Société anonyme with a capital of €2,816,824,115

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Operating and Financial Review

Consolidated financial statements

for the year ended December 31, 2016

(Under review by statutory auditors)

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1 Major 2016 events

1.1 GENERAL CONTEXT

The Group's performance for the year ended December 31, 2016 was marked by nearly stable revenue and results that exceeded the objectives:

- Revenue of €24,390 million, down -0.4% at constant exchange rates. Excluding the impact of Construction activities and energy prices, revenue increased +2.0% at constant exchange rates. Organic growth resumed in the 4th quarter with revenue rising +1.9% at constant exchange rates and +3.4% excluding Construction and the impact of energy prices;
- Cost reductions that surpassed expectations in 2016: €245 million in savings achieved in 2016;
- EBITDA[1] of €3,056 million, up 4.3% at constant exchange rates;
- Current EBIT [1] of €1,384 million, up 8.5% at constant exchange rates;
- Current net income, Group share [1] of €610 million (+10.8% constant exchange rates), and €597 million excluding net capital gains and losses on financial divestitures, up 19.3% constant exchange rates, compared to 2015;
- Net income, Group share [1] of €382 million (versus €450 million in 2015), and a Net income, Group share including IFRIC 12 of €383 million (versus €438 million in 2015) ;
- Post-tax ROCE [1] continued to improve to 7.2% (versus 6.8% in 2015, and 2014 proforma of 5.5%);
- Net free cash flow of €970 million, versus a target of more than €650 million, thanks to a significant reduction in operating working capital requirements in the 4th quarter and despite €133 million in restructuring and other non-current charges;
- Net financial debt of €7,811 million, down by €359 million including a €279 million positive exchange rate impact, compared to December 31, 2015 (€8,170 million); The Group leverage ratio therefore stood at 2.56x (compared to 2.73x as of December 31, 2015).

1.2 CHANGES IN GROUP STRUCTURE

Fiscal 2016 was marked by strong commercial and development momentum for the Group, reflected in targeted acquisitions and large promising contracts.

ACQUISITIONS

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

In July 2016, Veolia Environnement finalized the acquisition of Chemours' sulfur products assets in the US. The transaction consisted of an asset purchase for a consideration of €289.0 million.

This division specializes in the treatment and regeneration of sulfuric acid and sulfur gas produced during the refining process, which are regenerated into clean acid and steam used in a wide range of industrial activities.

The transaction offers an excellent complement to Veolia Environnement's existing activities and allows it to reinforce its recovery and regeneration expertise and therefore, circular economy, capabilities and technologies.

[1] *Excluding impacts related to IFRIC 12 interpretation*

❖ Kurion

On March 31, 2016, Veolia Environnement finalized the acquisition of the entire share capital of the US company, Kurion. The transaction was closed for a total consideration of €316.7 million, comprising a cash payment of €274.4 million and deferred payments of €42.3 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.

❖ 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 a consideration value of €82 million for 100%.

DIVESTITURES

❖ Transdev Group

On December 21, 2016, the Group and the Caisse des dépôts et consignations finalized their agreements for the shareholder reorganization of Transdev Group and Veolia's withdrawal. The agreements called for:

- an initial and immediate sale of the Group's interest of 20% of Transdev at a price of €220 million;
- sale of the remaining interest (30%) within a maximum period of two years, the Group undertaking to find a third-party acquirer during this period.

These operations will be performed at a price based on the initial valuation of €550 million for 50% of the share capital, and revised, as appropriate, depending on mechanisms of adjustment provided in the agreements.

As of December 31, 2016, the initial sale generated a disposal gain of €25.6 million and a debt reduction of €220 million, recognized in the Group consolidated financial statements.

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

These transactions in total reduced Net financial debt by €565 million.

See Note 3.3 to the consolidated financial statements for the year ended December 31, 2016.

❖ Termination of the SADE divestiture process

❖ Bartin Recycling

On July 20, 2016, the Derichebourg group signed an agreement to acquire the Veolia subsidiary Bartin Recycling. This transaction was finalized on November 30, 2016.

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

MAIN CONTRACT AWARDS

Veolia had numerous commercial successes in 2016. Among the most significant were:

- **In the municipal sector,** the signing of a new contract for the Hertfordshire PFI in the UK (30-year term and a total value of £1 billion), a lease for water and wastewater treatment services throughout Armenia (€800 million contract over 15 years), extension of the management and operating agreement for wastewater collection and treatment facilities in Milwaukee in the US ($500 million over 10 years), the construction and operation of a waste-to-energy plant in the Troyes region of France (expected cumulative revenue of €240 million over 25 years), and renewal of the Camden collection and recycling contract (expected cumulative revenue of £169 million over 8 years).
- **In the industrial sector,** Veolia has been awarded the significant water treatment contract award in China for Yanshan Petrochemicals, a subsidiary of SINOPEC (for a duration of 25 years and expected cumulative revenue of €3.3 billion). During the year, Veolia bolstered its positioning in the industrial services market with the acquisition of Nuon Energie und Service GmbH, which owns and operates two industrial park facilities in Germany, and the contract win to operate a combined heat and electricity production plant in Porvoo, Finland.

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 was 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.

See Note 8.1.1 to the consolidated financial statements for the year ended December 31, 2016.

ISSUANCE OF A PANDA BOND

On September 1, 2016, Veolia Environnement successfully issued a bond for a nominal amount of 1 billion Renminbis (i.e. €135 million) on the Chinese domestic market (Panda Bond).

This is the first time a French issuer has tapped the Chinese domestic market. The bond was issued via a private placement, and bears an interest rate of 3.5% for a 3 year maturity. It was issued to Chinese and international investors.

The pricing which was achieved is a signal of the significant appreciation of Veolia’s credit quality, and investors’ confidence in the Group’s future development in China.

The proceeds of this bond will be used to refinance debt related to investments that the Group has made in China. This operation secures and optimizes the funding of the Group in Renminbi.

ISSUANCE OF TWO BONDS FOR €1.1 BILLION

On October 4, 2016, Veolia successfully issued 2 bonds for €1.1 billion. This issuance includes a €600 million bond maturing in October 2023 (7-year maturity) bearing a coupon of 0.314% and a €500 million bond maturing in January 2029 (long 12-year maturity) bearing a coupon of 0.927%. Both were issued at par.

The bonds were distributed towards a large investor base covering both Europe and Asia. Profiting from extremely favorable interest rate and credit markets, the bonds were issued at the lowest coupon in Veolia's history for this type of product.

The proceeds of this issuance will be used for general corporate purposes, and to partially refinance upcoming debt maturities.

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 Moody's 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 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).

2 Accounting and financial information

2.1 PREFACE

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, current net income, net free cash flow, net financial debt, industrial investments, and return on capital employed (ROCE).

These indicators are defined in the Appendices to this Operating and Financial Review (see Section 8.3).

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

- see Section 8.1 for a reconciliation of EBITDA with Operating cash flow before changes in working capital, a reconciliation of net free cash flow with Net cash from operating activities of continuing operations (included in the consolidated cash flow statement), and a reconciliation of industrial investments with industrial investments, net of grants (included in the consolidated cash flow statement);
- refer to Section 2.4.6 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;
- refer to section 3.5.1 for the structure of net financial debt from the Consolidated Statement of Financial Position.

2.2 KEY FIGURES

(in € million)	December 31, 2015 Including IFRIC 12	**December 31, 2016** **Including IFRIC 12**	Δ	Δ at constant exchange rates
Revenue	24,964.8	24,390.2	-2.3%	-0.4%
EBITDA	3,182.6	3,258.4	+2.4%	+4.6%
EBITDA margin	*12.7%*	*13.4%*		
Current EBIT [(1)]	1,393.3	1,476.5	+6.0%	+9.1%
Current Net income – Group share	567.6	610.7	+7.6%	+12.8%
Current net income – Group share, excluding capital gains and losses on financial divestitures net of tax	515.1	597.9	+16.2%	+21.7%
Net income – Group share	437.7	383.1		
Current net income - Group share - per share (basic) [(2)]	1.03	1.11		
Current net income - Group share - per share (diluted) [(2)]	1.03	1.07		
Dividend per share	0.73	0.80 [(3)]		

Industrial capex	1,576	1,597
Net free cash flow (2)	856	970
Net financial debt	8,170	7,811

(1) *Including the share of current net income of joint ventures and associates viewed as core Company activities*
(2) See definition in Section 8.3
(3) Subject to the approval of General Shareholders' Meeting of April 20, 2017

2.2.1 Change in concession standards

Under concession contracts with local authorities, infrastructure is accounted, as appropriate, as an intangible asset, a financial receivable, or a combination of the two. Veolia may have a payment obligation vis-a-vis the grantor to utilize the associated assets.

In July 2016, IFRIC published a verdict regarding these payments and concluded that in the case of fixed payments required by the operator, an asset and a liability should be recorded (intangible model).

Veolia identified the contracts concerned and will apply the new IFRIC 12 measures retroactive to 1/1/2015. The most significant contracts concerned are our water concessions in the Czech Republic and Slovakia.

RECONCILIATION OF 2015 AND 2016 FIGURES EXCLUDING AND INCLUDING IMPACTS OF THE ADOPTION OF THE IFRIC 12 INTERPRETATION

(in € million)	December 31, 2016, excluding IFRIC 12	IFRIC 12 impacts	**December 31, 2016,** including IFRIC 12
Revenue	24,390.2	-	24,390.2
EBITDA	3,056.0	202.4	3,258.4
Current EBIT	1,383.9	92.6	1,476.5
Current financial expenses	(453.6)	(90.3)	(543.9)
Net income – Group share	382.2	0.9	383.1
Current Net income – Group share	609.8	0.9	610.7
Industrial capex	1,485	112	1,597
Net Free cash flow	970	-	970
Net financial debt	7,811	-	7,811
Post-tax ROCE	7.2%		7.4%

(in € million)	December 31, 2015, excluding IFRIC 12	IFRIC 12 impacts	**December 31, 2015,** including IFRIC 12
Revenue	24,964.8	-	24,964.8
EBITDA	2,997.2	185.4	3,182.6
Current EBIT	1,315.2	78.1	1,393.3
Current financial income and expenses	(418.0)	(94.1)	(512.1)
Net income – Group share	450.2	(12.5)	437.7
Current Net income – Group share	580.1	(12.5)	567.6
Industrial capex	1,484	91	1,576
Net Free cash flow	856	-	856
Net financial debt	8,170	-	8,170
Post-tax ROCE	6.8%		7.0%

Revenue, net free cash flow and net financial debt are not impacted by the adoption of the IFRIC 12 interpretation.

2.2.2 Key figures excluding impacts relating to IFRIC 12

The data for the year ended December 31, 2016, presented in this Operating and Financial Review do not include the impact of the re-presentations relating to the adoption of the IFRIC 12 interpretation.

However, the latter are shown in the previously presented tables and in the appendix (see Section 8.2)

(in € million)	Year ended December 31, 2015 excluding IFRIC 12	**Year ended December 31, 2016** excluding IFRIC 12	Δ	Δ at constant exchange rates
Revenue	24,964.8	24,390.2	-2.3%	-0.4%
EBITDA	2,997.2	3,056.0	+2.0%	+4.3%
EBITDA margin	*12.0%*	*12.5%*		
Current EBIT (1)	1,315.2	1,383.9	+5.2%	+8.5%
Current Net income – Group share	580.1	609.8	+5.1%	+10.8%
Current net income – Group share, excluding capital gains and losses on financial divestitures net of tax	527.6	597.0	+13.2%	+19.3%
Net income – Group share	450.2	382.2		
Current net income - Group share - per share (basic) (2)	1.06	1.11		
Current net income - Group share - per share (diluted) (2)	1.06	1.07		
Dividend per share	0.73	0.80 (3)		
Industrial capex	1,484	1,485		
Net Free cash flow (2)	856	970		
Net financial debt	8,170	7,811		

(1) Including the share of current net income of joint ventures and associates viewed as core Company activities
(2) See definition in Section 8.3

(3) Subject to the approval of General Shareholders' Meeting of April 20, 2017

The main foreign exchange impacts were as follows:

***Foreign exchange impacts** as of December 31, 2016, excluding IFRIC 12 (vs. December 31, 2015)*	***%***	*€M*
Revenue	*-1.9%*	*(473)*
EBITDA	*-2.4%*	*(71)*
Current EBIT	*-3.3%*	*(44)*
Current net income	*-5.7%*	*(33)*
Net financial debt	*+3.4%*	*+279*

GROUP CONSOLIDATED REVENUE [1]

Group consolidated revenue stood at €24,390.2 million for the year ended December 31, 2016, compared to €24,964.8 million for the year ended December 31, 2015, a decrease of -0.4% at constant exchange rates. Excluding Construction revenue [2] and the impact of lower energy prices, revenue increased +2.0% at constant exchange rates.

