HD 2014 HALF-YEAR RESULTS : SOLID OPERATING PERFORMANCE - STRONG INCREASE IN NET INCOME - MAJOR DEVELOPMENTS FOR FUTURE GROWTH

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PRESS RELEASE
30 July 2014

2014 HALF-YEAR RESULTS

SOLID OPERATING PERFORMANCE
STRONG INCREASE IN NET INCOME
MAJOR DEVELOPMENTS FOR FUTURE GROWTH

* Revenue: EUR6,891 million, +0.8% organic growth
* EBITDA(1): EUR1,326 million(2), +1.6% organic growth
* Net income Group share: EUR280 million, up EUR148 million versus H1 2013, including EUR129 million gain on CEM disposal
* Net financial debt: EUR7,295 million, stable compared to end of 2013, with Net financial debt / EBITDA ratio reduced to 2.77x(3)
* Significant impacts of exchange rates: -EUR168 million on revenue, -EUR61 million on EBITDA, neutral on net debt

The Board of Directors approved the 2014 first-half results at its 29 July 2014 meeting.

Commenting on these results, Jean-Louis Chaussade, Chief Executive Officer, made the following statement:

"SUEZ ENVIRONNEMENT has posted solid performance in the first half of the year, in line with annual set objectives. The Water Europe division is growing strongly, benefiting from very significant increases in prices and volumes. Waste Europe activities are steady in a very uneven industrial production country by country in Europe. Lastly, activities in North America, Asia, and Africa-India-Middle East are up, driven by sustained commercial dynamism. Degrémont activity is down, but has improved in the second quarter and the outlook for contracts coming into force is positive.

The beginning of 2014 was also marked by major developments with the upcoming

entry of La Caixa Group into our capital in exchange for the **acquisition** of the
remaining 24.14% **stake** in Agbar, the increase in our **equity** interest in ACEA and the strengthening of our positions in industrial water with the **acquisition**
of Process Group. These transactions show SUEZ ENVIRONNEMENT's desire to accelerate its growth.

On the strength of these sound results and promising developments, SUEZ ENVIRONNEMENT reaffirms its annual targets." (4)

(1) After taking into account the share in net income of **equity** accounted companies considered as core business (IFRS 10 & 11)
(2) Including EUR129m capital gain CEM disposal realised by SFH, an **equity** accounted **company** associate
(3) Net Financial Debt/Gross Operating Surplus (EBITDA), calculated over a rolling 12-month period
(4) The 2014 targets are stated on page 6 of this press release

2014 HALF-YEAR RESULTS

* REVENUE

Group revenue at 30 June 2014 was EUR6,891 **million**, down -2.1% (-EUR149m) versus 30 June 2013, that breaks down as follows:

- Organic change +0.8% (+EUR53m):
  * Water Europe: +3.6% (+EUR78m)
  * Waste Europe: -0.1% (-EUR4m)
  * International: -1.2% (-EUR20m)

- External growth -0.5% (-EUR34m), mainly reflecting the **sale** of sites in the United Kingdom in September 2013 and the entry of Aguas de Sabadell in July 2013.

- Adverse exchange rate impact -2.4% (-EUR168m), due to the rise of the euro against the Australian dollar (-EUR68m), the Chilean peso (-EUR61m) and the US dollar (-EUR15m).

* OPERATING PERFORMANCE

EBITDA was EUR1,326 **million** at 30 June 2104, including a EUR129 **million** gain on
the **sale** of CEM(5), representing organic growth of +1.6%. EBITDA in the Water Europe division was up +9.0% in organic terms, benefiting from higher volumes in Spain and Chile and favourable price indexations in all regions. The Waste Europe division was down -1.1% in organic terms, mainly due to the adverse effect of decreasing prices of secondary raw materials and electricity, and the
strengthening of local competition, especially in Poland and the Netherlands.
The International division posted organic change of -0.9% (+10.5% when restated
for the commercial renegotiation effect of the Sydney drinking water distribution contract from Q2 2013).

