VEOLIA ENVIRONNEMENT
Form 20-F
May 07, 2008

As filed with the Securities and Exchange Commission on May 7, 2008

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the fiscal year ended December 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-15248

VEOLIA ENVIRONNEMENT

(Exact name of Registrant as specified in its charter)

N/A (Translation of Registrant s name into English)	36/38, avenue Kléber, 75116 Paris, France (Address of principal executive offices)	Republic of France (Jurisdiction of incorporation or organization)

Alain Tchernonog, General Secretary, 36/38 avenue Kléber, 75116 Paris France 011 33 1 71 75 00 54

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary shares, nominal value €5 per share represented by American Depositary Shares	The New York Stock Exchange

(as evidenced by American Depositary Receipts),
each American Depositary Share representing one
ordinary share*

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

470,719,806 ordinary shares, nominal value €5 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

*Listed, not for trading or quotation purposes, but only in connection with the registration of the American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

Back to Contents

FORWARD-LOOKING STATEMENTS

We make some forward-looking statements in this document. When we use the words aim(s), expect(s), feel(s), wi may, believe(s), anticipate(s) and similar expressions in this document, we are intending to identify those statement as forward-looking. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this document. In particular, from time to time in this document we state our expectations in terms of revenue to be generated under new contracts recently won or awarded or from new investments made and new assets or operations acquired, though we may have not yet commenced operations under these new contracts nor begun operating these new assets and operations at the time we make these statements. Some of these revenue estimates are based on our management s current assumptions regarding future sales volumes and prices, which are subject to a number of risks and uncertainties that may cause actual sales volumes and prices to differ materially from those projected. As a result, actual revenue recorded under these new contracts or from these new investments, assets and operations may differ materially from those set forth in this document. Other than in connection with applicable securities laws, we undertake no obligation to publish revised forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events. We urge you to carefully review and consider the various disclosures we make concerning the factors that may affect our business, including the disclosures made in Item 3. Key Information Risk Factors, Item 5. Operating and Financial Review and Prospects, and Item 11. Quantitative and Qualitative Disclosures About Market Risk.

Unless otherwise indicated, information and statistics presented herein regarding market trends and our market share relative to our competitors are based on our own research and various publicly available sources.

Back to Contents

TABLE OF CONTENTS

	Page
Item 1. Identity of Directors, Senior Management and Advisers	1
Item 2. Offer Statistics and Expected Timetable	1
Item 3. Key Information	1
Item 4. Information on the Company	10
Item 4A. Unresolved Staff Comments	65
Item 5. Operating and Financial Review and Prospects	66
Item 6. Directors, Senior Management and Employees	100
Item 7. Major Shareholders and Related Party Transactions	136
Item 8. Financial Information	139
Item 9. The Offer and Listing	145
Item 10. Additional Information	148
Item 11. Quantitative and Qualitative Disclosures About Market Risk	163
Item 12. Description of Securities Other Than Equity Securities	163
Item 13. Defaults, Dividend Arrearages and Delinquencies	164
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds	164
Item 15. Controls and Procedures	164
Item 16A. Audit Committee Financial Expert	165
Item 16B. Code of Ethics	165
Item 16C. Principal Accountant Fees and Services	165
Item 16D. Exemptions from the Listing Standards for Audit Committees	166
Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers	166
Item 17. Financial Statements	167
Item 18. Financial Statements	167
Item 19. Exhibits	167

Back to Contents

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

SELECTED FINANCIAL DATA

You should read the following selected financial data together with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements. Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union. We did not publish financial data in accordance with IFRS in 2003, because at the time our financial statements were required to be presented in conformity with French Generally Accepted Accounting Principles. For this reason, we have not provided selected financial data for 2003. See Item 5. Operating and Financial Review and Prospects for a discussion of accounting changes, business combinations and dispositions of business operations that affect the comparability of the information provided below.

Back to Contents

	At and for the year ended December 31,				
	(in US$)[1]	(in €)			
(millions, except per share amounts)	**2007**	**2007**	**2006**	**2005**	**2004**
INCOME STATEMENT DATA:					
Revenue	48,032.1	32,628.2	28,620.4	25,570.4	22,792.4
Operating income	3,675.7	2,496.9	2,132.9	1,892.9	1,489.6
Net income from continuing operations	1,881.3	1,278.0	994.3	794.4	640.0
Net income (expense) from discontinued operations	(34.2)	(23.2)	0.6	0.7	(38.1)
Minority interest	481.2	326.9	236.2	172.9	212.1
Net income attributable to equity holders of the parent	1,366.0	927.9	758.7	622.2	389.8
Net income attributable to equity holders of the parent per share Basic[2]	3.18	2.16	1.90	1.57	0.97
Net income attributable to equity holders of the parent per share Diluted[3]	3.14	2.13	1.89	1.56	0.97
Group net income from continuing operations per share Basic[2]	3.25	2.21	1.90	1.57	1.26
Group net income from continuing operations per share Diluted[3]	3.22	2.19	1.88	1.56	1.26
Dividends per share	1.78	1.21[4]	1.05	0,85	0,68
Number of shares (adjusted to reflect changes in capital)	471,762,756	471,762,756	412,626,550[5]	407,872,606	406,421,983
BALANCE SHEET DATA (AT PERIOD END):					
Equity attributable to equity holders of the parent	11,207.0	7,612.9	4,360.8	3,790.2	3,211.2
Minority interest	3,794.8	2,577.8	2,192.6	1,888.0	1,728.7

Total assets	68,168.6	46,306.9	40,123.7	36,381.0	35,899.3
Total non-current assets	42,647.4	28,970.4	25,100.0	22,834.9	20,733.3
Total non-current liabilities	26,564.7	18,045.4	18,056.3	16,934.0	14,836.4
CASH FLOW DATA:					
Net cash flow from operating activities	5,350.5	3,634.6	3,389.6	3,163.7	3,384.3
Net cash from (used in) investing activities	(5,915.5)	(4,018.4)	(2,904.0)	(2,407.6)	318.9
Net cash from (used in) financing activities	1,385.0	940.8	(71.5)	(3,152.8)	(1,795.5)
Purchases of property, plant and equipment	(3,707.8)	(2,518.7)	(2,017.6)	(1,837.1)	(1,723.0)

(1)

For your convenience, we have converted the euro amounts of our selected financial data into U.S. dollars using the December 31, 2007 rate of $1.00 = €0.6793. This does not mean that we actually converted, or could have converted, those amounts into U.S. dollars on this or any other date.

(2)

Based on the weighted average number of shares outstanding in each period for the calculation of basic earnings per share, equal to 430.0 million shares in 2007, 398.8 million shares in 2006, 395.6 million shares in 2005 and 401.5 million shares in 2004. Following the share capital increase in July 2007, the calculation of basic diluted earnings per share was adjusted retrospectively for all periods presented.

(3)

Based on the weighted average number of shares outstanding in each period for the calculation of diluted earnings per share, equal to 435.0 million shares in 2007, 402.4 million shares in 2006, 397,6 million shares in 2005 and 401.6 million shares in 2004. Following the share capital increase in July 2007, the calculation of diluted earnings per share was adjusted retrospectively for all periods presented.

(4)

Amount of dividend distribution per share to be proposed to the Annual Shareholders Meeting of May 7, 2008.

(5)

The number of shares as of December 31, 2006 mentioned above includes the exercise of options to subscribe for shares of our company which occurred from July 1 to December 31, 2006. The share capital increase and the creation of shares resulting from such exercise of stock options were formally recorded by our board of directors on March 7, 2007.

Back to Contents

Dividends

Under French law and our articles of association (*statuts*), our statutory net income in each fiscal year, as increased or reduced, as the case may be, by any profits or losses carried forward from prior years, less any contributions to legal reserves, is available for distribution to our shareholders as dividends, subject to other applicable requirements of French law and our *statuts*.

At our general shareholders' meeting on May 7, 2008, our shareholders will decide on a dividend payment proposed to be €1.21 per share in respect of our 2007 fiscal year, which shall be paid on May 27, 2008. On May 15, 2007, we paid a dividend of €1.05 per share in respect of the 2006 fiscal year. On May 29, 2006, we paid a dividend of €0.85 per share in respect of the 2005 fiscal year. On May 27, 2005, we paid a dividend of €0.68 per share in respect of the 2004 fiscal year. On May 28, 2004, we paid a dividend of €0.55 per share in respect of the 2003 fiscal year. On May 7, 2003, we paid a dividend of €0.55 per share in respect of the 2002 fiscal year.

Dividends paid to holders of our ADSs and non-French resident holders of our shares normally are subject to a 25% French withholding tax. However, non-resident holders that are entitled to and comply with the procedures for claiming benefits under an applicable tax treaty may be subject to a reduced rate of withholding tax (15% for holders who are residents of the United States) and be entitled to certain benefits. See Item 10. Additional Information Taxation for a summary of the material U.S. federal and French tax consequences to holders of shares and ADSs. Holders of shares or ADSs should consult their own tax advisers with respect to the tax consequences of an investment in the shares or ADSs. In addition, dividends paid to holders of ADSs will be subject to a charge by the depositary for any expenses incurred by the depositary of the ADSs in the conversion of euro to dollars.

Exchange Rate Information

Share capital in our company is represented by ordinary shares with a nominal value of €5 per share (generally referred to as "our shares"). Our shares are denominated in euro. Because we intend to pay cash dividends denominated in euro, exchange rate fluctuations will affect the U.S. dollar amounts that shareholders will receive on conversion of dividends from euro to dollars.

The following table shows the euro/U.S. dollar exchange rate from 2003 through April 2008 based on the noon buying rate expressed in U.S. dollars per euro. The information concerning the U.S. dollar exchange rate is based on the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate). We provide the exchange rates below solely for your convenience. We do not represent that euros were, could have been, or could be, converted into U.S. dollars at these rates or at any other rate. For information regarding the effect of currency fluctuations on our results of operations, see Item 5. Operating and Financial Review and Prospects.

Month **U.S. dollar/Euro**	**Period End**	**Average rate***	**High**	**Low**
April 2008	1.56	1.57	1.60	1.56
March 2008	1.58	1.55	1.58	1.52
February 2008	1.52	1.48	1.52	1.45
January 2008	1.49	1.47	1.49	1.46

December 2007	1.47	1.46	1.48	1.43
November 2007	1.48	1.47	1.49	1.44

<u>Year</u>				
U.S. dollar/Euro				
2007	1.47	1.38	1.49	1.29
2006	1.32	1.26	1.33	1.19
2005	1.18	1.24	1.35	1.17
2004	1.36	1.25	1.36	1.18
2003	1.26	1.13	1.26	1.04

*

The average of the Noon Buying Rates on the last business day of each month (or portion thereof) during the relevant period for year average; on each business day of the month (or portion thereof) for monthly average.

Back to Contents

Solely for the convenience of the reader, this annual report contains translations of certain euro amounts into U.S. dollars. These translations should not be construed as representations that the converted amounts actually represent such U.S. dollar amounts or could have been or will be converted into U.S. dollars at the rate indicated or at all. The translations from euro to U.S. dollars in this annual report are based on $1.00 = €0.6793, the Noon Buying Rate on December 31, 2007. On May 6, 2008, the Noon Buying Rate was U.S.$ 1.55 per euro.

Back to Contents

RISK FACTORS

You should carefully consider the risk factors described below in addition to the other information presented in this document.

Risks Relating to Our Operations

We may suffer reduced profits or losses as a result of intense competition.

Our business is highly competitive and requires substantial human and capital resources. Large international competitors and local niche companies serve each of the markets in which we compete. Accordingly, we must make constant efforts to remain competitive and convince potential clients of the quality and cost value of our service offerings. Competitors may also introduce new technology or services that we would have to match in order to remain competitive, which could result in significant development costs.

In addition, we perform a substantial portion of our business under contracts, often of a long-term nature, with governmental authorities and clients from the industrial and commercial service sectors. These contracts are often awarded through competitive bidding, at the end of which we may not be retained even though we may have incurred significant expenses in order to prepare the bid.

Over the course of performing certain contracts, we may also be requested by our public or private clients to modify the terms of these contracts, whether called for under the contract or not. These modifications may alter the services provided under the contract, related investments required or billing terms.

Finally, our contracts may not be renewed at the end of their term, which in the case of important contracts may oblige us to undertake a costly reorganization or restructuring of assets and operations covered by the contract when the contract does not provide for the transfer of the related assets and employees to the succeeding operator and/or adequate indemnification to cover our costs of termination.

Our business operations in some countries may be subject to additional risks.

While our operations are concentrated mainly in Europe and North America (sales generated outside of these regions represented approximately 12% of our total revenue in 2007), we conduct business in markets around the world. The risks associated with conducting business in some countries outside of Europe, the United States and Canada can include slower payment of invoices, which is sometimes aggravated by the absence of legal recourse for non-payment, nationalization, social, political and economic instability, increased currency exchange risk and currency repatriation restrictions, among other risks. We may not be able to insure or hedge against these risks. Furthermore, we may not be able to obtain sufficient financing for our operations in these countries. The establishment of public utility fees and their structure can be highly political, slowing and impeding for several years any increase in fees that no longer allow coverage of service costs and appropriate compensation for a private operator. The occurrence of unfavorable events or circumstances in certain countries may lead us to record exceptional provisions or depreciation charges in connection with our operations in these countries, which could have a material adverse effect on our results.

Changes in the prices of fuel and other commodities may reduce our profits.

The prices of our supplies of fuel and other commodities, which represent significant operating expenses for our businesses, are subject to sudden increases. Although most of our contracts contain tariff adjustment provisions that

are intended to reflect possible variations in prices of our supplies using certain pricing formulas, such as our price index formulas, there may be developments that could prevent us from being fully protected against such increases, such as delays between fuel price increases and the time we are allowed to raise our prices to cover the additional costs (including taxes), or our failure to update an outdated cost structure formula. In addition, a sustained increase in supply costs and/or related taxes beyond the price levels provided for under our adjustment clauses could reduce our profitability to the extent that we are not able to increase our prices sufficiently to cover such additional costs.

Back to Contents

We have conducted and may continue to conduct acquisitions, which could have a less favorable impact on our activities and results than anticipated, or which could affect our financial situation.

As part of our business strategy, we have conducted and continue to carry out acquisitions of varying sizes, some of which are significant at the Group level. These acquisitions involve numerous risks, including the following: (i) the assumptions used in the underlying business plans may not prove to be accurate, in particular with respect to synergies and expected commercial demand; (ii) we may not integrate acquired businesses, technologies, products, personnel and operations effectively; (iii) we may fail to retain key employees, customers and suppliers of the companies acquired; (iv) we may be required or wish to terminate pre-existing contractual relationships, which could be costly and/or on unfavorable terms; and (v) we may increase our indebtedness to finance these acquisitions. As a result, it is possible that the expected benefits of completed or future acquisitions may not materialize within the time periods or to the extent anticipated, or that such acquisitions may affect our financial condition.

Our business is affected by variations in weather conditions.

Certain of our businesses are subject to seasonal variations. Dalkia realizes the bulk of its operating results in the first and fourth quarters of the year, corresponding to periods in which heating is used in Europe. In the water sector, household water consumption tends to be higher between May and September in the northern hemisphere. Accordingly, these two businesses may be affected by significant deviations from seasonal weather norms. This risk is offset in certain cases, both by variable compensation terms in contracts, and by the geographical distribution of our businesses. The impact of weather conditions, together with the seasonal nature of our businesses, may affect our results.

Our business operations are subject to geopolitical, criminal and terrorist risks.

Water is a strategic resource in terms of public health. Accordingly, our activities must comply with laws and regulations that seek to safeguard water resources, production sites and treatment facilities against criminal or terrorist acts. Our activities in the areas of waste management, energy services and public transportation are also subject to similar risks. We may also have employees who work or travel in areas where the risk of criminal acts, kidnapping or terrorism is either temporarily or permanently elevated. As a result, despite the safety measures that we have attempted to implement, any one of our activities may fall victim to criminal or terrorist acts in the future.

Our long-term contracts may limit our capacity to quickly and effectively react to general economic changes affecting our performance under those contracts.

The general circumstances or conditions under which we enter into a contract may change over the term of the contract, particularly in the case of long-term contracts. For example, changes in the prices of our supplies may increase beyond levels that were foreseen or foreseeable at the time the contract was entered into or changes in end user behavior may significantly affect our financial performance under the contract. Because our contracts generally do not allow us to unilaterally terminate them or interrupt or suspend the performance of our obligations under them, we attempt to foresee these possible changes at the time we negotiate our contracts and typically include adjustment mechanisms in our contracts (such as price index clauses or the right to initiate a review or modification process). However, we may not always be able to foresee all potential changes or to negotiate adjustment clauses that cover all possible scenarios. In addition, even if our contracts include these types of adjustment clauses, our ability to react to these changes is limited to the adjustments permitted by these clauses. For example, our long-term contracts typically provide for pre-determined fees or payments for our services (either from the client or from the end user according to a set price list), and we cannot adjust these fees or prices to reflect anticipated shifts in costs or product demand other

than in accordance with the terms of the adjustment clause. Also, our right to initiate a review or modification process in respect of a contract may be subject to conditions, including the consent of the other parties to the contract or of a third party (such as a public authority). As a result, we may be required to continue performing our obligations under our contracts even if the general conditions or circumstances of our performance are different from those that had been foreseen and provided for at the time the contract was signed, which in some cases may alter the financial equilibrium of the contract and adversely affect our financial performance under the contract.

The rights of governmental authorities to terminate or modify our contracts unilaterally could have a negative impact on our revenue and profits.

Contracts with governmental authorities make up a significant percentage of our revenue. In numerous countries, including France, governmental authorities may modify or terminate contracts under certain circumstances, unilaterally but generally with indemnification. In other countries, however, we may not be entitled to or be able to obtain full indemnification in the event our contracts are terminated by governmental counterparties.

Back to Contents

We may make significant investments in projects without being able to obtain the required approvals for the project.

To engage in business, we must in most cases obtain a contract and sometimes obtain, or renew, various permits and authorizations from regulatory authorities. The competition and/or negotiation process that must be followed in order to obtain such contracts is often long, costly, complex and hard to predict. The same applies to the authorization process for activities that may harm the environment which are often preceded by increasingly complex studies and public investigations. We may invest significant resources in a project or public tender without obtaining the right to engage in the desired business nor sufficient compensation or indemnities to cover the cost of our investments. These situations increase the overall cost of our activities and, if we do not obtain the desired business or are forced to withdraw from a public tender, our business may not grow as much or as profitably as we hope.

We must comply with various environmental, health and safety laws and regulations, which is costly and may, in the event of any failure to comply on our part, cause us to incur liability under these laws and regulations.

We incur significant costs of compliance with various environmental, health and safety laws and regulations.

We have made and will continue to make significant capital and other expenditures to comply with our environmental, health and safety obligations. We are continuously required to incur expenditures to ensure that the installations that we operate comply with applicable legal, regulatory and administrative requirements, including general precautionary or preventative measures, or to advise our clients so that they undertake the necessary actions for the compliance of their installations. The costs related to these preventative measures are recorded as either operating expenses or as industrial investments. Our industrial investments in all areas totaled €2.642 billion in 2007.

Each of our operations, moreover, may become subject to stricter general or specific laws and regulations, and correspondingly greater compliance expenditures, in the future. If we are unable to recover these expenditures through higher tariffs, this could adversely affect our operations and profitability. Moreover, the scope of application of environmental, health, safety and other laws and regulations is becoming increasingly broad. These laws and regulations govern, among other things, any discharge in a natural environment, the collection, transport, treatment and disposal of all types of waste, and the rehabilitation of old sites at the end of operations, as well as ongoing operations at new or old facilities.

Our operations and activities may cause us to incur liability or other damages that we might be required to compensate.

The increasingly broad laws and regulations under which we operate expose us to greater risk of liability, in particular environmental liability, including in connection with assets that we no longer own and activities that have been discontinued. For example, a French law dated July 30, 2003, relating to the prevention of technological and environmental risks and the conduct of remediation activities, has strengthened the regulatory framework that applies to discontinued operations and closed sites and installations. In certain instances, it requires reserves to be established in respect of such discontinued operations. In addition, we may be required to pay fines, repair damage or undertake improvement works, even when we have conducted our activities with care and in total conformity with operating permits. Regulatory authorities may also require us to conduct investigations and undertake remedial activities, curtail operations or close facilities temporarily in connection with applicable laws and regulations, including to prevent imminent damage or in light of expected changes in those laws and regulations.

In addition, we often operate installations that do not belong to us, and therefore do not always have the power to make the investment decisions required to bring these installations into compliance with new regulatory norms. In instances where the client on whose behalf these installations are operated refuses to make the required investments, we may be forced to terminate our operating contracts.

In the event of an accident or other incident, we could also become subject to claims for personal injury, property damage or damage to the environment (including natural resources). These potential liabilities may not always be covered by insurance, or may be only partially covered. The obligation to compensate for such damages might have a material adverse effect on our activities or resources.

Back to Contents

Specific measures are required in connection with certain technological risks.

As part of our outsourcing contracts, our subsidiaries may be involved in the operation of top-tier Seveso sites (AS classification under ICPE (Installations Classified for the Protection of the Environment) nomenclature) or lower-tier Seveso sites (or their foreign equivalent) for industrial clients (particularly petroleum or chemical industry sites). Seveso facilities are places where dangerous substances are present in quantities equal to or above thresholds specified in European Union Directive 96/82/EC (also known as the Seveso II Directive), relating to the control of major accident hazards involving dangerous substances. In these instances, we must handle the provision of services with even greater care, given the more dangerous nature of the products, waste, effluents and emissions to be treated, as well as the close proximity of the installations we manage to client sites.

While the regulatory regime governing Seveso facilities applies only within the European Union, we operate several similar sites outside of this region. These sites are often subject to the same level of heightened regulation by foreign governments, exposing us to potentially substantial liabilities in the event of accident.

Among the facilities that we own and operate in France, one has been categorized a lower-tier Seveso facility (not classified as AS under ICPE nomenclature). It is a hazardous waste incineration facility operated by SARP Industries (Veolia Propreté) at Limay (Yvelines). The manipulation of waste and hazardous products in this facility can, in the case of an accident, cause serious damage to the environment, neighbors or employees, exposing us to potentially substantial liabilities.

Currency exchange and interest rate fluctuations may negatively affect our financial results and the price of our shares.

We hold assets, earn income and incur expenses and liabilities directly and through our subsidiaries in a variety of currencies. Our financial statements are presented in euro. Therefore, when we prepare our financial statements, we must translate our assets, liabilities, income and expenses in other currencies into euro at then-applicable exchange rates. Consequently, increases and decreases in the value of the euro in respect of these other currencies will affect the value of these items in our financial statements, even if their value has not changed in their original currency. For example, an increase in the value of the euro may result in a decline in the reported value, in euro, of our interests held in foreign currencies.

At December 31, 2007, our net financial debt excluding revaluation of hedging instruments amounted to €15.1 billion, of which 26% was subject to variable rates and 74% to fixed interest rates, including 9% subject to variable rates with caps. Our results of operations and financial condition may be affected by changes in prevailing market rates of interest. Fluctuations in interest rates may also affect our future growth and investment strategy, since a rise in interest rates may force us to finance acquisitions or investments or refinance existing debt at a higher cost in the future.

Risks Relating to Our Shares and ADSs

Because preemptive rights may not be available for U.S. persons, the ownership percentages of our U.S. shareholders may be diluted in the event of a capital increase of our company.

Under French law, shareholders have preemptive rights (*droits préférentiels de souscription*) to subscribe, on a pro rata basis, for cash issuances of new shares or other securities giving rights to acquire additional shares. U.S. holders of our shares may not be able to exercise preemptive rights for our shares unless a registration statement under the

U.S. Securities Act of 1933, as amended (Securities Act), is effective with respect to those rights or an exemption from the registration requirements imposed by the Securities Act is available. We are not required to file registration statements in connection with issues of new shares or other securities giving rights to acquire shares to our shareholders. As a result, we may from time to time issue new shares or other securities giving rights to acquire additional shares at a time when no registration statement is in effect. For example, in 2007 we effected a capital increase through the issuance of rights to acquire new shares to all of our shareholders, but those rights were generally exercisable only by persons located outside the United States. Holders of our ADSs were not permitted to exercise the rights corresponding to the shares underlying the ADSs and received the net proceeds of the sale of these rights in the French market by the ADS depositary.

Back to Contents

We are permitted to file less information with the U.S. Securities and Exchange Commission (SEC) than a company incorporated in the United States.

As a foreign private issuer, we are exempt from rules under the U.S. Securities Exchange Act of 1934, as amended (Exchange Act), that impose some disclosure and procedural requirements for proxy solicitations under Section 14 of the Exchange Act. Additionally, our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions of Section 16 of the Exchange Act and related rules with respect to their purchases and sales of our shares. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies with securities registered under the Exchange Act. Accordingly, there may be less information concerning our company publicly available from time to time than there is for U.S. companies at those times.

The ability of holders of our ADSs to influence the governance of our company may be limited.

Holders of our ADSs may not have the same ability to influence corporate governance with respect to our company as would shareholders in some U.S. companies. For example, the ADS depositary may not receive voting materials in time to ensure that holders of our ADSs can instruct the depositary to vote their shares. In addition, the depositary s liability to holders of our ADSs for failing to carry out voting instructions or for the manner of carrying out voting instructions is limited by the deposit agreement. Finally, except under limited circumstances, our shareholders do not have the power to call shareholders meetings.

Back to Contents

ITEM 4: INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

We are a leading global provider of environmental management services, which include water and wastewater services, waste management services, energy services (excluding the production, trading and sale of electricity, other than production through co-generation) and transportation services. Our clients include a wide range of public authorities, industrial and commercial services customers and individuals around the world.

The legal and commercial name of our company is Veolia Environnement. Our company is a *société anonyme*, a form of stock corporation, incorporated in 1995 pursuant to the French commercial code for a term of 99 years. Our registered office is located at 36/38, avenue Kléber, 75116 Paris, France, and the phone number of that office is (+33 1) 71 75 00 00. Our agent in the United States is Brian Sullivan. He can be reached at Veolia Environnement, 700 East Butterfield Road, Suite 201, Lombard, IL 60148.

Historical Background

Our company traces its roots back to the creation of Compagnie Générale des Eaux by Imperial decree on December 14, 1853. During the same year, Compagnie Générale des Eaux won its first public service concession for the distribution of water in the city of Lyon, France. Our company developed its municipal water distribution activities in France by obtaining concessions in Nantes (1854), Nice (1864), a 50-year concession for water distribution services in Paris (1860) and its suburbs (1869).

In 1980, Compagnie Générale des Eaux reorganized its water activities by regrouping all of its design, engineering and execution activities relating to drinking water and wastewater treatment facilities under its subsidiary Omnium de Traitement et de Valorisation (OTV). At the same time, Compagnie Générale des Eaux expanded its business during the 1980s with the acquisition of Compagnie Générale d Entreprises Automobiles (CGEA, which would become Connex and Onyx, and later Veolia Transport and Veolia Propreté) and Compagnie Générale de Chauffe and Esys-Montenay (which would merge to become Dalkia). It also began significant international expansion.

In 1998, Compagnie Générale des Eaux changed its name to Vivendi and renamed its main water subsidiary Compagnie Générale des Eaux.

In April 1999, in order to better distinguish the separate existence of its two main businesses, communications and environmental services, Vivendi created our company under the name Vivendi Environnement to conduct all of its environmental management activities, which were then conducted under the names Vivendi Water (water), Onyx (waste management), Dalkia (energy services) and Connex (transportation).

On July 20, 2000, our shares were listed on the Premier Marché of Euronext Paris, which became the Eurolist of Euronext Paris on February 21, 2005 and Euronext Paris on November 21, 2007.

In August 2001, our shares were included in the CAC 40, the main equity index published by Euronext Paris, and in October 2001 were listed in the form of American Depositary Shares for trading on the New York Stock Exchange.

From 2002 to 2004, Vivendi (formerly known as Vivendi Universal) progressively decreased its stake in our company, and held only 5.3% of our shares from December 2004 until July 6, 2006, when Vivendi completed the sale of its shares in our company.

In 2002, we undertook a significant restructuring in order to refocus on our core environmental services activities. This restructuring was completed in 2004 with the sale of various U.S. subsidiaries within our water division conducting certain non-core activities, and with the sale of our indirect interest in Fomento de Construcciones y Contratas (FCC), a Spanish company whose activities include construction and cement services, as well as other services related to the environment.

In April 2003, we changed our name to Veolia Environnement. On November 3, 2005, we unveiled a new branding system for our group. Our water, waste management and transportation divisions currently operate under the same name: Veolia.

Back to Contents

Major Developments in 2007

Below we discuss the main developments in our business during 2007. The discussion below and in the remainder of Item 4 includes the revenue amounts that we expect to earn from various contracts (most of which are long-term contracts), including total revenue expected to be generated from all services under combined contracts to build and operate facilities. These revenue amounts take into account updates to our volume and price assumptions since the date these contracts were publicly announced. In addition, revenue amounts expected under foreign contracts won during 2007 have been converted into euro at the rate of exchange prevailing on December 31, 2007. As a result, publicly announced revenue amounts may differ from the amounts of expected revenue included in this document. In addition, these expected revenue amounts constitute forward-looking statements that involve risks and uncertainties, including, but not limited to, those described under Item 3. Key Information Risk Factors. Actual revenue amounts may differ materially from those anticipated in the forward-looking statements. See Forward-Looking Statements at the beginning of this document for a more detailed discussion of the risks and uncertainties to which our forward-looking statements are subject.

Cash rights offering

On July 6, 2007, we announced the success of our cash rights offering for an amount of €2.6 billion. The subscription period lasted from June 14 to June 27. The gross amount of the capital increase was €2,581,469,688 (including issue premium), resulting in the creation of 51,941,040 new shares. As a result of this capital increase, we reinforced our shareholders equity and increased our financial flexibility in order to maintain growth following the announcement of several significant acquisitions since June 2006 and our 2007-2009 investment program.

New projects and acquisitions

In 2007, we reinforced our position in our business sectors with a series of new, targeted acquisitions which we hope will generate growth and cost synergies.

We invested more than €2.5 billion in external growth opportunities in our priority development areas during the 2007 fiscal year alone. Following our acquisition of Cleanaway UK (third in waste management in the United Kingdom in June 2006, our acquisitions of Sulo (second in waste management in Germany) and TMT (the leading private provider of Italian thermal waste treatment) announced in April and May 2007, TNAI (which holds the largest private portfolio of heating and cooling networks in the United States) in June 2007, and part of the non-regulated activities of Thames Water which was finalized in November 2007 were the most significant.

We intend to continue this strategy in 2008 and 2009 by making value-generating investments that either lead to operational cost synergies, or accelerate development based on technological or commercial leverage in its prioritized geographical areas and on growth markets, in compliance with our investment criteria.

Innovation and new areas of activity

We seek to offer its clients innovative solutions that meet all of their sustainable development concerns. This goal has led us to study the development of new areas of activity related to our traditional activities and expertise and which can further our sustainable development prospects. In 2007, we created a department of new areas of activity, which utilizes and relies on the existing teams and skills of our operational entities.

Several new areas of activity have already been identified and have been the object of initial projects or studies. The common feature of these new areas of activity is that they encourage growth and enhance the activities of our divisions. Examples include biofuels, wind generation or residential services. Other areas have been the focus of initiatives and investigations, such as air quality, ecological transportation or sustainable development (ecological neighborhoods and buildings).

In the field of renewable energies, we have developed the production of biofuels, a strong growth market. We favor the production of biofuel from waste, such as used cooking oils. Indeed, this solution presents a very positive environmental balance and the recycling of these oils is an integral part of the waste treatment process. This project, which utilizes the industrial skills of SARP Industries, creates significant synergies not only with our historical core activities (particularly recycling and collection), but also with the prospects for our fleets of vehicles. The first plant to produce biofuel from used cooking oils will open in 2008 in Limay. It will have a production capacity of 40,000 tons per year, which may grow to 80,000 tons per year.

Back to Contents

The market for wind-generated energy also shows a strong growth potential sustained by continued support policies. It is an attractive proposition in certain countries in Europe, and above all in the United States and in Asia, where there is considerable growth potential. In 2007, we acquired 50% of the capital of Eolfi, which currently operates 26 MW in France and is building 12 sites that represent an additional 120 MW capacity. By the end of 2008, Eolfi s production capacity is expected to reach more than 150 MW. In addition, numerous projects are pending abroad, notably in Greece, Poland and Asia. With Eolfi, we can meet the expectations of customers, particularly local communities and industrial customers, who also wish to include a wind-generated energy aspect in their sustainable development projects. Eolfi will allow us to optimize certain real estate assets that are ideal sites for wind turbines.

