maturing in June 2017 for a nominal amount of €68 million equivalent, partially offset by an offering of bonds convertible into and/or exchangeable for new and/or existing shares (OCEANEs) for a nominal amount of €700 million.

Veolia Environnement may draw on the multi-currency syndicated credit facility and all credit lines at any time.

*Undrawn medium-term syndicated loan facilities*

On November 6, 2015, Veolia Environnement signed a new multi-currency syndicated loan facility in the amount of €3 billion maturing in 2020 and extendable until 2022 with the possibility for drawdowns in Eastern European currencies and

Chinese Renminbi. This syndicated loan facility replaces the two syndicated loan facilities set up in 2011: a 5-year multi-currency loan facility of €2.5 billion, and a 3-year loan of €500 million for drawdowns in Polish zlotys, Czech crowns and Hungarian forints.

This syndicated loan facility was not drawn down as of June 30, 2016.

*Undrawn ST and MT bilateral credit lines*

In 2015, Veolia Environnement renegotiated all its bilateral credit lines for a total undrawn amount of €925 million as of June 30, 2016.

*Letter of credit facility:*

The US dollar letter of credit facility signed on November 22, 2010 for the initial amount of USD 350 million was reduced by USD 150 million as of June 30, 2015 and matured in November 2015. The US dollar letter of credit facility was replaced by a bilateral letter of credit facility.

As of June 30, 2016, the new letter of credit facility was drawn by USD 131.1 million. The portion that may be drawn in cash amounted to USD 38.9 million (€35.0 million euro equivalent). It is undrawn and recorded in the liquidity table above.

### 3.5.3 Bank covenants

See Note 7.1.1 to the condensed interim consolidated financial statements for the half-year ended June 30, 2016.

## 4. Objectives and outlook

Following the satisfactory start to 2016, the Group confirms its outlook.

- **2016 Objectives***
  - Revenue and EBITDA growth
  - Net Free Cash Flow before divestments and acquisitions of at least €650 million
  - Current net income of at least €600 million

  **at constant exchange rates*

- **2016-2018 Outlook**
  - The Group expects a progressive increase in revenue growth to achieve average annual revenue growth between 2% and 3%, based on the current economic environment
  - Average annual EBITDA growth of around 5% per year
  - More than €600 million in cost savings over the period
  - Current net income greater than €800 million in 2018
  - Net Free Cash Flow of €1 billion in 2018

- **Dividend policy**

From 2016-2018, the Group expects to be able to provide around 10% annual dividend growth, while reducing the payout ratio.

## 5. Appendices to the Operating and Financial Review

### 5.1 DEFINITIONS

The definitions of the financial indicators used by the Group are unchanged and may be found in Section 3.8.3 of the 2015 Registration Document.

# Third Part : Statutory Auditors' Review Report on the condensed interim consolidated financial statements

Period from January 1 to 30 June 2016

To the Shareholders,

*This is a free translation into English of the statutory auditors' review report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.*

Following our appointment as statutory auditors by your Annual General Meetings and in accordance with article L. 451-1-2 III of the French Monetary and Financial Code ("Code monétaire et financier"), we hereby report to you on:

- the review of the accompanying condensed interim consolidated financial statements of Veolia Environnement for the period from January 1 to 30 June 2016;

- the verification of information contained in the half-yearly management report.

These condensed interim consolidated financial statements are the responsibility of your Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

**1 Conclusion on the financial statements**

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements are not prepared in all material respects in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

**2 Specific verification**

We have also verified the information given in the half-yearly management report in respect of the condensed interim consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed interim consolidated financial statements.

Paris La Défense, July 29, 2016.

French original report signed by

| KPMG Audit | ERNST & YOUNG et Autres |
|---|---|
| *Département de KPMG S.A.* | |
| *Jean-Paul Vellutini* *Karine Dupré* | *Gilles Puissochet* *Xavier Senent* |

# Fourth Part: Declaration by the person responsible for the half-yearly financial report

I hereby certify that, to the best of my knowledge, the condensed interim consolidated financial statements for the half-year ended June 30, have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and all consolidated companies, and that the appended Half-Year Operating and Financial Review provides a fair review of the major events that occurred during the first six months of the fiscal year, their impact on the financial statements, the main transactions between related parties, as well as a description of the main risks and uncertainties concerning the remaining six months of the fiscal year.

Paris, July 29, 2016

**Chairman and Chief Executive Officer**

Antoine Frérot