Group EBITDA margin was 19.2% versus 17.5% in the first half of 2013. Excluding
the CEM capital gain, the EBITDA margin rate is 17.4%.

In the first half of 2014, the Compass cost reduction program contributed EUR60m, mainly by optimizing operational performance, procurement and by reducing overhead.

EBIT(6) was EUR658 **million**, up +1.9% in organic terms.

Income from operating activities, including the share of income from **equity** associates, was up +19.2% to EUR653 million. This includes the EUR65 million gain from the fair value revaluation of Acea shares held as of 1 January 2014 after taking significant influence in the company, as well as some restructuring costs and provisions for -EUR79 million.

* NET INCOME

Net financial income was a -EUR212 million in the first half of 2014, versus -EUR193 million in the same period the previous year. Average debt maturity was
extended to 6.9 years and average cost of debt was 4.43%(7); it benefited from decrease in interest rates and an active debt management strategy.

Tax expense was -EUR59 million in the first half of 2014, versus -EUR82 million
in the same period the previous year. Effective tax rate is 23.3% versus 25.8% for the first 2013 semester. This was mainly due to the fact that many operating
companies are based in countries with lower tax rates than France, and due to the revaluation of Acea's previously held shares, with no tax impact.

(5) Taking into account the new definition of EBITDA adopted by the Group and the impact of the new IFRS 10 & 11 standards, the capital gain from the sale of
CEM by SFH, an equity associate, is included in EBITDA.
(6) Current operating income (EBIT) including the share of income from equity associates in the extension of the Group's activity.
(7) Excluding securitization costs and inflation linked debt cost in Chile

Income from non-controlling interests was EUR108 million.

Accordingly, net income Group share was up sharply at +EUR280 million, versus +EUR132 million for the same period the previous year.

FREE CASH FLOW AND BALANCE SHEET

Free cash flow was EUR215 million in the first half of 2014, up slightly on the
same period the previous year.

Net investment amounted to EUR497 million. SUEZ ENVIRONNEMENT strives to accelerate the pace of investment to ensure its future growth. Accordingly, financial investments are up sharply after acquiring Process Group and taking an additional 3.95% stake in ACEA.

Net financial debt was EUR7,295 million at 30 June 2014. This was EUR503 million
less than at 30 June 2013 and slightly higher, by EUR109 million, than at 31 December 2013. The dividend payment of EUR479 million in the first half of the year was partially offset by the securitization of a financial receivable linked
to the commissioning of the Clermond-Ferrand energy-from-waste recovery plant in
the amount of EUR212 million, and a new issue of undated deeply subordinated notes in the net amount of EUR183 million. The net debt/ EBITDA ratio improved to 2.8x, versus 3.1x(8) as of 30 June 2013, and remains below the annual target
of 3x.
Lastly, it has to be noted that net debt at the end of June 2014 does not include the proceeds from the CEM disposal, received on 15 July 2014 for +EUR224 million, nor the anticipated disbursement related to the strengthened partnership with La Caixa Group for -EUR200 million.
Moody's financial rating agency has confirmed, in May 2014, SUEZ ENVIRONNEMENT COMPANY A3 with rating stable outlook.

PERFORMANCE BY DIVISION

 

WATER EUROPE

| In EURm | 30/06/2013 Restated | 30/06/2014 | Gross change | Organic change | FX change | Scope change |
|---|---|---|---|---|---|---|
| Revenue | 2,156 | 2,207 | +2.4% | +3.6% | -2.8% | +1.6% |
| EBITDA | 580 | 607 | +4.6% | +9.0% | -6.3% | +2.0% |

* The Water Europe division posted an organic growth of +3.6% at 30 June 2014 with revenue of EUR2,207 million. Activity in the first half of the year benefited from favourable price effect in France (+1.2%), Spain (+3.2%(9)) and Chile (+7.3%). Volumes of drinking water sold rose in Spain (+0.4%) and Chile (+3.1%), but declined in France (-0.9%), in line with the long-term trend. The contribution of net commercial activity, both in public service delegation contracts and in new services, was positive (+EUR25 million). Sales drives continued in the first half of the year with numerous contracts won and renewed
such as Versailles-Saint Cloud (c. EUR250m, 12 years), Cayenne (EUR34m, 12 years,), Orange (EUR16m, 12 years) in France, and the Navarra Canal (EUR70m, 30 years) in Spain.