Finally, in the residential services sector, through our subsidiary Proxiserve, we have occupied a competitive position in the market for individual boiler maintenance. More recently, Proxiserve has successfully developed a profitable and expanding domestic assistance activity (in plumbing). The millionth domestic assistance contract was carried out in November 2007. Based on these activities, we intend to develop a whole range of services that will meet concerns relating to sustainable housing for individuals: energy diagnosis, installation of renewable energy equipment (such as heating pumps and flat plate collectors), maintenance of installations, and assistance and repair for heating, plumbing and electricity. Our activities relating to services for individuals are provided under a common brand, Veolia Habitat Services.

A significant presence on the desalination market

Resource scarcity stemming from land irrigation, drought, floods that degrade water quality, or the over-development of ground water tables, combined with growing needs for water (due to population density growth), are a major challenge to the production of drinkable water in certain arid regions, in particular regions where such phenomena are aggravated and reduce the availability of water. The desalination of seawater is therefore expected to become one of the main alternative production methods for drinkable water in the coming decades.

Our division Veolia Eau, which has more than 100 years of desalination experience, is one of the few companies that can offer a complete range of services and innovative solutions, and is therefore in a strong position within this rapidly expanding market thanks to its subsidiaries specialized in construction and thanks to its operational experience. Its commercial successes in recent years speak for themselves.

In terms of design and construction, we are a leader in thermal and reverse osmosis desalination processes, and have at our disposal numerous standard-setters in all types of existing treatments within the various entities of Veolia Eau Solutions & Technologies (such as SIDEM and WESTGARTH). In 2006 and 2007, Veolia Eau Solutions & Technologies won significant contracts in the Middle East, in Bahrain, Saudi Arabia and in the Fujairah Emirate of the United Arab Emirates. We also benefit from established operational expertise and have a deep pool of experience, for instance in Ashkelon (Israel), which began operations in September 2005. In 2006 and 2007, Veolia Eau won two contracts in Australia for the design, construction and operation of reverse osmosis desalination units to supply water to the cities of the Gold Coast and Sydney.

Market forecasts for the desalination of seawater, taking into account all techniques, estimate that production will increase significantly between now and 2015. Mediterranean countries (Algeria, Libya, Spain), China, Australia and the Middle East (Saudi Arabia and the United Arab Emirates) will multiply their desalinated water production capacity by a factor of 2 to 10, with the countries of the Persian Gulf adding reverse osmosis to thermal desalination techniques (such as distillation).

Sustained activity growth and relevance of the sustainable growth model

Since our listing, we have achieved various milestones in our independence and organization, culminating in 2004 with our sale of non-strategic American assets and our interests in the Spanish company FCC. Our refocusing of activities on environmental services under long-term contracts placed us, as early as 2005, in a favorable position to sustain our rank as worldwide leader in environmental services, driven by a consistent strategy relying on proven capabilities.

Our 2007 fiscal year was another year of profitable growth, consistent with our objectives. With revenue growth of 14% (14.9% on a constant exchange rate basis) in 2007, demonstrating continued commercial dynamism, and significant growth in operating income, we confirmed our capacity for profitable growth. We also recorded a significant increase in our net income attributable to the equity holders of the parent and improved our return on capital employed since 2002, reflecting increasing profitability for shareholders. The maturity of certain contracts makes it possible for us to continue to improve profitability and to emphasize the relevance of our profitable growth model. As such, we continue to pay close attention to the quality of our portfolio of contracts and the selectivity of our investments.

Back to Contents

Our inclusion in the Dow Jones Sustainability Index (DJSI) and FTSE4Good indexes

Created in 1999 and 2001, respectively, the Dow Jones Sustainability Index (DJSI) and FTSE4Good index select companies based on their performance in sustainable development. We were included in the Dow Jones Sustainability Index and in the FTSE4Good index in September 2007.

Our selection demonstrates, in particular, our performance in relationships with stakeholders, especially in respect of human resources management, as well as with clients and local communities. In addition, our Environmental Management System was a significant factor in our inclusion in these indices.

We are also part of the ASPI Eurozone index (Advanced Sustainable Performance Indices). The ASPI Eurozone index, launched in March 2002, is composed of the 120 principal stocks of the Eurozone selected according to social, environmental and corporate governance criteria.

Back to Contents

BUSINESS OVERVIEW

Our Market

Traditionally, environmental management services, which include water treatment and distribution, wastewater treatment and collection, waste treatment and management, energy services (excluding the production, trading and sale of electricity, other than production through co-generation) and transportation, were provided in an uncoordinated manner, each by a different entity. Moreover, public authorities and industrial and commercial companies typically were able to meet many of their own environmental needs without turning to private firms specializing in these areas. This situation has changed drastically in recent years. The need to take action to prevent further damage to the environment has become a global reality. There is a growing need for excellence and efficiency, which has led decision-makers to seek a global approach to the management of activities affecting the environment in order to develop solutions that allow interaction and optimization among these environmental management services. These measures, now widespread, have led to an increased demand for integrated environmental management services. This trend has been highlighted by the continued global expansion of industrial and commercial companies, which has generated a need for environmental management service providers who are able to respond to their clients on an international scale.

We believe that demand for external and integrated customized packages of environmental management services is likely to grow around the world for the following reasons:

In a world that combines accelerated urbanization with demographic growth, major investments in environmental projects and services, as well as effective management, are needed in order to meet increasingly stringent environmental standards, provide growing urban populations with adequate environmental services and replace existing environmental infrastructure. In addition, public demand, which now widely reflects a concern for sustainable development, must respect commitments made at the international level and must set exemplary standards. The qualitative criteria underlying environmental requirements are increasingly a decisive factor in the choice of providers, which is an advantage for us.

Governments throughout the world face budgetary constraints and often lack the technical and operational skills of private sector firms to address environmental issues efficiently. As a result, public authorities and private businesses are increasingly turning to the private sector to address their environmental needs.

Public and private entities are increasingly attempting to simplify the administration of their complex operations by outsourcing a wide variety of responsibilities to a single partner, thereby creating a business opportunity for companies capable of offering a broad range of environmental management services in an integrated fashion.

Large private firms and public authorities increasingly recognize that a one size fits all approach will not meet their unique and changing needs. As a result, demand for customized environmental management services has increased.

The increasingly multinational profile of many large industrial and commercial firms encourages them to outsource non-core activities to companies with similar geographic reach in order to simplify administration and ensure they receive consistent service at each of their facilities.

We think that each of these trends, taken individually, creates significant opportunities for companies with our expertise, and, taken as a whole, they allow our company, in particular, to provide high-quality innovative and (depending on customer needs) integrated environmental management services in markets around the world.

Our Clients

We provide environmental management services to a wide range of public authorities, industrial and commercial services clients and individuals around the world.

Back to Contents

Public Authorities

Demand by public authorities (often small localities that are increasingly pooling resources) has been influenced and strengthened by trends relating to the search for quality, efficiency, innovation and reduced costs (by integrating operating concerns starting at the development stage), and by their commitment to environmental responsibility, particularly with respect to water resources, air pollution, mass transportation policies and energy consumption. These trends, combined with a movement towards greater urbanization, are increasing the need for essential environmental services.

While we have the know-how to adapt to our clients expectations and needs, we also believe that our global contract model, which permits us to provide services tied to performance obligations, as well as, depending on client requests, the development, construction and even financing of necessary investments, remains as relevant as ever. It enhances innovation and efficiency through mutual research efforts and the periodic re-tender for contracts. Depending on the country involved, this model may take several legal forms. Certain countries, including those subject to European Union law, distinguish public markets from concessions (or other forms of Public Private Partnership, or PPP), based on whether the service is provided to a public entity or directly to end-users, and depending on whether the assignment is based on the service being provided or the completed work, or on the risk to revenues assumed by the company.

In France, since the middle of the 19th century, public authorities have generally chosen to have public services (water, sanitation, transportation, waste collection and urban heating) managed by companies through contracts that were traditionally considered to be concessions (or leases, in the absence of investment completion assignments) and which are now legally qualified as public service delegations, but which remain concessions under the European Community s definition. They have frequently preferred, at least in the case of certain public services, to continue to manage the construction of installations, as well as their financing, before making them available to the provider or lessee during the term of the contract.

In the last few years, a new trend has emerged in which public authorities in all countries, including France, have asked companies to manage not only the necessary development and completion of work and installations or public facilities and equipment (as varied as, for example, administrative or educational buildings, hospitals, transportation infrastructure, prisons, water treatment facilities or waste treatment plants), but also their financing and long-term maintenance before recovering them at the end of the contract. These contracts, which together are often categorized as PPPs, fall into two main categories. The first category includes contracts similar to those in the market category: the resources intended to cover the cost of work and their financing are similar to a contract price or guaranteed amount from the public authority, and the service is provided to the authority once work is completed. The second category includes contracts resembling concessions under the European Community s definition: resources must be sought from a commercial operation of the public service (the public or general-interest service whose operation has been delegated) which is the main focus of the contract, the completion of work being only a means to that end. Distinct accounting treatments according to the IFRS standard (reporting or non-reporting of a financial asset

corresponding to debt of the public authority) apply in each case. We prefer to distinguish these PPPs based on the nature of the assignments (Build Operate Transfer or BOT , BFOT if financing is added, or DBFOT if developme added).

In France, since the public market code (*code des marchés publics*) now prohibits entrusting companies with the construction and operation of a commissioned project, on one hand and all of its financing assignments, on the other, it became necessary, in order to encourage the development of this type of global PPP contract (which does not fall under the category of public service delegations (*délégations de service public*), which is the French term for community concessions), to create a new category of partnership contracts, created under a French *ordonnance* dated June 17, 2004. This *ordonnance* allows public authorities to entrust private operators (who may be associated with financial organizations) with the entire responsibility for building and/or financing an installation and operating the services related thereto, in exchange for compensation that is paid by the public authority as a function of performance.

This contractual model between a public entity and private companies, whatever their form, is widely used for the provision of collective services, but is not the only available model. Public authorities may decide that they should not be directly involved in the provision of certain public services. In these instances, they are usually not the owners of facilities or networks, and do not enter into contracts with a preferred private operator; instead, they leave the provision of the public service to the market. They may nonetheless occasionally verify the abilities of private operators by issuing operating licenses and regulating service conditions and prices. This situation rarely arises with respect to water services, but is more common in the fields of energy services, waste management and transportation. Public authorities may also have an ownership interest in the private operator in these instances; we may seek to acquire a stake in these operators as well.

Services Sold Directly to Individuals

We also offer services directly to individuals through our specialized subsidiaries. These services include assistance and maintenance relating to water (including meter-reading), heating and gas services.

Industrial or Commercial Services Companies

We offer our industrial and commercial services clients a large range of services, which generally aim to achieve the following two main goals relating to environmental protection:

provide clients with the services necessary for their industrial processes (vapor, industrial heating and cooling, processed water, demineralized water, compressed air, etc.) and optimizing their consumption thereof, and

reduce the impact of their industrial processes on the environment, which may include treating effluents, recycling and recovering waste, and maintaining durable and efficient waste elimination channels.

We often partner with such clients over the long term, and offer innovative solutions tailored to the needs of each industrial site.

We believe that the further development of our industrial client base will make up a significant growth area. In particular, multiservice contracts entered into with industrial clients have assumed an increasingly important role and are expected to continue to do so. See Development of Synergies: Multiservice Contracts to Benefit Industrial and Commercial Services Clients below.

Our Overall Strategy

Our aim is to continue to reinforce our position as the leading provider of environmental services. Our strategy focuses on developing the most appropriate environmental services solutions for our local and industrial clients; maintaining a geographically diverse area of activity; developing a significant presence in growth markets with high

potential and accelerating synergies between our different businesses.

By strengthening our position as the leading provider of environmental services worldwide, we continue to implement our business model aimed at improving our economic and financial performance. This performance is a result of economies of scale and technological expertise, combined with significant levels of research investment, long-term commitments to clients and managed risk.

By providing the most appropriate environmental services, we are able to optimize our client relationships.

While preserving our local character, we have become a major actor in both the services and the concessions businesses. We have achieved a unique position within these two client segments. In 2007, we reinforced our core business in large European countries through targeted acquisitions in the United Kingdom, Germany and Italy.

With respect to our municipal activities, we have added to our impressive portfolio of existing French and European clients (Prague, Bucharest, Nottingham, Braunschweig), and have also achieved a number of commercial successes in the United States (Indianapolis, Chicago, Boston) and in the Asia Pacific region (Canton, Shanghai, Incheon, Melbourne). Thus, we have illustrated our ability to participate in large privatizations and win bids for large projects.

We have also conducted a significant portion of our business with our industrial and commercial services clients, particularly for the provision of energy and waste management services. We have also created a new business portfolio made up of large industrial accounts (Peugeot, Novartis, Renault), with a significant contribution coming from multi-service contracts.

Successful geographic diversification

Our international business continues to increase along with our volume of business in France, which has continued to grow at an average annual rate of over 5% per year since 2000.

Back to Contents

Beyond Europe, which has become our domestic market, we have also achieved strong positions in the United States and Asia. We have taken on a significant role in energy services in the United States. Our presence in developed countries presents relatively little risk of decreasing as it is largely unaffected by relocations and restructurings.

We have also developed a significant presence in emerging and developing countries. We regularly add new contracts and expand our energy services activities in China. Our economic position in these areas of the world is much more significant than the proportion of our revenues earned in these areas suggests.

A strategy focused on growth and high-potential markets

Our strategy is to focus on growth markets. An increasing awareness of the challenges relating to sustainable development and its impact on environmental policies has resulted in significant growth opportunities.

Faced with increasingly restrictive regulations and in order to keep up with competition, more and more industrial companies outsource environmental services through long-term partnerships. Their partners generally work on all of their industrial sites worldwide and tend to provide a full range of services.

Expansion in municipal markets principally results from the combination of several demographic factors: an increase in population size on the one hand, and the urban development rate on the other. Growth is also a function of economic activity and living standards. The tightening of environmental restrictions and related regulations has fuelled our growth. A recent example of this growth potential within these markets is the success of desalination projects in the Middle East.

Economic constraints affecting our industrial and municipal clients increase their need to reduce water and energy consumption and waste production. Our position as a service provider, as opposed to a utility provider, generally allows us to leverage this trend.

Additional growth potential in related businesses

Because of our expertise, commercial relationships, and geographical distribution, we possess several important advantages allowing us to develop services that are directly related to our environmental services. These opportunities

result from new demand relating to changes in the economic, ecological and political landscapes, and which are all related to the promotion of sustainable development. Examples of this trend include green fuels, wind energy and residential services.

Synergies between our different businesses accelerate our growth

In our environmental services business with both public authorities and industrial clients, we enjoy important synergies between our water, waste management, transportation and energy services divisions. Since we offer a complete range of services, our clients have broadened the scope of the services they seek from us.

This synergy is particularly evident within countries or municipalities where demographic changes, urbanization and economic development have accelerated significantly. In these cases, we have been called upon to find solutions to the growing environmental problems facing clients. We offer a significant competitive advantage over funds or other financial investors, who have been weakened by the current market crisis.

Strong economic and financial resources

Our solid position results from market growth trends, but also from our competitive assets, including our technological and technical expertise, our financial stability, our geographic presence, and our experience in providing environmental services in compliance with regulatory requirements. The success of our capital increase, completed in July 2007, also strengthened our financial capacity, thereby ensuring our development and reducing our exposure to market fluctuations.

Size advantages

Our size alone provides us with significant synergies. In addition, our presence in all segments of the value chain means that our vertically integrated structures allow us to maximize the benefits of added value.

Back to Contents

Support of technological developments and improved know-how

We have been expanding our Research and Development activities for a long period of time. Research and Development is essential to accomplishing our missions and allows us to respond to the needs of our clients. Since 2000, we have centralized our R&D business into one unique organization which is now supported by the strategic research, innovation and sustainable development committee created in 2006 by our board of directors.

We also benefit from the technical exchanges in areas such as prevention of the Legionnaires disease, treatment and recycling of sediment, bioenergy, and management of High Environmental Quality buildings.

Long-term contracts

We make long-term commitments to our clients. Our human resources policy, which emphasizes, among other things, employee training, allows us to focus on the long term, in particular through the considerable professional efforts of Veolia Expertise (*Veolia Compétences*), a program that was renewed in 2007. In 2005 and 2006, this program allowed us to make extensive recruitments in France.

Moreover, aside from its social, environmental and ethical aspects, sustainable development directly influences the expectations of clients, thus forming a crucial element within the commercial dialogue. Sustainable development trends have led to changes in our economic model in order to move from a volume-maximizing model to a resource-optimizing model.

Managed risks

Given our growth objective, we have implemented a management and risk calculation policy, marked in 2007 by the mapping of the major risks at the Group and division levels. By putting in place a coordinated risk prevention and management plan, we are addressing this issue of fundamental concern to our future development.

These various strategic factors have allowed us to develop a profitable growth platform with room for future accelerated growth.

Our Strategy by Division

Water

Our water division, Veolia Eau, intends to continue to expand its services around the world, while striving to ensure the quality and safety of drinking water, the conservation of natural resources and the protection of the environment.

The growth potential of the international market for water services is driven by four factors in particular:

population growth and higher urban density,

strengthening of environmental standards and health regulations,

growing acceptance of the delegated public service management model and public-private partnerships as alternatives to public management, and

refocusing by industrial clients on their core businesses.

Given this growth potential, we will continue our selective development in order to optimize our allocation of resources, operating costs and profitability. In order to take advantage of market opportunities, we rely on our technical expertise, our experience in managing client relations and the mobilization of local teams on the ground in order to anticipate the future needs of public authorities. We will also continue to train our employees to meet the challenges of tomorrow. Veolia Eau s technical expertise in various desalination methods, and wastewater recycling in particular, represents a major effort to adapt to ongoing changes in market conditions.

Going forward therefore, Veolia Eau will seek to capitalize on long-term international development opportunities, the maturing of its larger contracts and the productivity gains resulting from efficiency programs (relating to purchasing, information systems and sharing of best practices).

Back to Contents

Waste Management

Through Veolia Propreté, we intend to become one of the world leaders in the waste management sector. As is the case with our other businesses, the waste management sector is showing signs of consistent and lasting demand, which has been reinforced by the tightening of environmental rules and regulations coupled with increased public demand in a number of countries. As a result, capable experts who can provide services under cost-effective conditions and in compliance with environmental regulations are becoming more highly sought after.

Within this favorable market environment in Europe, the United States and the Asia-Pacific region, we have the following priorities for our waste management division:

enhancing our waste treatment capabilities and developing our technological expertise in waste treatment and recovery;

strengthening our service offering to industrial clients by capitalizing on our mastery of the entire waste management chain, while seeking to generate synergies with our other operating divisions;

increasing the profitability of our activities by renegotiating fees, maximizing productivity and reducing structural costs; while ensuring that all of our activities contribute to the development of high value-added services.

Energy Services

Through Veolia Energy Services (Dalkia), we are the European leader in the energy services sector.

The opportunities in the sector are significant, due to increases in energy prices and public awareness of environmental problems, which have undeniably encouraged searches for solutions such as Dalkia s initiatives to reduce the effects of greenhouse gases and encourage energy conservation.

Dalkia s development strategy is focused primarily on heating and cooling networks, the management of service sector buildings and retail centers, the handling of industrial utilities, and energy provision and services in the health sector.

It includes the following geographical priorities:

pursuing growth in Southern Europe (including Italy and Spain)by participating in the trend toward market consolidation and by developing our offers to the private sector;

pursuing growth in the area of large heating networks, particularly in France and in Central and Eastern Europe, and in large cooling networks in the Middle East;

pursuing growth in North America by offering management services for management of networks, industrial utilities and shopping malls; and

pursuing growth in China (networks and industrial utilities) and in Australia.

These priorities will depend on our ability, in the context of deregulated energy markets in Europe, to offer innovative technical solutions that often combine our expertise in several areas. We also aim to promote our integrated outsourcing services to public clients as well as to service sector and industrial clients, by combining optimized services for facilities management (heating, air-conditioning, utilities, electricity, lighting).

Transportation

Through Veolia Transport, we seek to be a leading European and worldwide private operator of public transportation services.

Back to Contents

Between 2000 and 2030, the proportion of the world population living in urban areas is expected to increase from 50% to 60%, and urban transport needs are expected to increase by 50% by 2020 (source: International Association of Public Transport). These demographic changes will likely increase concerns relating to the environment and urban congestion, with public transportation services constituting a major concern for the local authorities and inhabitants of large cities. Transportation always has an impact on the image and identity of a large city, its economic development, urban renewal projects, and local solidarity.

The major challenges in this sector are related to the ever-increasing need for new transport infrastructures, to environmental concerns, and to the growing demand for the customization of mass transportation.

Veolia Transport s strategy is to improve its performance in its basic passenger transportation activity with the following priorities:

Continued efforts to address marketing, innovation and environmental concerns in order to continue to better satisfy clients;

A focus on local or regional passenger transportation;

Selective growth based on the attractiveness of markets and the intensity of local competition;

Continued growth in related activities such as railway freight given the synergies and importance for the environment.

Our Services

Our company is an environmental services provider, and is the only major provider to offer a complete range of services. We are able to provide clients with a full-service package tailored to fit their individual needs, which may include, for example, supplying water, recycling wastewater, collecting, treating and recycling waste, supplying heating and cooling services, and generally optimizing the industrial processes used in their facilities.

Our operations are conducted primarily through four divisions, each of which specializes in a single business sector: Veolia Eau (Water), Veolia Énergie (Dalkia) (Energy Services), Veolia Propreté (Environmental Services) and Veolia Transport (Transportation). Through these divisions, we currently provide drinking water to more than 78 million people and treats sewer water for 53 million people in the world, treat nearly 66 million tons of waste, satisfy the energy requirements of hundreds of thousands of buildings for industrial, municipal and individual clients and transport approximately 2.7 billion passengers per year. We strive to offer our clients the combined services of each of our four divisions, which are packaged either in the form of a single multi-service contract, or several individual contracts.

The following table breaks down our consolidated revenue for 2007 by geographic market and division, after elimination of all inter-company transactions.

*(in millions of euro)**	**Water**	**Environmental Services**	**Energy Services**	**Transportation**	**Total**
Europe	8,190.5	6,889.4	6,566.1	4,291.8	25,937.8
of which:					
France	4,927.2	3,332.0	3,852.2	2,144.5	14,255.9
Other Europe	3,263.3	3,557.4	2,713.9	2,147.3	11,681.9
North America	582.5	1,449.0	19.3	738.9	2,789.7
Rest of the World	2,154.4	875.9	311.0	559.4	3,900.7
of which:					
South America	104.5	163.1	143.3	28.5	439.4
Africa-Middle East	1,017.3	100.7	56.3	17.8	1,192.1
Asia-Pacific	1,032.6	612.1	111.4	513.1	2,269.2
Total	10,927.4	9,214.3	6,896.4	5,590.1	32,628.2

*

Revenue from ordinary activities under IFRS.

Back to Contents

The dates set forth below relating to new contracts we have won or renewed correspond to the date of announcement or signing of such contracts.

Water

Through our water division, the lead company of which is Veolia Eau Compagnie Générale des Eaux, we are the world s leading provider of water and wastewater services for public authorities and industrial companies. In addition, Veolia Eau, through its subsidiary Veolia Water Solutions & Technologies is the world leader in the design of technological solutions and the construction of structures necessary for the performance of such services.

With 82,867 employees around the world[1], Veolia Eau provides drinking water to more than 78 million people around the world, supplies 53 million people in the world with clean water, and operates more than 4,400 contracts. Veolia Eau has a permanent presence in 60 countries, principally in France for historical reasons, but also in the United Kingdom, Germany, Italy, Belgium, the Netherlands, the Czech Republic, Slovakia and Romania. It is pursuing targeted growth in Russia, Armenia and Hungary. The Asia-Pacific region (China, South Korea, Japan and Australia) also remains an important development objective, following the award of a number of contracts with municipal and industrial clients in the past several years. Veolia Eau has a presence in the United States through its contracts for the operation and maintenance of water and wastewater treatment plants, including its contract with the city of Indianapolis. Finally, Veolia Eau has also established a presence in Africa, primarily in Morocco and Gabon.

Thanks to its network of research centers in France and abroad, Veolia Eau has mastered numerous technologies and tools within the water sector. As a result, Veolia Eau is able to offer highly skilled services in the areas of sanitary protection, spillage reduction, productivity enhancement of water networks and plants and preservation of resources.

Given its combination of a strong local presence and more than 150 years of experience in providing services to public authorities and industrial clients, Veolia Eau s technical aptitude provides it with an important advantage in the extremely competitive water services market.

Increased demand within the water services market has been driven substantially by clients seeking to optimize the management of their existing resources, whether they be public authorities seeking to respond to the trend towards urbanization or industrial clients. New solutions, such as desalination (an example of which is the turnkey contract signed in 2007 to provide one of the largest sea water desalination plants in the world in Saudi Arabia) or re-use of treated water, may also be needed depending on an individual client s circumstances.

The following table shows the consolidated revenue and operating income of our water division, after elimination of all inter-company transactions.

Water*

(in millions of euro)	**2007**	**2006**	**Change 2007/2006**
Revenue**	10,927.4	10,087.6	8.3%

Operating income	1,267.7	1,160.6	9.2%

*

Includes our share in the results of the water activities of Proactiva, our joint venture with FCC which operates principally in the water and environmental services in South America.

**

Revenue from ordinary activities under IFRS.

[1] As of December 31, 2007, including Proactiva's 1,939 employees who are active in water activities.

Back to Contents

Overview of Veolia Eau

Veolia Eau manages municipal drinking water and/or wastewater services on five continents thanks to a geographical organization with a strong local presence. Contracts with public authorities are typically long-term and range from 10 to 20 years in length, but may extend up to 50 years in certain circumstances. These contracts take various forms, all adapted to the needs and goals of the public authority, and may include outsourcing contracts, public-private partnerships, concessions, BOT (Build, Operate & Transfer) contracts, DBO (Design, Build & Operate) contracts and others. They are generally contracts that involve the operation, design or construction of installations, with the public authority usually remaining the owner of the assets (except in the United Kingdom) and the head of water policy. Recent legislative changes have enabled us to integrate more elaborate mechanisms into our contracts to allowing us to share in the added value produced under the contract (e.g., productivity gains, improvement in the level of services, efficiency criteria, etc.). Public authorities often rely on Veolia Eau to manage customer relations; it has implemented specific services and information systems in response, which it continuously strives to improve.

In certain countries where public authorities have sought either to implement new water and wastewater treatment systems or improve the functioning of existing ones, Veolia Eau also offers feasibility studies and technical assistance, which may include research plans, network modeling and financial analysis.

Veolia Eau s outsourcing contracts with industrial and commercial services customers generally last from 3 to 10 years, although certain contracts have terms of up to 20 years.

Service Contracts with Public Authorities and Industrial Clients

The main focus of our water business is on water and wastewater management services for public authorities and industrial clients. Veolia Eau provides integrated services that cover the entire water cycle. Its activities include the management and operation of large-scale, customized drinking water plants, wastewater decontamination and recycling plants, drinking water distribution networks and wastewater collection networks. Veolia Eau also manages customer relations, providing billing services and call centers.

Veolia Eau and its subsidiaries have provided outsourced water services to public authorities in France and in the rest of the world for more than 150 years under long-term contracts adapted to local environments. Currently, Veolia Eau and its subsidiaries are attempting to capitalize on the worldwide trend towards delegated management of municipal drinking water and wastewater treatment services.

Veolia Eau continues to develop its service offerings for industrial clients using its local presence in various areas and its adapted service organization. It has accordingly become active within this market in France, the United Kingdom, Germany and the Czech Republic, as well as in Asia (South Korea and China in particular) and the United States. Veolia Eau also contributes to the development of common service offerings of our group, in particular in Europe, with VE Industries (as discussed further below).

Engineering and Technological Solutions for the Treatment of Water

Through Veolia Water Solutions & Technologies, Veolia Eau is one of the world s leading designers of technological solutions and of the construction of facilities necessary to provide water services on behalf of public authorities and industrial and commercial services clients. In addition, Veolia Water Solutions & Technologies designs, assembles, manufactures, installs and operates modular standardized and semi-standardized water and wastewater equipment and systems designed to treat water for municipal and industrial uses. A local technical assistance network is available at all times for the upkeep, maintenance and after-sale service of these installations.

Veolia Eau treats groundwater, surface water, brackish or seawater, wastewater and refined sludge. Thanks to the combination of physical, chemical or biological treatments, Veolia Eau has developed a complete range of specific solutions for the purification of water or the reduction or elimination of impurities in effluents. Veolia Eau s recycle/re-use systems provide customers with the ability to circulate part or all of their treated water back into plant processes, thereby reducing their water usage, operating costs and environmental damage.

Through Sade, Veolia Eau also designs, builds, renews and recovers urban and industrial drinking water and wastewater networks and conducts related work in France and around the world. Sade s services cover each stage of the water cycle, from its collection to its release, and its public and industrial customers benefit from Sade s experience in this area.

Back to Contents

Description of Activities in 2007

In 2007, Veolia Eau enjoyed several commercial successes, and its revenues increased by 8.3% in 2007 compared to 2006, thanks to a high level of contract renewal in France, sustained organic growth outside of France, in particular in Asia, and strong growth in the engineering and construction business in France and internationally. Veolia Eau did not lose any significant contracts in 2007 relative to total revenues in the water division.

In France, Veolia Eau provides approximately 24 million inhabitants with drinking water and 16 million with wastewater services. Contracts renewed in 2007 represent expected total cumulative revenues of almost €920 million. Among the contracts renewed, the most important were with the Nice Côte d'Azur area, the city of Beauvais, the city of Macon and the Intercommunal Syndicate of the Mâconnaise Area, which bring together the latest technical innovations in environmental protection.

Veolia Eau continues its development efforts in order to further increase its service offering to reach new clients in areas such as the management of wastewater treatment plants, the management of mud storage, online availability of water consumption levels, management and maintenance of rainwater networks, the maintenance of non-collective wastewater installations, and the monitoring of swimming water, which are all services related to increasing awareness of the challenges of sustainable development.

In the rest of Europe, the EBRD has committed to invest up to €105 million in 2007, €90 million of which has been invested since 2007, to acquire 10% of Veolia Voda, a holding company for Veolia Eau s businesses in Central and Eastern Europe, with the aim of increasing the role of the private sector in providing water conveyance and the purification of waste water, notably in Russia and the Ukraine.

At the end of 2007, the International Finance Corporation (IFC), the private sector arm of the World Bank Group, and PROPARCO, the subsidiary of Agence Française de Développement in charge of financing private investments in developing countries, acquired shareholdings of 13.89% and 5.56%, respectively, in Veolia Eau AMI. Veolia Water AMI is a subsidiary of Veolia Eau and operates water, wastewater and electricity services in Africa, the Middle East and the Indian subcontinent. The aim of this holding company is to develop infrastructure to serve those populations who are without water and electricity in the urban areas of these regions.

In the Middle East, in addition to the Jubail and Fujairah contracts, negotiations with the Sultanate of Oman led to the signing of a contract in January 2007, in partnership with National Power and Water, to build, finance and operate a reverse osmosis seawater desalination plant in Oman (with a capacity of 80,000 m^3/day). The 22-year contract should represent estimated total consolidated revenue of €434 million, including the construction of the plant.

In Asia, Veolia Eau won several contracts in China (see below) and in Japan, where it won a three-year contract for the operation and maintenance of a water decontamination plant in Chiba, a suburb of Tokyo which has experienced significant growth. In Australia, the new Sydney contract followed the contracts that were won in 2006 for consulting services to the State of Queensland to recycle water produced by treatment installations in the region of Brisbane in an effort to combat drought, and the design, construction and management of a desalination by reverse osmosis facility designed to sustain, in particular, the Gold Coast.

Veolia Eau recorded solid earnings in 2007 due to the good performance of existing contracts across all geographical areas and in all business segments. This success was also due to the continued pursuit of measures to enhance

productivity (including sharing of best practices and better use of information technology) and to the progress generated by the implementation of new technology during past years (including energy efficiency gains and return on installations and networks).