Revenue posted an upturn of +1.9% at constant exchange rates in the 4th quarter (after -2.1% in the 1st quarter, +0.1% in the 2nd quarter, and -1.7% in the 3rd quarter at constant exchange rates), reflecting the Group's return to growth. Excluding Construction and the impact of energy prices, 4th quarter revenue rose by +3.4% at constant exchange rates (compared to +1.2% in the 1st quarter, +1.9% in the 2nd quarter, and +1.6% in the 3rd quarter).

The municipal sector [3] generated 55% of 2016 revenue (i.e. around €13 billion), and the industrial sector [3] generated 45% (i.e. around €11 billion).

By segment, the change in revenue compared to the year ended December 31, 2015 breaks down as follows:

			2015 / 2016 change	
(in € million)	Year ended December 31, 2015 excluding IFRIC 12	**Year ended December 31, 2016** excluding IFRIC 12	Δ	Δ at constant exchange rates
France	5,471.5	5,417.7	-1.0%	-1.0%
Europe excluding France	8,574.7	8,286.3	-3.4%	+0.1%
Rest of the World	5,926.1	6,028.4	+1.7%	+3.7%
Global Businesses	4,881.0	4,626.2	-5.2%	-4.1%
Other	111.5	31.6	-	-
Group	**24,964.8**	**24,390.2**	**-2.3%**	**-0.4%**

- Revenue is down slightly in **France** (-1.0%):
  - The Water business reported stable revenue thanks to positive commercial impacts (Lille contract), despite lower volumes sold (-1.5%) and continuing weak tariff indexation (+0.2%);
  - Waste business revenue was down by -2.4%: commercial successes and the solid level of incineration activities and landfill volumes were offset by a drop in municipal collection volumes of -10.3% and a decrease in scrap metal prices and volumes (the sale of Bartin Recycling was finalized on November 30, 2016).

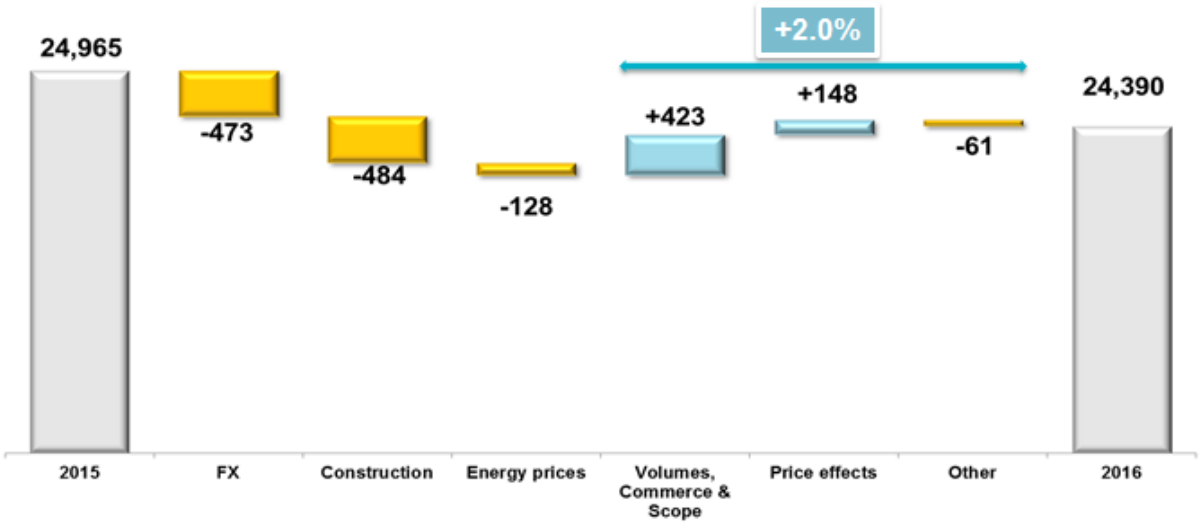
[1] *Excluding impacts related to IFRIC 12 interpretation*

[2] *Construction activities concern the Group's engineering and construction businesses (mainly Veolia Water Technologies and SADE), as well as construction completed as part of operating contracts.*

[3] *See definition in section 8.3*

- **Europe excluding France** was up slightly by +0.1% at constant exchange rates, but rose by +1.5% in the 4th quarter (after -0.4% for the nine months period ended September 30, 2016).
    - In the UK, revenue of €2,044 million was down -1.4% at constant exchange rates following the end of construction of the Leeds incinerator, but up +2.1% excluding Construction;
    - Revenue rose in Germany to €1,702 million (+2.2% at constant exchange rates), thanks to Waste growth of 6.1% (new contracts and higher paper prices), mitigated by a 3.5% decline in Energy (in line with weather impacts and lower prices in the 1st quarter);
    - In Central and Eastern Europe, revenue was stable at constant exchange rates at €2,842 million. The negative impact in the 1st quarter of lower energy prices was partially offset by a positive weather effect (+€61 million), the start-up of biomass cogeneration in Hungary, and solid volumes invoiced in the Water business (+1.3%), especially in the Czech Republic.
- Revenue growth of +3.7% at constant exchange rates for the **Rest of the world**, with a clear 4th quarter improvement of +9.1% at constant exchange rates, following +1.9% for the nine months period ended September 30, 2016.
    - In North America, revenue rose +0.6% at constant exchange rates to €1,892 million. The negative impact of weather and lower gas prices in the first quarter and a drop in industrial services activity were more than offset by the consolidation of the Chemours Sulfur Products division's assets in the second half (+€109 million);
    - Significant growth in Asia (+6.3% at constant exchange rates), particularly in China (+14.8% at constant exchange rates) thanks to the consolidation of Sinopec (+€56 million), and growth in energy services;
    - Strong revenue growth in Latin America (+12.9% at constant exchange rates), and Africa/Middle East (+6.8% at constant exchange rates);
    - Australia was down by-3.1% at constant exchange rates, penalized by a decrease in industrial services.
- **Global Businesses**: revenue fell -4.1% at constant exchange rates, but by -1.1% in the 4th quarter at constant exchange rates (after -5.2% for the nine months period ended September 30, 2016). The fall in Global Businesses revenue is related to the gradual downsizing of Veolia Water Technologies, offset by good 4th quarter performance for SADE and continuing growth for hazardous waste activities.

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



The foreign exchange impact on revenue amounted to -€473.2 million (-1.9% of revenue) and mainly reflects fluctuations in the value of the euro against the U.K. pound sterling (-€275.8 million), the Argentine peso (-€90.6

million), the Japanese yen (+€43.9 million), the Polish zloty (-€38.9 million), the Mexican peso (-€27.3 million), and the Chinese renminbi (-€29.2 million).

The decrease in **Construction** revenue (-€484 million, representing -1.9% of Group revenue) essentially concerns Veolia Water Technologies and SADE for -€345 million, as well as the completion of construction work on the Leeds and Shropshire PFI incinerators in the United Kingdom (-€80 million).

Group revenue was affected by the decline in **energy prices** (-0.5%), primarily in the United States and in Central Europe.

The positive business momentum (**Commerce/Volumes and scope impact**) of +€423 million was due to:

- an increase in volumes, in line with the solid growth of the Waste business in the UK and Germany, as well as good performance in Energy in China, Africa and the Middle East, and Hazardous Waste. These positive effects were partially offset by a decrease in Water volumes in France (-€23 million) and a downturn in industrial services in North America and Australia;
- a favorable weather impact in Central Europe (+€61 million) , but a negative impact in the United States (-€23 million);
- solid commercial momentum with contract wins in Waste in Germany and the UK, and the integration of the water cycle optimization contract for a petrochemical complex in China (Sinopec, for +€56 million over 7 months), as well as the commissioning of new assets (particularly the Leeds incinerator in the UK);
- changes in consolidation scope (+€207 million), and in particular the integration of the assets of the Chemours Sulfur Products division in July 2016 (€109 million over 6 months), the CDR Pedreira landfill site in Brazil in May 2016, Kurion in the US, Prague Left Bank in the Czech Republic, and operations carried out in 2015 (particularly the acquisition of Altergis in Energy in France, and an entity specializing in plastics recycling in the Netherlands, AKG).

Favorable **price effects** were the result of tariff indexations that remain positive, although moderate, and the favorable price impact from recycled materials (+€15 million, particularly paper).

EBITDA [1]

In 2016, the Group's consolidated EBITDA amounted to €3,056.0 million, an increase of 4.3% at constant exchange rates compared to 2015, generating an improvement in the EBITDA margin (12.5% in 2016, compared to 12.0% in 2015).

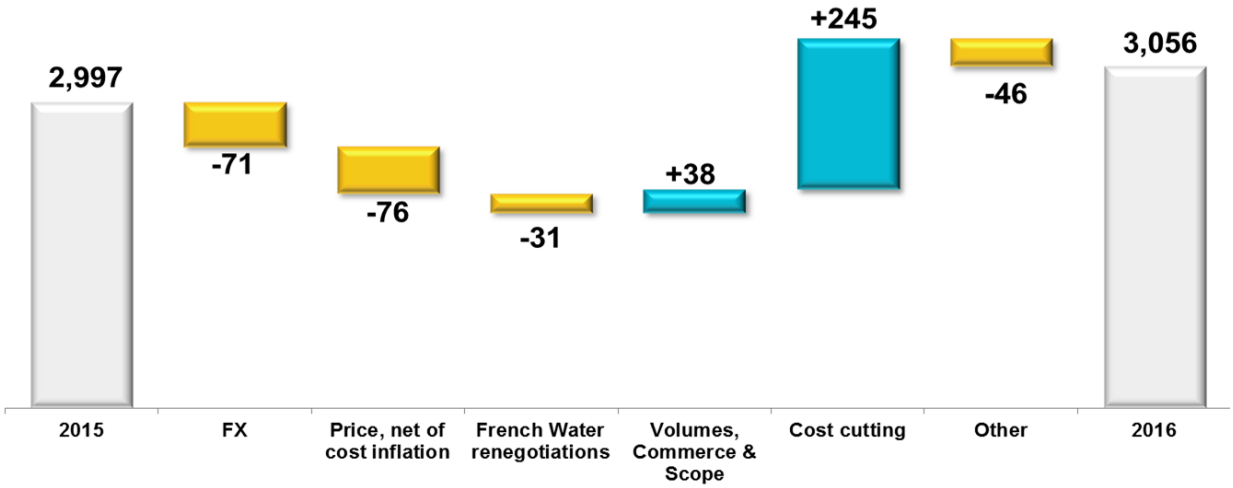
Changes in EBITDA **by segment** were as follows:

[1] *Excluding impacts related to IFRIC 12 interpretation*

			2015 / 2016 change	
(in € million)	Year ended December 31, 2015 excluding IFRIC 12	**Year ended December 31, 2016** excluding IFRIC 12	Δ	Δ at constant exchange rates
France	816.4	750.6	*-8.1%*	*-8.1%*
Europe excluding France	1,104.1	1,159.6	*+5.0%*	*+9.1%*
Rest of the World	805.0	861.5	*+7.0%*	*+10.0%*
Global Businesses	225.8	262.7	*+16.4%*	*+17.5%*
Other	45.9	21.6	-	-
EBITDA	**2,997.2**	**3,056.0**	***+2.0%***	***+4.3%***
EBITDA margin	***12.0%***	***12.5%***		

- EBITDA declined in **France**:
  - in the Water business, despite cost savings, EBITDA was penalized by a -1.5% drop in volumes (impact of -€20 million), the negative impact of the price/cost squeeze (-€26 million), relating to very weak tariff indexations (+0.2%), and the negative effect of contractual renegotiations (-€31 million);
  - in the Waste business, EBITDA was also down despite cost savings, due to negative price effects and non-recurring items in 2015.
- **in Europe excluding France**, solid growth in EBITDA and particularly:
  - in Central and Eastern Europe, thanks to cost savings efforts and a favorable weather impact (+€23 million);
  - In the UK, thanks to efficiency plans, PFI contracts, and the favorable impact of recycled materials (higher paper prices);
  - In Germany, in line with solid activity in Waste, efficiency gains, and the payment of an insurance claim.
- Ongoing growth in the **Rest of the World** segment:
  - In the US, EBITDA rose by +8.7% at constant exchange rates. In the Industrial sector, the decline in the industrial services activity (specifically with Oil & Gas clients) was offset by the restructurings initiated in the 1st quarter and the consolidation of the Chemours Sulfur Products division's assets (+€22 million over 6 months). In the Municipal sector, the weather-related fall in volumes, and the negative price impact in Energy, were offset by efficiency measures.
  - In China, EBITDA rose 26.3% at constant exchange rates, driven by the substantial increase in industrial water (integration of Sinopec), hazardous waste (commissioning of the Changsha incinerator) and heating networks (Harbin), and ongoing cost-cutting.
- In the **Global Businesses** segment, EBITDA for Veolia Water Technologies doubled compared to 2015. The segment's restructuring, in addition to the favorable resolution of a contract termination resulted in an improved margin (4% in 2016, compared to 1.7% in 2015). Hazardous waste posted a solid performance over the year.

The change in EBITDA between 2015 and 2016 breaks down **by main impact** as follows:



The foreign exchange impact on EBITDA was negative, amounting to -€71.4 million. It mainly reflects fluctuations of UK the pound sterling (-€38.2 million), South American currencies (-€14.7 million, essentially the Argentine peso), the Chinese renminbi (-€8.7 million) and the Polish zloty (-€8.3 million).

Prices effects, net of cost inflation, had a negative impact, notably in France, in line with the very low indexation of contracts.

The impact of French Water contract renegotiations amounted to -€31 million.

The **volumes, commerce and scope impacts** are favorable, in the amount of +€38 million:

- EBITDA was impacted by lower volumes in France for Water (-€20 million), Waste (decrease in municipal collection), and industrial services in the US and Australia. These items were offset by the commissioning of new assets, a solid performance for Hazardous Waste and a favorable weather impact (+€15 million);
- The commerce impacts were particularly driven by development in China (integration of Sinopec);
- Scope impacts for +€39.1 million mainly concern the integration of the Chemours Sulfur Products division's assets in July 2016 (+€22 million), and the acquisition of the CDR Pedreira landfill site in Brazil in May 2016.

Cost-savings plans contributed €245 million. They mainly cover operational efficiency (for 42%) and purchasing (35%). They were achieved across all geographical zones: France (31%), Europe excluding France (26%), Rest of the World (26%), Global Businesses (12%) and Corporate (5%).

EBITDA impact (€M)	2016 – 2018 cumulative objective	2016 objective	2016 achievement
Gross savings	**600**	**200**	**245**

Other changes mainly concern one-off items in the amount of -€46 million, particularly in France.

CURRENT EBIT [1]

The Group's consolidated current EBIT for the year ended December 31, 2016 amounted to €1,383.9 million, up significantly by +8.5% at constant exchange rates compared to 2015.

[1] *Excluding impacts related to IFRIC 12 interpretation*

This positive increase in Current EBIT was mainly due to:

- the improvement in Group EBITDA;
- the increase in depreciation and amortization charges at constant exchange rates by +3.1%, in line with scope impacts in France, the UK and the US;
- the favorable change in net operating provision reversals;
- the positive change in gains on disposals of industrial assets, relating to the continuous review of industrial asset portfolios;
- the moderately negative change in the contribution of equity-accounted entities relating to scope impacts in the UK, while the Chinese concessions posted growth at constant exchange rates.

The foreign exchange impact on Current EBIT was negative at -€43.8 million and mainly reflects fluctuations of the UK pound sterling (-€24.1 million), South American currencies (-€7.5 million, including the Argentine peso), and the Chinese renminbi (-€7.7 million).

Changes in current EBIT **by segment** were as follows:

			2015 / 2016 change	
(in € million)	Year ended December 31, 2015 excluding IFRIC 12	**Year ended December 31, 2016** excluding IFRIC 12	Δ	Δ at constant exchange rates
France	197.1	129.5	*-34.3%*	*-34.3%*
Europe, excluding France	558.9	638.3	*+14.2%*	*+19.1%*
Rest of the World	465.9	463.1	*-0.6%*	*+2.5%*
Global Businesses	99.2	153.7	*+54.8%*	*+56.9%*
Other	(5.9)	(0.7)	-	-
Current EBIT	**1,315.2**	**1,383.9**	***+5.2%***	***+8.5%***

CURRENT FINANCIAL INCOME AND EXPENSES [1]

Net finance costs totaled -€423.6 million for the year ended December 31, 2016, compared to -€445.9 million for the year ended December 31, 2015.

Net finance costs decreased by €22.3 million versus the 2015 figure, and include a positive foreign exchange impact of €6 million. The lower net finance costs reflects bond refinancing and the Group's active debt management.

Other current financial income and expenses totaled -€30.0 million for the year ended December 31, 2016, compared to €27.9 million year-on -year.

Other current financial income and expenses included capital gains or losses on net financial divestitures in the amount of €12.8 million for the year ended December 31, 2016.

In 2015, capital gains and losses on net financial divestitures amounted to €59.5 million (€52.5 million post-tax), and included the pre-tax capital gain on the disposal of Group activities in Israel for €45.4 million.

[1] *Excluding impacts related to IFRIC 12 interpretation*

CURRENT INCOME TAX EXPENSE [1]

The re-presented income tax rate for the year ended December 31, 2016 declined to 25.7%, versus 28.0% for the year ended December 31, 2015.

The decrease is primarily due to changes in legislation giving rise to lower tax rates and the activation of deferred taxes at the international level as a result of tax planning.

CURRENT NET INCOME [1]

Current net income attributable to owners of the Company rose by 10.8% at constant exchange rates, to €609.8 million for the year ended December 31, 2016 compared to €580.1 million for the year ended December 31, 2015, driven by the growth in Current EBIT, the decrease in net finance costs, and despite capital gains and losses on financial divestitures that were lower in 2016 than in 2015.

Excluding capital gains and losses on financial divestitures net of tax, current net income attributable to owners of the Company rose 19.3% at constant exchange rates to €597.0 million versus €527.6 million for the year ended December 31, 2015.

Current net income attributable to owners of the Company per share was €1.11 (basic) and €1.07 (diluted) for the year ended December 31, 2016, versus €1.06 (basic and diluted) for the year ended December 31, 2015.

NET INCOME [1]

Net income attributable to owners of the Company was €382.2 million for the year ended December 31, 2016, compared to €450.2 million for the year ended December 31, 2015.

The decrease in net income attributable to owners of the Company is explained by non-current items that impacted net income, specifically restructuring charges and provisions, and net non-current provisions and impairments (see below). The greater impact on net income of the Transdev Group contribution increased, in line with the sale of the Group's stake 20% in Transdev (impacts on non-current financial income and the share of net income of other equity-accounted entities).

Net income attributable to owners of the Company per share was €0.57 (basic) and €0.55 (diluted) for the year ended December 31, 2016, versus €0.69 (basic and diluted) for the year ended December 31, 2015.

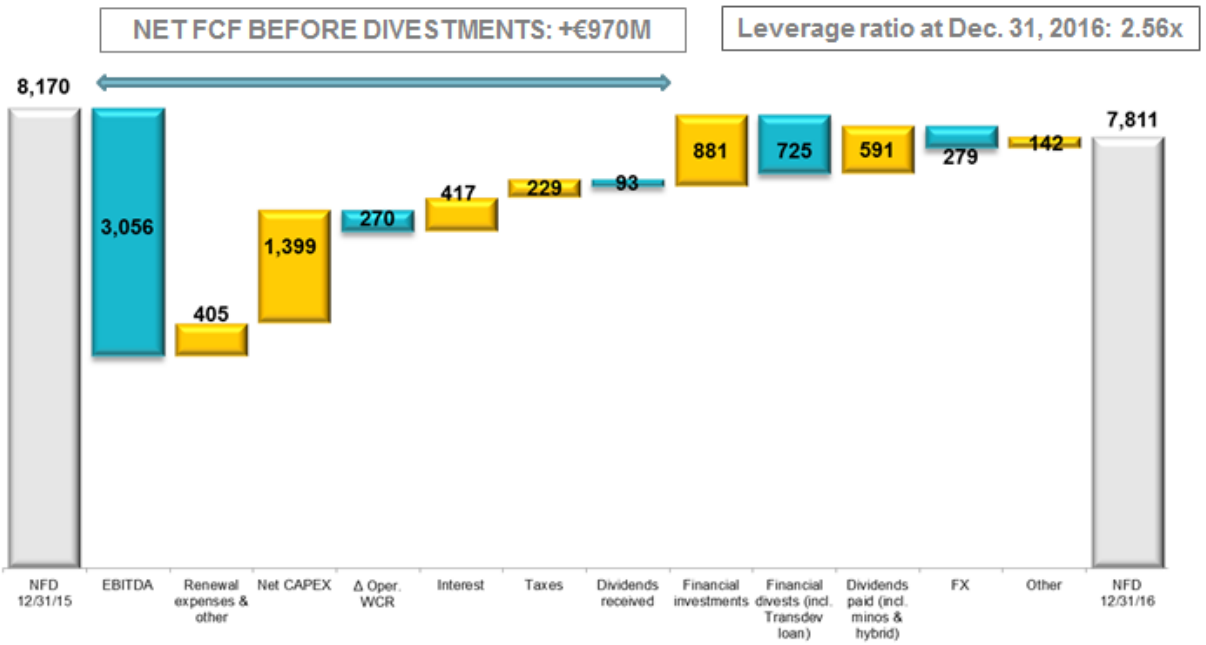
FINANCING

Net free cash flow amounted to a record €970 million for the year ended December 31, 2016, versus €856 million for the year ended December 31, 2015. Net free cash flow thus largely exceeds the dividends paid (including the dividends paid to minority interests and hybrid holders) of €590.9 million.

The increase in net free cash flow compared to December 31, 2015 primarily reflects the improvement in EBITDA, the favorable change in operating working capital requirements, lower restructuring costs, partially offset by the increase in net industrial investments in line with fewer industrial divestitures in 2016.

Overall, **net financial debt** amounted to €7,811 million at December 31, 2016, compared to €8,170 million at December 31, 2015.

[1] *Excluding impacts related to IFRIC 12 interpretation*



In addition to the change in net free cash flow, net financial debt was favorably impacted by exchange rate fluctuations in the amount of €279 million. Net financial debt was also impacted by:

- The increase in financial investments, which amounted to -€881 million for the year ended December 31, 2016 (including the net financial debt of new entities and acquisition costs) and include the acquisition of Kurion in the US (-€296 million), the Chemours Sulfur Products division (-€290 million) the Pedreira landfill (-€72 million), and of the Prague Left Bank district heating network (-€70 million). As of December 31, 2015, financial investments for -€270 million were mainly related to the purchase of minority stakes in the Water business in Central Europe.