(8) Based on reported accounts
(9) Excluding the increase in local taxes and revenue for third parties; the total price rise is 6.9%.

* EBITDA was EUR607 million with a margin of 27.5%, versus 26.9% in the same period the previous year. The strong organic growth of +9.0% reflects higher volumes and prices as well as very effective cost control. The Water Europe division generated EUR19 million in Compass savings over the six-month period.

WASTE EUROPE

| In EURm | 30/06/2013 Restated | 30/06/2014 | Gross change | Organic change | FX change | Scope change |
|---|---|---|---|---|---|---|
| Revenue | 3,214 | 3,137 | -2.4% | -0.1% | +0.1% | -2.4% |
| EBITDA | 377 | 374 | -0.9% | -1.1% | -0.1% | +0.3% |

* The Waste Europe division posted revenue of EUR3,137 million, steady in organic terms. Treated volumes increased by +1.2%, benefiting from the start of
new treatment facilities (Clermont- Ferrand and South Tyne & Wear, off-balance-sheet assets), but macroeconomic conditions remain difficult in Europe.
The positive effect of rising volumes was partly offset by declining prices of secondary raw materials (ferrous metals down by 7%, paper down by 6% and electricity down by EUR20 per MWh in France) and of services (especially in Poland and the Netherlands affected by strong competition).
Geographically, the organic change was +0.2% in France, +1,8% in the United Kingdom and Scandinavia, -0.9% in Benelux/Germany, and -11.8% in Central Europe.

* Sales were strong in the first half of 2014 supported by new or renewed contracts, especially in energy or material waste recovery such as Le Havre (EUR180m, 10 years) and Narbonne (EUR280m, 20 years) in France as well as contracts to supply alternative fuel to RWE and Cemex in the United Kingdom. Those achievements confirm the Group progress in energy and material waste recovery which is a strategic priority in the waste business.

* The Waste Europe division posted steady EBITDA of EUR374 million, versus EUR377 million in H1 2013; organic growth showed limited decrease by -1.1% due to the pressure on prices partially compensated by the increasing contribution of the energy and material recovery activities. With an EBITDA margin on revenue
of 11.9%, versus 11.7% the same period the previous year, the division shows

 

strong control of its cost base in still-lacklustre economic conditions in Europe. The Waste Europe division generated EUR26 million in Compass savings over the six-month period.

INTERNATIONAL

| In EURm | 30/06/2013 Restated | 30/06/2014 | Gross change | Organic change | FX change | Scope change |
|---|---|---|---|---|---|---|
| Revenue | 1,666 | 1,545 | -7.3% | -1.2% | -6.6% | +0.5% |
| EBITDA | 289 | 389 | +34.3% | -0.9% | -8.2% | +43.5% |

- The International division at 30 June 2014 posted revenue of EUR1,545 million, down -1.2% in organic terms.
  * The Asia-Pacific Region continued to expand with revenues up +5.0% (+EUR26m) in organic terms, thanks to satisfying activity both in China and in Australia.
  * The organic growth of the Africa, Middle-East, India region was +8.9% (+EUR27m) mainly reflecting the water and waste activities in Morocco.
  * The North America region grew by +2.0% (+EUR5m) in organic terms, with price increases offsetting declining volumes due to high rainfall in the spring.
  * Degrémont revenue was down organically by EUR78 million (-13.5%). This change reflects the nonrecurring EUR30 million contribution in 2013 of the commercial renegotiation of the Sydney drinking water distribution contract, and the termination of some contracts including Mapocho in Chile and others in the Middle East. However, the Design & Build backlog has stabilized from the previous year at EUR0.9 billion.