Back to Contents

Principal Contracts

The following table shows the principal contracts signed or renewed in 2007 with either public authorities or industrial or commercial companies[1].

Public Authority *or* Company and Location thereof	**Month of Signature of Contract**	**New Contract or Renewal**	**Duration of Contract**	**Estimated Total Cumulative Revenue (in euros)**	**Services Provided**
France					
Public Authorities					
City of Nice Côte d Azur and its suburbs	December	Renewal	12 years	75 million	Operation of drinking water services for the Nice Côte d Azur communities.
Beauvais	October	Renewal	12 years	38 million	Operation of drinking water services.
Mâcon	June	Renewal	10 years	59 million	Management of water and waste water services.
Europe (outside France)					
Public Authorities					
Campo Dalias (Spain)	May	New	18 months (construction) + 15 years (operation)	78 million	Design, construction, operation and maintenance of reverse osmosis water desalination plant.
Companies					
Shell Green (United Kingdom)	September	New	30 months	62 million	Modernization of wastewater treatment plant in Widnes in Cheshire.
Asia					
Public Authorities					
City of Lanzhou (Gansu province, China)	January	New	30 years	1.6 billion	Acquisition of 45% of the Lanzhou municipal water company, company holding the water management contract (3.2 million inhabitants).
Haikou (Hainan island, China)	June	New	30 years	776 million	Acquisition of 49% of the company managing the production and distribution of drinking water and

					the operation of a wastewater treatment plant (800,000 inhabitants).
Tianjin Shibei (China)	September	New	30 years	2.5 billion	Acquisition of 49% of the company managing the drinking water service (3 million inhabitants).
Sydney (Australia)	July	New	23 years (20 years of operation)	540 million	Construction and operation of a water treatment plant through reverse osmosis with a capacity of treating 250,000 square meters per day.

[1] Revenues expected under foreign contracts won during 2007 have been converted into euros at the rate of exchange prevailing on December 31, 2007 and represent the portion due to Veolia Eau under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier press releases.

Back to Contents

Asia					
Companies					
Tianjin Soda (China)	September	New	27 years	492 million	Construction and operation of water treatment plant.
PTTPE (Thailand)	May	New	15 years	75 million	Construction and operation of water treatment plant.
Qingdao Soda (China)	June	New	25 years	33 million	Operation of a demineralization plant.
North America					
Public Authorities					
Tampa Bay (Florida)	April	New	16 years (13 years of operating)	108 million	Construction and operation concerning the extension of the surface water treatment plant of Tampa Bay.
Milwaukee (Wisconsin)	December	New	10 years	272 million	Management of the regional liquid waste management network of the Milwaukee region, and management of the production of Milorganite, fertilizer in granules produced by the drying of residual mud from the waste water purification plant.
Africa					
Public Authorities					
Mauritania	May	New	33 months	203 million	Construction of a drinking water supply line for the city of Nouakchott.
Middle East					
Public Authorities					
Jubail (Saudi Arabia)	June	New	34 months	647 million	Construction and operation of a seawater desalination plant, able to process 800,000 cubic meters of water per day for use by the city of Jubail and the Eastern province of Saudi Arabia.
Fujairah (UAE)	August	New	32 months	547 million	Construction of a seawater desalination plant.
Fujairah (UAE)	December	New	12 years	71 million	Operation and maintenance of seawater treatment plant through reverse osmosis in Qidfa.

Back to Contents

Principal Acquisitions and Divestitures in 2007

On November 28, 2007, Veolia Eau acquired a portion of the unregulated activities of Thames Water in the United Kingdom, principally for the provision of services and asset management in the water and sewage sectors, some of which are financed by the Private Finance Initiative (PFI).

In addition, the biological treatment activities of the Swedish company AnoxKaldnes were acquired and integrated in the second half of 2007.

In late 2007, Veolia Eau acquired the U.S. assets of one of the divisions of the Tetra Technologies Group. which is responsible for the treatment of waste in the petroleum sector.

Veolia Eau created, acquired or integrated 96 companies during 2007, and liquidated or sold 48 companies. As of December 31, 2007, Veolia Eau s group (excluding Proactiva) included 684 companies, compared to 636 in 2006. The principal changes included the purchase or creation of new companies with contracts that were effective as of the beginning of 2007.

Environmental Services

Through our environmental services division, Veolia Propreté, we have become the largest environmental services provider in the world (in terms of revenue) in the area of waste collection, recycling and treatment. Veolia Propreté is the only company that handles waste in all its forms and at all stages of activity. Veolia Propreté manages liquid and solid waste and non-hazardous and hazardous waste (with the exception of nuclear waste) from collection to energy recovery, on behalf of both public authorities and industrial clients.

In 2007, Veolia Propreté once again reinforced its position by acquiring Sulo in Germany and TMT in Italy (now known as VSA Tecnitalia).

In 2007, Veolia Propreté employed 100,032 people around the world[1] in approximately 35 countries. Veolia Propreté has partnered with more than 750,000 industrial and commercial services clients[2] and serves nearly 60 million inhabitants on behalf of public authorities.

During 2007, Veolia Propreté estimates that it collected nearly 40.6 million tons of waste and treated nearly 66 million tons of waste (of which 61.8 million tons were non-hazardous household and industrial waste and 3.9 million tons were hazardous waste). As of December 31, 2007, Veolia Propreté managed approximately 796 waste treatment units.

The term of Veolia Propreté s environmental services contracts usually depends upon the nature of the services provided, applicable local regulations and the level of capital expenditure required under the contract. Collection contracts usually range from 1 to 5 years in length, while treatment contracts can range from 1 year (for services provided on sites belonging to Veolia Propreté) to 30 years (for services involving the financing, construction, installation and operation of new infrastructure).

The following table shows the consolidated revenue and operating income of our environmental services division, after elimination of all inter-company transactions.

Environmental Services*

(in millions of euro)	**2007**	**2006**	**Change 2007/2006**
Revenue**	9,214.3	7,462.9	23.5%
Operating income	803.5	648.3	23.9%

*

Includes our share in the results of the waste management activities of Proactiva, our joint venture with FCC which operates principally in the water and environmental services in South America.

**

Revenue from ordinary activities under IFRS.

1 As of December 31, 2007, including Proactiva's 6,850 employees who are active in environmental services activities.

2 The commercial figures provided in this section (in terms of number of clients, number of inhabitants served, tons of waste collected, etc.) do not take into account Proactiva's activities, unless otherwise indicated, but do take into account Sulo for the second half-year of 2007 and Tecnitalia for the fourth quarter of 2007.

Back to Contents

Overview of Environmental Services

Veolia Propreté furnishes environmental and logistical services, which include waste collection, waste treatment, cleaning of public spaces, offices and factories, maintenance of production equipment, soil decontamination, and management of waste discharge at industrial sites.

Veolia Propreté also conducts basic or more complex downstream waste treatment operations in order to reduce pollution and transform waste into a resource. Veolia Propreté:

sorts and treats waste in order to create new primary materials, otherwise referred to as recycling or material recovery;

transforms organic material into compost to be returned to the soil, otherwise referred to as composting or agronomic recovery;

returns waste to the natural environment in the least damaging way possible, through landfilling or incineration;

produces electricity or heat through landfilled or incinerated waste, otherwise referred to as waste-to-energy recovery.

The services referred to above fall into one of three large categories of activity conducted by Veolia Propreté: environmental services and logistics for local authorities and industrial companies, sorting and recycling of materials, and waste recovery and treatment through composting, incineration and landfilling.

Environmental Services and Logistics for Local Authorities and Industrial Companies

Maintenance of Public Spaces and Urban Cleaning

Veolia Propreté provides urban cleaning services in a large number of cities throughout the world, including London, Paris, Alexandria, Rabat and Singapore. Veolia Propreté s services include mechanized street cleaning and treatment of building facades.

Cleaning and Maintenance of Industrial Sites

Veolia Propreté provides cleaning services at its industrial and commercial services clients sites, including cleaning of offices and maintenance of production lines. In the commercial services sector, it provides these services in train stations, subway networks, airports, museums and commercial centers.

In the industrial sector, cleaning services extend to food-processing plants and heavy industry high-tech sites, where Veolia Propreté offers specialized cleaning services (high pressure or extreme high pressure cleaning). Veolia Propreté also offers cryogenic cleaning, and reservoir cleaning at refineries and petrochemical sites in particular. Finally, Veolia Propreté has developed emergency services to treat site contamination upon the occurrence of an accident or other incident.

Liquid Waste Management

Through its subsidiary SARP, Veolia Propreté provides liquid waste management services that consist primarily of pumping and transporting sewer network liquids and oil residues to treatment centers.

Veolia Propreté has developed liquid waste management procedures that emphasize environmental protection, such as the on-site collection, recycling and reuse of water during the provision of its liquid waste management services. Used chemicals, which are hazardous to the environment, are collected before treatment and transferred to one of Veolia Propreté s subsidiaries specializing in the management of hazardous waste.

Back to Contents

Soil Decontamination

Land redevelopment and the expansion of residential or commercial areas may occur in areas where the soil has been polluted through prior use. Veolia Propreté has specific techniques for treating each site, which include treating polluted soil and rehabilitating temporarily inactive industrial areas, cleaning up accidental spills and restoring active industrial sites to be in compliance with applicable environmental regulations.

Collection

In 2007, Veolia Propreté collected approximately 40.6 million tons of waste from individuals, local authorities and commercial and industrial sites. More than 60 million people around the world benefited from Veolia Propreté s waste collection services.

Veolia Propreté collects household waste through door-to-door pickup or through pickup at designated drop-off sites, and collects commercial and non-hazardous industrial waste. It maintains the cleanliness of green spaces and carries away green waste, such as dead leaves and grasses.

Veolia Propreté also collects hazardous waste on behalf of its commercial and industrial clients, including hospital waste, laboratory waste and oil residue (ships, gas stations and drilling platforms), as well as dispersed hazardous waste. In 2007, Veolia Propreté collected approximately 1.9 million tons of hazardous waste.

Veolia Propreté offers related services to its commercial and industrial clients, such as preliminary studies of future waste collection needs and waste tracking after collection.

Transfer and Grouping of Waste

Waste of the same type is transported either to transfer stations in order to be carried in large capacity trucks, or to grouping centers where it is separated by type and then sorted before being sent to an adapted treatment center. Hazardous waste is usually transported to specialized physico-chemical treatment centers, recycling units, special industrial waste incineration units or landfills designed to receive inert hazardous waste.

Sorting and Recycling of Materials

Veolia Propreté treats waste with a view towards reintroducing such waste into the industrial production cycle. Veolia Propreté's recycling activities generally involve the selective collection of paper, cardboard, glass, plastic, wood and metal that customers either separate into different containers or mix with other recyclable materials.

Veolia Propreté received approximately 9 million tons of solid waste at its 307 sorting and recycling units in 2007, of which 6.1 million tons were recovered, including 2.8 million tons of paper. Veolia Propreté also provides decomposition services for complex waste products at specialized treatment centers, such as electric and electronic products and fluorescent lamps. Veolia Propreté works in partnership with upstream industrial clients and with our CREED research center in order to develop new recycling activities. Veolia Propreté sells or distributes recycled material to intermediaries or directly to industrial and commercial services clients.

Recovery and Treatment through Composting, Incineration and Landfilling

In 2007, Veolia Propreté treated nearly 66 million tons of waste in its sorting and recycling centers, composting units, hazardous waste treatment centers, incineration units and landfills.

Composting and Recovery of Organic Material from Fermentable Waste

Veolia Propreté and Veolia Eau work together to recover sludge from wastewater treatment plants. In 2007, Veolia Propreté recovered almost 2.3 million tons of waste at its 114 composting units. 235,000 tons of urban and industrial sludge were reintegrated by Veolia Propreté into the agricultural cycle through manure spreading with a related waste traceability service offering.

Back to Contents

Waste-to-Energy and Incineration

Veolia Propreté treats approximately 11.4 million tons of non-hazardous solid waste (consisting mainly of urban waste) per year at its 78 waste-to-energy recovery and incineration plants. Energy is generated from the heat created by incinerating waste at these plants. Veolia Propreté uses this energy to supply district thermal networks or for sales to electricity providers.

Landfilling and Energy Recovery from Waste

In 2007, Veolia Propreté treated approximately 38.4 million tons of non-hazardous waste in 150 landfills. Veolia Propreté has developed the expertise to treat waste through methods that reduce emissions of liquid and gas pollutants. Veolia Propreté currently has 160 landfills that accept or have accepted biodegradable waste and that are equipped to retrieve and treat biogas emissions from the anaerobic fermentation of waste, of which 76 landfills have recovery systems to transform biogas emissions into alternative energies.

Treatment of Hazardous Waste

In 2007, Veolia Propreté treated 3.9 million tons of hazardous waste, of which 1.08 million tons were incinerated in 22 incineration units for specialized industrial waste, 759,000 tons were landfilled in 14 class 1 landfills and 1.71 million tons were treated in 61 units by physico-chemical or stabilization methods. The remaining 480,000 tons were treated in 35 specialized recycling centers.

The principal methods used for treating industrial hazardous waste are incineration (for organic liquid waste, salt-water and sludge), solvent recycling, waste stabilization followed by treatment in specially designed landfills, and physico-chemical treatment of inorganic liquid waste.

Through its specialized subsidiaries SARP Industries and VES Technical Solutions (in the United States), Veolia Propreté has a worldwide network of experts enabling it to become one of the current world leaders in treating, recycling and recovering hazardous waste.

Description of Activities in 2007

In 2007, Veolia Propreté s revenues increased by 23.5% compared to 2006. Excluding exchange rate effects and the effect of acquisitions and divestitures, internal growth was 7.5%. In France, revenue increased by 7.1% in 2007 (or 6.6% at constant scope) as a result of strong price increases for recycled materials (paper, metals), higher tonnages in the collection and sorting-recycling of solid waste, waste electrical and electronic equipment (WEE) operations and the treatment of polluted soils, the increase in tonnages to landfills and the good level of business activity at incineration plants. In the United Kingdom, revenues grew 56.4%, or 7.9% for internal growth at constant scope as a result of the expansion of existing integrated contracts (East Sussex and Nottinghamshire) and industrial services (in particular in the petroleum sector). In the rest of Europe, revenues grew 21.6%, or 8.4% at constant scope, driven particularly by momentum in Norway and Denmark. In North America, organic growth was significant as a result of increased fees relating to solid waste, the Marine Services businesses, the new Pinellas contract and the treatment of military waste at Port Arthur. South America benefited from short-term contracts in the chemical and petroleum sectors that allowed it to experience marked growth. A limited number of significant contracts were lost in 2007: Chennai in India (cleaning), Canca in France (collection in Nice), and Solihull Borough in the United Kingdom (collection). Among the significant developments in 2007 were the following:

In France, Veolia Propreté reinforced its recycling activities through the acquisition of the Bartin Recycling Group, number 3 in France in the business of recycling and reuse of scrap-metal and metals. The development of D3E activities continued. A new treatment unit for hydrocarbons and mineral liquid waste, Hydropale, was opened in Dunkirk. A ship dismantling unit was created in Bordeaux. In addition, the Polynesian businesses were sold.

In the United Kingdom, Veolia Propreté, while managing the acquisition and integration of Cleanaway UK, signed a new 27-year PFI (Private Finance Initiative") contract for the integrated management of household waste in the county of Shropshire, representing estimated total cumulative revenue of more than €1 billion.

Back to Contents

In Europe, Veolia Propreté continued to reinforce its commercial position within the incineration and related energy authorization sectors through the acquisition of TMT in Italy. In Germany, the acquisition of Sulo enabled Veolia Propreté to reinforce its role in the recycling sector in Europe and the reuse of recycled material, especially paper.

In North America, Veolia Propreté reinforced its position within the industrial services sector, winning several contracts for the maintenance and industrial cleaning of oil rigs in the Gulf of Mexico following the expansion of a fleet of specialized boats for this marine branch. In early 2007, Veolia Propreté won a 17-year contract for the operation of the energy recycling unit in Pinellas County (Florida), one of the largest incineration units in the United States.

In Asia, Veolia Propreté signed a 29-year concession agreement for the construction and operation of a new household waste storage facility for the city of Jiujiang in China. A 28-year concession agreement for the operation of a medical waste incineration unit was also signed with the city of Foshan. Lastly, the repurchased Cleanaway businesses were integrated in 2007.

Principal Contracts

The following table shows the principal contracts signed or renewed in 2007 with either public authorities or industrial or commercial companies[1].

Public Authority *or* **Company and Location thereof**	**Month of Signature of Contract**	**New Contract or Renewal**	**Duration of Contract**	**Estimated Total Cumulative Revenue (in euros)**	**Services Provided**
France					
Public Authorities					
SIOM (Chevreuse)	June	New	5 years	25 million	Operation and maintenance of the household waste incineration plant of Villejust.
SMICTOM (Fontainebleau)	June	Renewal	7 years	24 million	Transfer, transport and treatment of household and hospital waste.
Limoges	December	Renewal	10 years	40 million	Operation and maintenance of the household waste incineration plant of Limoges.

Companies					
ArcelorMittal	June	New	5 years	21 million	Supply of energy to the ArcelorMittal site, via the Arc-en-Ciel household waste incineration plant (Nantes).

[1] Revenues expected under foreign contracts won during 2007 have been converted into euros at the rate of exchange prevailing on December 31, 2007 and represent the portion due to Veolia Propreté under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier press releases.

Back to Contents

Europe					
(outside France)					
Public Authorities					
Shropshire (United Kingdom)	September	New	27 years	1,030 million	Contract integrating the global treatment of waste.
Bautzen (Germany)	July	Renewal	7 years	17 million	Collection of municipal waste, sorting recycling and composting.
North America					
Public Authorities					
Pinellas (Florida)	January	New	17 years	356 million	Operation and maintenance of household waste incineration plant.
Asia-Pacific					
Public Authorities					
Jiujiang (China)	August	New	30 years	92 million	Construction and operation of Jiujiang landfill.
Singapore	November	Renewal	5 years	28 million	Urban cleaning.

Acquisitions and Divestitures in 2007

On July 2, 2007, Veolia Propreté finalized the acquisition of Sulo for an enterprise value of €1,450 million, which significantly reinforced its position in the waste management sector in Germany and in Eastern Europe. Sulo was the second largest operator of waste management in Germany. It is a leading specialist in paper and plastic recycling and has a high level of expertise in the areas of sorting and organic reuse. Sulo is also a leader in Eastern Europe and in the Baltic states. Sulo s Environmental Technologies division was sold to Plastic Omnium in July 2007 for an enterprise value of €142 million.

In addition, on October 3, 2007, Veolia Propreté finalized the acquisition of 75% of the share capital of TMT (which has since been renamed VES Tecnitalia), the former subsidiary of Termomeccanica Ecologia in Italy. Tecnitalia is the leading private thermal waste treatment provider in the Italian market. It operates ten treatment installations, including four thermal treatment installations, and has numerous contracts, as well as several factories that are currently under construction.

Other less significant acquisitions occurred in 2007. They are expected to increase Veolia Propreté s treatment and recycling capacities in Europe, Northern America and in Asia.

Taking into account all formations, acquisitions and integrations of companies (a total of 202) and liquidations, sales, and mergers (a total of 74), the scope of consolidation of Veolia Propreté (excluding Proactiva) included 753 companies at December 31, 2007, compared to 625 in 2006.

Back to Contents

Energy Services

Our energy services division conducts its activities through Dalkia, the leading European provider of energy services to companies and municipalities. Dalkia provides services relating to heating and cooling networks, thermal and multi-technical systems, industrial utilities, installation and maintenance of production equipment, integrated facilities management and street lighting. It seeks to leverage opportunities for the development of energy and greenhouse gas markets. Dalkia seeks to partner with its clients, helping them optimize their energy purchases and improve the efficiency of their installations (both in terms of cost and atmospheric emissions).

In 2007, Dalkia had 54,375 employees around the world. Dalkia is present in almost 40 countries, primarily in Europe.

The following table shows the consolidated revenue and operating income of our energy services division, after elimination of all inter-company transactions.

Energy Services

(in millions of euro)	**2007**	**2006**	**Change 2007/2006**
Revenue*	6,896.4	6,118.4	12.7%
Operating income	398.7	377.7	5.6%

*

Revenue from ordinary activities under IFRS.

Overview of Energy Services

Dalkia s business is currently facing three major challenges:

global warming and the need to reduce carbon dioxide emissions;

the increase in the prices of fossil fuels and their eventual scarcity; and

growing urban development and the related industrial development.

Dalkia s activity focuses on optimal energy management. Dalkia has progressively established a range of activities linked to energy management, including heating and cooling systems, thermal and multi-technical services, industrial utilities, installation and maintenance of production equipment, integrated facilities management and electrical services on public streets and roads. The health care sector is particularly important to Dalkia: in 2007, it won landmark contracts in that sector, such as Santa Casa de Misericordia in Brazil.

Dalkia provides energy management services to public and private clients with whom it has formed long-term partnerships. Dalkia s management contracts for the operation of urban heating or cooling systems are typically long-term, lasting up to 25 or 30 years, while its contracts for the operation of thermal and multi-technical installations for public or private clients may last up to 16 years. Contracts to provide industrial utilities services generally have shorter terms (6 to 7 years on average), while contracts in the facilities management sector generally last 3 to 5 years.

When possible, Dalkia offers its clients solutions utilizing renewable or alternative energy sources such as geothermal energy, biomass (organic material), heat recovered from household waste incineration, process heat (heat produced by industrial processes) and thermal energy produced by co-generation projects. A combination of energy sources may also be selected in order to take advantage of the complementary nature of each source. For instance, in 2007 Dalkia acquired PannonPower, the leading biomass plant in Hungary.

Heating and Cooling Networks

Dalkia is one of Europe s leading operators of large district heating and cooling networks. Dalkia currently manages 700 urban and district heating and cooling networks worldwide, particularly in the United States, France, the United Kingdom, Italy, Germany, Eastern and Central Europe and the Baltic states. Dalkia does not necessarily own the networks it operates, and in some cases, public authorities own the networks and delegate to Dalkia the responsibility of managing, maintaining and repairing them. The networks operated by Dalkia provide heating, sanitary hot water and air conditioning to a wide variety of public and private facilities, including schools, health centers, office buildings and residences.

Back to Contents

Thermal and Multi-Technical Services

Thermal services consist of operating heating, sanitary hot water and air conditioning systems to provide comfortable living and working environments, as well as improving the operation of existing systems to optimize their efficiency. Dalkia provides public, industrial and commercial services clients with integrated energy services, which include plant design, construction and improvement, energy supply, and plant management and maintenance. Dalkia provides customers with a large range of technical services and manages more than 100,000 energy plants throughout the world.

Industrial Utilities, Installation and Maintenance of Production Equipment

Dalkia has become a leading provider of industrial utilities services in Europe. It has developed expertise regarding the analysis of industrial processes, the enhancement of productivity and the operation, maintenance and servicing of equipment.

Integrated Facilities Management

Facilities management contracts integrate into one global service a range of services, from thermal, electrical and mechanical equipment maintenance to logistics. As a result, one company can meet a client s different needs. Dalkia provides facilities management services for its industrial or commercial services clients (such as business premises, corporate offices or health establishment sites.).

Street Lighting Services

Citélum, a subsidiary of Dalkia, has earned a worldwide reputation for the management of urban street lighting, the regulation of urban traffic and the lighting of monuments and other structures. Citélum operates and maintains lighting in a number of cities in France and abroad, and provides artistic lighting services at important architectural works and sites. 2007 saw the opening of an establishment in Chile where Citélum won an operation-maintenance contract for public lighting in the city of Santiago de Chile. Citélum was also awarded a contract by the city of Syracuse in Sicily and also signed a Public-Private Partnership (PPP) contract with the city of Agde.

Services to Individuals

Dalkia provides residential services to individuals through Proxiserve, a joint subsidiary of Dalkia and Veolia Eau, including maintenance of heating, air conditioning and plumbing systems and meter-reading services.

Description of Activities in 2007

In 2007, Dalkia increased its revenues by 12.7% compared to 2006. These results were the result of commercial growth and significant international expansion (particularly in central Europe and in the Asia Pacific region), despite extremely mild winter weather in early 2007.

In France, Dalkia renewed 80% of its contracts that were due to expire during 2007. Contracts that were lost included the paper mills of the Gorge region due to the closure of the site, the heating network of a section of Bourges, the *Palais des Congrès* in Nice, and the ONERA in Chatillon. These unrenewed contracts represented approximately 2% of Dalkia s revenues.

In addition to the contracts signed in 2007, which appear in the table below, in October 2007 Dalkia began the implementation of a heat and electricity supply contract for the a bio-ethanol production plant in Usti Nad Laben, in the Czech Republic. This contract, signed in April 2006, represents estimated revenue of €67.7 million over a period of 10 years.

Back to Contents

Principal Contracts in 2007

The following table shows the principal contracts signed or renewed in 2007 with either public authorities or industrial or commercial companies[1].

Public Authority *or* Company and Location thereof	Month of Signature of Contract or of Renewal	New Contract or Renewal	Duration of Contract	Estimated Total Cumulative Revenue (in euros)	Services Provided
France					
Public/Local Authorities					
Lille	December	Renewal	8 years	5 million	Management of 282 communal buildings in Lille: schools, cultural, social and administrative centers.
Vandoeuvre	March	Renewal	20 years	6.135 million	Management of heating network.
Vémars	July	New	24 years	3.8 million	Sustainable urban development project: commercial, industrial and living zone. Private biomass and wood-energy electricity and heating network.
Industrial and Commercial Services					
Tour Granite, La Defense	December	New	4 years	4.95 million	Management of the new Société Générale Granite tower (70,000 m², 4,500 working stations, label HQE).
Rest of World (outside France)					
Public/Local Authorities					
Jiamusi, China	April	New	25 years	1 billion	Management of the leading heating network in China: 250,000 inhabitants, 5.5 million square meters of commercial and municipal buildings.
Industrial and Commercial Services					

Setra, Sweden	March	New	15 years	35.8 million	Construction and operation of a biofuel boiler providing hot water to a sawmill.
Bahrain Bay, Bahrain	March	New	25 years	215 million	Design, construction and management of a cooling network for a real estate project in Bahrain Bay.
Santa Casa de Misericordia Hospita, Brazil	May	New	15 years	186 million	Providing multi-technical services, management of utilities, management of the subcontracting of hospital security and catering services.

[1] Revenues expected under foreign contracts won during 2007 have been converted into euros at the rate of exchange prevailing on December 31, 2007 and represent the portion due to Dalkia under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier press releases.

Back to Contents

Acquisitions and Divestitures in 2007

In 2007, Dalkia expanded in central Europe through various acquisitions including, among others, PannonPower in Hungary, whose central unit supplies the second largest heating network in the country; Rekotak in Slovakia, which manages thermal plants in a section of Bratislava under a 29-year contract, and the operator of the urban heating network and heat and electricity production of Varna, the third-largest city in Bulgaria.

In China, through the acquisition of a majority stake in YangGuang, Dalkia took over the construction and operation project relating to the South West heating network of the city of Harbin, the capital of the Heilongjiang province in northeast China, which has 9.5 million inhabitants.

At the end of 2007, our energy services division expanded to the United States through its acquisition of Thermal North America Inc., which has the leading portfolio of heating and cooling networks in the United States.

In total, over the course of 2007, Dalkia formed or purchased 71 companies, and sold, liquidated or merged 19 companies. As a result, at December 31, 2007, Dalkia held 469 consolidated companies, including 242 foreign companies.

Transportation

Through our transportation division, Veolia Transport, we are the leading private operator of public ground transportation in Europe. Veolia Transport operates road and rail passenger transportation networks under contracts with national, regional and local transit authorities. Veolia Transport has been managing and operating urban, regional and inter-regional road and rail networks and maritime transport for more than a century, having won its first tramway concessions at the end of the 19th century.

Veolia Transport estimates that the worldwide transportation market currently stands at €460 billion, of which only 15%, or approximately €70 billion, is currently open to competition. The opening of transportation markets over the past several years has been particularly significant in Europe, but has occurred on other continents as well.

Moreover, the worldwide trend of population movement towards urban areas increases the need for mass transportation services, thereby strengthening the market potential in areas that Veolia Transport seeks to service.

At the end of 2007, Veolia Transport had 81,532 employees around the world. It has a presence in more than 30 countries, and conducts its activity mainly in Europe, North America and Australia. While continuing to strengthen its position in France, Veolia Transport has a strong presence outside of France as well, where it earns approximately 60.6% of its revenues. In 2007, Veolia Transport pursued its growth in North America and Europe.

Veolia Transport estimates that it provided transportation to more than 2.7 billion travelers in 2006, and that it managed contracts with approximately 5,000 public authorities.

The following table shows the consolidated revenue and operating income of our transportation division, after elimination of all inter-company transactions.

Transportation

(in millions of euro)	**2007**	**2006**	**Change 2007/2006**
Revenue*	5,590.1	4,951.5	12.9%
Operating income	130.3	13.6**	858.1%

*

Revenue from ordinary activities under IFRS.

**

Includes the impact of an €86.5 million impairment charge relating to certain German activities.

Back to Contents

Overview of Transportation

Veolia Transport primarily operates road and rail passenger transportation networks under contracts won through public bidding processes initiated by various public authorities. The public authorities with which Veolia Transport contracts generally own the heavy infrastructure used by Veolia Transport, and typically set schedules, routes and fare structures for the networks that Veolia Transport operates and manages. Veolia Transport primarily conducts its business through outsourced management of transportation activities under conditions and structures that differ from one country to another due to varying legal and regulatory requirements. Each contract between a public authority and Veolia Transport governs the relationships between the two parties, including payment to Veolia Transport and the risks to be borne by each party, and typically lasts for a fixed period. Because the fares Veolia Transport charges passengers on its transportation networks are usually insufficient to cover its costs, the public authority typically provides Veolia Transport with a payment or other compensation for services rendered. Moreover, in the case of certain contracts, Veolia Transport is paid a flat fee for its transportation services; consequently, it does not bear the risks associated with lower receipts or decreased passenger use (such contracts being referred to as Public Market contracts in France). Veolia Transport s management contracts generally last from 2 to 12 years, except for those that take the form of operating concessions , which last approximately 30 years on average.

Veolia Transport s activities can be broken down into four principal categories: (i) urban mass transportation (urban transport, suburban and other transportation services), (ii) intercity and regional transportation, (iii) industrial markets, and (iv) transportation management (passenger information services, clearinghouses and central telephone operators).

Urban Mass Transportation

Veolia Transport operates a number of bus networks, suburban trains, tramways and metros, and provides customized transportation services as well. Veolia Transport is either partially or entirely responsible for designing, planning and operating services, managing personnel, inspecting vehicles and stations it uses in its networks (including obtaining various permits), marketing and managing customer service.

In many urban areas, Veolia Transport provides interconnected bus, tramway, metro and train transportation services through a ticketing system coordinated by the principal transportation provider or transportation authority within a given region. Veolia Transport also offers integrated services within networks managed by several different operators in an urban area, including the Paris suburbs, Stockholm, Sydney and Düsseldorf, among others.

Veolia Transport operates ferry services in tandem with its bus services in various urban areas. It does so in Toulon (France) and Göteborg (Sweden), for example.

Urban and Suburban Transportation

In France, Veolia Transport operates the tramways, bus networks and light rail networks in Rouen, Saint-Etienne, Nancy, Nice and Bordeaux. Veolia Transport is also the operator of the bus networks in, among others, Nice, Toulon (where tramway infrastructure is currently being installed as well) and approximately 40 other French cities. Veolia Transport has a strong presence in the Ile-de-France region, where it operates numerous bus lines in the inner and outer suburbs of Paris. It is the main private operator in the region, operating the bus networks of Melun, Rambouillet, Argenteuil, St. Germain-en-Laye and Seine-Saint-Denis.

In Europe, Veolia Transport operates tramways and light rail networks in Görlitz and Berlin (Germany), Dublin (Ireland), Trondheim (Norway) and Norrköping and Stockholm (Sweden). Veolia Transport also operates the Stockholm metro, as well as bus lines in Scandinavia, the Netherlands, Switzerland, Czech Republic, Estonia and numerous cities in Poland.