- Financial divestitures in the amount of €725 million for the year ended December 31, 2016, including the reimbursement by Transdev Group of the shareholder loan in March 2016 for €345 million. The financial divestitures include the total impact of the Transdev transaction for €565 million. As of December 31, 2015, financial divestitures included the divestiture of Group activities in Israel.

2.3 REVENUE [1]

2.3.1 Revenue by segment (excluding IFRIC 12)

In M€ *Excluding IFRIC 12*	Year ended December 31, 2015	**Year ended December 31, 2016**	Δ	Δ at constant exchange rates	Δ at constant exchange rates, excl. impact of Construction activities and energy prices
France	5,471.5	5,417.7	-1.0%	-1.0%	-0.9%
Europe excluding France	8,574.7	8,286.3	-3.4%	+0.1%	+2.3%
Rest of the World	5,926.1	6,028.4	+1.7%	+3.7%	+5.0%
Global Businesses	4,881.0	4,626.2	-5.2%	-4.1%	+3.0% (*)
Other	111.5	31.6	-	-	-
Group revenue	**24,964.8**	**24,390.2**	**-2.3%**	**-0.4%**	**+2.0%**

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

The revenue trend in the 4th quarter of 2016 was marked by a turnaround, driven by the growth of Europe excluding France and the Rest of the world:

Δ at constant exchange rates, *excluding IFRIC 12*	1st quarter 2016	2nd quarter 2016	3rd quarter 2016	4th quarter 2016
France	+0.2%	-0.7%	-1.3%	-2.1%
Europe excluding France	-0.9%	+0.3%	-0.6%	+1.5%
Rest of the World	-2.4%	+1.9%	+6.3%	+9.1%
Global Businesses	-2.9%	-0.9%	-11.4%	-1.1%
Group	**-2.1%**	**+0.1%**	**-1.7%**	**+1.9%**
Total Group excluding the impact of Construction activities and energy prices	**+1.2%**	**+1.9%**	**+1.6%**	**+3.4%**

[1] *Excluding impacts related to IFRIC 12 interpretation*

FRANCE

Revenue in France for the year ended December 31, 2016 was €5,417.7 million, down by -1.0% compared with the prior year. Excluding the impact of Construction activities and energy prices, revenue decreased -0.9%.

- Water business revenue was up slightly by +0.3% compared to December 31, 2015. The positive commercial impact of new contracts (particularly the Ileo contract in Lille) was mitigated by unfavorable contractual renegotiations (renewal of the Greater Lyon and Cobas contracts and the transfer of the Montpellier contract to the municipality), reduced revenue related to Construction activity, low tariff indexation increases of +0.2% (compared to +0.3% in 2015), and a decrease in volumes sold of -1.5%.

- Waste business revenue declined -2.4% over the year. Despite the sound level of incineration activities and landfill volumes (+5.4%), and positive commercial impacts in the sorting and recovery of industrial waste and incineration, revenue was impacted by a drop in municipal and commercial collection volumes and a decrease in recycled material volumes and prices (plastics and ferrous scrap metals). The commercial portfolio nevertheless grew substantially in the 2nd half, with a strong contract renewal rate (Le Mans and Nancy incinerators), contract wins (Troyes incinerator, Cergy collection contract, etc.), and the acquisition of an entity specializing in the recovery of plastics in December 2016 (PMG).

EUROPE EXCLUDING FRANCE

Revenue in the Europe excluding France segment for the year ended December 31, 2016 amounted to €8,286.3 million, up +0.1% at constant exchange rates compared to the year ended December 31, 2015. Revenue posted an upturn of +1.5% at constant exchange rates in the 4th quarter, after virtual stability throughout the year: -0.9% in the 1st quarter, +0.3% in the 2nd quarter, and -0.6% in the 3rd quarter.

Excluding the impact of Construction activities and energy prices, revenue increased +2.3% at constant exchange rates for the year.

This increase breaks down as follows:

- In Central Europe, revenue was stable at constant exchange rates for the year ended December 31, 2016. Following a decline throughout the year, there was a clear turnaround in revenue in the 4th quarter (+3.7% at constant exchange rates), particularly in the Czech Republic thanks to a favorable weather impact and the start of the Prague Left Bank contract. Revenue for the year benefited from higher Water tariffs and volumes in the Czech Republic, the favorable weather impact in Lithuania, Poland, the Czech Republic and Hungary, and the start up of two co-generation plants in Hungary (Debrecen and Nyiregyhaza). These factors were offset by lower Energy tariffs and volumes (heat, electricity) in the Czech Republic and Lithuania in the first half.

- UK and Ireland: revenue was down -1.3% at constant exchange rates for the year ended December 31, 2016. Penalized by a first half that was down -3.4% at constant exchange rates, revenue for the UK and Ireland nevertheless rose by +0.8% in the 2nd half. Despite the decline for Construction, revenue was boosted by the development of the commercial collection activity (particularly the new Sainsbury contract and the new wood recycling activity in Bristol), new municipal Waste contracts (St Albans, Southend-on-Sea, and Hampshire), higher volumes and prices for recycled materials (paper, metals), the solid performance of the Energy businesses, and the commissioning of the Leeds incinerator at the end of 2015.

- Northern Europe: revenue momentum was confirmed throughout the year and rose +5.9% at constant exchange rates for the year ended December 31, 2016. While Germany benefited from the strong growth in Waste and the integration of new contracts (particularly the industrial parks purchased from Nuon), the other Northern Europe countries were driven by the integration of the plastics recycler AKG in the Netherlands and contract wins in Scandinavia.

- Italy: Energy business revenue fell -11.5%.

REST OF THE WORLD

Revenue in the Rest of the World segment for the year ended December 31, 2016 was €6,028.4 million, up +3.7% at constant exchange rates compared to the year ended December 31, 2015. After a decrease of -2.4% at constant exchange rates in the 1st quarter, revenue continuously improved throughout the year: +1.9% in the 2st quarter, +6.3% in the 3nd quarter, and +9.1% in the 4th quarter.

Excluding the impact of Construction activities and energy prices, Rest of the World revenue increased +5.0% at constant exchange rates.

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

- In Latin America (+12.9% at constant exchange rates for the year ended December 31, 2016), where revenue growth throughout the year accelerated further in the 4th quarter in Argentina, Brazil and Mexico. Revenue for the year benefited from higher tariffs, essentially for Waste in Argentina (as well as Brazil, Mexico and Colombia), mitigated by the scheduled termination of the Avellaneda contract in January 2016. Activity growth in Mexico essentially stems from the increase in water volumes invoiced, while Brazil benefitted from the positive impact relating to the acquisition of the Pedreira landfill site and the win of a new Water contract.

- In North America, revenue rose +0.6% at constant exchange rates. Following a first half decline of -9.4% at constant exchange rates, penalized by a drop in gas prices in Energy, fall in heating volumes sold (due to a very mild winter), and a downturn in industrial services, there was a major upturn in revenue in the 2nd half with growth of +11.1% at constant exchange rates. This revenue momentum is primarily due to the integration of the Chemours Sulfur Products division's assets.

- In Asia, revenue rose sharply by +6.3% at constant exchange rates. In China, revenue growth accelerated in the 4th quarter (+34.9% at constant exchange rates), the result of the Sinopec integration, the increase in volumes sold in Energy for the Harbin and Jiamusi heating networks and in industrial contracts (Hongda contract), despite a decrease in energy prices (heating and electricity). Revenue growth in Japan rose by +6.1% at constant exchange rates for the year ended December 31, 2016, in relation to the development of the customer service activity (launch of the Tokyo contract in April 2015) and the O&M Water activity (Omuta contract).

- In Africa and the Middle East, sustained revenue growth (+6.8% at constant exchange rates for the year ended December 31, 2016) covered all the zone's countries. The growth was mainly based on electricity sales in Gabon and business development in the Middle East.

The good growth in the Rest of the World segment was offset by lower revenue in Australia (-3.1% at constant exchange rates). In the Waste business, the increase in collection and treatment activities only partially offset the fall in industrial services.

GLOBAL BUSINESSES

The Global Businesses segment reported revenue of €4,626.2 million for year the ended December 31, 2016, down -4.1% at constant exchange rates compared to the year ended December 31, 2015. After a decrease of -5.2% at constant exchange rates for the nine months period ended September 30, 2016, the decline in 4th quarter revenue was less significant at -1.1% at constant exchange rates.

Excluding the impact of Construction activities and energy prices, revenue increased +3.0% at constant exchange rates.

The change in revenue was mainly due to:

- The solid growth of Hazardous Waste activities (+2.4% at constant exchange rates), tied particularly to treatment and recovery activities (launch of the Paris subway line 14 worksite), landfill activities, an increase in industrial clean-up services, and solid performance in industrial maintenance;

- The decline in Construction activities at SADE: the fall in international activities following the postponement of projects to the end of 2016 and the downturn in construction in France were slightly offset by solid Telecom performance; SADE revenue nevertheless improved in the 4th quarter (+11.4% at constant exchange rates) with an increase in the backlog for France and internationally;
- The gradual downsizing of Veolia Water Technologies activities was reflected by the end of major projects, particularly desalinization in the Middle East, and the decline in the Solutions activity. The Veolia Water Technologies backlog declined by 6% to €1.8 billion mainly due to fewer Oil & Gas orders in the US.

2.3.2 Revenue by business (excluding IFRIC 12)

In M€ *Excluding IFRIC 12*	Year ended December 31, 2015	**Year ended December 31, 2016**	Δ	Δ at constant exchange rates	Δ at constant exchange rates, excl. impact of Construction activities and energy prices
Water	11,356.1	11,137.7	-1.9%	-1.5%	+1.8%
Waste	8,684.1	8,401.2	-3.3%	+0.5%	+1.6%
Energy	4,924.6	4,851.3	-1.5%	+0.4%	+3.2%
Group	**24,964.8**	**24,390.2**	**-2.3%**	**-0.4%**	**+2.0%**

WATER

Water revenue declined -1.5% at constant exchange rates year-on-year, and increased +1.8% at constant exchange rates excluding the impact of the Construction activity and energy prices. This decline can be explained as follows:

- Stable Operations activities. In France, the positive commercial impact of new contract wins (Lille) offset the -1.5% decrease in volumes and weak price indexations (+0.2%), while Central Europe benefited from sound volumes;
- The decrease in Veolia Water Technologies and SADE construction revenue (impact of -€345 million).

WASTE

Waste revenue rose +0.5% at constant exchange rates year-on-year, and +1.6% at constant exchange rates excluding the impact of the decrease in Construction activity, in relation, overall, to a positive volume impact of +0.6%, and a service price impact of +0.8%, and more specifically:

- a solid performance in the UK excluding Construction activities thanks to new contracts and the commissioning of the Leeds incinerator;
- clear growth in Germany, the result of solid commercial activity, and higher volumes and recycled paper prices of 11%;
- solid growth in hazardous waste (+2.4% at constant exchange rates);
- the integration of the Pedreira landfill site in Brazil;
- mitigated by a weak Industrial Services performance in the United States and Australia;

- and a slight decline in France, where commercial successes and the solid level of incineration activities and landfill volumes were offset by a drop in municipal collection volumes of -10.3%.

ENERGY

Energy revenue rose 0.4% at constant exchange rates year-on-year, and increased +3.2% at constant exchange rates excluding the decrease in energy prices (impact of -€115 million). This increase can be explained as follows:

- a favorable weather impact of +€35 million: positive in Central Europe (+€61 million), but negative in the United States (-€23 million);
- the progression of Energy activities, specifically in China for heating networks and industrial contracts.