- Internationally, SUEZ ENVIRONNEMENT continued its development with innovative and diversified offers throughout its entire value chain. For example, the Group was selected to build and operate a hazardous waste recycling plant at Nantong, China (EUR575m, 30 years). In the Middle East, Degrémont won the desalination contract of Mirfa (EUR100m). In Morocco, the Group was selected to build and operate the Meknès waste elimination and waste recovery plant (EUR90m, 20 years). In Canada, the Group won the contract to operate two waste recovery plants near Edmonton (EUR54m, 5 years). The Group has also won a first training and knowledge-transfer contract in Baku, Azerbaijan (EUR23m, 5 years).

- The EBITDA of EUR389 million, which includes the gain on CEM disposal for EUR129 million, is slightly down in organic terms (-0.9%), but restated for the EUR30 million organic contribution in Q2 2013 of the Sydney contract effect, EBITDA organic growth would be +10.5%; as far as EBITDA margin is concerned, it would be 16.8% versus 15.7% last year. The International division generated EUR14 million in Compass savings over the six months.

GOVERNANCE

In accordance with the AFEP-MEDEF Code, Jean-Louis Chaussade terminated his suspended employment contract with GDF SUEZ Management Company and advised the Board of Directors of his decision to exercise his retirement rights related to pension schemes. After acknowledging this decision, the Board of Directors decided to entrust him with a new term as Chief Executive Officer, which will continue until the end of his director's mandate, i.e. until the 2016 General Meeting of Shareholders called to approve the financial statements for 2015.

IMPLEMENTATION OF THE MASTER AGREEMENT SIGNED WITH CRITERIA CAIXAHOLDING

The implementation of the master agreement aiming to reinforce the partnership between SUEZ ENVIRNNEMENT and Criteria Caixaholding ("Criteria"), signed on July

 

17th, 2014, is continuing. Thus, a special appraiser was appointed by order of the Nanterre Commercial Court President, and SUEZ ENVIRONNEMENT Board of Directors authorized on July 29th the conclusion of the contribution agreement.
The completion of the contribution and, as a consequence, the **acquisition** of the
share interest held by Criteria in Agbar remunerated through the 22 **million** newly issued shares of SUEZ ENVIRONNEMENT (representing 4.1% of the capital) and
a cash payment of EUR299 **million**, should be completed in September 2014.

TARGETS FOR 2014

SUEZ ENVIRONNEMENT has reaffirmed its targets(10) for 2014:

- HIGHER OPERATING INCOME IN 2014
  * EBITDA(11): organic growth ≥ 2%
  * Free cash flow: around EUR1 **billion**

- ACCELERATION OF ITS DEVELOPMENT WHILE MAINTAINING FINANCIAL DISCIPLINE
  * Focused investments generating additional growth(12)
  * Net Financial Debt/EBITDA ratio of around 3 times

- PURSUING AN ATTRACTIVE DIVIDEND POLICY
  * Dividend ≥ EUR0.65 per share on the 2014 results(13)

INTERIM FINANCIAL REPORT:

(10) Assuming 1% GDP growth in the eurozone in 2014
(11) Target calculated based on 2013 EBITDA restated for the new definition of EBITDA adopted by the Group and the impact of the new IFRS 10 & 11 standards.
(12) If market conditions permit.
(13) Subject to approval by the 2015 General Meeting.

2014 Interim Financial Report is available on the **company** website (www.suez-environnement.com).

NEXT COMMUNICATION:

30 October 2014: 3rd Quarter 2014 report (conference call)

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Natural resources are not infinite. Every day, SUEZ Environnement (Paris: SEV, Brussels: SEVB) and its subsidiaries deal with the challenge of protecting resources by providing innovative solutions to industries and to **millions** of people. SUEZ ENVIRONNEMENT supplies drinking water to 97 **million** people, provides wastewater treatment services for 66 **million** people and collects the waste produced by 50 **million** people. SUEZ Environnement has 79,549 employees and, with its presence on five continents, is a world leader exclusively dedicated to water and waste management services. SUEZ Environnement generated total revenues of EUR 14.6 **billion** in 2013.