In southern Europe, until the sale by FCC-Connex of its Spanish bus subsidiary CTSA in November 2007, FCC Connex Corporación SL, which is jointly owned by Veolia Transport and FCC, combined the passenger transport activities of the two companies in Spain. FCC-Connex managed the urban and suburban transport services in several cities, including, among others, the Barcelona tramway and the urban transport network of Jérez. Veolia Transport operated the urban network of the city of Pamplona. Following the sale, Veolia Transport intends to redevelop its activities in Spain through its wholly-owned subsidiary Veolia Transport España SL.

Back to Contents

In the United States, Veolia Transport provides bus transportation services principally in California, Arizona, Nevada (Las Vegas), Colorado, Texas, Maryland and Virginia. Veolia Transport and its partners in the Massachusetts Bay Commuter Railroad Company (the Bombardier group and a local partner, ACI) manage suburban trains in the Boston area. Veolia Transport also manages suburban trains in Los Angeles (Metrolink).

In Canada, Veolia Transport provides transportation services in the southern suburbs of Montreal, as well as bus services in York (Ontario) since September 2005.

In Australia, Veolia Transport operates the entire suburban rail network of Melbourne as well as the monorail and light rail network of Sydney. It also operates bus services in Perth, Brisbane and Sydney. In New Zealand, Veolia Transport operates trains in the suburbs of Auckland.

In the rest of the world, Veolia Transport operates through partnership with other operators a high-frequency right-of-way bus system (BRT: Bus Rapid Transit) in Bogotá (Colombia), a network of bus lines in Santiago (Chile) and three urban bus networks and inter-urban bus lines in Israel. In Jerusalem, Veolia Transport is also part of the consortium that has been awarded the concession for the operation of a future tramway.

Other Transport Services (transportation on demand, para-transport, taxis and more)

Veolia Transport offers innovative transportation services in certain cities that supplement traditional transportation networks. For example, Veolia Transport offers Créabus, an on-demand minibus service that is tracked by a Global Positioning System, or GPS, which operates in Dieppe, Montluçon, Vierzon, Bourges, Bordeaux, Ile-de-France and Fairfax (United States). Veolia Transport also manages all of the on-demand transportation services in the North Brabant region and in Limburg in the Netherlands.

Veolia Transport manages taxi services in the Netherlands and the United States, in particular in Baltimore, Denver and Kansas City. It provides transport for persons with reduced mobility in Bordeaux and other regions of France, in Canada and in the United States (paratransit), in particular in California, Arizona, Nevada, Texas, Maryland and South Carolina. In addition, in 2007, Veolia Transport added bicycle transportation to its range of services.

Intercity and Regional Transportation

Veolia Transport provides regional transportation services through the operation of road and rail networks. As with urban transportation services, Veolia Transport is responsible for designing, planning, operating, maintaining and providing security on the vehicles and stations it uses in its regional networks, as well as for ticket sales and customer service.

In France, Veolia Transport has a strong presence in the intercity and student transportation markets, involving more than 60 French departments across the country. Veolia Transport also operates a number of regional rail networks, covering approximately 300 kilometers, through contracts with regional public authorities or sub-contracts with the Société Nationale des Chemins de Fer (SNCF), the French national railroad company, particularly in the regions of Brittany, Provence, the Alps and the French Riviera.

In Europe, Veolia Transport has a strong presence in Germany, with more than 3,000 kilometers of regional railway lines, the United Kingdom, Norway, Sweden, Finland, Slovenia, Slovakia, Belgium, Spain, the Czech Republic and the Netherlands and, since late 2006, Serbia and Croatia. Through Eurolines, a company in which Veolia Transport has had a 100% interest since March 2005, Veolia Transport provides transport by motorcoach on regular international routes serving over 1,500 cities throughout Europe.

In the United States, in the regional rail network sector, Veolia Transport operates Sprinter, in South Los Angeles, and Tri-Rail, a network in the suburbs of Miami.

Veolia Transport is continuing to develop ferry transport service in areas such as Finnmark and Norrland (Norway) and Zeeland province (Netherlands), as well as through its 28% shareholding in the *Société Nationale Maritime Corse Méditerranée* (SNCM), which manages passenger and freight maritime transportation services between Marseille, Nice, Corsica and North Africa. Veolia Transport is a shareholder of SNCM alongside Butler Capital Partners (38%) and the French State (25%). SNCM is fully consolidated in our consolidated financial statements. This consolidation method was analyzed using the IAS 27 standard and reflects the rules of governance of SNCM. Specifically, Veolia Transport appoints all of the members of SNCM s management board (*directoire*), has broad operational and financial management powers and exercises control over SNCM within the meaning of IFRS.

Back to Contents

Industrial Markets

In addition to the personnel transport services provided by its French subsidiaries, such as the Eurocopter site in Marignane, and those in the rest of Europe, Veolia Transport is present in two areas of industrial activity that represent nearly 4% of its revenues: rail transport (freight transport and management of industrial rail junctions and related logistics) and airport services.

Rail Transport

This activities in this sector are carried out in Europe through Veolia Cargo, assisted by specialized national subsidiaries in France, Belgium, Germany and the Netherlands.

In the area of freight transport, Veolia Transport operates a number of regional, national and international freight trains in France, the Netherlands and Germany.

In 2007, Veolia Cargo reinforced its position in Germany, developed its client portfolio in the French national market, and consolidated its development strategy in France and Germany. Veolia Cargo also launched several container transport lines, thus solidifying its partnership with the ship owner CMA-CGM. Another highlight of the year was the creation of subsidiaries in Belgium and Italy.

In addition, in the area of industrial rail junctions and related logistics, Veolia Cargo, through its subsidiaries in France and Germany, manages junctions for large industrial customers (in particular in the steel and refining industries), with factories that are linked to a national rail network.

Airport Services

This activity covers a range of services for airline clients (freight transport at Charles de Gaulle airport, baggage handling, maintenance of vehicles, etc.). It is conducted by VE Airport, in whose capital Veolia Transport holds a 60% interest. Veolia Transport also manages passenger transport services inside airports.

Management of Airport Infrastructure

In the area of airport infrastructure management, Veolia Transport has been operating, maintaining and managing the public areas of the Nîmes-Garons airport (grounds, construction, building maintenance, and airline intake structures for passengers or freight), since January 1, 2007. This project represents a new air transportation infrastructure management business for the Group, which provides a total management solution for a site welcoming 250,000 travelers per year.

Transportation Management

Growth in Veolia Transport s business depends on increased use of public transportation networks, which in turn is closely related to the quality of services provided by these networks. To increase passenger usage of its networks, Veolia Transport s efforts focus on adequately matching service offerings with demand for such services, and

developing local information services relating to transportation systems for travelers.

Accordingly, Veolia Transport has developed the Optio system, a service that provides complete information to anyone who wishes to use public transport within a region (regardless of the operator). The service involves the use of a call center, an internet site, wireless text messages, such as SMS, and wireless internet access, such as WAP. The Optio system currently operates in the French departments of Oise and Isère. In addition, Veolia Transport has developed Connector Plus, a real-time information system installed in the rail network of Melbourne (Australia), which notifies users of service interruptions or delays through wireless text messages on their mobile phones. Veolia Transport has installed the Connector Plus system in Stockholm as well. In addition, Veolia Transport has recently created several internet sites that allow users to prepare their itineraries using local transportation systems in France and Australia.

Back to Contents

Description of Activities in 2007

In 2007, revenues in our transportation division increased by 12.9% compared to 2006, due to an increase in revenues from urban and intercity passenger transport abroad resulting from the latest developments in Europe.

On a commercial level, despite the non-renewal of a contract for the operation of the train line between Göteborg and Stockholm and the north of Sweden (the Norrland train) and a contract relating to the operation of a portion of the Stockholm bus network (these contracts together representing less than 1.5% of Veolia Transport s revenue), 2007 saw the renewal or the initial signing of a large number of medium-sized contracts, particularly in Europe. For instance, 17 contracts for the operation of regional bus lines in Belgium were renewed, worth a combined estimated revenue of around €33 million. The revenue represented by non-renewed contracts in 2007 is not significant in comparison with total revenues in the transportation division. The following were some of the highlights of 2007:

In April 2007, in the Rhône department of France, Veolia Transport won the operating contract for Leslys, the leading express railway link between the city and its airport, in a consortium that included Vinci, la Caisse des Dépôts, Vossloh and Cegelec. In maritime transportation, the operating contract for the transportation to the Morbihan Islands known as *îles du grand large* represents average annual traffic of approximately 1,600,000 passengers.

In the United States, railway activities grew significantly in 2007. In addition to the renewal of the Boston contract in December 2007, which is the contract for the operation of the largest suburban train in the American market, two new railway contracts were signed: the Tri-Rail contract in the south of Florida (a suburban train) began on July 1, 2007 for a term of 7 years and estimated total cumulative revenue of €43.2 million; in Austin (Texas), a contract for freight transport (this activity being sub-contracted to another operator) and urban and suburban passenger transport with a five-year term was concluded in August 2007 for estimated total cumulative revenue of approximately €73.5 million. The renewal of contracts with Boston and Las Vegas in January 2008 was a major success and strengthens the position of Veolia Transport in North America.

In India, a consortium in which Veolia Transport holds a 5% interest was awarded the 35-year concession contract (five years of which are dedicated to construction) for the construction, operation, and transfer of the first subway line in Mumbai (formerly known as Bombay). The operation and maintenance contract for this subway line, which is currently being negotiated between the company granting the concession and a company whose majority shareholder is Veolia Transport, should be signed during the first half of 2008.

Principal Contracts

The following table shows the principal contracts signed or renewed in 2007 with either public authorities or industrial or commercial companies[1].

[1] Revenues expected under foreign contracts won during 2007 have been converted into euros at the rate of exchange prevailing on December 31, 2007 and represent the portion due to Veolia Transport under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier press releases.

Back to Contents

Public Authority *or* **Company and Location thereof**	**Month of Signature of Contract or of Renewal**	**New Contract or Renewal**	**Duration of Contract**	**Estimated Total Cumulative Revenue (in euros)**	**Services Provided**
France					
Public Authorities					
Lyon	April	New	30 years	360 million	Operation of tramway network linking Saint-Exupéry airport to Lyon.
Morbihan Islands	November	New	7 years	154 million	Operation of service to the Morbihan Islands.
Marseille Corsica	June	New	6.5 years	1.2 billion	Operation by SNCM of passenger and freight maritime transport between the continent and Corsica.
Europe (outside France)					
Public Authorities					
Norway	June	Renewal	8 years	1.3 billion	Operation of the public transport network in Finnmark.
Norway	April	Renewal	5.5 years	231 million	Operation of the public bus transport network in the Rogaland Province.
Holland	January	Renewal	7 years	371 million	Operation of the public transport network in Brabant.
North America					
Public Authorities					
Boston	December	Renewal	3 years	450 million	Operation of a public railway transportation network.
Rest of the World					
Public Authorities					
Melbourne	November	Renewal	1 year	368.5 million	Operation and maintenance of trains for Melbourne suburbs
Auckland	September	Renewal	2 years	52 million	Operation and maintenance of trains for the Auckland region.
Seoul	June	New	10 years	400 million	Operation of the 9-metro line which will open in 2009.

Acquisitions and Divestitures in 2007

In 2007, Veolia Transport pursued its expansion in the Pacific zone with the February 2007 acquisition, of Transit First, which operates more than 80 buses in the Sydney region. As a result of this acquisition, Veolia Transport has more than 420 employees and a fleet of 250 buses in Sydney, transporting approximately 11 million passengers per year. Veolia Transport also acquired Brookers, thereby strengthening its development in charter buses in Brisbane. Additionally, in November 2007, Veolia Transport acquired the Australian bus operator South West Coach Lines, which is the leading bus operator in the south-west portion of the country. As a result of these three acquisitions, Veolia Transport has approximately 4,000 employees in Australia as well as a fleet of more than 1,000 vehicles that transport more than 200 million passengers per year.

Back to Contents

In October 2007, Veolia Transport acquired the public transportation company People Travel Group, which operates mainly in Sweden but also in Russia, providing airport services as well as charter and tourism services. This company, which has approximately 900 employees and 165 buses, generates annual revenue of approximately €63 million. Veolia Transport also acquired Värmlandsbuss, which operates in the county of Värmland in Sweden.

On August 31, 2007, Veolia Transport sold all of its interest in Veolia Transport Danmark A/S. This company and its five subsidiaries, whose activities include public bus transport, have approximately 1,600 employees and operate more than 640 buses.

In total, over the course of 2007, Veolia Transport formed or purchased 55 companies, merged 38 companies, and liquidated or sold 18 companies. At December 31, 2007, Veolia Transport included 528 consolidated companies, compared with approximately 520 as of December 31, 2006.

Development of Synergies: Multiservice Contracts

to Benefit Industrial and Commercial Services Clients

Outsourcing and Multiservices Market

We believe that our position in the market for industrial and commercial services customers has allowed us to take advantage of the synergies that exist among our four divisions. Growth in this market, which is estimated to be greater than 10% per year, was initially due to the expansion of outsourcing, as industrial companies sought to outsource certain ancillary activities to third-party service providers. This outsourcing trend applies to all of our businesses, including energy services, water services, waste management services, on-site management of rail junctions and rail freight transport.

We offer a multiservice alternative to our customers, which involves the provision of services by several of our divisions under a single contract. This alternative improves our ability to meet the expectations of certain customers who wish to outsource a range of services to a single service provider. This relationship also allows for greater technical synergies, economies of scale and mutual commercial benefits.

Our multiservices contract, signed in 2003 with PSA Peugeot Citroën, is a good example of the synergies that are possible. The subsidiary created to service this contract, Société d Environnement et de Services de l Est, manages all environmental services at Peugeot s sites in eastern France, involving more than twenty different activities. By delegating such a broad range of activities to us, PSA Peugeot Citroën is able to ensure the regulatory compliance of its sites, while realizing significant savings. These savings largely result from an overhaul of the previous organization and work plan, the implementation of skill training programs, the resumption of management of activities that were previously subcontracted, and the implementation of a new energy policy. In 2005, the economic and operational success of this partnership led the PSA group to seek the same scope of services from us for its new facility in Travna (Slovakia).

Our Organization for the Provision of Multiservices

In order to develop this multiservices activity, we have established a specific organization, Veolia Environnement Industries (VEI), to coordinate our various activities. While VEI plays a supervisory role, each of our divisions remains responsible for the ultimate performance of services falling within its area of expertise.

VEI manages our bids for multiservice contracts, and a project manager from VEI is appointed for each multiservices contract. Commercial projects and bids are prepared in coordination with our divisions, and are then reviewed by a commitments committee before submission to clients. Subsequently, the contract may be performed by a dedicated special purpose entity managed in part by the divisions involved in the project, in particular if we decide to work with the client s personnel.

Multiservices Business Activity

Our activities within the multiservices market are organized principally around 12 major contracts, which together generate revenues of more than €437 million annually and are expected to generate total revenue over the life of such contracts in excess of €2.5 billion. The average length of these contracts is eight years.

The multiservices market has a strong international dimension, in particular with respect to construction of new factories (known as greenfield projects). This was the case for, among others, ArcelorMittal in Brazil and PSA Peugeot Citroën in Trnava (Slovakia).

Back to Contents

Under a five-year multiservices contract with Renault signed in December 2006, (under which operations began in January 2007), we manage general and environmental services at all of Renault s automobile construction sites in the Paris region (Boulogne-Billancourt, Guyancourt and Rueil-Malmaison). This contract relies on the expertise of our energy, environmental services and transportation divisions in order to provide a wide range of services at the 1 million m² site at which Renault employs more than 20,000 people. This contract was signed with the objective of reducing expenditures by 20%. The range of services to be provided includes the management of electrical, heating and air conditioning equipment, waste management and disposal, management of open spaces and developed sites, logistics and transportation (including management of all employee vehicles and their garages, management of inventories and mail transport) as well as commercial services (such as the visitor reception area). This is our most significant contract signed to date for commercial sites. It represents consolidated revenues of €600 million.

We manage all the energy production and services for Socata, a subsidiary of the group EADS, at its Tarbes site. This contract draws on the expertise of several of our businesses. Work under this contract began in early 2007. The range of services to be provided includes the production of gas, electricity and water for all of the buildings on site, as well as for industrial processes, including Lipofit2, a clean fuel. Also included are all services relating to the technical maintenance of the plant and buildings, environmental services for the site, and services for users including mail, caretaking, and reception. This is a three-year contract that may be extended to five years and represents estimated annual revenues of €3.4 million.

On December 21, 2007, we renewed a multi-services contract with Novartis relating to Novartis' site in Basel, Switzerland. The initial contract, which was signed in 2000 for a seven-year term was, at the time, the largest environmental services outsourcing agreement to be signed by an industrial company and allowed the integration of more than 300 Novartis employees within our company. Novartis, along with Ciba and Huntsman, which are located at the same sites, renewed their relationship with us by entering into this new seven -year contract representing combined annual revenues of €140 million. This contract, which represents cumulative revenue of close to €1 billion, is the largest contract we have signed with an industrial client. The services are to be provided by one of our subsidiaries, Valorec Services AG, at the sites of St Johann, Klybeck in Basel and Schweizerhalle. The scope of services, which is virtually unchanged, includes the management and maintenance of the energy production and distribution utilities, the solvent recycling plant (one of the largest sites in Europe), the incineration of hazardous materials and overall day-to-day waste management responsibilities.

We continue to perform contracts previously entered into with ArcelorMittal (in Montataire, France and in Brazil), Futuroscope (in Poitiers, France), Visteon (in Germany), Corus Packaging (in the United Kingdom), PSA Peugeot Citroën (in Mulhouse, Sochaux, Vesoul and Belfort, France and in Trnava in Slovakia), and Schenectady (in Béthune, France).

Multiservices Contracts Signed in 2007

We entered into the following multiservices contracts in 2007 with industrial clients[1]:

Company	Location	Month of Signature of Contract	New Contract or Renewal	Duration of Contract	Estimated Total Cumulative Revenue (in euros)	Services Provided

Socata (EADS)	Tarbes (France)	January	New	3 years	10 million	Provision of gas, electricity and water utilities for buildings and processes; use of the clean fuel Lipofit2 ; technical maintenance and building maintenance; user services.
Novartis (CIBA, Huntsman)	Basel (Switzerland)	December	Renewal	7 years	980 million	Management and maintenance of energy production and distribution utilities; management of solvent recycling installations; management of the incineration of hazardous waste; day-to-day waste management.

[1] Revenues expected under foreign contracts won during 2007 have been converted into euros at the rate of exchange prevailing on December 31, 2007. Accordingly, these amounts may differ from the amounts announced in earlier press releases.

Back to Contents

Competition

Most markets for environmental services are very competitive and are characterized by increasing technological challenges arising from changes in regulations, as well as the presence of experienced competitors.

Competition in each of the markets we serve is primarily based on the quality of the products and services provided, and the supplier s reliability, customer service, financial strength, technology, price, reputation and experience in providing services. Additional considerations include the ability to adapt to changing legal and regulatory environments, as well as the ability to manage employees accustomed to working for governmental authorities or non-outsourced divisions of industrial or commercial enterprises. In each of the markets in which we operate, our competitive strengths are our technological and technical expertise, our financial position, our geographical reach, our experience in providing environmental management services, managing privatized and outsourced employees, and our ability to comply with regulatory requirements.

In the particular area of provision of environmental services to industrial clients, Suez Environnement provides a range of services including energy, water and waste management. The GDF-Suez merger and the anticipated listing of Suez Environnement do not significantly change the competitive position of Suez Environnement. Certain actors in the industrial sector are also trying to enlarge the scope of their business to include the provision of environmental services. In particular, the subsidiaries of certain energy producers (such as Cofatech, a subsidiary of GDF, and RWE) have been active in doing so. Companies specialized in electronic installation, such as Faces (a subsidiary of Cegelec) have also expanded their environmental services offering. In the area of facilities management, companies such as Johnson Controls seek to provide multiservice offers to their commercial services clients. Cleaning companies, such as ISS, are attempting to expand their offerings and to provide solutions outside of the cleaning business. Additionally, among new competitors, GE has announced its intention to develop its business within the water sector. However, the majority of competitors do not offer the same range of technical expertise in environmental services as we do. Therefore, in certain cases, our competitors are forced to set up ad-hoc arrangements to respond to clients demands.

We expect that our competitors in individual sectors will, in coming years, seek to expand their activities to become integrated environmental management services providers. This change has been prompted by the desire of potential clients to outsource a larger portion of their business. Thus, companies with worldwide abilities have begun to respond to multi-site and multi-national calls for tenders, such as Jones Lang LaSalle in facilities management. Industrial services providers are also moving towards greater consolidation by creating multiservice subsidiaries, as is the case of Voith in Germany.

A new form of competition has developed over the last few years due to the growing role of financial groups such as infrastructure funds (such as Macquarie Bank) or private equity funds. Although they are not global or strategic competitors, they are often present in privatization tenders and asset sales and can occasionally compete with us for growth opportunities. The development of Public-Private Partnership (PPP) has also resulted in the appearance of new players from the construction sector who are capable of managing the significant construction and financing challenges imposed by these operations. Service providers like us may collaborate with these companies within the framework of groups formed to respond to calls for tender offers. These include mainly Bouygues, Vinci and Eiffage.

It is important to note that our major competitor is often the client itself. Clients systematically compare the benefits and advantages of outsourcing to maintaining the status quo.

With respect to the provision of environmental services to public authorities, there has been a tendency in France over the last few years towards returning to local government control, which has reduced the number of delegated management contracts available in the market. Nevertheless, this tendency has remained fairly limited. In Germany, the *Stadtwerke* play a leading role in the environmental services market (in the areas of water, environmental services and energy services). In numerous countries in Eastern Europe, however, markets are slowly opening to competition, albeit partially.

Finally, new actors from the public works and building sectors may begin to offer services in the market following completion of large and/or extensive investments, which in turn require the provision of services (e.g., construction of a hospital which then requires ongoing maintenance of technical services). These new actors may provide services within the context of a BOT or concession contract or, in France, as part of a partnership contract authorized by a new regulation dated June 17, 2004. The emergence of such new actors is a natural outgrowth of a market in which ownership of infrastructure developed in order to support the provision of comprehensive environmental services often reverts back to the client at the term of a contract. For the moment, however, these new actors have acted on a project-by-project basis, and do not seem to have a global strategy for establishing a competitive presence on the market.

Back to Contents

Water

Through Veolia Eau, our principal international competitor in the water sector in 2007 was Suez Environnement (through its subsidiary Ondeo), which strengthened its position in Spain (by increasing its stake in Agbar and investing in the capital of Aguas de Valencia following the repurchase of the interest previously held by SAUR). RWE, which in 2006 had announced a reorganization process in order to focus on its energy businesses, sold Thames Water Holdings plc, the most significant water management company in Great Britain, to the consortium Kemble Water Limited, managed by Macquarie, in 2007. After this announcement in March 2006, the initial public offering of its American subsidiary American Water was postponed.

In the North African, Middle Eastern, Chinese and Indian markets, Veolia Eau competes with Asian companies (Singaporean companies, such as Hyflux and Asia Environment, and Japanese companies, such as Marubeni and Mitsui) and Spanish companies from the building and public works sectors (Acciona, Aqualie-FCC, ACS), but also with conglomerates, particularly General Electric and Siemens, which have demonstrated their international ambitions in water treatment technology.

At both the national and regional level, Veolia Eau faces a number of local competitors, including public companies and local mixed public-private companies such as Acea and Amga in Italy, Gelsenwasser in Germany (which entered the French market through the purchase of an interest in the capital of Nantaise des Eaux), Canal Isabel II in Spain, public enterprises in Brisbane, Australia or semi public entities (*régies départementales*) in France.

In addition, investment funds and other pension funds seeking stable revenues (Hastings Funds Management, Macquarie, JPMorgan, Canadian Pension Fund) made significant investments in regulated water assets in Britain (South East Water, Thames Water, Southern Water) and Chile (Ontario Teacher s Pension Plan with Essbio and Aguas Nuevo).

Environmental Services

Through Veolia Propreté, our principal competitors in the environmental services sector are either solely regional, or they cover only one part of the sector in which Veolia Propreté operates.

In Europe, where Veolia Propreté conducts the majority of its waste management activities, and in the PECO zone, the principal competitor is Suez Environnement, acting through its subsidiary SITA, Remondis, FCC and Biffa.

Veolia Propreté may expand further in North America as well, where its principal competitor is Waste Management, along with Allied Waste and Republic Services.

In Latin America, Veolia Propreté s operations are concentrated in Brazil and Mexico, where it competes primarily with Suez Environnement and a variety of local companies.

In the Asia/Pacific region, Veolia Propreté s main competitors are Cleanaway and Suez Environnement (acting through SITA), as well as various local companies. The Australian group Brambles (operating under the Cleanaway brand) has withdrawn from the waste management business.

Energy Services

Combining diverse services and different types of market participants, the energy services market presents us (through our energy services division, Dalkia) with strong competition, posed by sector-specific companies. Only two companies, Elyo (Suez) and Cofatech (GDF) have strong international presences and a diversified and complete service offer comparable to ours. Among sector-specific companies, Dalkia competes against large local competitors with active presences, such as ENEL, Vattenfall, Fortum, ATEL and EON.

In the commercial services sector, competition takes many forms, and comes from specialized companies (in the areas of cleaning and food services, for example) seeking to expand their offering to include multi-technical services, and from technical maintenance companies focusing on technical maintenance such as electrical installation.

In addition, we face growing competition from municipally- or publicly-run companies, principally in Central Europe, Germany, Austria and Italy.

Back to Contents

Transportation

In transportation, our principal competitors are large private operators, primarily French, American or British, and public companies (national or local) operating public monopolies. Our principal private competitors at the international level are the British groups FirstGroup, National Express, Stagecoach, Arriva and Go Ahead, and French groups Kéolis (which has SNCF as an industrial partner and shareholder, though 53% of its share capital is held by 3i, an investment fund) and Transdev (a subsidiary of the Caisse des Dépôts et Consignations, which has an alliance with the French metro operator, RATP). FirstGroup is the world s largest group for public and private transportation. Among Veolia Transport s largest public competitors are Deutsche Bahn (the national rail operator in Germany) and, in France, the RATP and SNCF.

In North America, the competitive market has evolved, particularly as a result of the purchase of Laidlaw by FirstGroup. In the area of rail transport, Amtrak s persistent budget difficulties have further opened the market to delegated private management.

In Asia, companies with international objectives constitute new competitors in the European and Asian markets. These companies include, in particular, ComfortDelgro, the transport network operator in Singapore, 40% of whose revenue come from international business, especially in China and the United Kingdom, and MTRC, the subway operator in Hong Kong, which participated in several calls for tenders for railways in Asia and Europe.

Contracts

Our activity is focused on providing services either to the public, usually in connection with a contract with a public entity responsible for the service for example, in connection with the delegated public service management of a drinking water production and distribution service or management of an urban heating and cooling network or to the contractual counterparty directly, which may be a public entity or an industrial or tertiary enterprise (such as an outsourcing contract). Increasingly, the assignments involve the development and building, as well as financing, if needed, of facilities and the work necessary for the operation. This tendency is a natural result of increasingly stringent requirements relating to environmental and economic efficiency and the significant awareness that this efficiency requires equipment and work, which from the beginning take operational concerns into account. Budgetary constraints placed upon public finances in a number of countries are also a factor. All of the contracts signed with public entities are global assignments involving conception, construction, financing and management, which are sometimes called PPP by extension. Contracts can normally be distinguished based on their legal status and according to whether the person receiving the service from the company is a public or private person seeking assistance in its activities, or whether the public is paying directly for at least part of the costs. The services we provide are often vast and multi-functional, requiring adequate employee infrastructure and specialized resources. They may also require management of works or infrastructure that are technically complex, such as a wastewater treatment network and purification plant or an industrial co-generation facility. These works or infrastructure projects may either be provided by the client, or we may finance and build the infrastructure ourselves.

Our global management services to public entities provided on behalf of public authorities include water distribution, wastewater treatment, collection and treatment of household waste, public transport, production and distribution of heating and cooling through urban networks and energy services. In many countries, the provision of such services, often referred to as general economic interest or public services, is considered to be the responsibility of the local public authority. Accordingly, the public authority is charged not only with implementing regulations or controls over the provision of public services, but must also implicate itself more directly in their management, through one of the following means:

the public authority can decide to directly manage and provide public services on its own (direct or internal management), thereby limiting the number of projects granted to private operators like us and leading most often to shorter-term contracts, or

the public authority may prefer to confer on a third party the entire responsibility for providing the public services, in which case the latter, depending on the specifications of the contract, would be responsible for providing the human resources, materials and finances necessary. The public authority may also request that the third party finance and build any required infrastructure under the contract. Third parties to whom the public authority resorts may be either private operators, mixed public-private companies or other public entities.

Based on the different means by which public authorities choose to manage the provision of public services, we have developed various types of contracts to respond to their specific requirements. The contracts we employ generally fall into one of three categories, depending on whether we are entrusted with total responsibility for provision of a public service and whether we have a financial and commercial relationship with the end users:

Back to Contents

the public authority chooses to manage and provide public services on its own (direct management), but has only limited means and therefore calls upon a private operator to provide certain limited services or works, to whom it pays a set price under contract.

the public authority may prefer a more expansive contract involving construction and management of services, which may include the financing of required infrastructure. These are known as public market contracts under municipal law, also referred to as Build, Operate, Transfer contracts, or since 2004 in France as partnership contracts , or

the public authority entrusts a company with the responsibility for the full provision of a service, with the latter assuming all or part of the operational risks. Generally, the provision of the service is then financed by the end user of the service. The contractor is thus responsible for and free to implement the means necessary to provide the service, but must do so in accordance with the terms set by the public authority based on expected performances and prices charged to end users. This is the logic of delegated management or concession in a global sense (also known as a PPP), which means the entity assumes the risks and perils or risks and advantages to the extent its compensation is linked to its operating results.

In certain countries, public authorities may also choose to be involved as little as possible in the provision of public services to inhabitants, or to be satisfied with the more or less restrictive regulation of the relevant activities. This creates opportunities for us as well, most often through acquisition of the private operator that is already serving a given area.

The historic traditions of the various countries in which we operate tend to favor one of the above-mentioned general contract types over the other. In France, for example, where there is a long tradition of granting concessions and delegated public service management contracts are often the preferred choice.

Current practices in various countries have tended to converge, with public authorities resorting to one or the other contract types depending on the situation. All such contracts have, in most cases, the common feature of being long-term agreements.

We also enter into outsourcing contracts for the management of complex services with our industrial and commercial services clients, which are analogous to the contracts entered into with public authorities above.

Despite differences related to the nature of clients, the services contracted for and the nature of the legal systems in which we operate, the expectations of our clients have tended to converge towards (i) a demand for transparency during the bid process and during contract performance, (ii) formation of a real partnership in search of ways to improve productivity and performance, and (iii) a desire for clear performance targets and variable compensation depending on achievement.

We are also very attentive to contractual provisions, in particular when we must finance the investments called for under a contract. Given the complexity of management agreements and their generally longer term, we possess skills regarding contract analysis and control. The legal departments of our divisions are involved in the preparation of

contracts, and carry out verifications on the implementation of our main contracts. Each year, our internal audit department includes a review of the contractual and financial stakes of our most significant contracts in its annual program.

Environmental Regulation, Policies and Compliance

Environmental Regulation

Our businesses are subject to extensive, evolving and increasingly stringent environmental regulations in developing countries as well as in the European Union and North America. On April 21, 2004, the European Union adopted a directive concerning environmental responsibility that has been transposed, or is in the process of being transposed, by member states. This text sets forth the principle of operators civil liability for any serious damage to protected species and natural habitats and any damage to the water and soil, excluding persons and property. This potential liability encourages the implementation of preventive measures. In addition, the REACH regulation on chemicals, which has been in force since June 1, 2007, has established a new European methodology for the management of chemicals that is designed to enhance knowledge of the substances that are currently circulating within the European market. This has particular implications for us as users of such substances, in particular the importance of cooperation and exchange of information with suppliers.

Water

Water and wastewater services activities are highly sensitive to governmental regulation. In Europe and North America, governments have enacted significant environmental laws at the national and local level in response to public concern over the environment. The quality of drinking water and the treatment of wastewater are increasingly subject to regulation in developing countries as well, both in urban and rural areas.