2.4 OTHER INCOME STATEMENT ITEMS [1]

2.4.1 Selling, general and administrative expenses

Selling, general and administrative expenses impacting Current EBIT decreased 4.0% from €2,968.3 million for the year ended December 31, 2015 to €2,848.5 million for the year ended December 31, 2016.

The ratio of selling, general and administrative expenses to revenue improved, decreasing from 11.9% for the year ended December 31, 2015 to 11.7% for the year ended December 31, 2016. This decrease was due to the cost reduction program implemented by the Group.

2.4.2 Reconciliation of EBITDA with Current EBIT [1]

The reconciling items between EBITDA and Current EBIT as of December 31, 2016 and 2015 are as follows:

In € million, excluding IFRIC 12	Year ended December 31, 2015	**Year ended December 31, 2016**
EBITDA	**2,997.2**	**3,056.0**
Renewal expenses	(278.4)	(272.4)
Depreciation and amortization (*)	(1,549.4)	(1,566.3)
Provisions, fair value adjustments & other:	47.1	72.4
• Current impairment of property, plant and equipment, intangible assets and operating financial assets	(28.3)	(26.4)
• Net charges to operating provisions, fair value adjustments and other	75.4	98.8
Share of current net income of joint ventures and associates	98.7	94.2
Current EBIT	**1,315.2**	**1,383.9**

(*) Including principal payments on operating financial assets (OFA) of -€201.2 million for the year ended December 31, 2016 (compared to -€173,1 million for the year ended December 31, 2015), and capital gains or losses on industrial divestitures for €29.1 million for the year ended December 31, 2016 (compared to €4.3 million for the year ended December 31, 2015).

[1] *Excluding impacts related to IFRIC 12 interpretation*

Depreciation and amortization charges (-€1,394.2 million for the year ended December 31, 2016) are up +3.1% at constant exchange rates, or -€42.7 million compared to depreciation and amortization charges for the year ended December 31, 2015 (-€1,380.6 million) mainly due to acquisitions and the commissioning of new assets.

Capital gains and losses on disposals of industrial assets for the year ended December 31, 2016 concern capital gains on the disposal of industrial assets in relation to the continuous review of industrial asset portfolios.

The share of current net income of joint ventures and associates comprises the UK entities (Water and Waste) for €9 million (versus €15.9 million for the year ended December 31, 2015, due to movements in scope), and Chinese Water and Waste entities for €44.3 million (compared to €44.8 million for the year ended December 31, 2015). The Chinese Water concessions nevertheless rose at constant exchange rates (€35.8 million in 2015, versus €36.2 million in 2016).

Net charges to operating provisions for the year ended December 31, 2016 include net provision reversals, particularly usual provision reversals related to landfill site remediation (mainly in France and the United Kingdom), and provision reversals in relation to the removal of certain risks in France and Italy. For the year ended December 31, 2015, this heading included a provision reversal for the "Olivet" contracts in the Water activities in France and the removal of certain risks in France and Australia.

2.4.3 Analysis of EBITDA and Current EBIT by segment [1]

FRANCE

In € million *excluding IFRIC 12*	Year ended December 31, 2015	**Year ended December 31, 2016**	Δ	Δ at constant exchange rates
EBITDA	816.4	750.6	-8.1%	-8.1%
EBITDA margin	14.9%	13.9%		
Current EBIT	197.1	129.5	-34.3%	-34.3%

EBITDA in France fell -8.1% during the year.

In the Water business, cost savings only partially offset contractual erosion of -€31 million (margin degradation), lower volumes, and the negative impact of price effects net of inflation.

EBITDA also fell in the Waste business despite cost savings. The decline is due to a decrease in revenue, unfavorable price impacts net of inflation, and the absence of non-recurring items that benefited 2015.

Current EBIT fell in France due to the fall in EBITDA.

EUROPE, EXCLUDING FRANCE

In € million *excluding IFRIC 12*	Year ended December 31, 2015	**Year ended December 31, 2016**	Δ	Δ at constant exchange rates
EBITDA	1,104.1	1,159.6	+5.0%	+9.1%
EBITDA margin	12.9%	14.0%		
Current EBIT	558.9	638.3	+14.2%	+19.1%

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

- in the UK, in line with the excellent performance of facilities (commissioning of the PFI in Leeds) and the favorable impact of recycled materials;
- in Central Europe, the solid EBITDA performance was particularly marked in Poland and Hungary, and benefited from a favorable weather impact;
- In Northern Europe where Germany in particular was driven by Waste growth, and the payment of an insurance claim.

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

[1] *Excluding impacts related to IFRIC 12 interpretation*

Current EBIT in Europe excluding France increased due to the improvement in EBITDA and the positive change in operating provisions and in particular related to landfills in the UK.

REST OF THE WORLD

In € million *excluding IFRIC 12*	Year ended December 31, 2015	**Year ended December 31, 2016**	Δ	Δ at constant exchange rates
EBITDA	805.0	861.5	+7.0%	+10.0%
EBITDA margin	13.6%	14.3%		
Current EBIT	465.9	463.1	-0.6%	+2.5%

Rest of the World EBITDA grew significantly in Asia, as well as in Latin America and North America.

Asia EBITDA posted solid growth throughout the year, driven by cost reductions and the increase in revenue, particularly in China and Japan. In China, EBITDA benefited from the substantial increase in Industrial water (integration of the Sinopec contract), Hazardous Waste (commissioning of the Changsha incinerator) and heating networks, particularly Harbin.

EBITDA in Latin America was up sharply in the 2nd half, particularly in Argentina, in line with the change in revenue.

Following a decline in the first half, particularly regarding Energy, North America EBITDA rebounded in the 2nd half thanks to cost-cutting efforts and the integration of the Chemours Sulfur Products division's assets, which offset the decline in revenue in industrial services and the lower gas price in Energy.

Rest of the World Current EBIT was up at constant exchange rates, but to a lesser extent than EBITDA growth, penalized by higher depreciation and amortization charges relating to the integration of the Chemours Sulfur Products division's assets, the negative change in operating provisions in the US and Australia, and the early repayment of a receivable in Korea. Results of the Chinese Water concessions, recorded within the share of net income (loss) of joint ventures and associates rose at constant exchange rates.

GLOBAL BUSINESSES

In € million *excluding IFRIC 12*	Year ended December 31, 2015	**Year ended December 31, 2016**	Δ	Δ at constant exchange rates
EBITDA	225.8	262.7	+16.4%	+17.5%
EBITDA margin	4.6%	5.7%		
Current EBIT	99.2	153.7	+54.8%	+56.9%

EBITDA of the Global Businesses segment is up significantly:

- In Construction activities (VWT and Sade), EBITDA benefited from cost savings efforts, the improvement in margins and the favorable resolution of a contract termination.

- In Hazardous waste, the EBITDA increase arises from a strong performance and the pursuit of efficiency plans.

Current EBIT of Global Businesses also rose thanks to the increase in EBITDA and the favorable comparison effect in relation to asset impairments in Hazardous waste in 2015.

2.4.4 Net financial expenses [1]

In € million, excluding IFRIC 12	Year ended December 31, 2015	**Year ended December 31, 2016**
Cost of net financial debt (a)	**(445.9)**	**(423.6)**
Gains (losses) on disposals of financial assets (*)	59.5	12.8
Net gains / losses on loans and receivables	25.5	9.0
Net income (loss) on available-for-sale assets	4.0	5.0
Foreign exchange gains and losses	6.4	5.3
Unwinding of the discount on provisions	(39.0)	(41.7)
Other	(28.5)	(20.4)
Other current financial income and expenses (b)	**27.9**	**(30.0)**
Current net financial expenses (a)+(b)	***(418.0)***	***(453.6)***
Other non-current financial income and expenses (**)	-	25.7
NET FINANCIAL EXPENSES	**(418.0)**	**(427.9)**

(*) Including costs of financial divestitures

(**) Primarily related to the impact of the sale of 20% of Transdev

COST OF NET FINANCIAL DEBT

The cost of net financial debt totaled -€423.6 million for the year ended December 31, 2016, versus -€445.9 million for the year ended December 31, 2015, representing a decrease of €22.3 million.

This decline in the cost of net financial debt mainly reflects the repayment of the inflation-indexed bond using available cash in June 2015, bond refinancing under better conditions, the Group's active debt management, and a positive exchange rate impact of €6 million, offsetting the increase in the cost of foreign exchange derivatives.

The financing rate fell from 5.0% for the year ended December 31, 2015 to 4.95% for the year ended December 31, 2016.

OTHER FINANCIAL INCOME AND EXPENSES [1]

Other current financial income and expenses totaled -€30.0 million for the year ended December 31, 2016, versus €27.9 million for the year ended December 31, 2015.

Other current financial income and expenses included the impacts of financial divestitures for €12.8 million, and notably impacts related to fair-value remeasurement of previously-held equity interests in France and China. For the year ended December 31, 2015, capital gains or losses on financial divestitures amounted to €59.5 million, including the capital gain on the disposal of the Group's Israel activities.

[1] *Excluding impacts related to IFRIC 12 interpretation*

Net gains/losses on loans and receivables for the year ended December 31, 2015 included the interest on the loan to Transdev, repaid in full in March 2016.

Other non-current financial income and expenses for the year ended December 31, 2016 primarily concern the Group's sale of 20% of Transdev (see Section 1.2).

2.4.5 Income tax expense [1]

The income tax expense for the year ended December 31, 2016 amounted to -€192.3 million, compared to -€199.5 million for the year ended December 31, 2015.

The tax rate for the year ended December 31, 2016 declined to 25.7% (versus 28.0% for the year ended December 31, 2015), after adjustment for the impact of financial divestitures, non-current items within net income of fully controlled entities, and the share of net income of equity-accounted companies.

In € million, excluding IFRIC 12	Year ended December 31, 2015	**Year ended December 31, 2016**
Current income before tax (a)	**897**	**930**
Of which share of net income of joint ventures & associates (b)	99	94
Of which gains (losses) on disposals of financial assets (c)	60	13
Re-presented current income before tax: d=a-b-c	**738**	**823**
Re-presented tax expense (e)	**(207)**	**(211)**
Re-presented tax rate on current income (e) / (d)	**28.0%**	**25.7%**

2.4.6 Current net income (loss) / Net income (loss) attributable to owners of the Company [1]

The share of net income attributable to non-controlling interests totaled €102.0 million for the year ended December 31, 2016, compared to €101.1 million for the year ended December 31, 2015.

Net income attributable to owners of the Company was €382.2 million for the year ended December 31, 2016, compared to €450.2 million for the year ended December 31, 2015.

Current net income attributable to owners of the Company was €609.8 million for the year ended December 31, 2016, compared to €580.1 million for the year ended December 31, 2015.

Based on a weighted average number of outstanding shares of 549.0 million (basic) and 568.5 million (diluted), compared with 548.5 million as of December 31, 2015 (basic and diluted), earnings per share attributable to owners of the Company for the year ended December 31, 2016 was €0.57 (basic) and €0.55 (diluted), compared to 0.69 (basic and diluted) for the year ended December 31, 2015. Current net income per share attributable to owners of the Company was €1.11 (basic) and €1.07 (diluted) for the year ended December 31, 2016, compared to €1.06 (basic and diluted) for the year ended December 31, 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, as well as the shares attributed under the long-term incentive plan set up in 2015.