Disclaimer

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statements regarding projects, targets and expectations for transactions, future
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APPENDICES

REVENUE BY GEOGRAPHIES

| In EURm | H1 2013 Restated | H1 2014 | % in H1 2014 | Var. 14/13 |
|---|---|---|---|---|
| FRANCE | 2,562 | 2,555 | 37.1% | -0.3% |
| Spain | 820 | 820 | 11.9% | 0% |
| UK | 469 | 446 | 6.5% | -4.9% |
| Others Europe | 1,158 | 1,232 | 17.9% | +6.4% |
| EUROPE (excluding France) | 2,447 | 2,498 | 36.3% | +2.1% |
| North America | 397 | 379 | 5.5% | -4.5% |
| South America | 428 | 381 | 5.5% | -11.0% |
| Oceania | 544 | 472 | 6.8% | -13.2% |
| Asia | 194 | 177 | 2.6% | -8.8% |
| Others Internat ional | 467 | 429 | 6.2% | -8.1% |
| INTERNATIONAL (excluding Europe) | 2,030 | 1,838 | 26.6% | -9.5% |
| TOTAL | 7,040 | 6,891 | 100% | -2.1% |

SUMMARY BALANCE SHEET

in EURm

| ASSETS | 31/12/13 Restated | 30/06/14 | LIABILITIES | 31/12/13 Restated | 30/06/14 |
|---|---|---|---|---|---|
| NON CURRENT ASSETS | 18,433 | 18,517 | **Equity**, group share | 4,952 | 4,980 |
| o/w goodwill | 3,095 | 3,163 | Minority Interests | 1,999 | 1,971 |
| CURRENT ASSETS | 7,988 | 7,870 | TOTAL **EQUITY** | 6,950 | 6,951 |
| o/w financial assets at fair value through income | 92 | 64 | Provisions | 1,769 | 1,823 |
| o/w cash & cash equivalents | 2,391 | 2,189 | Other Liabilities | 7,876 | 7,924 |
| TOTAL ASSETS | 26,421 | 26,387 | TOTAL LIABILITIES | 6,421 | 26,387 |

SUMMARY INCOME STATEMENT

In EURm

 

| | H1 2013 Restated | H1 2014 |
|---|---|---|
| REVENUE | 7,040 | 6,891 |
| Depreciat ion, Amortization & Provisions | (471) | (523) |
| EBIT | 555 | 658 |
| INCOME FROM OPERATING ACTIVITIES | 548 | 653 |
| Financial Result | (193) | (212) |
| Associates non-core | 5 | 6 |
| Income tax | (82) | (59) |
| Minorit y interest | (146) | (108) |
| NET RESULT GROUP SHARE | 132 | 280 |

SUMMARY CASH FLOW STATEMENT

| In EURm | H1 2013 Restated | H1 2014 |
|---|---|---|
| Operat ing cash flow | 994 | 987 |
| Income tax paid (excl. income tax paid on disposals) | (107) | (72) |
| Change in operat ing working capital | (248) | (300) |
| CASH FLOW FROM OPERATING ACTIVITIES | 640 | 615 |
| Net tangible and intangible investments | (509) | (432) |
| Financial investments | (17) | (147) |
| Disposals | 44 | 82 |
| Other investment flows | (3) | 199 |
| CASH FLOW FROM INVESTMENT ACTIVITIES | (485) | (299) |
| Dividends paid | (469) | (479) |
| Balance of reimbursement of debt / new debt | 443 | (139) |
| Interests paid / received on financial activities | (189) | (161) |
| Capital increase | 2 | 37 |
| Other cash flows | (38) | 217(1) |
| CASH FLOW FROM FINANCIAL ACTIVITIES | (250) | (524) |
| Impact of currency, account ingpractices and other | (42) | 6 |
| CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE PERIOD | 2,129 | 2,391 |
| Total cash flow for the period | (137) | (202) |
| CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD | 1,992 | 2,189 |

(1) Of which EUR183m of net hybrid issuance after premium



**CO** sueze : Suez Environnement Company

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