Back to Contents

The quality of drinking water is strictly regulated at the European Union level by Directive 98/83/EC of November 3, 1998, relating to the quality of water destined for human consumption, which was transposed into EU member states and French law by a decree on December 20, 2001 (certain provisions of which have also been incorporated into the French public health code). This directive introduces, beyond quality control, the concept of evaluating risks on an ongoing basis. The collection, treatment and discharge of urban, industrial and commercial wastewater is governed by Directive 91/271 of May 21, 1991, the objectives of which were further reinforced and expanded by water Directive 2000/60/EC of October 23, 2000. Public authorities also impose strict regulations upon industrial and commercial wastewater that enters collection systems and the wastewater and sludge from urban wastewater treatment plants. Directive 2006/118/CE of December 12, 2006 concerning the quality of ground water provides for oversight and a limit regarding the amount of chemical substances in water by 2015. In France, regulations concerning water destined for human consumption were revised, resulting in new water quality limits and references. For installations serving more than 10,000 inhabitants, the person responsible for the water distribution must prepare a study concerning the vulnerability of water fixtures to malicious acts. In establishments where water is provided to the public, it is the responsibility of the person in charge of the establishment (and no longer that of the public service provider) to ensure that the water is fit for consumption.

Public authorities also impose strict regulations concerning industrial wastewater likely to penetrate collection systems, as well as wastewater and mud originating in urban used water treatment installations.

France has numerous laws and regulations concerning water pollution, as well as numerous administrative agencies involved in the enforcement of those laws and regulations. Certain discharges, disposals, and other actions with a potentially negative impact on the quality of surface or underground water sources require authorization or notification. For instance, public authorities must be notified of any facility that pumps groundwater in amounts that exceed specified volumes and French law prohibits or restricts release of certain substances in water. Individuals and companies are subject to civil and criminal penalties under these laws and regulations. The law relating to water and aquatic environments of December 30, 2006 addresses community demands for high quality water and significantly modifies the French legislation on water, also addressing community objectives concerning water quality until 2015.

In the United States, the primary federal laws affecting the provision of water and wastewater treatment services are the Water Pollution Control Act of 1972, the Safe Drinking Water Act of 1974 and related regulations promulgated by the Environmental Protection Agency (EPA). These laws and regulations establish standards for drinking water and liquid discharges. Each U.S. state has the right to establish criteria and standards stricter than those established by the EPA and a number of states have done so.

Environmental Services

In numerous countries, waste treatment facilities are subject to laws and regulations that require us to obtain permits to operate most of our facilities from governmental authorities. The permitting process requires us to complete environmental and health impact studies and risk assessments with respect to the relevant facility. Operators of landfills must provide specific financial guarantees (which typically take the form of bank guarantees) that cover in particular the monitoring and recovery of the site during, and up to 30 years after, its operation. In addition, landfills must comply with a number of standards, and incineration plants are usually subject to rules that limit the emission of pollutants. Waste may also be subject to various regulations depending upon the type of waste. For example, sludge produced at wastewater treatment stations that will be composted must comply with strict regulations relating to its content of organic materials and trace metals (heavy metals like cadmium, mercury or led). Further, the NFU 44-095 standard, established in 2002 and henceforth applicable in France, strictly regulates the composting of material that results from the treatment of wastewater.

In France, pursuant to the provisions of the Environment Code (*Code de l environnement*) (articles L. 511-1 *et seq.*) relating to registered installations for the protection of the environment, several decrees and ministerial and administrative orders establish rules applicable to landfills for household, industrial, commercial and hazardous waste. These orders govern, among other things, the design and the construction of waste treatment centers. Hazardous waste is subject to strict monitoring at all stages of the treatment process. Waste-to-energy centers are subject to numerous restrictions, including in particular limitations on the amount of pollutant emissions: for example, directive 2000/76/EC of December 4, 2000 on the incineration of waste fixes emission thresholds for dioxins and NOX in particular. In connection with the application of this directive in France, compliance studies were submitted to local French authorities in charge of the supervision of each relevant installation in June 2003, in order to determine the necessary corrective measures to be implemented by the end of 2005.

Back to Contents

At the European Union level, the framework for waste management regulation is provided by directives that set overall regulatory goals of waste prevention, collection, recycling and reuse. European Union member states are required to prohibit the uncontrolled discarding, discharge and treatment of waste pursuant to these directives. Several existing European regulations seek to have member states define a national strategy that allows for the progressive reduction of dumping of biodegradable waste. The regulations are intended to promote recycling, composting and energy recovery of household waste.

With respect to the transportation of waste across national borders, the regulation of June 14, 2006 concerning the transfer of waste entered into force in July 2007. This text sets forth the terms of the supervision and monitoring of waste transfers and simplifies and defines the current procedures for the supervision of waste transfers for non-hazardous, recyclable waste.

In addition, the European Union has, through directive 2003/87/EC of October 13, 2003, implemented a quota system for the emission of greenhouse gases targeting carbon dioxide in particular. Our waste management business is excluded from the first phase (2005-2007) of this directive, but may be targeted subsequently, and may as a result establish procedures to reduce methane and carbon dioxide emissions.

The major statutes governing our waste management activities in the United States include the Resource Conservation and Recovery Act of 1976, the Clean Water Act, the Toxic Substances Control Act, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (also known as CERCLA or Superfund), and the Clean Air Act, all of which are administered either by the EPA or state agencies to which the EPA delegates enforcement powers. Each state in which we operate also has its own laws and regulations governing the generation, collection and treatment of waste, including, in most cases, the design, operation, maintenance, closure and post-closure maintenance of landfills and other hazardous and non-hazardous waste management facilities.

Energy Services

Our energy-related activities in Europe (primarily the supply of energy services involving thermal and independent energy) are subject to directives and regulations that seek to control environmental impact and risks. One such directive of October 23, 2001 establishes emission limits for sulfur dioxide, nitrogen oxides and dust and regulates the construction of large combustion plants. It requires the implementation of national emission ceilings for certain atmospheric pollutants such as sulfur dioxide, nitrogen oxide and volatile organic compounds.

Since the end of 2007, the IPPC directive of September 24, 1996 regarding the integrated prevention of pollution is fully applicable. The directive requires a number of European industrial facilities, including large combustion facilities, to obtain licenses authorizing their operations, to be renewed periodically, and based, as much as possible, upon the techniques having the least amount of environmental impact, that is, the best techniques available .

European regulation 2037/2000/EC of June 29, 2000 sets a timetable for the elimination of substances that destroy the ozone layer, in particular refrigerating fluids such as chlorofluorocarbon and hydro chlorofluorocarbon that are used in cooling plants.

As a result of the Kyoto Protocol, European regulation 842/2006/CE of May 17, 2006 imposes rigorous confinement and traceability measures for greenhouse gases, both for HFC refrigerating liquids or SF6 electrical insulators.

With respect to European directive 2003/87/EC of October 13, 2003 on greenhouse gases and carbon dioxide quotas, the energy services combustion installations of more than 20 MW have been part of the national plans of EU member

states for the allocation of quotas since February 2005.

European directive 97/23/EC of May 29, 1997, aimed at harmonizing member state legislation in the area of pressure equipment, imposes various security requirements for the design and manufacturing of such equipment, and requires that it be inspected for proper use.

With respect to European directive 2003/87/EC of October 13, 2003 on greenhouse gases and carbon dioxide quotas, Dalkia s combustion installations of more than 20 MW have been part of the national plans of EU member states for the allocation of quotas since February 2005.

Back to Contents

Finally, with respect to its production of sanitary hot water, Dalkia is directly affected by European directive 98/83/EC of November 3, 1998, which addresses the quality of water destined for human consumption. Eighteen states, including France, have taken the position that this directive applies to cold and to hot water and to all types of management systems for production and distribution.

All of the directives and regulations mentioned above have been subsequently implemented in each member state of the European Union. In France, this primarily means compliance with a July 19, 1976 law and its implementing decrees relating to the environmental protection of designated installations. Under this law, Dalkia must obtain various permits and authorizations from regulatory authorities in order to operate its facilities, and ensure that its operations comply strictly with the terms of such permits. For large combustion installations (output greater than 20 MW), new regulations were imposed in 2002 (for new installations) and in 2003 (for existing installations) with respect to emission limits, in application of European Union directive 2001/80/EC of October 23, 2001.

With regard to pressure equipment, directive 97/23/EC of May 29, 1997 (which applies to material constructed since 2002) has modified the regulatory regimes of member states in relation to procedure and inspection, and has helped to harmonize the operation of all installations that use such equipment. In France, a decree of March 15, 2000, as modified by a more recent decree of March 30, 2005, has transposed this directive into national law.

In relation to managing the risk of legionnaire s disease, the European Working Group for Legionella Infections (EWGLI) has, with the support and approval of the European Commission, published new European guidelines for the control and prevention of travel associated legionnaires disease. In general, texts on the issue are issued in Europe and around the world by public health authorities and associations for the protection of travelers. Very often, these texts are presented in the form of recommendations for prevention, which take into account the physico-chemical and biological nature of water and prescribe corrective actions when certain indicators are present. Various professional associations have also issued their own guidelines for prevention.

In France, the health ministry has recommended, since 1997, that health professionals and managers of establishments implement best practices for the maintenance of sanitary hot water networks, air climate systems and other installations at risk. In December 2004, there were also newly issued guidelines for the design and operation of cooling facilities using vapor processes (cooling towers).

In Spain, decree (*real decreto*) 865/2003 of July 4, 2003 establishes criteria for the quality of water and the frequency of inspection procedures, as well as for when action must be taken once certain limits are exceeded. A Spanish association has issued a guide on the subject (100030IN). In the United Kingdom, an approved code of practice (ACOP L8) issued by the Health and Safety Executive is the authoritative text, which has also inspired similar procedures in Belgium, the Netherlands, Ireland and at EWGLI. In the United States, the Occupational Safety and Health Administration (OSHA) issues its own guidelines and action plans. The American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE) and the Cooling Technology Institute (CTI) have issued guidelines as well. Italy and Portugal have partially adopted the ASHRAE guidelines relating to the protection of tourists.

Transportation

Our transportation service activities are subject to a number of national and European regulations and particularly European Union directives that limit emissions from petrol and diesel engines and require us to obtain certain permits.

In the European Union, standards called EURO have been established for polluting emissions from thermal engines. All new vehicles currently constructed in the European Union are in compliance with EURO 4 standards and Veolia Transport s networks are renewing their fleets with EURO 4 or EURO 5 vehicles. In 2006, the EURO 4 standard to
effect with strict requirements for the reduction of polluting emissions.

Further, Veolia Transport has made a commitment, in connection with its environmental management system, to lower its total emissions globally and to prepare for the new standards by testing and experimenting with emission reduction systems which will eventually be sold, thereby reaffirming its role as expert and consultant to client collectivities.

Veolia Transport is subject to the environmental standards applicable to depots, garages and underground cisterns whose activities may present a danger or inconvenience to the environment. For this reason, the majority of sites in France are subject to the regulations governing classified facilities for the protection of the environment, more generally in the form of a simple notification regime.

Finally, in France, the law of February 11, 2005 relating to equal treatment and opportunities for the disabled provides that all public transport must be accessible to handicapped persons within 10 years.

Back to Contents

Environmental Policies

We strive to contribute to the enhancement of quality of life in places where we operate, and have placed the challenges of sustainable development at the heart of our strategy. To this end, we focus not only on the preservation of the environment and the protection of natural resources and biodiversity, but also assume our economic and social responsibilities, particularly at a local level where we are committed to stimulating progress.

Our action regarding greenhouse gases

An increase in greenhouse gases in the atmosphere has led certain countries, as well as the international community, to implement regulatory measures in order to limit this trend. At the international level, the Kyoto Protocol, finalized in 1997, came into force in February 2005. At the European level, the European Union has decided to implement a quota exchange system for carbon gas emissions, through Directive 2003/87/EC of October 13, 2003. This system has been in place since the beginning of 2005.

We are already active in this field at the European Union level and internationally, as well as at the national level.

At the European Union level, all large combustion installations with thermal output greater than 20 MW fall under the new quota exchange system. For us, this primarily affects our energy services division, which manages almost 73,000 such installations in Europe (*i.e.,* more than 2% of total installations). Quotas awarded to Dalkia represent approximately 1% of all European quotas awarded. Dalkia has worked to help keep carbon dioxide emissions within quota limits, and has established an adapted organization and created a dedicated legal structure, VEETRA, whose purpose it is to purchase, sell and recycle different kinds of greenhouse gas quotas. These initiatives have allowed us to be an early participant in the quota exchange market, and through our participation we have optimized the profitability of our contracts and in some cases assisted clients in financing new investments that help to reduce greenhouse gas emissions. Some of Veolia Eau s sites in Germany have also been affected, following its securing of certain municipal contracts (*Stadtwerke*).

At the international level (Kyoto Protocol), we have begun trying to generate emission credits that would be tradable on the market, by participating in projects with other countries that help to reduce greenhouse gases. Veolia Propreté and Veolia Énergie (Dalkia) have already tested this in practice, through projects in Brazil and Egypt, along with six other South American projects. Dalkia has also enacted a joint project in Lithuania. By using dedicated teams, Dalkia and Veolia Propreté intend to pursue this activity in the future. Regarding transportation services, the first challenge in reducing greenhouse gas emissions is to establish reliable measurement tools. Veolia Transport is actively involved in developing an initial tool that would apply to business transportation, in collaboration with EpE and ADEME.

At the national level, a number of countries have designed mechanisms to reduce greenhouse gas emissions, either in the form of a set of targeted incentives (as France has done under its *Plan Climat*) or in the form of domestic projects that allow selected projects to benefit from emission credits (as New Zealand, Canada, Australia, and some U.S. states have done). The latter is currently being studied by France as well. Our teams are following all of these developments and attempting to integrate them into their planning.

Direct greenhouse emissions on sites that we managed in 2007 reached 42.8 million tons of CO_2 (carbon dioxide) equivalents (compared to 36.5 million tons in 2006).

We are generally contributing to a reduction in greenhouse gas emissions, both through the daily management of sites that it operates and through the use of renewable and alternative energies (in particular biomass, landfill gas,

geothermal energy). We are actively following regulatory developments that will undoubtedly become more restrictive in the future, viewing them as new opportunities to develop our environmental management skills.

Preserving ecological balances

Whether through the limitation of water evaporation, the enhancement of the quality of our waste, the effort to optimize energy consumption in connection with our water distribution and treatment activities, the use of alternative energies in our heating operations, the recovery and treatment of biogas emissions at our landfills or the use of low-emission fuels in our fleet of public or private transport vehicles, we get involved in the main environmental problems currently affecting our planet by applying our know-how, technological capabilities and research potential to these problems. We contribute to the enhancement of quality of life and sanitary conditions of local populations in our day-to-day operations. For example, by supplying drinking water to impoverished areas we help to reduce infant mortality. In developed countries we have implemented plans to protect against the risk of the presence of legionella in public or industrial facilities, thereby improving public sanitation.

Back to Contents

Preserving economic and social balances

We also consider the economic and social factors that underlie the course of development in the countries in which we operate, and we work to develop solutions that are adapted to local constraints and know-how transfers. For example, we have instituted a program in Shanghai to educate employees about safety at work. In Romania, Alexandria and Gabon, we have developed programs that have allowed local employees and consumers to better understand the challenges in the provision of water and waste management services. We give preference to a partnership approach with non-governmental organizations (NGOs), local authorities and associations in the implementation of action plans for the population of emerging countries, which permits the development of model plans that can be reproduced. In each of our projects, we seek to create a beneficial and educational dimension for the improvement of public health and the protection of the environment. We also try to assist in the development of areas where we provide services. In this regard, a new partnership agreement was entered into in 2005 relating to the World Hunger Program. Under this partnership, our teams present in Nigeria will work to improve the access of elementary schools to water and wastewater treatment services.

Moreover, we continue to participate in an initiative for developing a charter on public-private partnerships (PPP) in order to improve public access to essential services, which is being supported by the French Ministry of Foreign Affairs and pursued by several agencies of the United Nations. We testified as to best practices in this area during a meeting of the U.N. Sustainable Development Commission. This initiative forms part of the United Nations Millennium Development Goals, which were announced in 2000 by the U.N. Secretary General. The initiative aims at defining the role of private operators with respect to local public service management, while emphasizing the principles of transparency and the sharing of technology and know-how, principles to which we already adhere in connection with our adherence to the U.N. Global Compact. This sharing of know-how occurs in particular through our participation in the cooperation program for sustainable urbanization implemented by the United Nations Institute for Training and Research (UNITAR) and the World Bank (using research centers based in Poland, Malaysia, Brazil and Africa).

Our cooperation with UN agencies on multi-year programs as well as our sharing of know-how have led to our nomination as an associate member of the congress of Asian cities (Citynet).

Since May 2004, we have pursued a charity program through a corporate foundation called *Fondation d Entreprise Veolia Environnement* (the Veolia Environnement Foundation). . This initiative is part of a long-standing tradition of corporate charity work, and was designed to improve coordination of actions and employee involvement in the areas of social solidarity, reintroduction of disadvantaged or handicapped people into the workforce, and environmental protection. Since its creation, the Veolia Environnement Foundation has supported over 600 projects, each sponsored by one of our employees.

Certain of the 183 projects selected in 2007 (76 dedicated to sustainable development in communities, 67 to workforce reintroduction and 40 to environmental protection) demonstrate the international growth of the Veolia Environnement Foundation. We have had the cooperation of the governments of several countries, including Slovakia, where the Veolia Environnement Foundation supports a center for information, health, education and professional-related services in Lomnicka, to assist the Roma community. The Veolia Environnement Foundation subsidized the purchase of a refrigerated truck to distribute food to the homeless in suburban Chicago, and has also supported a food bank in Montreal, Canada. In Chile, it helped build and equip a general sports field for young people living in disadvantaged neighborhoods in Santiago. In India, the first Indian sponsor collaborated with a number of NGOs in India to support a program to combat the sexual exploitation of young girls. In Afghanistan, Stérience, a subsidiary of Dalkia specializing in the sterilization of hospital materials, has made its expertise available to the

Veolia Environnement Foundation in order to assist in creating a care center for serious burn victims.

In 2007, the *Prix du Livre sur l Environnement*, created by the Veolia Environnement Foundation in 2006, was awarded to *Collapse* by Jared Diamond.

We have two humanitarian aid and international cooperation departments: Veolia Water Force and Veolia Waterdev. Veolia Waterforce was created in 1998 to assist the victims of Hurricane Mitch in Nicaragua and the Yangtze river flood in China. Its main purpose is to share expertise through its network of 450 volunteer employees. Since its creation, Veolia Waterforce has carried out nearly 50 projects in emergency and development activities, in partnership with the United Nations, government institutions, local communities, NGOs and private companies. In 2007, Veolia Waterforce helped with the deployment of seven emergency humanitarian operations with French and foreign volunteers, in Sudan, Oman, Pakistan, Peru, North Korea, Mexico and Bangladesh. Veolia Waterforce was also called upon by its main partners, the French Ministry of Foreign Affairs and emergency medical care NGOs, to join forces in order to reinforce the capacity to provide common actions (tests of materials, coordination, development and unified procedures).

Back to Contents

We also participate in development projects through Veolia Waterdev, an international cooperation department whose objective is to share experiences and devise, along with public entities, civil society representatives and NGOs, solutions to facilitate access to local public water and sanitation services. Veolia Waterdev can intervene in these circumstances to urge French municipalities to cooperate in a decentralized manner. In 2007, Veolia Waterdev participated in nearly 30 projects for the rehabilitation of water production and distribution systems in 15 countries, either through technical support for decentralized support programs or through the Alliance for Development, an innovative partnership bringing together the French Ministry of Foreign Affairs, the French Development Agency, sanofi-aventis and the Institut Pasteur to reinforce access to water, sanitation and health in Niger, Madagascar and Vietnam.

The Veolia Environnement Institute: a scientific approach dedicated to prospective tools for the environment and sustainable development

Human management of the environment represents a major challenge that requires the mobilization of a large number of resources, the support of the public at large and close cooperation among international, national and local participants. To address this challenge, we created the Veolia Environnement Institute, or the IVE, in 2001 to encourage prospective reflection on a number of issues relating to sustainable development, as well as to progressively shed light on the principal trends that will influence the provision of environmental management services over the next decade.

Through its Prospects Committee, which is composed entirely of individuals of international reputation and standing, the IVE benefits from the contribution of leading external expertise on different key subjects (including public health, economy and human sciences) while maintaining a presence in the daily realities of our different activities. This dual capability represents both the originality and the strength of the IVE, which intends to play a leading role in the main environmental debates and issues of the 21st century. In order to achieve this, the Institute is enlarging its network of partners, in particular in North America and Asia, and developing its prospective program. It has collaborated with the JPAL lab at the Department of Economics of MIT (the Massachusetts Institute of Technology), on an air pollution study in a poor state of India. It is also working in partnership with TERI (The Energy and Resources Institute) on a study on the concept of ecological footprints and their application in two towns, one in India and one in China. At the same time, the IVE is developing a high-level scientific policy. In 2008, the Surveys and Perspectives Integrating Environment and Society (SAPIENS), a multidisciplinary review, will publish articles from top specialists describing the latest advancements in the field of sustainable development. On another note, the FACTS (Field Action Science) Reports review aims to develop and consolidate the knowledge and expertise gained in field-work (such as that conducted by NGOs and institutions) and has thus facilitated progress towards a larger understanding of these actions while improving their efficiency.

These efforts should provide us with a forum for discussion and the exchange of ideas about the major environmental, economic and social issues of today, in order to respond to the changing needs of civil society. As of the date hereof, the members of the IVE s Prospects Committee are: Amartya Sen (India), economist, winner of the Nobel Prize for Economics in 1998, professor of political economics and economics at Lamont University and professor of philosophy at Harvard University; Hélène Ahrweiler, historian, president of the University of Europe and an expert for UNESCO on human and social sciences; Philippe Kourilsky, biologist, Director of Research at the Centre nationale de recherche scientifique (CNRS) and professor at the Collège de France; Pierre-Marc Johnson (Canada), attorney, physician, ex-prime minister of Quebec, Canada, and expert on environmental matters; Harvey Fineberg

(USA), President of the Institute of Medicine of the National Academy of Science of the United States; and Ms. Manphela Ramphele (South Africa), physician and anthropologist, former president of the University of Cape Town and former chairman of the World Bank.

The IVE also organizes international conferences in France and abroad. In 2007 the fourth conference was held in Montreal, on the topic of The Climate 2050 Technological and Political Solutions . Organized with the help of two North American partners, the Table Center on Global Climate Change (USA) and the National Round Table on the Economy and the Environment (Canada), this event, held in October, brought together almost 400 participants from 12 countries. Under the patronage of Pierre Marc Johnson, Jean Charest, the Prime Minister of Quebec, Thierry Vandal, the Chairman and Chief Executive Officer of Hydro-Québec and Sheila Watt Cloutier, the Inuit representative and Nobel Peace Prize nominee, were the guests of honor of the opening ceremony. The fifth IVE conference, to be held in late 2008 or early 2009, is expected to be in Abu Dhabi, the United Arab Emirates, on the theme of the environment in an urban setting, in collaboration with the Chairman of the Middle Eastern and Mediterranean Political Studies Institute and a local partner with expertise on this subject.

Back to Contents

Environmental Compliance

As a specialist in environmental management services, we are naturally concerned about the environmental consequences of each of our activities, both in France and worldwide. In this respect, we consistently endeavor to comply with applicable regulations, to meet the needs and requests of our clients and to optimize the techniques we implement. To illustrate our commitment, we highlight below some of the more significant environmental actions that we have undertaken regardless of any regulatory or contractual obligation to do so.

Set forth below are summaries of use of water resources, raw materials and energy, energy efficiency and renewable energy measures, soil and measures to limit air, water and soil pollution and noise pollution:

Water

Use of Water Resources

We preserve water resources by working to prevent wasteful usage in our own installations and in those of our clients. In this respect, the continued implementation of our environmental management system provides, in particular, for the monitoring of water consumption and quality in all of our activities. Our action plan reflects two primary concerns: increased monitoring of the health quality of water destined for human consumption, and controlling leaks in cold water distribution networks (raw or treated) and leaks in domestic hot water production networks. In 2004, we installed an indicator to monitor the quality and compliance with regulatory standards of our drinking water. Our industrial water consumption amounted to 452.6 million cubic meters in 2007.

Climate changes in certain regions of the world heighten strains on water resources. We study and promote techniques through which alternative resources are used, such as the production of drinking water by desalination of seawater and production of water for industry or farm irrigation by recycling wastewater. These developments are conducted strictly in association with local authorities, regulatory proceedings and the scientific community.

Water pollution

99.3% of Veolia Propreté s landfills are equipped with treatment stations for leachate (water that percolates through stored waste).

Waste water

Our wastewater treatment efficiency, measured at biological treatment stations with a capacity greater than 50,000 EH, reached 90% in 2007.

Energy Energy efficiency and the use of renewable energies

We contribute to the reduction of primary energy consumption. Dalkia optimizes energy management for more than 100,000 energy installations around the world, from municipal heating networks to housing, commercial or industrial building boilers. Optimizing the energy efficiency of such thermal installations relies upon the quality of their operations and maintenance, as well as upon their modernization.

Dalkia s strong growth emphasizes the use of heating networks that offer optimized energy performances by concentrating production on a single site and involving co-generation. Efforts in the renewable energy field include

all of our activities. We are not only developing ways to use biomass, geothermal and solar energy (Dalkia), but we are also capturing energy from incineration facilities and biogas from landfills.

Veolia Transport continues to pursue its objective of providing environmental performance training to 90% of its public transport drivers during the first five years of their careers. This training effort enables us not only to enhance passengers comfort and limit polluting emissions, but also to achieve significant fuel economy. In 2007, we continued employee training activities, now facilitated by our campus.

Our total energy consumption amounted to 117.59 million MWh in 2007, as a result of the growth of our business.

Back to Contents

Use of soils

Since 2003, we have combined all activities relating to the treatment and recovery of sludge into a single entity (SEDE Environment). As a result, we have a specific and integrated overview of sludge management options, allowing us to optimize our agricultural recovery in particular.

We have pursued our efforts to manage the quality of waste in the sewage networks and acted upstream to enhance the quality of sludge produced by implementing pollutant controls in our wastewater treatment networks (through our Actipol method). Veolia Eau has finalized a reference and certification system defining the applicable requirements for a sewage system for the production of quality sludge to be used as compost. In addition, we promote the agricultural recovery of sludge through composting and engage an independent certifying body to audit our composting and agricultural recovery networks. This recovery is conducted in conjunction with the agricultural recovery of the portion usable for fertilization from household waste.

We produced 1,006.1 thousands of tons of compost in 2007, 45.8% of which was eligible to be used in agricultural activities.

We have initiated a quality enhancement program for organic material produced from organic waste and a program to evaluate their agricultural impact (the Quali-Agro program led by CRPE our center for research on waste energy services) in coordination with the INRA. We are also active in the rehabilitation of polluted soils. Relying on several processes, including thermal absorption, Veolia Propreté processes almost all of the pollutants present in the soil at industrial sites.

Air Pollution

Limiting Greenhouse Gas Emissions

Certain of Dalkia s activities (in particular its combustion installations with thermal output greater than 20 MW) are subject to the provisions of European Directive 2003/87/EC of October 13, 2003, which establishes a quota exchange system for carbon gas emissions. This system has been in place among EU member states since the beginning of 2005.

Direct and indirect (energy consumption-related) greenhouse gas emissions (including biogas discharges) on sites that we managed in 2007 amounted to 42.8 million tons of CO_2 (carbon dioxide) equivalent, due to growth in our business. Given the differing national and international methods for measuring the production and emission of methane at waste landfills, we are unable to provide a reliable measure at this time. We have decided to further our knowledge of measuring methods, notably through participating in working groups of international authorities (WBCSD and WRI). The work of elaborating and attempting to reconcile the different methods should make it easier to identify a single method which could serve as a reference for all of our sites and allow for a homogenous and comparable reporting method.

We are also contributing to a reduction in greenhouse gas emissions, both by reducing our direct emissions and by avoiding emissions which would have been produced without Veolia Environmental Services. Among our actions to reduce greenhouse gas emissions, Veolia Environmental Services continues its efforts to implement and optimize biogas collection and recovery systems in its landfills. 90 waste landfills for which we control investments are equipped with collection and biogas recovery systems. In 2007, our efforts contributed to an overall decrease in CO_2 of 24.71 million tons.

Other Emissions

Installations that we operate mainly emit sulfur and nitrogen oxides (SO_X and NO_X), carbon monoxide (CO), volatile organic compounds and dust. Emissions of SO_X from waste incineration units (hazardous and non-hazardous) amounted to approximately 90 grams per ton of incinerated waste in 2007.

Veolia Transport, in partnership with ADEME, is performing research to identify and assess the systems in the market capable of reducing the NO_X emitted its buses and coaches.

We attempt to reduce our emissions further below regulatory minimums by (i) improving the treatment of emissions and developing better technologies (treatment of incineration fumes by Veolia Propreté, improvement of transportation vehicle emissions for Veolia Transport, low NO_x-emitting combustion technologies for Dalkia) and (ii) reducing consumption and encouraging the use of cleaner fuels (low-sulfur coal, natural gas, GNV for combustion installations and vehicles or electric cars).

Back to Contents

Furthermore, Veolia Transport continues to pursue its efforts to reduce polluting emissions (CO_2, hydrocarbons and particles) from its fleet of passenger vehicles. In 2006, a new scope of reference was defined, corresponding to 80% of its 2005 bus and coach fleet. Emissions reduction targets have been set for the end of 2008: 8% for carbon monoxide unit emissions (CO), 14% for hydrocarbons (HC) and 15% for particles. Veolia Transport also continues to pursue its commitment to train its drivers in environmental performance. These training efforts allow not only for better comfort for passengers and a reduction in polluting emissions but also for substantial gas savings to be achieved. In 2007, the number of employees being trained increased to 55.9%.

With respect to NO_x emissions, over the last few years Dalkia has carried out an evaluation program relating to available emissions reduction technologies (including fuel oil emissions, recycling of fumes, air staging, and combustion modeling).

Veolia Propreté has developed a semi-permanent dioxin emissions control method during waste incineration, allowing for a control of the flow of pollutants emitted throughout the year. We offer this reliable and efficient measurement technique to all of our clients.

Noise and olfactive pollution

We have also developed new treatment and storage techniques for odors, particularly in wastewater treatment plants and landfills for household waste. We also use new and more silent technologies in some of our installations, including special wall coatings, sound traps and exhaust gas exit silencers for cogeneration installations or transport vehicles.

Preserving biological balance, natural environments and protected species

We included the protection of biodiversity in the first undertaking of our Sustainable Development Charter and since 2004 have developed an approach based on the nature of our businesses impact and the implementation of our Environmental Management System.

To distinguish our impact, we rely on an internal expert who is primarily responsible for the analysis of biological tools used to evaluate the ecological state of marine and land life. Moreover, we work with a number of universities and institutions in order to further our knowledge through innovative research programs covering the interactions between our activities and the functioning of ecosystems.

We also carry out a number of management plans with the aim of informing our employees and promoting best practices. Among the latter, the Geographical Biodiversity Information System allows us to visualize the locations of ecological zones of interest around our main facilities (Hotspot of the International Conservation Organization).

In order to improve the structure of our policies, we are currently working on defining a methodology allowing sites to carry out biodiversity diagnostics and to implement appropriate action plans.

In France, numerous activities fall under the control of either the ICPE (facilities classified for environmental protection) or its equivalent. Therefore, all business development is conducted in tandem with the preparation of environmental impact studies concerning very precise aspects of flora and fauna. The management of environmental impact is accordingly a constant preoccupation for our different business operations (including waste treatment, decontamination stations, combustion facilities and railway depositories)

Evaluation or certification regarding the environment

Our activities have been subject to environmental certification, both external (ISO) and internal, for a long time. In 2002, we committed to implementing an environmental management system covering 80% of our activities by the end of 2008. Subject to the circumstances of each of the entities concerned, this is a voluntary step resulting in general application of the ISO 14001 certification standards. We currently have 939 sites covered by an ISO 14001 certification.

Back to Contents

Compliance with applicable legal and regulatory provisions

Our environmental management system includes, among other things, an environmental audit program that allows us to monitor our sites regulatory compliance, as well as their compliance with contractual obligations and group standards. We have defined a general framework to ensure consistency of the audit systems developed by our divisions, and each of our divisions remains responsible for the definition and implementation of its own system. We surpassed our goal of conducting audits for 80% of priority sites in 2005. Priority sites are drinking water production sites and urban treatment stations, waste treatment sites, Dalkia s classified installations and several of Veolia Transport s transportation centers. By the end of 2008, 100% of our primary facilities will be subject to a regulatory compliance audit. These facilities are the most sensitive to environmental impacts. As of December 31, 2007, 89.4% of the primary facilities were subject to a statutory audit for compliance.