[1] *Excluding impacts related to IFRIC 12 interpretation*

Net income (loss) attributable to owners of the Company for the year ended **December 31, 2016** breaks down as follows:

In € million, excluding IFRIC 12	Current	Non-current	Total
EBIT	1,383.9	-306.9	1,077.0
Cost of net financial debt	(423.6)	-	(423.6)
Other financial income and expenses	(30.0)	25.7	(4.3)
Pre-tax income	**930.3**	**(281.2)**	**649.1**
Income tax expense	(211.3)	19.0	(192.3)
Net income (loss) of other equity-accounted entities	-	27.4	27.4
Net income (loss) from discontinued operations		-	-
Non-controlling interests	(109.2)	7.2	(102.0)
Net income (loss) attributable to owners of the Company	**609.8**	**(227.6)**	**382.2**

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

In € million, excluding IFRIC 12	Year ended December 31, 2015	**Year ended December 31, 2016**
Current EBIT	**1,315.2**	**1,383.9**
Impairment losses on goodwill and negative goodwill	(18.2)	3.2
Restructuring charges [(1)]	(80.8)	(184.5)
Non-current provisions and impairments [(2)],	(78.7)	(109.6)
Other [(3)]	(14.7)	(16.0)
Total non-current items	**(192.4)**	**(306.9)**
Operating income after share of net income of equity-accounted entities	**1,122.9**	**1,077.0**

(1) Restructuring charges for the year ended December 31, 2016 mainly related to Water activities in France in the amount of -€56.7 million (new departure plan) and Veolia Water Technologies for -€29.7 million.

Restructuring charges for the year ended December 31, 2015 related to Water activities in France in the amount of -€41.5 million, and Veolia Water Technologies for -€13.9 million.

(2) Non-current provisions and impairment of assets mainly related to coverage of Group risks in Europe.

(3) Other non-current items concern personnel costs: share-based payments, and share acquisition costs, with or without acquisition of control.

Net income (loss) attributable to owners of the Company **for the year ended December 31, 2015,** breaks down as follows:

In € million, excluding IFRIC 12	Current	Non-current	Total
EBIT	1,315.2	-192.4	1,122.9
Cost of net financial debt	(445.9)	-	(445.9)
Other financial income and expenses	27.9	-	27.9
Pre-tax income	**897.3**	**(192.4)**	**704.9**
Income tax expense	(207.1)	7.6	(199.5)
Net income (loss) of other equity-accounted entities	-	45.9	45.9
Net income (loss) from discontinued operations	-	-	-
Non-controlling interests	(110.1)	9.0	(101.1)
Net income (loss) attributable to owners of the Company	**580.1**	**(129.9)**	**450.2**

3 Financing [1]

3.1 CHANGES IN NET FREE CASH FLOW AND NET FINANCIAL DEBT [1]

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

In € million, excluding IFRIC 12	Year ended December 31, 2015	**Year ended December 31, 2016**
EBITDA	**2,997.2**	**3,056.0**
Net industrial investments	(1,378.6)	(1,398.7)
Change in operating WCR	203.3	270.4
Dividends received from equity-accounted entities and joint ventures	90.1	93.2
Renewal expenses	(278.4)	(272.4)
Other non-current expenses and restructuring costs	(150.1)	(133.5)
Financial items (current cash financial expense, and operating cash flow from financing activities)	(403.2)	(416.7)
Taxes paid	(223.9)	(228.7)
Net free cash flow before dividend payment, financial investments and financial divestitures	**856.4**	**969.6**
Dividends paid	(582.7)	(590.9)
Net financial investments	118.2	(500.8)
Change in receivables and other financial assets	139.7	273.0
VE capital increase (excluding per share dividend distribution)	12.2	(22.0)
Issue / repayment of deeply subordinated securities	-	17.6
Free cash-flow	**543.8**	**146.5**
Effect of foreign exchange rate movements and other	(402.4)	212.1 (*)
Change	**141.4**	**358.6**
Net financial debt at the beginning of the period	(8,311.1)	(8,169.7)
Net financial debt at the end of the period	**(8,169.7)**	**(7,811.1)**

[1] *Excluding impacts related to IFRIC 12 interpretation*

(*) The effect of foreign exchange rate and other movements as of December 31, 2016 included the fluctuations in the pound sterling in the amount of €307 million.

Net free cash flow amounted to €970 million for the year ended December 31, 2016, versus €856 million for the year ended December 31, 2015.

The increase in net free cash flow compared to December 31, 2015 primarily reflects the improvement in EBITDA, the favorable change in operating working capital requirements, lower restructuring charges, partially offset by the increase in net industrial investments in line with fewer industrial divestitures in 2016.

3.2 INDUSTRIAL AND FINANCIAL INVESTMENTS

3.2.1 Group investment policy

A detailed description of investments made in 2016, as well as their financing, is set forth in Note 7.2 "Intangible assets", Note 7.3 "Property, plant and equipment", Note 5.4 "Non-current and current operating financial assets", and Note 4 "Reporting by operating segment" to the consolidated financial statements.

Veolia Environnement's investment strategy seeks to defend the Group's strong positions in creditworthy geographic areas with significant environmental demands and to develop the Group's positions in high-growth markets, particularly with industrial clients. Besides these qualitative attributes, quantitative profitability measures are also taken into account relative to the Group's investment choices (primarily internal rate of return, payback period and return on capital employed) are taken into consideration.

The Group makes certain growth investments (discretionary financial and industrial growth investments) corresponding to new projects (which could be multi-year in terms of the investment program) that generate additional cash flow.

Veolia Environnement also makes financial investments in companies dedicated to contracts, particularly as part of privatizations and targeted acquisitions.

The Group also carries out industrial investments related to maintenance and contractually required investments that result in the renewal and/or maintenance of existing infrastructures so as to extend their lifespan or improve efficiency.

In both cases, industrial investments are spread over a large number of entities and are subject to budget authorizations. The most significant investments are carefully reviewed by the Investment Committee in order to ensure they comply with the Group's standards of profitability, financial structure and risk.

3.2.2 Industrial investments [1]

Total Group gross industrial investments, including new operating financial assets, amounted to €1,485 million in 2016, compared with €1,484 million in 2015.

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

[1] *Excluding impacts related to IFRIC 12 interpretation*

Year ended December 31, 2016 *In € million, excluding IFRIC 12*	Maintenance and contractual requirements	Discretionary growth	Total gross industrial investments	Industrial divestitures	Total net industrial investments
France	328	4	332	(26)	306
Europe excluding France	504	74	578	(28)	550
Rest of the World	311	127	438	(17)	421
Global Businesses	114	-	114	(14)	100
Other	23	-	23	(1)	22
Total industrial investments	**1,280** [(1)]	**205**	**1,485** [(2)]	**(86)**	**1,399**

(1) Of which maintenance investments of €795 million, and contractual investments of €485 million

(2) Of which new OFA in the amount of €113 million

Year ended December 31, 2015 *In € million, excluding IFRIC 12*	Maintenance and contractual requirements	Discretionary growth	Total gross industrial investments	Industrial divestitures	Total net industrial investments
France	295	18	313	(35)	278
Europe excluding France	469	163	632	(38)	594
Rest of the World	307	81	388	(25)	363
Global Businesses	124	4	128	(6)	122
Other	22	1	23	(1)	22
Total industrial investments	**1,217** [(3)]	**267**	**1,484** [(4)]	**(105)**	**1,379**

(3) Of which maintenance investments of €774 million, and contractual investments of €443 million

(4) Of which new OFA in the amount of €120 million

At constant exchange rates, gross industrial investments rose slightly compared to 2015 (+2.5%).

Gross industrial investments for maintenance and contractual requirements totaled €1,280 million in 2016 (vs. €1,217 million in 2015), representing 5.2% of revenue (stable compared to 2015).

Gross discretionary growth industrial investments mainly concerned:

- in 2016: projects in Australia in the Waste business (transfer station and mechanical biological treatment facility), various projects in China (for the Harbin heating network, in the Industrial Water business, and the construction of hazardous waste incinerators), and network extensions in the Water and Energy businesses in Poland;
- in 2015: the construction of the Leeds and Shropshire incinerators in the UK, network extensions in the Energy business in Poland, and work on the Harbin heating network in China.

3.2.3 Financial investments and divestitures

Financial investments amounted to -€881 million for the year ended December 31, 2016 (including the net financial debt of new entities and acquisition costs) and include the acquisition of Kurion in the US (-€296 million), the Chemours' Sulfur Products division (-€290 million) the Pedreira landfill in Brazil (-€72 million), and the Prague Left Bank district heating network (-€70 million). For the year ended December 31, 2015, financial investments for -€270 million were mainly related to the purchase of minority stakes in the Water business in Central Europe.

Financial divestitures totaled €380 million for the year ended December 31, 2016 and include the sale of 20% of Transdev for €216 million (including disposal costs). For the year ended December 31, 2015, financial divestitures included the divestiture of Group activities in Israel.

Financial divestitures, including the reimbursement by Transdev Group of the shareholder loan in March 2016 for €345 million (recorded under "Change in receivables and other financial assets"), amounted to €725 million for the year ended December 31, 2016. This transaction therefore had a total impact of €565 million on Group net financial debt (excluding disposal costs).

3.3 LOANS TO JOINT VENTURES

Loans to joint ventures, recorded under "Change in receivables and other financial assets" totaled €165.6 million as of December 31, 2016 (versus €509.9 million as of December 31, 2015) and included loans to the Chinese concessions of €124.1 million (€116 million as of December 31, 2015). As of December 31, 2015, loans to equity-accounted entities also included loans to Transdev Group of €345.4 million repaid in full as of December 31, 2016.

3.4 OPERATING WORKING CAPITAL

The change in operating working capital requirements (excluding discontinued operations) totaled +€270 million as of December 31, 2016, compared to +€203 million as of December 31, 2015.

This increase was attributable to the change in inventories (+€35 million), operating receivables (+€84 million) and operating payables (+€151 million).

See Note 5.3 to the consolidated financial statements for the year ended December 31, 2016.

3.5 EXTERNAL FINANCING

3.5.1 Structure of net financial debt

(in € million)	Note	As of December 31, 2015	**As of December 31, 2016**
Non-current borrowings	8.1.1	8,022.3	8,344.0
Current borrowings	8.1.1	4,000.1	4,759.7
Bank overdrafts and other cash position items	8.1.3	318.6	246.8
Sub-total borrowings		**12,341.0**	**13,350.5**
Cash and cash equivalents	8.1.3	(4,176.3)	(5,521.4)
Fair value gains (losses) on hedge derivatives	8.3.1	5.0	(5.0)
Liquid assets and financing-related assets	8.1.2	-	(13.0)
Net Financial Debt		**8,169.7**	**7,811.1**

As of December 31, 2016, net financial debt after hedging [1] was borrowed at 92% at fixed rates and 8% at variable rates.

[1] *Including the restatement of €1,067 million of the carry-over of cash related to the pre-financing of future bond maturities in 2017.*

The average maturity of net financial debt was 9.3 years as of December 31, 2016 vs. 8.8 years as of December 31, 2015.

The leverage ratio for the year ended December 31, 2016, i.e. the ratio of closing Net Financial Debt (NFD) to EBITDA, decreased compared to December 31, 2015:

	December 31, 2015	**December 31, 2016**
Leverage ratio *(Closing NFD / EBITDA)*	2.73	2.56

3.5.2 Group liquidity position

Liquid assets of the Group as of December 31, 2016 break down as follows:

(in € million)	December 31, 2015	**December 31, 2016**
Veolia Environnement:		
Undrawn syndicated loan facility	3,000.0	3,000.0
Undrawn MT bilateral credit lines	925.0	925.0
Undrawn ST bilateral credit lines	-	-
Letter of credit facility	49.3	8.2
Cash and cash equivalents	3,297.6	4,648.4
Subsidiaries:		
Cash and cash equivalents	878.7	873.0
Total liquid assets	**8,150.6**	**9,454.6**
Current debt, bank overdrafts and other cash position items		
Current debt	4,000.1	4,759.7
Bank overdrafts and other cash position items	318.6	246.8
Total current debt, bank overdrafts and other cash position items	**4,318.7**	**5,006.5**
Total liquid assets net of current debt and bank overdrafts and other cash position items	**3,831.9**	**4,448.1**

The increase in net liquid assets mainly reflects the offering of bonds convertible into and/or exchangeable for new and/or existing shares (OCEANEs) for a nominal amount of €700 million, the issue of a renminbi-denominated bond on the Chinese domestic market in September 2016 for a nominal amount of €135 million equivalent and the issue of euro-denominated bonds for a nominal amount of €1.1 billion in October 2016, partially offset by upcoming bond maturities in 2017, including the euro-denominated bond maturing in January 2017 for a nominal amount of €608 million, the euro-denominated bond maturing in June 2017 for a nominal amount of €252 million, the renminbi-denominated bond maturing in June 2017 for a nominal amount of €68 million equivalent, and the floating-rate euro-denominated bond maturing in May 2017 for a nominal amount of €350 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 initially maturing in 2020, extended to 2021 in October 2016 and extendable to 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 December 31, 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 December 31, 2016.