Expenses incurred to preserve the environment

Given the nature of our services, a large majority of our expenditures and investments have a direct impact on the environment. Our capital expenditures amounted to €2.642 billion in 2007, which includes not only investments of a contractual nature, but also expenses incurred for research and development, employee training, our certification program and the implementation of our environmental management system.

Prevention of environmental risks

In addition to the measures described above for the reduction of environmental risks, such as research and development or employee training, we have formed an environmental performance department. This department s principal mission is the deployment and management of the Environmental Management System, thereby encouraging consistent objectives and actions among our divisions as well as information sharing and best practices. It leads an environmental management committee, composed of representatives of all of our divisions and representatives from the sustainable development department. A steering committee, made up of a number of members of the executive committee from each division and representatives from various departments (particularly our sustainable development, legal and communications departments) will also be formed to approve environmental management strategy and to report to our executive committee on an annual basis. In addition, our risk department is in charge of identifying, evaluating and managing risks. It relies on our risk committee

We have also established crisis management procedures that cover environmental crisis management, including, in particular, on-call and alarm systems at national and international levels that would allow any necessary measures to be taken as soon as possible.

Reserves and guarantees for environmental risks

As of December 31, 2007, our accrued reserves for site remediation amounted to €539.5 million.

Indemnities and damages paid in 2007 for environmental claims pursuant to court orders

Reserves for litigation consummated in 2007 amounted to €89.8 million, including all types of litigation (tax, employment and other litigation).

International environmental targets

In 2007, the Environmental Management System described above, continued to expand, reaching almost 75% of our subsidiaries worldwide. We are pursuing the goal of extending it to 80% of our relevant businesses by the end of 2008.

Intellectual Property

We own a significant number of patents and trademarks in France and other countries around the world that are of value to our business. However, we believe that the diversity of our patents and trademarks does not make any of our activities dependent on any one of these patents or trademarks individually. Moreover, we believe that our activities are not materially dependent on any one license that we may own, or on any one industrial, commercial or financing contract. We also believe that we are not materially dependent upon any particular contract or client.

Back to Contents

Marketing

We market our products and services by continuously offering to provide a more comprehensive range of environmental services to clients. We often sell our products and services by responding to requests for consultations. These may be highly regulated events when it comes to a public authority conducting a public bid tender, but generally we are able in such situations to take advantage of our reputation and know-how and propose a solution that is best adapted to a client s needs. In the absence of a formal bidding procedure, which is generally the rule for commercial services clients, we analyze the environmental service needs of prospective clients and demonstrate to them how our services could improve the efficiency of their operations. See Contracts. For more information regarding marketing efforts by each of our divisions, see Our Services.

Seasonality

Because of the diverse nature of our operations and our worldwide presence, our business is typically not subject to material seasonal variations. Our results are only slightly affected globally. Nonetheless, certain of our businesses are subject to seasonal variation. Dalkia realizes the bulk of its operating results in the first and fourth quarters of the year, corresponding to periods in which heating is used in Europe. In our water division, household water consumption and related treatment services tend to be higher between May and September in the northern hemisphere, where Veolia Eau conducts most of its activities. In transportation, SNCM s activity is strongest in the summer season.

Raw Materials

We purchase raw materials on a worldwide basis from numerous suppliers. We sometimes secure our supply of materials through medium-term and long-term contracts. We have not experienced difficulties in obtaining sufficient amounts of raw materials and supplies in recent years and we do not have any reason to anticipate any material difficulties in the future. However, the price of raw materials and supplies may vary substantially.

Energy prices have fluctuated widely in the past few years. After a lull at the end of 2006, Brent oil doubled in price per barrel from its lowest level in January 2007 (US$49) to its price in February 2008 (US$101), due in part to fears of potential supply problems in light of the geopolitical tensions in major oil producing countries (Nigeria and Venezuela), as well as OPEC s reluctance to raise its production quotas to respond to strong global growth in 2007. Although the slowdown in the American economy is likely to contain any further price volatility, the market expects the price per barrel to remain high.

We were able to limit the impact of the rise in the price of raw energy materials on results in 2007 since our contracts typically contain price adjustment and/or indexing provisions designed to compensate us for increases in the cost of providing our services. Such provisions include indexing clauses that take into account the variation of certain parameters, review clauses in the case of an increase in certain parameters above a given level, hardship clauses (unforeseeable changes due to extraordinary circumstances) or re-adjustment clauses. These provisions therefore assist us in passing along a portion of any rise in energy or raw material prices to clients (subject to a possible time period in which we must wait to assess the impact of a price adjustment).

In the transportation division, numerous contracts contain indexing clauses that take variations in fuel costs into account, which significantly reduces the impact of a rise or fall in fuel prices. In certain contracts, especially those involving the United States, we are entitled to full compensation in the event of rising fuel prices.

In the waste management division, collection services involving non-hazardous solid and liquid waste are the most sensitive to fluctuations in fuel prices. However, for clients that have contracts with us, indexing clauses in their contracts generally allow us to pass along a significant portion of our increase in such costs in the prices we charge to clients. For clients not bound by contract, increases in fuel costs are either fully or partially passed along to them through an updating of fees or through negotiation.

In the energy services division, the situation with respect to combustible materials used for its activities is similar to that described above. With respect to gas supplies in particular, the deregulation of the market has not altered our use of indexing clauses in our contracts. We have developed the skills necessary to manage and optimize our gas supplies within the new market environment.

Back to Contents

Insurance

Objectives of Insurance Procurement Policy

Our insurance procurement policy for all of our operating divisions has the following objectives:

maintaining common insurance policies to establish a coherent risk transfer and coverage policy in order to maximize economies of scale, while taking into account the specificities of our businesses and legal or contractual constraints; and

optimizing the thresholds and the means for accessing the insurance or reinsurance markets through use of appropriate deductibles.

In 2007, we continued to seek to optimize the amount of insurance premiums we paid to outside insurers.

Implementation of Insurance Procurement Policy

Policy

Our strategy with respect to insurance is to (i) establish a global insurance coverage policy to cover our activities, based in particular on the needs expressed by our subsidiaries, (ii) select and sign contracts with outside providers (such as brokers, insurers, loss adjusters), (iii) manage consolidated subsidiaries specializing in insurance or reinsurance coverage, and (iv) lead and coordinate the network of insurance managers present among our principal subsidiaries.

Implementation

The implementation of an insurance coverage policy aimed at covering risk is carried out in coordination with our global risk management process. Implementation is affected by the insurability of risks related to our activities, by the market availability of insurance and reinsurance, and by the relationship between premiums and the level of coverage, exclusions, limits, sub-limits and deductibles.

In 2007, we undertook actions principally related to:

the readjustment of retention levels (retained risk) based on an analysis of risks and loss history and an evaluation of the costs and coverage proposed by insurers;

the reinforcement of efforts to identify, prevent and protect against risks thanks in particular to a rating system for the property damage and business interruption risk profile for our most important facilities around the world;

the communication of detailed information regarding our company to the insurance and reinsurance markets;

the renegotiation of general liability and property coverage; and

extending our Group s coverage; and

the organization of broker services for the placement and administration of our insurance programs.

Main Group Insurance Policies

General Liability

A general civil liability and environmental damage program was subscribed to on July 1, 2005, around the world (excluding the U.S. and Canada) for a period of three years. Principal coverage is up to €50 million per claim and per year. For the U.S. and Canada, different contracts cover general liability and damage to the environment on behalf of Group subsidiaries, based on local conditions, in an amount of up to US$50 million per claim and per year.

For all Group subsidiaries worldwide, an insurance program provides excess coverage for up to US$450 million, thereby giving us total coverage of US$500 million throughout the insurance period. This program includes coverage for environmental liability for damage sustained by third parties as a result of a sudden and accidental event.

Back to Contents

Our liability for terrorism policy was renewed under our general liability program on July 1, 2007 for a twelve-month period with a total coverage of US$165 million per claim per year.

Further, certain activities, such as maritime transport, automobile and construction, have their own specific insurance policies.

Property Damage and Business Interruption Policies

All four of our divisions maintain property damage insurance policies to cover assets that they own as well as those that they operate on behalf of clients. Our global insurance program provides either business interruption coverage or additional cost of working coverage depending on such subsidiaries exposure and their capacity to use internal or external solutions to ensure service continuity. These policies contain standard market terms. The level of premiums, deductibles and sub-limits for exceptional socio-political or natural events reflects the terms proposed, or sometimes imposed, by insurers in the markets in which the risk is underwritten. Group insurance coverage implemented on January 1, 2007 (for a term of three years) carries a limit per claim of up to €300 million. Some of this coverage contains further sub-limits per claim or per year.

Self-Insured Retention and Deductibles

For any insured claim or loss, we remain liable for the deductible amount set out in the relevant policy. The amount may range from several thousand euros to more than one million euros.

In 2007, Codeve Insurance Company Limited, our insurance subsidiary, had a retention (retained risk) of €2.5 million per claim for property damage and consequential financial losses, and €5 million for insurance of general liabilities.

Regarding both property damage and general liability, Codeve Insurance Company Limited has put in place reinsurance contracts in order to limit its exposure to frequency risks (stop loss -type contracts) and risks tied to intensity (excess claim-type contracts).

In general, the insurance coverage described above constantly evolves as a function of ongoing risk evaluation, market conditions and insurance coverage available. We attempt to have our known operating risks covered by insurance when it is economically feasible to do so. However, we cannot guarantee that we will not suffer damages or losses that are not fully or partially covered by insurance.

ORGANIZATIONAL STRUCTURE

Our company is divided into four operating divisions corresponding to each of our four business segments and a number of centralized corporate departments that lead and coordinate the actions of teams present in each of the four operating divisions. We believe that this organizational structure encourages the coherent development of our group by reinforcing its identity, maintaining solidarity and cohesion, favoring economies of scale and encouraging professionalism through the sharing of best practices.

See History and Development of the Company for a description of the history of the creation of our organizational structure.

59

Back to Contents

PROPERTY, PLANTS AND EQUIPMENT

We use various assets and equipment in order to conduct our activities, with respect to which we have very different rights.

In the course of our concession businesses, we must ensure the provision of public services (such as distribution of drinking water, heat, transport networks or household waste collection services), for payment for the services rendered. We usually manage these collective services (also referred to as general services, general economic services or public services) under contracts signed at the request of public entities that maintain the control of assets relating to such collective services. These concession contracts are characterized by the transfer of an operating right for a fixed term, under the control of the public authorities, through appropriate installations built by us or put at our disposal whether free of charge or not. These installations normally consist of pipelines, water treatment and purification plants and pumps in our water division, incineration plants in our environmental services division, and heating and co-generation plants in our energy services division.

We are usually contractually bound to maintain and repair assets managed under these public service contracts. If needed, the related repair and maintenance costs are covered by a deposit for contractual commitments in the event of delays in work. The nature and duration of rights acquired and our obligations in respect of these contracts differ depending on the nature of the public services we provide.

Within the scope of our outsourcing contracts with industrial clients, BOT (Build, Operate, Transfer) contracts or incineration or co-generation contracts, we may grant our clients a user right for a group of assets in return for rent included in the general payment of the contract. Under the IFRIC 4 standard, we thereby become a credit-lessor with respect to our clients. The corresponding assets are therefore recorded in the consolidated balance sheet as operating financial assets.

In some cases, we are also the full owner of industrial installations, mainly for activities undertaken outside of global contracts in our waste management division (CSDUs, storage centers for ultimate waste and special waste treatment plants), in our energy services division (co-generation plants) and in our transportation division (buses, boats and trains). These assets are recorded in the consolidated balance sheet as tangible assets.

Our property, plants and equipment are subject to certain charges, such as maintenance and repair costs and closure or post-closure costs. We do not seek to own offices. Accordingly, we rent a building located at 36/38, avenue Kléber, 75116, Paris, France that we use as our corporate headquarters. Our and our divisions senior management have maintained their offices in this building since May 2002, where certain central functions are performed.

Assets financed through direct financing leases, which can be entered under any of the three categories mentioned above, represented a net amount of €900 million as of December 31, 2007. The total gross value of our property, plants and equipment as of December 31, 2007 was €28,711 million (a net value of €17,820 million as of December 31, 2007, representing 38% of total consolidated assets), compared to €25,833 million as of December 31, 2006 (a net value of €15,724 million).

RESEARCH AND DEVELOPMENT (R&D)

Our activities are at the crossroads of the main challenges of the modern world: urbanization, access to water, the confrontation with climate change. The solutions to these current challenges require a global industrial and technological approach. This global approach lies at the core of our Research and Development (R&D) strategy.

The focus of our R&D currently includes resource management and preservation, limiting environmental impact, improving quality of life and developing sources of renewable energies. Fighting climate change is also a top priority. Our research efforts relate principally to optimizing energy within our facilities, collecting and storing carbon dioxide and developing bioenergy sources and clean transport methods.

In each of these areas, our expertise and our technologies are complementary. This is the case, for example, in the area of sludge, biomass, biofuels, prevention of Legionnaires disease, or treatment of factory effluents. Our network of international experts and the application of our research programs at different geographical study sites allow us to seek answers to specific local problems in contexts that may be adaptable to other regions of the world. In all their work, our research teams are committed to responding to environmental challenges while ensuring our competitiveness. For us. R&D is a priority area: the 45% increase since 2003 in resources allocated to these efforts is evidence of this commitment.

Back to Contents

Research and Development Resources

Our research activities are overseen by Veolia Environnement Recherche et Innovation (VERI), which since January 2007 has fulfilled the missions of our Research, Development and Technology department, or Research Department". In 2007, this department consisted of nearly 800 experts worldwide (including 400 researchers and 400 on-site developers) with a total budget of approximately €118 million. For the year ended December 31, 2007, research expenses totaled €84.6 million, which, when added to operational development costs, amounts to an estimated budget of €118 million.

The Veolia Environnement Research Department works on behalf of all of our divisions, given that their needs are similar. In particular, all seek to solve environmental and health problems with the aid of numerous tools, such as modeling and chemical and bacteriological analysis. By working on behalf of all divisions, the Research Department helps to ensure that our R&D activities remain consistent with our strategy.

We have four main research centers that operate as a network. Located in the Ile-de-France region surrounding Paris and specializing in water, waste, energy and transportation, the centers have related units or correspondents in France and abroad (in the United Kingdom, Australia, Germany, the United States and Australia).

In 2003, we established an international Research and Development correspondent network to identify and analyze specific local technical development and innovation needs. Certain research centers abroad have acquired specialized expertise and are partners with centers in France. These research units add to our technological expertise. For example, in the area of water, the Berlin Center of Competence for Water (*Kompetenzzentrum Wasser Berlin*) is the reference point for the protection of water resources, while Australia has become the reference point for water reclamation information.

The research teams include experts in the fields of health, environment and analysis who help anticipate the needs of and provide support to operators:

The Environment Department runs the research programs centered on the management and protection of water resources, environmental model building as well as on the evaluation of risks and environmental impacts (ACV);

The Health Department evaluates the risks and health benefits linked to our activities in collaboration with doctors and environmental health specialists. It preventively identifies emerging health dangers and oversees the health and safety of our services.

The Environmental Analyses Center (EAC) conducts our analytical research activities and manages a network of laboratories. It carries out environmental and health monitoring control analyses for our entire Group. It develops measurement methods to rapidly and precisely identify pollutants or microorganisms in a very low concentration.

Innovation: a rationalized method

Our research team aims to provide innovative practical solutions within its areas of expertise, which are crucial for our competitiveness. R&D is driven by a rationalized method allowing technological risks to be mastered, and allowing rapid progress and the creation of successful commercial applications that are both reliable and effective. The main steps in the innovation process are:

Strict regulatory, technological and commercial monitoring that enables us to anticipate future needs and proceed with the launch of new research programs as quickly as possible. Laboratory or field tests are then carried out to verify the feasibility of the research. At this stage, analytical modeling may be carried out, depending on the circumstances (that is, exploring functionality and cost containment potential).

If the tests are successful, a prototype is built in the laboratory or on site in order to evaluate and refine the technology.

The next phase is the development of a pre-industrial unit to be installed on an appropriate site and operated by personnel.

For each step in the innovation process, various entities (research teams, university or private laboratories) are called upon to collaborate. At each step of the innovation process, researchers use sophisticated tools, such as digital fluid mechanics. This technology enables researchers to simulate the operation of installations and test a larger number of scenarios to improve efficiency. Over a shorter period, such software enables researchers to optimize test protocols.

Back to Contents

Our researchers are part of an international network. They work closely with other research teams, each benefiting from the expertise of the others. While these collaborations enrich the knowledge of our R&D group and keep it up to date, they also provide productive opportunities for scientific advancement and capitalize on our partners experience. Researchers also work with several top universities and participate in research programs for national and international institutions. They also share their technological knowledge with industrial companies.

Main Research & Development Areas

The four areas that are at the core of our current R&D efforts are:

The management and preservation of natural resources

Research on sea water desalination processes, collection of rain water or re-use of wastewaters after treatment aimed at meeting the growing need for water. The mechanization and automation of sorting processes for used materials, as well as the design of recycling processes for end of life products or factory effluents, encourage the re-use of materials found in waste at a competitive cost.

Limitation of environmental impacts

The improvement of treatment techniques for factory effluents and hazardous waste makes it possible to limit the dispersion of pollutants in the environment and better respect biodiversity and human health. As a leader in environmental services, we must set an example in reducing the impact of our activities. Efforts are therefore focused on reducing the waste generated by our facilities, reducing noise and olfactory pollution, and developing cleaner means of transportation.

Improving quality of life

The perfecting of used water decontamination and of waste management systems tailored to developing countries improves the environmental safety of non-Western cities and helps prevent epidemics from spreading on a worldwide scale. It also preserves the quality of water and thus the health of those who consume it. Along with the development of clean means of transportation, the organization of mass transportation limits greenhouse gases and atmospheric pollution. It improves living conditions in major cities and encourages economic development in developing countries.

The development of alternative energy sources

As carbon dioxide emissions continue to exceed the absorption capacity of the biosphere, the production of substitute fuels and biofuels, the recycling of biomass as energy, the development of industrial applications of fuel cells and the optimization of the performance of our waste incineration units help limit emissions of greenhouse gases. These measures also help respond to the increasing demand for energy, address the depletion of fossil fuel reserves, and further the attempts to economize hydrogen.

More than 70% of our research programs have the goal of limiting greenhouse gas emissions. Relying on an approach aimed at, first, not generating greenhouse gases, and, when that is impossible, reducing those emissions, we aim to control needs, improve processes and energy efficiency and to make use of more renewable energy sources. We also

strive to put in place processes to capture, store and upgrade greenhouse gases and anticipate future constraints resulting from climate change.

Improvements for 2007

A research platform dedicated to high-performance systems for the treatment of drinking water

In September 2007, we opened a 1000 square meter test hall near the drinking water plant of Annet-sur-Marne near Paris, France. Dedicated to studying high-performance systems for the treatment of drinking water, it brings together almost twenty pilot projects. Reducing organic matter, as well as the inconvenience of chlorination, especially with respect to the taste of water, and undesirable byproducts and controlling emerging health risks are the main objectives. Research relating to technological performance is combined with the energy and environmental results in order to select the most reliable processes. In particular, two kinds of treatment are studied in the hall:

Hybrid processes (traditional system plus membranes) that are grouped within the Opaline system (trademark filed by our Group): they associate ultra filtration membranes (0.01 micron pores) with absorbents, resin or activated carbon. They are currently being tested on an industrial scale to treat waters with high organic matter content.

Back to Contents

Nanofiltration: in this system, the pores of the membranes are ten times closer together than in hybrid systems. Implemented for over ten years, we are seeking to optimize this system in order to reduce related energy consumption, avoid clogging and limit the impact of effluents.

A research program focused on the catchment, transport, use and storage of carbon dioxide

By 2050, we expect this solution to contribute to a 20% to 30% reduction of greenhouse gases worldwide. It has been the subject of a research program since 2007, although we have been studying it since 2005. The goal of this program is to create a new means of reducing our greenhouse gas emissions, increase our expertise and explore new markets, along with the ability to offer a complete range of services relating to the reduction of greenhouse gas emissions. To this end, the program s objectives are to find catchment solutions that are appropriate for the various types and sizes of facilities within our Group, to study the various transport and recycling systems adapted to the geographical position of our facilities, to establish an acceptable risk framework for this solution, and to set up pilot projects in order to enhance our expertise in catchment, transporting, recycling and storing of carbon dioxide. The first on-site research pilots will be launched in 2008.

Development and reinforcement of the bio-energy program

The use of biomass and waste (solid and liquid) as an energy source represents a solution not only for the conservation of fossil fuels but also for the promotion of renewable energies while minimizing environmental and health risks. One of the objectives of our Research and Development department is to develop, evaluate, and provide support for the use of bio-energies, such as solid combustible waste, biogas from storage centers, mud from purification stations and biofuels.

This program was reorganized in 2007 through the creation of three major projects: biofuels, biomass depositing and energy recycling. Research teams were reinforced in order to implement these projects.

A research program on atmospheric pollution modeling

A research program for atmospheric pollution modeling was launched one year ago. Its approach lies in developing software that is applicable to all of our activities, while its aim is to understand better the spreading mechanisms of atmospheric pollution, to track pollution and to gain a better understanding of emissions in order to control pollution concentration levels in the environment. The innovative aspect of this approach is that, in the future, we will be able to monitor in real time the pollutant concentrations in a given location and to make changes to our activity based on such concentrations or measures, in particular during the design and location selection phases of facilities. This model is based on exiting flows, weather conditions, topography and land use. In the long term, controlling pollution levels by adapting exit flows will be possible using local weather forecasts.

A research program to limit the polluting emissions of composting platforms

Studies led by our research teams aim to optimize the design of composting platforms, to control and limit their health and environmental impact and to guarantee the traceability, the agronomic quality, and the harmlessness of compost. Our R&D teams have developed an urban organic waste composting process (sludge, household waste and the like). The modeling of windrow airing systems coupled with an innovative patented composting technique makes it possible to ensure compost purification, in addition to reducing the energy consumption of current industrial facilities as well

as odors and greenhouses gas emissions. This is particularly the case for nitrous oxide which has a global warming potential that is 310 times stronger than that of carbon dioxide.

Advances in biofuels research

Veolia Transport s goals include encouraging the use of biofuels by helping local communities make the right choices among new energies and renewing the fleet of motor vehicles to reduce their environmental impact and greenhouse gases. To this end, our researchers have tested, evaluated and approved a biodiesel fuel called Diester, made with 30% of canola seed ester, that does not alter the performance of motors. Particle filter tests on motors fueled by biodiesel are currently being conducted. A more widespread use of biofuels in the Veolia Transport fleets is currently being considered. In cooperation with Veolia Propreté, researchers are currently testing a system of esterification of used oils mixed with diesel fuel, a successful example of the reuse of collected waste.

Back to Contents

A research program to optimize the electric consumption of street railways

Non-polluting, silent, environmentally friendly and high-service, street railways have been making a comeback since the 1990 s. However, on street railway networks, electricity consumption is a variable that has not yet been completely mastered. With the help of the research conducted on the Rouen and St-Etienne networks, Veolia Transport s Research and Innovation Center has prepared a complete energy assessment of the equipment tested. For example, it has identified the amount of electricity used by heating systems in the winter, as well as the effect of driving on a vehicle s electricity consumption. An energy conservation policy will be established and the optimization of electric storage on board will be assessed.

Back to Contents

ITEM 4A: UNRESOLVED STAFF COMMENTS

Not Applicable.

Back to Contents

ITEM 5:

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our operations should be read together with our consolidated financial statements and related notes included elsewhere in this report. Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and adopted in the European Union.

The following discussion also contains forward-looking statements that involve risks and uncertainties, including, but not limited to, those described under Item 3. Key Information Risk Factors. Our results may differ materially from those anticipated in the forward-looking statements. See Forward-Looking Statements at the beginning of this document for a more detailed discussion of the risks and uncertainties to which our results and financial condition are subject.

OVERVIEW

Major Developments in 2007

Overview

Our strategy of developing environmental businesses through long-term contracts enabled us to record a marked increase in activity in 2007, with a 14% increase in revenue based on current exchange rates (14.9% at constant exchange rates). This growth was accompanied by an improvement in adjusted operating income of 11.1% and in adjusted net income attributable to equity holders of the parent of 22.5% (adjusted operating income and adjusted net income are non-GAAP measures that are defined under Presentation of Information in this Section Non-GAAP Measures). Operating income increased by 17.1% in 2007, and net income attributable to equity holders of the parent increased by 22.3%.

These performances are the result of our key development choices, focusing primarily on Europe, Asia and North America in all areas, and our ability to generate savings and synergies and to renew our contracts.

We developed our business in 2007 through new contracts and targeted acquisitions. These acquisitions enabled us to complete our business range in countries where only certain activities were represented. We significantly strengthened our position in Germany through the acquisition of Sulo (Environmental Services) and a number of smaller companies in the Energy Services sector. Similarly, we extended our presence in the United States, where we were already active in the Environmental Services, Water and Transportation sectors, through the acquisition of Thermal North America Inc, a company active in Energy Services. In China, we benefited from local privatizations in order to add new businesses in the Water, Environmental Services and Energy Services sectors.

The financial crisis triggered at the beginning of the summer by difficulties in the sub-prime lending market did not have a significant impact on us in 2007, particularly with respect to our liquidity and financing capacity. The broader economic effects of the crisis, in particular in the United States, did not impact our activities in 2007. The strengthening of our financial structure through a €2.6 billion share capital increase completed on July 10, 2007 and our standard long-term financing policy protected us against fluctuations in the credit market, despite a slight increase

in net financing costs.

New commercial success within growth markets

We won several major contracts in 2007:

In January 2007, Veolia Eau won its 21st contract in China. This contract for a 30-year concession with the Lanzhou Water Supply Company in the capital of Gansu province, represents total cumulative revenue estimated at €1.6 billion.

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In January 2007, Veolia Eau won a contract to build, finance and operate a reverse osmosis seawater desalination plant in the Sultanate of Oman. This 22-year contract represents total cumulative revenue estimated at €434 million, including revenue from the construction of the new plant.

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At the end of January 2007, Veolia Propreté won a contract to operate a waste-to-energy facility in Pinellas, Florida. This 17-year contract represents total cumulative revenue estimated at €356 million.

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On March 15, 2007, as part of a consortium, Veolia Eau won a contract to design, build, operate and maintain a reverse osmosis seawater desalination plant in Campo de Dalias, in southern Spain, representing total cumulative revenue estimated at approximately €128 million for the consortium and total consolidated revenue estimated at €78 million for Veolia Eau.

Back to Contents

- In April 2007, Veolia Transport, as part of a consortium, won a 30-year contract to operate Leslys, the future tramway line between the city of Lyon and its airport Saint Exupéry; this contract represents total cumulative revenue estimated at €360 million.

In April 2007, Veolia Eau signed a new contract to design, build and operate one of the largest water treatment plants in the United States. This contract to expand the capacity of a regional surface water treatment plant in Tampa Bay, Florida, represents total cumulative revenue estimated at €108 million.

- In April 2007, Dalkia won its first contract to operate and develop a heating network in China, to serve the town of Jiamusi, in Heilongjiang province. This 25-year contract represents total cumulative revenue estimated at €1 billion.

- On May 7, 2007, Veolia Eau won a new contract in Japan to operate and maintain the wastewater treatment plant of Chiba, near Tokyo. This 3-year contract represents total cumulative revenue estimated at €17.8 million.

- In May 2007, Dalkia took over the contract to build and operate the southwest district heating network in Harbin, the capital of Heilongjiang province located in the northeast of China. This initial transaction represents an investment of €70 million, and anticipated revenue for the first year of operation is €19 million.

- On June 5, 2007, the *Conseil d'Etat* (the highest French administrative court) issued a ruling in favor of SNCM. The public service delegation contract was awarded on June 7, 2007, effective July 1, 2007, for a term of six and a half years and represents total cumulative revenue estimated at €1.2 billion.

- On June 14, 2007, Veolia Eau won its 22nd contract in China. This 30-year contract for the comprehensive management of the drinking water public service and the operation of a wastewater treatment plant in the leading economic city of Haikou, the capital of Hainan Island in southern China, represents total cumulative revenue estimated at €776 million.

- On June 28, 2007, Veolia Water Solutions & Technologies, through its subsidiary SIDEM, was selected to design and build in Saudi Arabia one of the largest desalination plants in the world. Considered of national importance, the plant will provide 800,000m^3/day of desalinated water to the industrial city of Jubail and a province of Saudi Arabia (Marafiq) - a desert region facing massive industrialization plans and a growing population. This contract represents

total cumulative revenue estimated at USD945 million (€647 million).

- In June 2007, Veolia Transport won a 10-year contract to operate the ninth line of the Seoul subway. Total cumulative revenue from this contract is estimated at €400 million.

- On July 18, 2007, Veolia Eau won a major contract to design, build, operate and maintain a reverse osmosis desalination plant in Sydney, Australia. This contract, which seeks to provide a secure and reliable supply of drinking water to the city of Sydney, represents total cumulative revenue estimated at €540 million.

- On August 29, 2007, Veolia Eau won a USD805 million (€547 million) contract to build a desalination plant in the United Arab Emirates. The plant will be built by SIDEM (a subsidiary of Veolia Eau) and will be located in Qidfa, in the Emirate of Fujairah.

- On August 30, 2007, Veolia Propreté was selected by Shropshire Waste Partnership (UK) to provide integrated waste management services. This 27-year contract represents total cumulative revenue estimated at €1,030 million.

- On September 27, 2007, Veolia Eau was selected to supply drinking water to 3 million inhabitants of Tianjin, a city enjoying one of the highest economic growth rates in China. The 30-year contract represents total cumulative revenue estimated at €2.5 billion.

- On October 1, 2007, Dalkia announced the signature of a contract for the comprehensive management of the largest hospital complex in Brazil. This 15-year contract represents total revenue of €186 million.

- In August 2007, Veolia Propreté signed a contract to build and operate a waste storage facility in South-East China. This 30-year concession represents total cumulative revenue estimated at €92 million.

- In November 2007, Veolia Transport won the ferry service contract for the Morbihan Islands (Groix, Belle-Ile-en-Mer, Houat and Houëdic) in France. This 7-year contract started on January 1, 2008 and represents total cumulative revenue estimated at €154 million.

Back to Contents

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On December 6, 2007, Veolia Eau won a 10-year contract in the United States to manage the wastewater system serving a population of 1.1 million in the greater Milwaukee area. This contract represents total cumulative revenue estimated at €272 million.

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On December 21, 2007, Veolia Eau won a second contract for the operation and maintenance of the Fujairah IWPP desalination plant in the United Arab Emirates. This operating and maintenance contract is for a 12-year period, beginning in the summer of 2010 and represents total cumulative revenue estimated at €71 million.

We also strengthened our position as a market leader through targeted acquisitions generating growth and cost synergies:

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In North America (Canada), Veolia Propreté purchased Ecolocycle for €19.2 million;

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In the Asia-Pacific region, Veolia Propreté purchased Cleanaway Asia for €23.2 million;

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In the Central European area, Veolia Energie purchased Pannon Power in Hungary for €75.2 million, Kolin in the Czech Republic for €27.7 million and Sinesco in Hungary for €26.4 million.

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On April 27, 2007, Veolia Environnement announced the signature of an agreement to acquire Sulo, the German number two in waste management and market leader in the collection of municipal waste and packaging, for an enterprise value of €1,450 million (including financial debt). An agreement was signed on July 29, 2007 to sell the ET Division (manufacture of plastic containers) of Sulo, considered non-core, for an amount of €172 million (including financial debt). The acquisition was finalized on July 2, 2007 and had an impact of €627.6 million on revenue for the year ended December 31, 2007;

On May 31, 2007, Veolia Propreté announced the signature of an agreement for the acquisition of a controlling interest in TMT, an Italian subsidiary of Termomeccanica Ecologica specialized in waste management and treatment. The transaction concerns 75% of the shares based on an enterprise value (100%) of €338 million. This acquisition was finalized on October 3, 2007;

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On June 12, 2007, Veolia Energie signed an agreement to acquire Thermal North America, Inc., a privately owned company with the largest portfolio of district heating and cooling networks in the United States, for an enterprise value of USD788 million. The acquisition was finalized on December 12, 2007;

On August 9, 2007, Veolia Eau signed an agreement to purchase the non-regulated activities of Thames Water in the United Kingdom for an enterprise value of €233 million. This acquisition, which was finalized on November 28, 2007, will enable Veolia Eau to participate in the construction and management of major Private Finance Initiatives (PFI) in the United Kingdom and the Republic of Ireland;

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On August 24, 2007, Veolia Propreté signed an agreement to acquire the solid waste treatment business of Allied Waste Industries in the United States, for an enterprise value of €71 million;

On December 24, 2007, Veolia Eau purchased the assets of the Process Services Division of Tetra Technologies. This acquisition seeks to expand Veolia s petroleum refinery waste treatment activities in the United States.

We also pursued our development strategy in 2007 in new businesses that are directly linked to our areas of expertise:

On July 1, 2007, Veolia Water Solutions & Technologies purchased Anox Kaldnes, a company with expertise in biological wastewater treatment.

On October 29, 2007, Veolia Environnement purchased 50% of the share capital of Eolfi, a company specialized in wind-turbine energy, through an €18 million reserved share capital increase.

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On November 20, 2007, Veolia Propreté signed an agreement to purchase the Bartin Group (Bartin Recycling Group), one of the leading French operators in waste recovery and recycling, which reported revenue of €249 million in 2006. This acquisition, combined with recycling activities already purchased in Germany, considerably strengthens Veolia Propreté s position in the Western Europe recycling market. This acquisition was finalized on February 13, 2008.

Back to Contents

We continued our portfolio review during 2007 and made a number of partial and total divestitures, which did not materially impact our operating capacity:

the sale of certain assets owned by recently acquired companies and not included in the development plan, such as the Fawley incinerator in the United Kingdom for €36 million and the Sulo ET division (manufacture of plastic containers) for €172 million;

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the continuation of our partnership in Central Europe with the EBRD which acquired a 10 % stake in the water division company, Veolia Voda (Czech Republic, Slovakia, Poland, etc.), through a €90 million reserved share capital increase;

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the acquisition by the International Finance Company (IFC) and Société de Promotion et de Participation pour la Coopération Economique (PROPARCO) of a 19.45% stake in Veolia Water AMI, the holding company for water division activities in Africa, the Middle East and the Indian sub-continent.

the disposal by the transportation division of its activities in Denmark on August 31, 2007 and its activities in Spain (with the exception of certain contracts including the Barcelona tramway) on November 9, 2007.

Finally, we brought partners in as equity investors in certain consolidated subsidiaries, in order to optimize commercial development opportunities or reduce risk, particularly in China and Morocco.

Presentation of Information in this Section

Definition of organic and external growth

As used in this report, the term organic growth includes growth resulting from the expansion of an existing contract, particularly resulting from an increase in prices and/or volumes delivered or processed, new contracts and the acquisition of operating assets attributed to a particular contract or project.

The term external growth includes growth through acquisitions, net of divestitures, of entities that hold multiple contracts and/or assets used in one or more markets.

Non-GAAP Measures

We use a number of non-GAAP financial measures to manage our business and to supplement our financial information presented in accordance with IFRS. Non-GAAP financial measures exclude amounts that are in the nearest IFRS measures, or include amounts that are not in the nearest IFRS measures. We discuss below the

non-GAAP financial measures that we use, the reasons why we believe they provide useful information and the location in this Section where they are reconciled to the nearest IFRS measures. You should not place undue reliance on non-GAAP financial measures or regard them as a substitute for the nearest IFRS measures. Further, these non-GAAP financial measures may not be comparable to similarly titled measures used by other companies.

The non-GAAP financial measures that we use in this section are the following:

Adjusted operating income and adjusted net income attributable to equity holders of the parent are equal to operating income and net income attributable to equity holders of the parent, respectively, adjusted to exclude the impact of impairment charges and certain items that are non-recurring. An item is non-recurring if it is unlikely to recur during each period and if it substantially changes the economics of one or more cash-generating units. We do not classify an item as non-recurring if the nature of the relevant charge or gain is such that it is reasonably likely to recur within two years, or there was a similar charge or gain within the prior two years. We believe that adjusted operating income and adjusted net income attributable to equity holders of the parent are useful measurement tools because they show the results of our operations without regard to:

impairment charges, which we record when we determines that the value of a cash generating unit is less than its carrying value (as discussed under Critical Accounting Policies Asset Impairment), and which are different from our other items of revenues and expenses used to determine operating income as they depend on management s assessment of the future potential of a cash generating unit, rather than its results of operations in the period in question, and

non-recurring items, which by their nature are unlikely to be indicative of future trends in our results of operations.

Back to Contents

In addition, we use adjusted operating income as a tool to manage our business, for purposes of evaluating our performance, allocating resources internally and as one factor in determining the variable compensation of our senior executives. See Item 6. Directors, Senior Management and Employees Compensation. Adjusted operating income and Adjusted net income attributable to equity holders of the parent are reconciled to operating income and net income attributable to equity holders of the parent, in each case for the years ended December 31, 2005, 2006, and 2007 under Results of Operations Year ended December 31, 2007 compared to Year ended December 31, 2006 and Results of Operations Year ended December 31, 2006 compared to Year ended December 31, 2005.

Net financial debt represents gross financial debt (long-term borrowings, short-term borrowings, bank overdrafts and other cash position items), net of cash and cash equivalents and excluding fair value adjustments to derivatives hedging debt. We use net financial debt as an indicator to monitor our overall liquidity position, and as one factor in determining the variable compensation of our senior executives. Our net financial debt is reconciled to our gross financial debt in Liquidity and Capital Resources Source of Funds Financings.

ROCE or Return on Capital Employed is a measurement tool that we use to manage the profitability of our contracts globally and to make investment decisions. ROCE is the ratio of (i) our results of operations, net of tax, and our share of net income of associates excluding revenue from operational financial assets, divided by (ii) the average amount of capital employed in our business during the same year. Each of these terms is defined, and is reconciled to the nearest IFRS measure, under Liquidity and Capital Resources Capital Expenditures Return on Capital Employed (ROCE) .

Critical accounting policies

We prepare our consolidated financial statements in conformity with IFRS as issued by the IASB and adopted by the European Union. Our consolidated financial statements are affected by the accounting policies used and the estimates, judgments and assumptions made by management during their preparation. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented.

The principal significant estimates and assumptions made by management during the preparation of our consolidated financial statements relate to the accounting policies used in connection with pension liabilities, asset impairment, deferred taxes and derivative financial instruments.

Pension Liabilities

We maintain several pension plans, and measure our obligations under these plans using a projected unit credit method, which requires us to estimate the probability of personnel remaining with us until retirement, foreseeable changes in future compensation and the present value of its liability on the basis of the appropriate discount rate for each monetary zone in which we maintain a pension plan. As a result, we record pension-related assets or liabilities in our accounts and we record the related net expenses over the estimated term of service of our employees.

In accordance with IFRS requirements, we use market yields of high quality corporate bonds with a maturity similar in duration to the pension liabilities to determine the discount rate at the balance sheet date when available. If no such market yields are available, then we use the yields on government bonds with a maturity similar in duration to the liabilities. We estimate future compensation based on inflation rates estimated using a combination of the spread between index linked and non-index linked bonds, current inflation rates, and published statements of central banks

and economists with respect to inflation prospects. We use mortality tables published by national statistical agencies in our evaluations, reviewed periodically to ensure that the latest available tables are being used. The assumptions used to measure pension liabilities as of December 31, 2007 are described in Note 32 to the consolidated financial statements.

As of December 31, 2007, a 1% increase in the discount rate would have decreased our aggregate pension benefit obligation by €248 million and our current service costs by €14 million. A 1% decrease in the discount rate would have increased the benefit obligation by €293 million and the current service costs by €14 million.

As of December 31, 2007, a 1% increase in the inflation rate would have increased our aggregate pension benefit obligation by €226 million and our current service costs by €6 million. A 1% decrease in the inflation rate would have decreased the benefit obligation by €193 million and the current service costs by €6 million.

Back to Contents

Asset Impairment

We perform an annual review of our goodwill and other intangible assets during our long-term planning in mid-year, or more frequently when there is an indication of an impairment loss. If the long-term prospects of an activity appear durably downgraded, we estimate the value of the impairment based either on the fair value less selling costs of the assets related to this activity in cases where we decide to dispose of the activity, or on the higher of fair value less selling costs or value in use, in cases where we decide to retain the activity. We then record a one-time write-off or write-down of the carrying value of our goodwill to bring it in line with our estimates.

When we use fair value less selling costs, we estimate the fair value based on earnings multiples appearing in brokers reports or on published information regarding similar transactions. Our estimate could be significantly different from the actual sales price that we could receive in connection with the disposal of the activity. In addition, actual selling costs could be greater or less than the estimate.

When we use the discounted future cash flows method to estimate value in use, we estimate future cash flows of business units known as cash generating units, and we apply a discount rate to the estimated future cash flows. A cash-generating unit is generally a business segment (i.e., water, waste, energy or transport) in a given country. Our future cash flow estimates are based on the forecasts in our latest long-term plan, plus an appropriate growth rate applied after the period covered by the plan. The discount rate is equal to the risk free rate plus a risk premium weighted for business-specific risks relating to each asset, cash-generating unit or group of cash-generating units.

As of December 31, 2007, a 1% increase in the discount rate applied to each cash generating unit would have resulted in an increased goodwill impairment charge of approximately €52 million, and a 1% decrease in the perpetual growth rate applied to each cash generating unit would have resulted in an increased goodwill impairment charge of approximately €27 million.

Deferred Taxes

We recognize deferred tax assets for deductible temporary differences, tax loss carry-forwards and/or tax credit carry-forwards. We recognize deferred tax liabilities for taxable temporary differences. We adjust our deferred tax assets and liabilities for the effects of changes in tax laws and rates on the enactment date. Deferred tax balances are not discounted.

A deferred tax asset is recognized to the extent that we are likely to generate sufficient future taxable profits against which the asset can be offset. Deferred tax assets are impaired to the extent that it is no longer probable that sufficient taxable profits will be available.

Financial Instruments

The recognition and measurement of financial assets and liabilities is governed by IAS 39, *Financial instruments: recognition and measurement*. Financial assets are classified as available-for-sale, held to maturity, assets at fair value through profit and loss, asset derivative instruments, loans and receivables and cash and cash equivalents. Financial liabilities include borrowings, other financing and bank overdrafts, liability derivative instruments and operating payables. These categories and their implications for our consolidated financial statements are described in Note 1.14 to our consolidated financial statements.

The determination of the proper classification of financial instruments requires management to exercise judgment, and depends in part on our intention regarding a given financial instrument, which is subject to change. Certain financial instruments (particularly derivative instruments that do not qualify for hedge accounting, as described below) are recorded in our consolidated balance sheet at fair value, and the change in fair value from one period to the next is recorded in our consolidated income statement as part of financial income and expense. Certain other financial instruments are recorded at fair value with the change from one period to the next recorded directly in equity, with the change released to the income statement upon sale or impairment. Certain other instruments are carried on the balance sheet at amortized cost basis and subjected to impairment testing. Our determination regarding the classification of a financial instrument can have a material impact on our results of operations and our consolidated shareholders equity.

Back to Contents

Derivative Financial Instruments

We use various derivative instruments to manage our exposure to interest rate and foreign exchange risks resulting from our operating, financial and investment activities. Certain transactions performed in accordance with our risk management policy do not satisfy hedge accounting criteria and are recorded as trading instruments.

Derivative instruments are recognized in the balance sheet at fair value. Other than the exceptions detailed below, changes in the fair value of derivative instruments are recorded through the income statement. The fair value of derivatives is estimated using standard valuation models, which take into account active market data.

Net gains and losses on instruments recorded at fair value through profit or loss include flows exchanged and the change in the value of the instrument.

Derivative instruments may be classified as one of three types of hedging relationship: fair value hedge, cash flow hedge or net investment hedge in a foreign operation:

a fair value hedge is a hedge of exposure to changes in fair value of a recognized asset or liability, or an identified portion of such an asset or liability, that is attributable to a particular risk (in particular interest rate or foreign exchange risk), and could affect net income for the period;

a cash flow hedge is a hedge of exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (such as a planned purchase or sale) and could affect net income for the period;

a net investment hedge in a foreign operation hedges the exposure to foreign exchange risk of the net assets of a foreign operation including loans considered part of the investment (IAS 21).

An asset, liability, firm commitment, future cash-flow or net investment in a foreign operation qualifies for hedge accounting if:

the hedging relationship is precisely defined and documented at the inception date;

the effectiveness of the hedge is demonstrated at inception and by regular verification of the offsetting nature of movements in the market value of the hedging instrument and the hedged item. The ineffective portion of the hedge is systematically recognized in financial items.

The use of hedge accounting has the following consequences:

in the case of fair value hedges of existing assets and liabilities, the hedged portion of these items is measured at fair value in the balance sheet. The gain or loss on remeasurement is recognized in the income statement, where it is offset against matching gains or losses arising on the fair value remeasurement of the hedging financial instrument, to the extent it is effective;

in the case of cash flow hedges, the portion of the gain or loss on the fair value remeasurement of the hedging instrument that is determined to be an effective hedge is recognized directly in equity, while the gain or loss on the fair value remeasurement of the underlying item is not recognized in the balance sheet. The ineffective portion of the gain or loss on the hedging instrument is recognized. Gains or losses recognized in equity are released to the income statement in the same period or periods in which the assets acquired or liabilities impact the income statement;

in the case of net investment hedges, the effective portion of the gain or loss on the hedging instrument is recognized in translation reserves in equity, while the ineffective portion is recognized in the income statement. Gains and losses recognized in translation reserves are released to the income statement when the foreign operation is sold.

Accounting for concessions

Concession agreements are accounted for in accordance with IFRIC 12, *Service Concession Arrangements*, published in November 2006. This interpretation, whose adoption by the European Union is still under discussion, is applicable to periods beginning on or after January 1, 2008. In fiscal year 2006, Veolia Environnement elected to adopt IFRIC 12 early, and this change in accounting method was applied retrospectively in accordance with IAS 8 on changes in accounting method. As such, the Veolia Environnement financial statements for the year ended December 31, 2005 were adjusted for the retrospective application of IFRIC 12.

Back to Contents

The application of IFRIC 12 is complex and is described in detail in Note 1.20 to our consolidated financial statements. As a general matter, a contract is considered a concession agreement under IFRIC 12 if a public sector customer (the grantor) controls or regulates the services that we must provide with the infrastructure that we use, to whom the services must be provided and at what price, and if the grantor controls a significant residual interest in the infrastructure. Pursuant to IFRIC 12, the infrastructure used in a concession is not considered to be part of our property, plant and equipment, but instead we recognize financial assets or intangible assets (depending on the nature of our payment rights) in respect of the concession contracts.

Discontinued operations

Following a decision to dispose of the Danish activities of the transportation division in 2007, the results of this business were transferred to net income from discontinued operations in accordance with IFRS 5 on operations held for sale, and the 2005 and 2006 financial statements were restated accordingly. The 2006 disposal of Southern Water was also recorded in accordance with IFRS 5, and the 2005 financial statements were restated accordingly.

Back to Contents

RESULTS OF OPERATIONS

Year ended December 31, 2007 compared to year ended December 31, 2006

Revenue

Overview

The following table shows a breakdown of our revenue in 2006 and 2007:

2007	2006	% change 2007/2006	of which organic growth	of which external growth	of which currency fluctuation
(in € millions)	*(in € millions)*				
32,628.2	28,620.4	14.0%	7.8%	7.1%	(0.9)%

Veolia Environnement's consolidated revenue for the year ended December 31, 2007 amounted to €32,628.2 million compared to €28,620.4 million for the year ended December 31, 2006, an increase of 14.0% at current exchange rates and 14.9% at constant exchange rates. Organic growth was 7.8%, including organic growth of 10.1% recorded outside France.

The 7.1% external growth resulted, in particular, from acquisitions made by Veolia Propreté in the United Kingdom and Germany (a contribution of approximately €1,200 million), by Veolia Energie in Europe and Australia (€254 million) and by Veolia Transport in France and the United States (€161 million). The contribution of acquisitions enabled us to accelerate our growth outside France, where revenue totaled €18,372.3 million, or 56.3% of total revenue, compared to 53.2% in 2006.

The negative impact of exchange rate movements (a negative impact of €263 million, or 0.9%) primarily reflects the weakening of the US dollar against the euro (a negative impact of €237 million).

The following table shows a breakdown of our revenue by division in 2006 and 2007:

(in € millions, except for %)			
Vehicles (3 years)	327	791	(464)
Crude oil tanks and related equipment (3 40 years)	83,797	77,429	6,368
Information technology equipment (3 7 years)	4,049	4,046	3
Buildings and leasehold improvements (3 40 years)	7,817	7,716	101
Land	6,427	6,427	
Tank bottoms	16,930	15,230	1,700
Other (7 years)	162	170	(8)
Construction in progress	7,180	7,190	(10)
Goodwill (1)	342,769	359,169	(16,400)
Intangible assets:			

Customer relationships (10 20 years)	107,950	101,600	6,350
Lease agreements (1 5 years)	8,700	8,700	
Pipeline capacity rights (30 years)	7,800		7,800
Investments in unconsolidated entities	183,000	178,000	5,000
Other noncurrent assets	2,287	9,918	(7,631)
Accounts payable - trade	(342,792)	(342,792)	
Accounts payable - affiliates	(2,585)	(2,585)	
Accrued expenses and other payables	(49,447)	(70,999)	21,552
Advance payments received from customers	(10,667)	(10,667)	
Other noncurrent liabilities	(46,056)	(44,740)	(1,316)
Fair value of net assets acquired	$ 832,448	$ 832,448	$

(1) Primarily included in the crude oil logistics segment.

We estimated the value of the customer relationship intangible asset using the income approach, which uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

The acquisition method of accounting requires that executory contracts that are at unfavorable terms relative to current market conditions at the acquisition date be recorded as assets or liabilities in the acquisition accounting. Since certain crude oil storage lease commitments were at unfavorable terms relative to current market conditions, we recorded a liability of $15.9 million related to these lease commitments in the acquisition accounting, and we amortized $5.0 million of this balance through cost of sales during the six months ended September 30, 2014. We will amortize the remainder of this liability over the term of the leases. The future amortization of this liability is shown below (in thousands):

Year Ending March 31,		
2015 (six months)	$	3,670
2016		4,040
2017		360

Certain personnel who were employees of Gavilon Energy are entitled to a bonus, half of which was payable upon successful completion of the business combination and the remainder of which is payable in December 2014. We are recording this as compensation expense over the vesting period. We recorded expense of $5.2 million during the six months ended September 30, 2014 related to these bonuses, and we expect to record an additional expense of $1.6 million during the quarter ending December 31, 2014.

Oilfield Water Lines, LP

On August 2, 2013, we completed a business combination with entities affiliated with Oilfield Water Lines LP (collectively, OWL), whereby we acquired water disposal and transportation assets in Texas. We issued 2,463,287 common units, valued at $68.6 million, and paid $167.7 million of cash, net of cash acquired, in exchange for OWL. During the three months ended June 30, 2014, we completed the acquisition accounting for this business combination. The following table presents the final calculation of the fair values of the assets acquired (and useful lives) and liabilities assumed in the acquisition of OWL:

		Final		**Estimated at March 31, 2014 (in thousands)**		**Change**
Accounts receivable - trade	$	6,837	$	7,268	$	(431)
Inventories		154		154		
Prepaid expenses and other current assets		402		402		
Property, plant and equipment:						
Vehicles (5 10 years)		8,143		8,157		(14)
Water treatment facilities and equipment (3 30 years)		23,173		23,173		

Buildings and leasehold improvements (7 30 years)	2,198	2,198	
Land	710	710	
Other (3 5 years)	53	53	
Intangible assets:			
Customer relationships (8 10 years)	110,000	110,000	
Non-compete agreements (3 years)	2,000	2,000	
Goodwill	90,144	89,699	445
Accounts payable - trade	(6,469)	(6,469)	
Accrued expenses and other payables	(992)	(992)	
Other noncurrent liabilities	(64)	(64)	
Fair value of net assets acquired	$ 236,289	$ 236,289	$

We estimated the value of the customer relationship intangible asset using the income approach, which uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

Other Water Solutions Acquisitions

During the year ended March 31, 2014, we completed two separate acquisitions of businesses to expand our water solutions operations in Texas. On a combined basis, we issued 222,381 common units, valued at $6.8 million, and paid $151.6 million of cash, net of cash acquired, in exchange for the assets and operations of these businesses. During the three months ended June 30, 2014, we completed the acquisition accounting for these business combinations. The following table presents the final calculation of the fair values of the assets acquired (and useful lives) and liabilities assumed for these acquisitions:

	Final	Estimated at March 31, 2014 (in thousands)	Change
Accounts receivable - trade	$ 2,146	$ 2,146	$
Inventories	192	192	
Prepaid expenses and other current assets	62	61	1
Property, plant and equipment:			
Vehicles (5 10 years)	76	90	(14)
Water treatment facilities and equipment (3 30 years)	11,717	14,394	(2,677)
Buildings and leasehold improvements (7 30 years)	3,278	1,906	1,372
Land	207	206	1
Other (3 5 years)	12	12	
Intangible assets:			
Customer relationships (8 10 years)	72,000	72,000	
Trade names (indefinite life)	3,325	3,325	
Non-compete agreements (3 years)	260	260	
Water facility development agreement (5 years)	14,000	14,000	
Water facility option agreement	2,500	2,500	
Goodwill	49,067	47,750	1,317
Accounts payable - trade	(119)	(119)	
Accrued expenses and other payables	(293)	(293)	
Other noncurrent liabilities	(64)	(64)	
Fair value of net assets acquired	$ 158,366	$ 158,366	$

As part of one of these business combinations, we entered into an option agreement with the seller of the business whereby we had the option to purchase a saltwater disposal facility that was under construction. We recorded an intangible asset of $2.5 million at the acquisition date related to this option agreement. On March 1, 2014, we purchased the saltwater disposal facility for additional cash consideration of $3.7 million.

In addition, as part of one of these business combinations, we entered into a development agreement that provides us a right to purchase water disposal facilities that may be developed by the seller through June 2018. On March 1, 2014, we purchased our first water disposal facility pursuant to the development agreement for $21.0 million.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

We are in the process of identifying and determining the fair value of the assets acquired and liabilities assumed in these business combinations. The estimates of fair value reflected at September 30, 2014 are subject to change, and such changes could be material. We expect to complete this process prior to finalizing our financial statements for the quarter ending December 31, 2014. We have preliminarily estimated the fair values of the assets acquired (and useful lives) and liabilities assumed as follows:

	Estimated At		
	September 30, 2014	March 31, 2014	Change
	(in thousands)		
Accounts receivable - trade	$ 124	$ 245	$ (121)
Inventories	119	197	(78)
Property, plant and equipment:			
Water treatment facilities and equipment (3 30 years)	10,539	10,540	(1)
Buildings and leasehold improvements (7 30 years)	1,130	1,130	
Land	213	213	
Other (3 5 years)	1	1	
Goodwill	15,443	15,281	162
Accounts payable - trade	(232)	(263)	31
Accrued expenses and other payables		(7)	7
Other noncurrent liabilities	(50)	(50)	
Fair value of net assets acquired	$ 27,287	$ 27,287	$

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

Crude Oil Logistics Acquisitions

During the year ended March 31, 2014, we completed two separate acquisitions of businesses to expand our crude oil logistics operations in Texas and Oklahoma. On a combined basis, we issued 175,211 common units, valued at $5.3 million, and paid $67.8 million of cash, net of cash acquired, in exchange for the assets and operations of these businesses. During the three months ended June 30, 2014, we completed the acquisition accounting for these business combinations. The following table presents the final calculation of the fair values of the assets acquired (and useful lives) and liabilities assumed for these acquisitions:

	Final	Estimated at March 31, 2014 (in thousands)	Change
Accounts receivable - trade	$ 1,221	$ 1,235	$ (14)
Inventories	1,021	1,021	
Prepaid expenses and other current assets	58	54	4
Property, plant and equipment:			
Vehicles (5 10 years)	2,980	2,977	3
Buildings and leasehold improvements (5 30 years)	58	280	(222)
Crude oil tanks and related equipment (2 30 years)	3,822	3,462	360
Barges and towboats (20 years)	20,065	20,065	
Other (3 5 years)	57	53	4
Intangible assets:			
Customer relationships (3 years)	13,300	6,300	7,000
Non-compete agreements (3 years)	35	35	
Trade names (indefinite life)	530	530	
Goodwill	30,730	37,867	(7,137)
Accounts payable - trade	(521)	(665)	144
Accrued expenses and other payables	(266)	(124)	(142)
Fair value of net assets acquired	$ 73,090	$ 73,090	$

Retail Propane and Liquids Acquisitions

During the year ended March 31, 2014, we completed four acquisitions of retail propane businesses and the acquisition of four natural gas liquids terminals. On a combined basis, we paid $21.9 million of cash to acquire these assets and operations. The agreements for certain of these acquisitions contemplate post-closing payments for certain working capital items. We are in the process of identifying and determining the fair value of the assets acquired and liabilities assumed in certain of these business combinations, and as a result, the estimates of fair value reflected

at September 30, 2014 are subject to change.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

Note 5 Property, Plant and Equipment

Our property, plant and equipment consists of the following:

Description and Estimated Useful Lives		September 30, 2014		March 31, 2014
		(in thousands)		
Natural gas liquids terminal assets (2 30 years)	$	127,258	$	75,141
Refined products and renewables terminal assets and equipment (20 years)		419,411		
Retail propane equipment (2 30 years)		167,825		160,758
Vehicles and railcars (3 25 years)		172,799		152,676
Water treatment facilities and equipment (3 30 years)		209,644		180,985
Crude oil tanks and related equipment (2 40 years)		145,287		106,125
Barges and towboats (5 40 years)		56,094		52,217
Information technology equipment (3 7 years)		30,519		20,768
Buildings and leasehold improvements (3 40 years)		77,415		60,004
Land		88,350		30,241
Tank bottoms		17,679		13,403
Other (3 30 years)		16,770		6,341
Construction in progress		57,319		80,251
		1,586,370		938,910
Less: Accumulated depreciation		(153,057)		(109,564)
Net property, plant and equipment	$	1,433,313	$	829,346

Depreciation expense was $28.4 million and $13.7 million during the three months ended September 30, 2014 and 2013, respectively, and $46.9 million and $27.2 million during the six months ended September 30, 2014 and 2013, respectively.

Crude oil volumes required for the operation of storage tanks, known as tank bottoms, are recorded at historical cost. Tank bottoms are the volume of crude oil that must be maintained in a storage tank to enable operation of the storage tank. We recover tank bottom crude oil when we no longer use the storage tanks or the storage tanks are removed from service. At September 30, 2014, tank bottoms consisted of approximately 185,000 barrels.

Note 6 Goodwill and Intangible Assets

The changes in the balance of goodwill during the six months ended September 30, 2014 were as follows (in thousands):

Beginning of period	$	1,107,006
Revisions to acquisition accounting (Note 4)		(21,614)
Acquisitions (Note 4)		86,895
Disposal		(1,797)
End of period	$	1,170,490

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

Goodwill by reportable segment is as follows:

	September 30, 2014	March 31, 2014
	(in thousands)	
Crude oil logistics	$ 579,845	$ 606,383
Water solutions	320,106	262,203
Liquids	91,135	90,135
Retail propane	114,285	114,285
Refined products and renewables	65,119	34,000
Total	$ 1,170,490	$ 1,107,006

Our intangible assets consist of the following:

		September 30, 2014		March 31, 2014	
	Amortizable Lives	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
			(in thousands)		
Amortizable					
Customer relationships (1)	3 20 years	$ 761,992	$ 119,439	$ 697,405	$ 83,261
Pipeline capacity rights	30 years	94,800	942		
Water facility development agreement	5 years	14,000	3,500	14,000	2,100
Executory contracts and other agreements	5 10 years	23,920	16,367	23,920	13,190
Non-compete agreements	2 7 years	14,412	8,302	14,161	6,388
Trade names	2 10 years	14,539	5,197	15,489	3,081
Debt issuance costs	5 10 years	53,289	12,737	44,089	8,708
Total amortizable		976,952	166,484	809,064	116,728
Non-amortizable					
Trade names		27,620		22,620	
Total		$ 1,004,572	$ 166,484	$ 831,684	$ 116,728

(1) The weighted-average remaining amortization period for customer relationship intangible assets is approximately 9 years.

Amortization expense is as follows:

Recorded In	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Six Months Ended September 30, 2014	Six Months Ended September 30, 2013
	(in thousands)			
Depreciation and amortization	$ 21,711	$ 11,324	$ 42,604	$ 20,600
Cost of sales	1,984	949	4,121	1,574
Interest expense	2,117	1,065	4,029	2,462
Total	$ 25,812	$ 13,338	$ 50,754	$ 24,636

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

Expected amortization of our intangible assets is as follows (in thousands):

Year Ending March 31,		
2015 (six months)	$	50,570
2016		97,432
2017		90,795
2018		86,818
2019		79,587
Thereafter		405,266
Total	$	810,468

Note 7 Long-Term Debt

Our long-term debt consists of the following:

	September 30, 2014		**March 31, 2014**	
	(in thousands)			
Revolving credit facility				
Expansion capital borrowings	$	137,000	$	532,500
Working capital borrowings		942,500		389,500
5.125% Notes due 2019		400,000		
6.875% Notes due 2021		450,000		450,000
6.650% Notes due 2022		250,000		250,000
TLP credit facility		252,000		
Other long-term debt		10,913		14,914
		2,442,413		1,636,914
Less - current maturities		5,062		7,080
Long-term debt	$	2,437,351	$	1,629,834

Credit Agreement

On June 19, 2012, we entered into a credit agreement (as amended, the Credit Agreement) with a syndicate of banks. The Credit Agreement includes a revolving credit facility to fund working capital needs (the Working Capital Facility) and a revolving credit facility to fund acquisitions and expansion projects (the Expansion Capital Facility, and together with the Working Capital Facility, the Revolving Credit Facility).

The Working Capital Facility had a total capacity of $1.335 billion for cash borrowings and letters of credit at September 30, 2014. At that date, we had outstanding borrowings of $942.5 million and outstanding letters of credit of $209.2 million on the Working Capital Facility. The Expansion Capital Facility had a total capacity of $858.0 million for cash borrowings at September 30, 2014. At that date, we had outstanding borrowings of $137.0 million on the Expansion Capital Facility. The capacity available under the Working Capital Facility may be limited by a borrowing base, as defined in the Credit Agreement, which is calculated based on the value of certain working capital items at any point in time.

The commitments under the Credit Agreement expire on November 5, 2018. We have the right to prepay outstanding borrowings under the Credit Agreement without incurring any penalties, and prepayments of principal may be required if we enter into certain transactions to sell assets or obtain new borrowings.

All borrowings under the Credit Agreement bear interest, at our option, at (i) an alternate base rate plus a margin of 0.50% to 1.50% per annum or (ii) an adjusted LIBOR rate plus a margin of 1.50% to 2.50% per annum. The applicable margin is determined based on our consolidated leverage ratio, as defined in the Credit Agreement. At September 30, 2014, all borrowings under the Credit Agreement were LIBOR borrowings with an interest rate at September 30, 2014 of 1.91%, calculated as the LIBOR rate of 0.16% plus

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

a margin of 1.75%. At September 30, 2014, the interest rate in effect on letters of credit was 2.00%. Commitment fees are charged at a rate ranging from 0.38% to 0.50% on any unused credit. At September 30, 2014, our outstanding borrowings and interest rates under our Revolving Credit Facility were as follows (dollars in thousands):

		Amount	Rate
Expansion Capital Facility			
LIBOR borrowings	$	137,000	1.91%
Working Capital Facility			
LIBOR borrowings		942,500	1.91%

The Credit Agreement is secured by substantially all of our assets. The Credit Agreement specifies that our leverage ratio, as defined in the Credit Agreement, cannot exceed 4.25 to 1 at any quarter end. At September 30, 2014, our leverage ratio was approximately 3.4 to 1. The Credit Agreement also specifies that our interest coverage ratio, as defined in the Credit Agreement, cannot be less than 2.75 to 1 at any quarter end. At September 30, 2014, our interest coverage ratio was approximately 4.8 to 1.