LETTER OF CREDIT FACILITY:

As of December 31, 2016, the letter of credit facility was drawn by USD 176.3 million. The portion that may be drawn in cash amounted to USD 8.7 million (€8.2 million euro equivalent). It is undrawn and recorded in the liquidity table above.

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.

3.5.3 Bank covenants

See Note 8.3.2.3 to the consolidated financial statements for the year ended December 31, 2016.

4 Return on capital employed (ROCE)[1]

Veolia Environnement uses the ROCE indicator (return on capital employed) to track the Group's profitability. This indicator measures Veolia Environnement's ability to provide a return on the funds provided by shareholders and lenders. The Group distinguishes between:

- Post-tax ROCE, calculated at Group level, that include investments in joint ventures and associates;
- Pre-tax ROCE, broken down for the Group and its operating segments that exclude investments in joint ventures and associates.

The return on capital employed indicators are defined in Section 8.3 below. In both cases, the impacts of the Group's investment in the Transdev Group joint venture, which is not viewed as a core Company activity and whose contribution is recognized as a share of net income of other equity-accounted entities, are excluded from the calculations.

POST-TAX ROCE

Current EBIT after tax is calculated as follows:

In € million, excluding IFRIC 12	2015	**2016**
Current EBIT (*)	1,315.2	**1,383.9**
- Current income tax expense	(207.1)	**(211.3)**
Current EBIT after tax	1,108.1	**1,172.6**

(*) Including the share of net income (loss) of joint ventures and associates.

Average capital employed for the year was calculated as follows:

In € million, excluding IFRIC 12	Year ended December 31, 2015	**Year ended December 31, 2016**
Intangible assets and property, plant and equipment, net	10,519.4	10,855.3
Goodwill, net of impairment	4,635.0	4,864.0
Investments in joint ventures and associates	2,617.6	2,366.0
Operating financial assets	1,896.5	1,735.8
Operating and non-operating working capital requirements, net	(447.1)	(730.3)
Net derivative and other instruments (1)	(47.8)	(129.5)
Provisions	(2,547.2)	(2,630.3)
Capital employed	**16,626.4**	**16,331.0**
Impact of discontinued operations and other restatements (2)	(310.3)	(232.2)
Represented capital employed	**16,316.1**	**16,098.8**
Average capital employed	**16,313.4**	**16,207.4**

[1] *Excluding impacts related to IFRIC 12 interpretation*

(1) Excluding derivatives hedging the fair value of debt in the amount of €12.2 million for the year ended December 31, 2015, and €0.3 million for the year ended December 31, 2016.

(2) The restatements in 2015 and 2016 include the impact arising from the capital employed of entities which are not viewed as core to the Group's businesses, i.e. Transdev Group.

The Group's post-tax return on capital employed (ROCE) is as follows:

In € million, excluding IFRIC 12	Current EBIT after tax	Average capital employed	Post-tax ROCE
2015	1,108.1	16,313.4	6.8%
2016	**1,172.6**	**16,207.4**	**7.2%**

The Group's post-tax return on capital employed (ROCE) was 7.2% for the year ended December 31, 2016 versus 6.8% for the year ended December 31, 2015. The increase in the return on capital employed between 2016 and 2015 was primarily due to improved operating performance.

PRE-TAX ROCE

Unlike post-tax ROCE, the capital employed used for the pre-tax ROCE does not include investments in joint ventures and associates.

The Group's pre-tax return on capital employed (ROCE) by segment is as follows:

In € million, excluding IFRIC 12	**Current EBIT(*) before tax**	**Average capital employed**	**Pre-tax ROCE**
France	196.6	1,890.8	10.4%
Europe excluding France	538.9	7,536.9	7.1%
Rest of the World	402.4	4,005.5	10.0%
Global Businesses	84.7	995.1	8.5%
Other	(6.0)	(263.8)	N/A
Total Group 2015	**1,216.6**	**14,164.5**	**8.6%**
France	129.7	1,796.7	7.2%
Europe excluding France	626.9	7,231.7	8.7%
Rest of the World	398.9	4,310.8	9.3%
Global Businesses	134.9	1,087.6	12.4%
Other	(0.7)	(350.7)	N/A
Total Group 2016	**1,289.7**	**14,076.1**	**9.2%**

(*) Before share of net income or loss of equity-accounted entities.

5 Statutory auditors' fees

In 2016 and 2015, Veolia Environnement and its fully consolidated subsidiaries paid the following fees to its statutory auditors for services rendered in connection with all consolidated companies:

	KPMG network				**Ernst & Young network**			
	Amount (excl. taxes)		Percentage		Amount (excl. taxes)		Percentage	
(in € million)	2016	2015	2016	2015	2016	2015	2016	2015
Statutory audit, certification, audit of company and consolidated accounts [1]	9.3	10.7	80.9%	84.9%	11.6	13.2	85.3%	88.0%
- Veolia Environnement	1.3	1.1	11.3%	8.7%	1.5	1.1	11.0%	7.1%
- Fully-consolidated subsidiaries	8.0	9.6	69.6%	76.2%	10.1	12.1	74.3%	80.9%
Other diligences and services directly related to the statutory audit engagement [2]	2.2	1.9	19.1%	15.1%	2.0	1.8	14.7%	12.0%
- Veolia Environnement	0.6	0.6	5.2%	4.8%	0.4	0.2	2.9%	1.3%
- Fully-consolidated subsidiaries	1.6	1.3	13.9%	10.3%	1.6	1.6	11.8%	10.7%
Sub-total 1	**11.5**	**12.6**	**100%**	**100%**	**13.6**	**15.0**	**100%**	**100%**
Other services rendered by the networks to fully-consolidated subsidiaries [3]								
- Legal, tax, employee-related								
- Other								
Sub-total 2								
Total (1+2)	**11.5**	**12.6**	**100%**	**100%**	**13.6**	**15.0**	**100%**	**100%**

(1) Including services provided by independent experts or statutory auditor network members at the request of the statutory auditors for the purpose of the audit.

(2) Diligences and services rendered to Veolia Environnement or its subsidiaries by the statutory auditors or members of their networks.

(3) Non-audit services rendered by network members to Veolia Environnement subsidiaries.

6 Subsequent events

No event occurred between the balance sheet date and the date when the Board of Directors authorized the financial statements for issue.

7 Outlook

The Group's medium-term outlook [1] is as follows:

- **2017:** A transition year, with a resumption of revenue growth, stable EBITDA or moderate EBITDA growth and increased efforts to reduce costs by more than €250 million.

- **2018:** Continuation of revenue growth and the resumption of more sustained EBITDA growth, with an objective of more than €300 million in cost savings.

- **2019:** Continuation of revenue growth and full impact of savings. EBITDA expected between €3.3bn and €3.5bn [2] *(excluding IFRIC 12).*

[1] *At constant exchange rates*

[2] *Equivalent to €3.4bn to €3.6bn (excluding IFRIC 12) and before taking into account the unfavorable exchange rate impact in 2016*

8 Appendices to the Operating and Financial Review

8.1 RECONCILIATION OF GAAP INDICATORS AND THE INDICATORS USED BY THE GROUP

The reconciliation of Current EBIT with operating income (excluding the IFRIC 12 impact), as shown in the income statement, is shown in Section 2.4.6. Likewise, the reconciliation of current net income with net income, as shown in the income statement, is shown in Sections 2.4.6 (excluding the IFRIC 12 impact) and 8.2 (including the IFRIC 12 impact).

The reconciliation of operating cash flow with EBITDA is as follows:

In € million	Year ended December 31, 2015 Including IFRIC 12	**Year ended December 31, 2016** Including IFRIC 12
Operating cash flow before changes in working capital	**2,575.7**	**2,639.0**
Operating cash flow from financing activities	0.6	3.2
Adjusted operating cash-flow	2,575.1	2,635.8
Excluding:		
Renewal expenses	278.4	272.4
Non-current impairment losses on WCR	-	14.3
Cash restructuring costs (1)	150.1	119.2
Share acquisition and disposal costs	6.0	15.5
Including:		
Principal payments on operating financial assets	173.1	201.2
EBITDA	**3,182.6**	**3,258.4**

(1) In 2016, restructuring costs were primarily recognized at Veolia Environnement, VWT, in the United States and in France Waste. In 2015, restructuring costs mainly concerned the France Water business.

The reconciliation of Net cash from operating activities of continuing operations (included in the consolidated cash flow statement) with net free cash flow is as follows:

In € million	Year ended December 31, 2015 Including IFRIC 12	**Year ended December 31, 2016** Including IFRIC 12
Net cash from operating activities of continuing operations	**2,463.8**	**2,568.7**
Including:		
Industrial investments, net of grants	(1,347.3)	(1,353.5)

Proceeds on industrial assets	105.9	85.8
New operating financial assets	(120.3)	(113.4)
Principal payments on operating financial assets	173.1	201.2
New finance lease obligations	(16.9)	(17.7)
Dividends received	90.1	93.2
Interest paid	(519.3)	(521.3)
Excluding :		
Share acquisition and disposal costs	6.0	15.5
Accrued interest on financial debt	21.3	11.1
Net Free cash-flow	**856.4**	**969.6**

The reconciliation of Industrial investments, net of grants (included in the consolidated cash flow statement) with industrial capex is as follows:

In € million	Year ended December 31, 2015 Including IFRIC 12	**Year ended December 31, 2016** Including IFRIC 12
Industrial investments, net of grants	**(1,347.3)**	**(1,353.5)**
New finance lease obligations	(16.9)	(17.7)
Change in concession working capital requirements	(91.3)	(112.0)
New operating financial assets	(120.3)	(113.4)
Industrial capex	**-(1,575.8)**	**(1,596.6)**

8.2 IMPACTS OF THE ADOPTION OF THE IFRIC 12 INTERPRETATION AS OF JANUARY 1, 2015

CHANGES IN EBITDA BY SEGMENT

	Year ended December 31, 2015		**Year ended December 31, 2016**		*Δ 2015 /2016, incl. IFRIC 12*	
(in € million)	Excluding IFRIC 12	Including IFRIC 12	Excluding IFRIC 12	Including IFRIC 12	Δ	Δ at constant exchange rates
France	816.4	828.5	750.6	763.2	*-7.9%*	*-7.9%*
Europe, excluding France	1,104.1	1,274.3	1,159.6	1,346.1	*+5.6%*	*+9.1%*
Rest of the World	805.0	808.1	861.5	864.8	*+7.0%*	*+9.9%*
Global Businesses	225.8	225.8	262.7	262.7	*+16.4%*	*+17.5%*
Other	45.9	45.9	21.6	21.6	-	-
EBITDA	**2,997.2**	**3,182.6**	**3,056.0**	**3,258.4**	**+2.4%**	**+4.6%**
EBITDA margin	**12.0%**	**12.7%**	**12.5%**	**13.4%**		

CHANGES IN CURRENT EBIT BY SEGMENT

	Year ended December 31, 2015		**Year ended December 31, 2016**		*Δ 2015 /2016, incl. IFRIC 12*	
(in € million)	Excluding IFRIC 12	Including IFRIC 12	Excluding IFRIC 12	Including IFRIC 12	Δ	Δ at constant exchange rates
France	197.1	200.4	129.5	132.7	*-33.8%*	*-33.8%*
Europe, excluding France	558.9	632.2	638.3	726.4	*+14.9%*	*+19.1%*
Rest of the World	465.9	467.4	463.1	464.5	*-0.6%*	*+2.5%*
Global Businesses	99.2	99.2	153.7	153.7	*+54.8%*	*+56.9%*
Other	(5.9)	(5.9)	(0.7)	(0.8)	-	-
Current EBIT	**1,315.2**	**1,393.3**	**1,383.9**	**1,476.5**	**+6.0%**	**+9.1%**

RECONCILIATION OF EBITDA WITH CURRENT EBIT:

	Year ended December 31, 2015		**Year ended December 31, 2016**	
(in € million)	Excluding IFRIC 12	Including IFRIC 12	Excluding IFRIC 12	Including IFRIC 12
EBITDA	**2,997.2**	**3,182.6**	**3,056.0**	**3,258.4**
Renewal expenses	(278.4)	(278.4)	(272.4)	(272.4)
Depreciation and amortization [(1)]	(1,549.4)	(1,656.7)	(1,566.3)	(1,676.1)
Share of current net income of joint ventures and associates	98.7	98.7	94.2	94.2
Provisions, fair value adjustments & other:	47.1	47.1	72.4	72.4
• *Current impairment of property, plant and equipment, intangible assets and operating financial assets*	*(28.3)*	*(28.3)*	*(26.4)*	*(26.4)*
• *Net charges to operating provisions, fair value adjustments and other*	*75.4*	*75.4*	*98.8*	*98.8*
Current EBIT	**1,315.2**	**1,393.3**	**1,383.9**	**1,476.5**

(1) *Including principal payments on operating financial assets (OFA) of -€201.2 million for the year ended December 31, 2016 (compared to -€173.1 million for the year ended December 31, 2015), and capital gains or losses on industrial divestitures for €29.1 million for the year ended December 31, 2016 (compared to €4.3 million for the year ended December 31, 2015).*

NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY FOR THE YEAR ENDED DECEMBER 31, 2016:

In € million, including IFRIC 12	Current	Non-current	Total
EBIT	1,476.5	(306.9)	1,169.6
Cost of net financial debt	(423.6)	-	(423.6)
Other financial income and expenses	(120.3)	25.7	(94.6)
Pre-tax income	**932.6**	**(281.2)**	**651.4**
Income tax expense	(211.7)	19.0	(192.7)
Net income (loss) of other equity-accounted entities	-	27.4	27.4
Net income (loss) from discontinued operations	-	-	-
Non-controlling interests	(110.2)	7.2	(103.0)
Net income (loss) attributable to owners of the Company	**610.7**	**(227.6)**	**383.1**

NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY FOR THE YEAR ENDED DECEMBER 31, 2015:

In € million, including IFRIC 12	Current	Non-current	Total
EBIT	1,393.3	(192.4)	1,200.9
Cost of net financial debt	(445.9)	-	(445.9)
Other financial income and expenses	(66.2)	-	(66.2)
Pre-tax income	**881.2**	**(192.4)**	**688.8**
Income tax expense	(204.1)	7.6	(196.5)
Net income (loss) of other equity-accounted entities	-	45.9	45.9
Net income (loss) from discontinued operations	-	-	-
Non-controlling interests	(109.5)	9.0	(100.5)
Net income (loss) attributable to owners of the Company	**567.6**	**(129.9)**	**437.7**

CHANGE IN NET FINANCIAL DEBT AND NET FREE CASH FLOW:

	Year ended December 31, 2015		**Year ended December 31, 2016**	
(in € million)	Excluding IFRIC 12	Including IFRIC 12	Excluding IFRIC 12	Including IFRIC 12
EBITDA	**2,997.2**	**3,182.6**	**3,056.0**	**3,258.4**
Net industrial investments	(1,378.6)	(1,469.9)	(1,398.7)	(1,510.8)
Change in operating WCR	203.3	203.3	270.4	270.4
Dividends received from equity-accounted entities and joint ventures	90.1	90.1	93.2	93.2
Renewal expenses	(278.4)	(278.4)	(272.4)	(272.4)
Other non-current expenses and restructuring costs	(150.1)	(150.1)	(133.5)	(133.5)
Financial items (current cash financial expense, and operating cash flow from financing activities)	(403.2)	(403.2)	(416.7)	(416.7)
Interest related to IFRIC 12 operating assets	-	(94.1)	-	(90.3)
Taxes paid	(223.9)	(223.9)	(228.7)	(228.7)
Net free cash flow before dividend payment, financial investments and financial divestitures	**856.4**	**856.4**	**969.6**	**969.6**
Dividends paid	(582.7)	(582.7)	(590.9)	(590.9)
Net financial investments	118.2	118.2	(500.8)	(500.8)
Change in receivables and other financial assets	139.7	139.7	273.0	273.0
VE capital increase (excluding per share dividend distribution)	12.2	12.2	(22.0)	(22.0)
Issue / repayment of deeply subordinated securities	-	-	17.6	17.6
Free cash flow	**543.8**	**543.8**	**146.5**	**146.5**
Effect of foreign exchange rate movements and other	(402.4)	(402.4)	212.1	212.1
Change	**141.4**	**141.4**	**358.6**	**358.6**
Opening net financial debt	(8,311.1)	(8,311.1)	(8,169.7)	(8,169.7)
Closing net financial debt	**(8,169.7)**	**(8,169.7)**	**(7,811.1)**	**(7,811.1)**

GROUP'S POST-TAX RETURN ON CAPITAL EMPLOYED (ROCE):

(in € million)	Current EBIT after tax (excluding IFRIC 12)	Average capital employed (including IFRIC 12)	Post-tax ROCE
2015	1,108.1	15,950.6	7.0%
2016	1,172.6	15,835.8	7.4%

GROUP'S PRE-TAX RETURN ON CAPITAL EMPLOYED (ROCE):

(in € million)	Current EBIT before tax (excluding IFRIC 12) (*)	Average capital employed (including IFRIC 12)	Pre-tax ROCE
2015	1,216.6	13,801.7	8.8%
2016	1,289.7	13,704.4	9.4%

(*) Before share of net income or loss of equity-accounted entities.

8.3 DEFINITIONS

GAAP (IFRS) INDICATORS

Cost of net financial debt is equal to the cost of gross debt, including related gains and losses on interest rate and currency hedges, less income on cash and cash equivalents.

Operating cash flow before changes in working capital, as presented in the consolidated cash flow statement, is comprised of three components: operating cash flow from operating activities (referred to as "adjusted operating cash flow" and known in French as "capacité d'autofinancement opérationnelle") consisting of operating income and expenses received and paid ("cash"), operating cash flow from financing activities including cash financial items relating to other financial income and expenses and operating cash flow from discontinued operations composed of cash operating and financial income and expense items classified in net income from discontinued operations pursuant to IFRS 5. Adjusted operating cash flow does not include the share of net income attributable to equity-accounted entities.

Net income (loss) from discontinued operations is the total of income and expenses, net of tax, related to businesses divested or in the course of divestiture, in accordance with IFRS 5.

NON-GAAP INDICATORS

The term "**change at constant exchange rates**" represents the change resulting from the application of exchange rates of the prior period to the current period, all other things being equal.

The municipal sector encompasses services in the Water, Waste and Energy business lines aimed at users, performed under contracts with municipal governments, groups of municipal governments, or regional or national governments.

The industrial sector covers Water, Waste and Energy management services, offered to industrial or service sector customers.

EBITDA comprises the sum of all operating income and expenses received and paid (excluding restructuring charges, non-current WCR impairments, renewal expenses and share acquisition and disposal costs) and principal payments on operating financial assets.

The EBITDA margin is defined as the ratio of EBITDA to revenue.

To calculate **Current EBIT**, the following items will be deducted from operating income:

- Goodwill impairments of fully controlled subsidiaries and equity-accounted entities,
- Restructuring charges,
- Non-current provisions and impairments,
- Non-current and/or significant impairment of non-current assets (PP&E, intangible assets and operating financial assets),
- Impacts relating to the application of IFRS 2 Share-based payment,
- Share acquisition costs.

Current net income is defined as the sum of the following items:

- Current EBIT,

  Current net finance expenses, that include current cost of net financial debt and other current financial income and expenses, including capital gains or losses on financial divestitures (including gains or losses included in the share of net income of equity-accounted entities),

- Current tax items, and
- Minority interests (excluding the portion of minority interests relative to non-current items in the income statement).

Current net income earnings per share is defined as the ratio of current net income (not restated for the cost of the coupon attributable to hybrid debt holders) by the weighted average number of outstanding shares during the year.

Net industrial investments, as presented in the statement of changes in net financial debt, include industrial investments (purchases of intangible assets and property, plant and equipment, and operating financial assets), net of industrial asset divestitures.

The Group considers **discretionary growth investments**, which generate additional cash flows, separately from **maintenance-related investments**, which reflect the replacement of equipment and installations used by the Group as well as investments relating to contractual obligations.

Net financial investments, as presented in the statement of changes in net financial debt, include financial investments, net of financial divestitures.

Financial investments include purchases of financial assets, including the net financial debt of companies entering the scope of consolidation, and partial purchases resulting from transactions with shareholders where there is no change in control.

Financial divestitures include net financial debt of companies leaving the scope of consolidation, and partial divestitures resulting from transactions with shareholders where there is no change in control, as well as issues of share capital by non-controlling interests.

Net free cash flow corresponds to free cash flow from continuing operations, and is calculated by: the sum of EBITDA, dividends received, changes in operating working capital and operating cash flow from financing activities, less net interest expense, net industrial investments, taxes paid, renewal expenses, restructuring charges and other non-current expenses.

Net financial debt (NFD) represents gross financial debt (non-current borrowings, current borrowings, bank overdrafts and other cash position items), net of cash and cash equivalents, liquid assets and financing-related assets, including fair value adjustments to derivatives hedging debt. Liquid assets are financial assets composed of funds or securities with an initial maturity of more than three months, easily convertible into cash, and managed with respect to a liquidity objective while maintaining a low capital risk.

The leverage ratio is the ratio of closing Net Financial Debt to EBITDA.

The financing rate is defined as the ratio of the cost of net financial debt (excluding fair value adjustments to instruments not qualifying for hedge accounting) to average monthly net financial debt for the period, including the cost of net financial debt of discontinued operations.

The pre-tax return on capital employed (ROCE) is defined as the ratio of:

- Current EBIT before share of net income or loss of equity-accounted entities;
- Average capital employed in the year, including operating financial assets and excluding investments in joint ventures and associates.

Capital employed used in the ROCE calculation is therefore equal to the sum of net intangible assets and property, plant and equipment, goodwill net of impairment, operating financial assets, net operating and non-operating working capital requirements and net derivative instruments less provisions. It also includes the capital employed of activities classified within assets and liabilities held for sale, excluding discontinued operations.

The post-tax return on capital employed (ROCE) is defined as the ratio of:

- Current EBIT including the share of net income or loss of equity-accounted entities, after tax. It is calculated by subtracting the current tax expense from Current EBIT including the share of net income or loss of equity-accounted entities. Current tax expense is the tax expense in the income statement represented for tax effects on non-current items.
- Average capital employed in the year, including operating financial assets and investments in joint ventures and associates.

Capital employed used in the post-tax ROCE calculation is therefore equal to the sum of net intangible assets and property, plant and equipment, goodwill net of impairment, investments in joint ventures and associates, operating financial assets, net operating and non-operating working capital requirements and net derivative instruments less provisions. It also includes the capital employed of activities classified within assets and liabilities held for sale, excluding discontinued operations.

For both pre-tax and post-tax ROCE, the impacts of the Group's investment in the Transdev Group joint venture, which is not viewed as a core Company activity and whose contribution is recognized as a share of net income of other equity-accounted entities, are excluded from the calculations.