The Credit Agreement contains various customary representations, warranties, and additional covenants, including, without limitation, limitations on fundamental changes and limitations on indebtedness and liens. Our obligations under the Credit Agreement may be accelerated following certain events of default (subject to applicable cure periods), including, without limitation, (i) the failure to pay principal or interest when due, (ii) a breach by the Partnership or its subsidiaries of any material representation or warranty or any covenant made in the Credit Agreement, or (iii) certain events of bankruptcy or insolvency.

At September 30, 2014, we were in compliance with the covenants under the Credit Agreement.

2019 Notes

On July 9, 2014, we issued $400.0 million of 5.125% Senior Notes Due 2019 (the 2019 Notes) in a private placement exempt from registration under the Securities Act of 1933, as amended (the Securities Act), pursuant to Rule 144A and Regulation S under the Securities Act. We received net proceeds of $393.5 million, after the initial purchasers discount of $6.0 million and estimated offering costs of $0.5 million. We used the net proceeds to reduce the outstanding balance on our Revolving Credit Facility.

The 2019 Notes mature on July 15, 2019. Interest is payable on January 15 and July 15 of each year. We have the right to redeem the 2019 Notes prior to the maturity date, although we would be required to pay a premium for early redemption.

The Partnership and NGL Energy Finance Corp. are co-issuers of the 2019 Notes, and the obligations under the 2019 Notes are guaranteed by certain of our existing and future restricted subsidiaries that incur or guarantee indebtedness under certain of our other indebtedness, including the Revolving Credit Facility. The purchase agreement and the indenture governing the 2019 Notes contain various customary representations, warranties, and additional covenants, including, without limitation, limitations on fundamental changes and limitations on indebtedness and liens. Our obligations under the purchase agreement and the indenture may be accelerated following certain events of default (subject to applicable cure periods), including, without limitation, (i) the failure to pay principal or interest when due, (ii) experiencing an event of default on certain other debt agreements, or (iii) certain events of bankruptcy or insolvency.

At September 30, 2014, we were in compliance with the covenants under the purchase agreement and indenture governing the 2019 Notes.

We also entered into a registration rights agreement whereby we have committed to exchange the 2019 Notes for a new issue of notes registered under the Securities Act that has substantially identical terms to the 2019 Notes on or before July 9, 2015. If we are unable to fulfill this obligation, we would be required to pay liquidated damages to the holders of the 2019 Notes.

2021 Notes

On October 16, 2013, we issued $450.0 million of 6.875% Senior Notes Due 2021 (the 2021 Notes) in a private placement exempt from registration under the Securities Act pursuant to Rule 144A and Regulation S under the Securities Act. We received net proceeds of $438.4 million, after the initial purchasers discount of $10.1 million and offering costs of $1.5 million. We used the net proceeds to reduce the outstanding balance on our Revolving Credit Facility.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

The 2021 Notes mature on October 15, 2021. Interest is payable on April 15 and October 15 of each year. We have the right to redeem the 2021 Notes prior to the maturity date, although we would be required to pay a premium for early redemption.

The Partnership and NGL Energy Finance Corp. are co-issuers of the 2021 Notes, and the obligations under the 2021 Notes are guaranteed by certain of our existing and future restricted subsidiaries that incur or guarantee indebtedness under certain of our other indebtedness, including the Revolving Credit Facility. The purchase agreement and the indenture governing the 2021 Notes contain various customary representations, warranties, and additional covenants, including, without limitation, limitations on fundamental changes and limitations on indebtedness and liens. Our obligations under the purchase agreement and the indenture may be accelerated following certain events of default (subject to applicable cure periods), including, without limitation, (i) the failure to pay principal or interest when due, (ii) experiencing an event of default on certain other debt agreements, or (iii) certain events of bankruptcy or insolvency.

At September 30, 2014, we were in compliance with the covenants under the purchase agreement and indenture governing the 2021 Notes.

We also entered into a registration rights agreement whereby we have committed to exchange the 2021 Notes for a new issue of notes registered under the Securities Act that has substantially identical terms to the 2021 Notes on or before October 16, 2014. Our inability to register the notes on time may result in liquidated damages of approximately $0.1 million per month.

2022 Notes

On June 19, 2012, we entered into a Note Purchase Agreement (as amended, the Note Purchase Agreement) whereby we issued $250.0 million of Senior Notes in a private placement (the 2022 Notes). The 2022 Notes bear interest at a fixed rate of 6.65%. Interest is payable quarterly. The 2022 Notes are required to be repaid in semi-annual installments of $25.0 million beginning on December 19, 2017 and ending on the maturity date of June 19, 2022. We have the option to prepay outstanding principal, although we would incur a prepayment penalty. The 2022 Notes are secured by substantially all of our assets and rank equal in priority with borrowings under the Credit Agreement.

The Note Purchase Agreement contains various customary representations, warranties, and additional covenants that, among other things, limit our ability to (subject to certain exceptions): (i) incur additional debt, (ii) pay dividends and make other restricted payments, (iii) create or permit certain liens, (iv) create or permit restrictions on the ability of certain of our subsidiaries to pay dividends or make other distributions to us, (v) enter into transactions with affiliates, (vi) enter into sale and leaseback transactions and (vii) consolidate or merge or sell all or substantially all or any portion of our assets. In addition, the Note Purchase Agreement contains substantially the same leverage ratio and interest coverage ratio requirements as our Credit Agreement, which is described above.

The Note Purchase Agreement provides for customary events of default that include, among other things (subject in certain cases to customary grace and cure periods): (i) nonpayment of principal or interest, (ii) breach of certain covenants contained in the Note Purchase Agreement or the 2022 Notes, (iii) failure to pay certain other indebtedness or the acceleration of certain other indebtedness prior to maturity if the total amount of such indebtedness unpaid or accelerated exceeds $10.0 million, (iv) the rendering of a judgment for the payment of money in excess of $10.0 million, (v) the failure of the Note Purchase Agreement, the 2022 Notes, or the guarantees by the subsidiary guarantors to be in full force and effect in all material respects and (vi) certain events of bankruptcy or insolvency. Generally, if an event of default occurs (subject to certain exceptions), the trustee or the holders of at least 51% in aggregate principal amount of the then outstanding 2022 Notes of any series may declare all of the 2022 Notes of such series to be due and payable immediately.

At September 30, 2014, we were in compliance with the covenants under the Note Purchase Agreement.

TLP Credit Facility

On March 9, 2011, TLP entered into an amended and restated senior secured credit facility (TLP Credit Facility), which has been subsequently amended from time to time. The TLP Credit Facility provides for a maximum borrowing line of credit equal to the lesser of (i) $350 million and (ii) 4.75 times Consolidated EBITDA (as defined in the TLP Credit Facility: $352.9 million at September 30, 2014). TLP may elect to have loans under the TLP Credit Facility that bear interest either (i) at a rate of LIBOR plus a margin ranging from 2% to 3% depending on the total leverage ratio then in effect, or (ii) at the base rate plus a margin ranging from 1% to 2% depending on the total leverage ratio then in effect.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

TLP also pays a commitment fee on the unused amount of commitments, ranging from 0.375% to 0.50% per annum, depending on the total leverage ratio then in effect. TLP s obligations under the TLP Credit Facility are secured by a first priority security interest in favor of the lenders in the majority of TLP assets.

The terms of the TLP Credit Facility include covenants that restrict TLP s ability to make cash distributions, acquisitions and investments, including investments in joint ventures. TLP may make distributions of cash to the extent of its available cash as defined in the TLP partnership agreement. TLP may make acquisitions and investments that meet the definition of permitted acquisitions ; other investments which may not exceed 5% of consolidated net tangible assets ; and permitted JV investments . Permitted JV investments include up to $225 million of investments in BOSTCO, the Specified BOSTCO Investment . In addition to the Specified BOSTCO Investment, under the terms of the TLP Credit Facility, TLP may make an additional $75 million of other permitted JV investments (including additional investments in BOSTCO). The principal balance of loans and any accrued and unpaid interest are due and payable in full on the maturity date, March 9, 2016.

The TLP Credit Facility also contains customary representations and warranties (including those relating to organization and authorization, compliance with laws, absence of defaults, material agreements and litigation) and customary events of default (including those relating to monetary defaults, covenant defaults, cross defaults and bankruptcy events). The primary financial covenants contained in the TLP Credit Facility are (i) a total leverage ratio test (not to exceed 4.75 times), (ii) a senior secured leverage ratio test (not to exceed 3.75 times) in the event TLP issues senior unsecured notes, and (iii) a minimum interest coverage ratio test (not less than 3.0 times).

If TLP were to fail any financial performance covenant, or any other covenant contained in the TLP Credit Facility, TLP would seek a waiver from its lenders under such facility. If TLP was unable to obtain a waiver from its lenders and the default remained uncured after any applicable grace period, TLP would be in breach of the TLP Credit Facility, and the lenders would be entitled to declare all outstanding borrowings immediately due and payable. TLP was in compliance with all of the financial covenants under the TLP Credit Facility as of September 30, 2014.

At September 30, 2014, TLP had $252.0 million of outstanding borrowings under the TLP Credit Facility and no outstanding letters of credit.

The following table summarizes our basis in the assets and liabilities of TLP at September 30, 2014, inclusive of the impact of our acquisition accounting for the business combination with TransMontaigne (in thousands):

Cash and cash equivalents	$	726

Accounts receivable - trade, net		12,252
Accounts receivable - affiliates		1,105
Inventories		1,613
Prepaid expenses and other current assets		1,363
Property, plant and equipment, net		504,272
Goodwill		29,118
Intangible assets, net		38,571
Investments in unconsolidated entities		268,410
Other noncurrent assets		1,910
Accounts payable - trade		(4,009)
Accounts payable - affiliates		(146)
Accrued expenses and other payables		(11,625)
Advanced payments received from customers		(141)
Long-term debt		(252,000)
Other noncurrent liabilities		(4,247)
Net assets	$	587,172

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

Other Long-Term Debt

We have executed various noninterest bearing notes payable, primarily related to non-compete agreements entered into in connection with acquisitions of businesses. We also have certain notes payable related to equipment financing.

Debt Maturity Schedule

The scheduled maturities of our long-term debt are as follows at September 30, 2014:

Year Ending March 31,	Revolving Credit Facility	2019 Notes	2021 Notes	2022 Notes	TLP Credit Facility	Other Long-Term Debt	Total
				(in thousands)			
2015 (six months)	$	$	$	$	$	$ 2,345	$ 2,345
2016					252,000	3,128	255,128
2017						2,362	2,362
2018				25,000		1,459	26,459
2019	1,079,500			50,000		1,438	1,130,938
Thereafter		400,000	450,000	175,000		181	1,025,181
Total	$ 1,079,500	$ 400,000	$ 450,000	$ 250,000	$ 252,000	$ 10,913	$ 2,442,413

Note 8 Income Taxes

We qualify as a partnership for income tax purposes. As such, we generally do not pay United States federal income tax. Rather, each owner reports his or her share of our income or loss on his or her individual tax return. The aggregate difference in the basis of our net assets for financial and tax reporting purposes cannot be readily determined, as we do not have access to information regarding each partner s basis in the Partnership.

We have certain taxable corporate subsidiaries in the United States and in Canada, and our operations in Texas are subject to a state franchise tax that is calculated based on revenues net of cost of sales. We utilize the asset and liability method of accounting for income taxes. Under this

method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which these temporary differences are expected to be recovered or settled. Changes in tax rates are recognized in income in the period that includes the enactment date.

A publicly-traded partnership is required to generate at least 90% of its gross income (as defined for federal income tax purposes) from certain qualifying sources. Income generated by our taxable corporate subsidiaries is excluded from this qualifying income calculation. Although we routinely generate income outside of our corporate subsidiaries that is non-qualifying, we believe that at least 90% of our gross income has been qualifying income for each of the calendar years since our initial public offering.

We evaluate uncertain tax positions for recognition and measurement in the consolidated financial statements. To recognize a tax position, we determine whether it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation, based on the technical merits of the position. A tax position that meets the more likely than not threshold is measured to determine the amount of benefit to be recognized in the consolidated financial statements. We had no material uncertain tax positions that required recognition in the consolidated financial statements at September 30, 2014.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

Note 9 Commitments and Contingencies

Legal Contingencies

We are party to various claims, legal actions, and complaints arising in the ordinary course of business. In the opinion of our management, the ultimate resolution of these claims, legal actions, and complaints, after consideration of amounts accrued, insurance coverage, and other arrangements, will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, the outcome of such matters is inherently uncertain, and estimates of our liabilities may change materially as circumstances develop.

Customer Dispute

A customer of our crude oil logistics segment disputed the transportation rate schedule we used to bill the customer for services that we provided from November 2012 through February 2013, which was the same rate schedule that Pecos Gathering & Marketing, L.L.C. and certain of its affiliated companies (collectively, Pecos), used to bill the customer from April 2011 through October 2012 (prior to our November 1, 2012 acquisition of Pecos). The customer disputed a portion of the amount we charged for services we provided from November 2012 through February 2013. In May 2013, we filed a petition in the District Court of Harris County, Texas seeking to collect these unpaid fees from the customer. Later in May 2013, the customer filed an answer and counterclaim seeking to recover certain amounts that it paid to Pecos prior to our acquisition of Pecos.

During August 2013, the customer notified us that it intended to withhold payment due for services performed by us during the period from June 2013 through August 2013, pending resolution of the dispute, although the customer did not dispute the validity of the amounts billed for services performed during this time frame. Upon receiving this notification, we ceased providing services under this contract, and on November 5, 2013, we filed a petition in the District Court of Harris County, Texas seeking to collect these unpaid fees from the customer.

During September 2014, we reached an agreement with the former customer whereby the former customer agreed to pay us an agreed-upon amount to dismiss its claims against us, in return for which we agreed to dismiss our other claims against the former customer. We did not record a gain or loss upon settlement, as the amount we received approximated the amount we had recorded as receivable from the customer.

Environmental Matters

Our operations are subject to extensive federal, state, and local environmental laws and regulations. Although we believe our operations are in substantial compliance with applicable environmental laws and regulations, risks of additional costs and liabilities are inherent in our business, and there can be no assurance that significant costs will not be incurred. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations, could result in substantial costs. Accordingly, we have adopted policies, practices, and procedures in the areas of pollution control, product safety, occupational health, and the handling, storage, use, and disposal of hazardous materials designed to prevent material environmental or other damage, and to limit the financial liability that could result from such events. However, some risk of environmental or other damage is inherent in our business.

Asset Retirement Obligations

We have recorded a liability of $2.7 million at September 30, 2014 for asset retirement obligations. This liability is related to wastewater disposal facilities and crude oil facilities for which we have contractual and regulatory obligations to perform remediation and, in some instances, dismantlement and removal activities when the assets are retired.

In addition to the obligations described above, we may be obligated to remove facilities or perform other remediation upon retirement of certain other assets. We do not believe the present value of these asset retirement obligations, under current laws and regulations, after taking into consideration the estimated lives of our facilities, is material to our consolidated financial position or results of operations.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

Operating Leases

We have executed various noncancelable operating lease agreements for product storage, office space, vehicles, real estate, railcars, and equipment. Future minimum lease payments under these agreements at September 30, 2014 are as follows (in thousands):

Year Ending March 31,		
2015 (six months)	$	71,007
2016		106,384
2017		88,666
2018		74,265
2019		49,907
Thereafter		117,125
Total	$	507,354

Rental expense relating to operating leases was $29.3 million and $23.6 million during the three months ended September 30, 2014 and 2013, respectively, and $54.6 million and $45.5 million during the six months ended September 30, 2014 and 2013, respectively.

Pipeline Capacity Agreements

We have executed noncancelable agreements with crude and refined products pipeline operators, which guarantee us minimum monthly shipping capacity on the pipelines. In exchange, we are obligated to pay the minimum shipping fees in the event actual shipments are less than our allotted capacity. Future minimum throughput payments under these agreements at September 30, 2014 are as follows (in thousands):

Year Ending March 31,		
2015 (six months)	$	41,822
2016		95,050
2017		82,916
2018		62,565
2019		51,278
Thereafter		107,537
Total	$	441,168

Sales and Purchase Contracts

We have entered into sales and purchase contracts for products to be delivered in future periods for which we expect the parties to physically settle the contracts with inventory. At September 30, 2014, we had the following such commitments outstanding:

	Volume	Value
	(in thousands)	
Natural gas liquids fixed-price purchase commitments (gallons)	88,574	$ 102,000
Natural gas liquids index-price purchase commitments (gallons)	528,459	601,719
Natural gas liquids fixed-price sale commitments (gallons)	278,391	351,137
Natural gas liquids index-price sale commitments (gallons)	370,639	512,900
Crude oil index-price purchase commitments (barrels)	4,437	383,153
Crude oil fixed-price sale commitments (barrels)	32	2,867
Crude oil index-price sale commitments (barrels)	3,920	337,528

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

We account for the contracts shown in the table above as normal purchases and normal sales. Under this accounting policy election, we do not record the contracts at fair value at each balance sheet date; instead, we record the purchase or sale at the contracted value once the delivery occurs. Contracts in the table above may have offsetting derivative contracts (described in Note 11) or inventory positions (described in Note 2).

Certain other forward purchase and sale contracts do not qualify for the normal purchase and normal sale election. These contracts are recorded at fair value on our condensed consolidated balance sheet and are not included in the table above. These contracts are included in the derivative disclosures in Note 11, and represent $44.4 million of our prepaid expenses and other current assets and $36.3 million of our accrued expenses and other payables at September 30, 2014.

Note 10 Equity

Partnership Equity

The Partnership s equity consists of a 0.1% general partner interest and a 99.9% limited partner interest, which consists of common units. Prior to August 2014, the Partnership s limited partner interest also included subordinated units. The subordination period ended in August 2014, at which time all remaining subordinated units were converted into common units on a one-for-one basis.

Our general partner is not obligated to make any additional capital contributions or to guarantee or pay any of our debts and obligations.

Equity Issuances

On June 23, 2014, we completed a public offering of 8,000,000 common units. We received net proceeds of $338.0 million, after underwriting discounts and commissions of $12.3 million and offering costs of $0.5 million. During July 2014, the underwriters exercised their option to purchase an additional 767,100 units, from which we received net proceeds of $32.4 million.

Distributions to Owners

Our general partner has adopted a cash distribution policy that requires us to pay a quarterly distribution to unitholders as of the record date to the extent we have sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to the general partner and its affiliates, referred to as available cash. The general partner will also receive, in addition to distributions on its 0.1% general partner interest, additional distributions based on the level of distributions to the limited partners. These distributions are referred to as incentive distributionsOur general partner currently holds the incentive distribution rights, but may transfer these rights separately from its general partner interest, subject to restrictions in our partnership agreement.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

The following table illustrates the percentage allocations of available cash from operating surplus between the unitholders and our general partner based on the specified target distribution levels. The amounts set forth under Marginal Percentage Interest In Distributions are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column Total Quarterly Distribution Per Unit, until available cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for our unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests set forth below for our general partner include its 0.1% general partner interest, assume our general partner has contributed any additional capital necessary to maintain its 0.1% general partner interest and has not transferred its incentive distribution rights.

	Total Quarterly Distribution Per Unit						Marginal Percentage Interest In Distributions	
							Unitholders	General Partner
Minimum quarterly distribution					$	0.337500	99.9%	0.1%
First target distribution	above	$	0.337500	up to	$	0.388125	99.9%	0.1%
Second target distribution	above	$	0.388125	up to	$	0.421875	86.9%	13.1%
Third target distribution	above	$	0.421875	up to	$	0.506250	76.9%	23.1%
Thereafter	above	$	0.506250				51.9%	48.1%

During the three months ended September 30, 2014, we distributed a total of $61.5 million ($0.5888 per common, subordinated, and general partner notional unit) to our unitholders of record on August 4, 2014, which included an incentive distribution of $9.5 million to the general partner. In October 2014, we declared a distribution of $0.6088 per common unit, to be paid on November 14, 2014 to unitholders of record on November 4, 2014. This distribution is expected to be $65.0 million, including amounts to be paid on common and general partner notional units and the amount to be paid on incentive distribution rights.

Distributions to Noncontrolling Interest Partners

TLP s general partner has adopted a cash distribution policy that requires it to pay a quarterly distribution to unitholders as of the record date to the extent TLP has sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to TLP s general partner and its affiliates, referred to as available cash. TLP s general partner will also receive, in addition to distributions on its 2.0% general partner interest, additional distributions based on the level of distributions to the limited partners. These distributions are referred to as incentive distributions. TLP s general partner currently holds the incentive distribution rights, but may transfer these rights separately from its general partner interest, subject to restrictions in TLP s partnership agreement.

The following table illustrates the percentage allocations of available cash from operating surplus between TLP s unitholders and TLP s general partner based on the specified target distribution levels. The amounts set forth under Marginal Percentage Interest In Distributions are the percentage interests of TLP s general partner and TLP s unitholders in any available cash from operating surplus TLP distributes up to and including the corresponding amount in the column Total Quarterly Distribution Per Unit, until available cash from operating surplus TLP distributes reaches the next target distribution level, if any. The percentage interests shown for TLP s unitholders and TLP s general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests set forth below for TLP s general partner include its 2.0% general partner interest, assume TLP s general partner has contributed any additional capital necessary to maintain its 2.0% general partner interest and has not transferred its incentive distribution rights.

							Marginal Percentage Interest In Distributions	
	Total Quarterly Distribution Per Unit						Unitholders	General Partner
Minimum quarterly distribution					$	0.40	98%	2%
First target distribution	above	$	0.40	up to	$	0.44	98%	2%
Second target distribution	above	$	0.44	up to	$	0.50	85%	15%
Third target distribution	above	$	0.50	up to	$	0.60	75%	25%
Thereafter	above	$	0.60				50%	50%

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

During the three months ended September 30, 2014, TLP declared and paid a distribution of $0.665 per unit. The noncontrolling interest owners received a total of $8.7 million from this distribution. Pursuant to the terms of the agreement related to our acquisition of TransMontaigne, we remitted the amount we received on this distribution on our general partner interest, incentive distribution rights, and limited partner interest to the former owners of TransMontaigne.

In October 2014, TLP declared a distribution of $0.665 per unit, which was paid on November 7, 2014. The noncontrolling interest owners received a total of $8.7 million from this distribution.

Equity-Based Incentive Compensation

Our general partner has adopted a long-term incentive plan (LTIP), which allows for the issuance of equity-based compensation to employees and directors. Our general partner has granted certain restricted units to employees and directors, which will vest in tranches, subject to the continued service of the recipients. The awards may also vest in the event of a change in control, at the discretion of the board of directors. No distributions will accrue to or be paid on the restricted units during the vesting period.

The following table summarizes the restricted unit activity during the six months ended September 30, 2014:

Unvested restricted units at March 31, 2014	1,311,100
Units granted	333,903
Units vested and issued	(438,009)
Units withheld for employee taxes	(231,194)
Units forfeited	(117,000)
Unvested restricted units at September 30, 2014	858,800

The scheduled vesting of our unvested restricted units is summarized below:

Vesting Date	**Number of Awards**
July 1, 2015	334,800
July 1, 2016	314,000

July 1, 2017	178,500
July 1, 2018	31,500
Unvested restricted units at September 30, 2014	858,800

We record the expense for the first tranche of each award on a straight-line basis over the period beginning with the grant date of the awards and ending with the vesting date of the tranche. We record the expense for succeeding tranches over the period beginning with the vesting date of the previous tranche and ending with the vesting date of the tranche.

At each balance sheet date, we adjust the cumulative expense recorded using the estimated fair value of the awards at the balance sheet date. We calculate the fair value of the awards using the closing price of our common units on the New York Stock Exchange on the balance sheet date, adjusted to reflect the fact that the holders of the unvested units are not entitled to distributions during the vesting period. We estimate the impact of the lack of distribution rights during the vesting period using the value of the most recent distribution and assumptions that a market participant might make about future distribution growth.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

We recorded expense related to restricted unit awards of $13.8 million and $3.2 million during the three months ended September 30, 2014 and 2013, respectively, and $21.7 million and $10.3 million during the six months ended September 30, 2014 and 2013, respectively. We estimate that the future expense we will record on the unvested awards at September 30, 2014 will be as follows (in thousands), after taking into consideration an estimate of forfeitures of approximately 80,000 units. For purposes of this calculation, we used the closing price of our common units on September 30, 2014, which was $39.37.

Year Ending March 31,		
2015 (six months)	$	6,343
2016		11,516
2017		7,262
2018		2,237
2019		249
Total	$	27,607

Following is a rollforward of the liability related to equity-based compensation, which is reported within accrued expenses and other payables on our condensed consolidated balance sheets (in thousands):

Balance at March 31, 2014	$	10,012
Expense recorded		21,659
Value of units vested and issued		(18,763)
Taxes paid on behalf of participants		(9,901)
Balance at September 30, 2014	$	3,007

The weighted-average fair value of the awards at September 30, 2014 was $35.16 per common unit, which was calculated as the closing price of the common units on September 30, 2014, adjusted to reflect the fact that the restricted units are not entitled to distributions during the vesting period. The impact of the lack of distribution rights during the vesting period was estimated using the value of the most recent distribution and assumptions that a market participant might make about future distribution growth.

The number of common units that may be delivered pursuant to awards under the LTIP is limited to 10% of the issued and outstanding common units. The maximum number of units deliverable under the plan automatically increases to 10% of the issued and outstanding common units immediately after each issuance of common units, unless the plan administrator determines to increase the maximum number of units deliverable by a lesser amount. Units withheld to satisfy tax withholding obligations will not be considered to be delivered under the LTIP. In addition, if an award is forfeited, canceled, exercised, paid or otherwise terminates or expires without the delivery of units, the units subject to such award are again available for new awards under the LTIP. At September 30, 2014, 7.1 million units remain available for issuance under the LTIP.

Note 11 Fair Value of Financial Instruments

Our cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and other current assets and liabilities (excluding derivative instruments) are carried at amounts which reasonably approximate their fair values due to their short-term nature.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

Commodity Derivatives

The following table summarizes the estimated fair values of our commodity derivative assets and liabilities reported on the condensed consolidated balance sheet at September 30, 2014:

	Derivative Assets	Derivative Liabilities
	(in thousands)	
Level 1 measurements	$ 48,632	$ (5,378)
Level 2 measurements	51,389	(38,280)
	100,021	(43,658)
Netting of counterparty contracts (1)	(4,635)	4,635
Cash collateral held	(13,704)	
Commodity derivatives on condensed consolidated balance sheet	$ 81,682	$ (39,023)

(1) Relates to derivative assets and liabilities that are expected to be net settled on an exchange or through a master netting arrangement with the counterparty.

The following table summarizes the estimated fair values of our commodity derivative assets and liabilities reported on the condensed consolidated balance sheet at March 31, 2014:

	Derivative Assets	Derivative Liabilities
	(in thousands)	
Level 1 measurements	$ 4,990	$ (3,258)
Level 2 measurements	49,605	(43,303)
	54,595	(46,561)
Netting of counterparty contracts (1)	(4,347)	4,347
Net cash collateral provided	456	
Commodity derivatives on condensed consolidated balance sheet	$ 50,704	$ (42,214)

(1) Relates to derivative assets and liabilities that are expected to be net settled on an exchange or through a master netting arrangement with the counterparty.

Our commodity derivative assets and liabilities are reported in the following accounts on the condensed consolidated balance sheets:

	September 30, 2014	March 31, 2014
	(in thousands)	
Prepaid expenses and other current assets	$ 81,682	$ 50,704
Accrued expenses and other payables	(39,023)	(42,214)
Net commodity derivative asset	$ 42,659	$ 8,490

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

The following table summarizes our open commodity derivative contract positions at September 30, 2014 and March 31, 2014. We do not account for these derivatives as hedges.

Contracts	Settlement Period		Total Notional Units (Barrels)		Fair Value of Net Assets (Liabilities)
			(in thousands)		
At September 30, 2014 -					
Cross-commodity (1)	October 2014	March 2015	(12)	$	(1,283)
Crude oil fixed-price (2)	October 2014	December 2015	(1,638)		9,380
Crude oil index (3)	October 2014	July 2015	2,195		4,397
Propane fixed-price (4)	October 2014	March 2015	1,238		53
Refined products fixed-price (5)	October 2014	July 2015	(4,475)		38,712
Renewable products fixed-price (6)	October 2014	December 2015	(14)		5,104
					56,363
Net cash collateral held					(13,704)
Net commodity derivatives on condensed consolidated balance sheet				$	42,659
At March 31, 2014 -					
Cross-commodity (1)	April 2014	March 2015	140	$	(1,876)
Crude oil fixed-price (2)	April 2014	March 2015	(1,600)		(2,796)
Crude oil index (3)	April 2014	December 2015	3,598		6,099
Propane fixed-price (4)	April 2014	March 2015	60		1,753
Refined products fixed-price (5)	April 2014	July 2014	732		560
Renewable products fixed-price (6)	April 2014	July 2014	106		4,084
Other	April 2014				210
					8,034
Net cash collateral provided					456
Net commodity derivatives on condensed consolidated balance sheet				$	8,490

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(1) Cross-commodity Our operating segments may purchase or sell a physical commodity where the underlying contract pricing mechanisms are tied to different commodity price indices. The contracts listed in this table as Cross-commodity represent derivatives we have entered into as an economic hedge against the risk of one commodity price moving relative to another commodity price.

(2) Crude oil fixed-price Our crude oil logistics segment routinely purchases crude oil inventory to enable us to fulfill future orders expected to be placed by our customers. The contracts listed in this table as Crude oil fixed-price represent derivatives we have entered into as

an economic hedge against the risk that crude oil prices will decline while we are holding the inventory.

(3) Crude oil index Our crude oil logistics segment may purchase or sell crude oil where the underlying contract pricing mechanisms are tied to different crude oil indices. These indices may vary in the type or location of crude oil, or in the timing of delivery within a given month. The contracts listed in this table as Crude oil index represent derivatives we have entered into as an economic hedge against the risk of one crude oil index moving relative to another crude oil index.

(4) Propane fixed-price Our liquids segment routinely purchases propane inventory during the warmer months and stores the propane inventory for sale during the colder months. The contracts listed in this table as Propane fixed-price

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

represent derivatives we have entered into as an economic hedge against the risk that propane prices will decline while we are holding the inventory.

(5) Refined products fixed-price Our refined products and renewables segment routinely purchases refined products inventory to enable us to fulfill future orders expected to be placed by our customers. The contracts listed in this table as Refined products fixed-price represent derivatives we have entered into as an economic hedge against the risk that refined product prices will decline while we are holding the inventory.

(6) Renewable products fixed-price Our refined products and renewables segment routinely purchases biodiesel and ethanol inventory to enable us to fulfill future orders expected to be placed by our customers. The contracts listed in this table as Renewable products fixed-price represent derivatives we have entered into as an economic hedge against the risk that biodiesel or ethanol prices will decline while we are holding the inventory.

We recorded the following net gains (losses) from our commodity derivatives to cost of sales:

Three Months Ended September 30,		Six Months Ended September 30,	
2014	2013	2014	2013
(in thousands)			
$ 55,981	$ (10,672)	$ 38,496	$ (17,881)

Credit Risk

We maintain credit policies with regard to our counterparties on the derivative financial instruments that we believe minimize our overall credit risk, including an evaluation of potential counterparties financial condition (including credit ratings), collateral requirements under certain circumstances and the use of standardized agreements, which allow for netting of positive and negative exposure associated with a single counterparty.

We may enter into industry standard master netting agreements and may enter into cash collateral agreements requiring the counterparty to deposit funds into a brokerage margin account. The netting agreements reduce our credit risk by providing for net settlement of any offsetting positive and negative exposures with counterparties. The cash collateral agreements reduce the level of our net counterparty credit risk because the amount of collateral represents additional funds that we may access to net settle positions due us, and the amount of collateral adjusts each day in response to changes in the market value of counterparty derivatives.

Our counterparties consist primarily of financial institutions and energy companies. This concentration of counterparties may impact our overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions.

As is customary in the crude oil industry, we generally receive payment from customers for sales of crude oil on a monthly basis. As a result, receivables from individual customers in our crude oil logistics segment are generally higher than the receivables from customers in our other segments.

Failure of a counterparty to perform on a contract could result in our inability to realize amounts that have been recorded on our condensed consolidated balance sheets and recognized in our net income.

Interest Rate Risk

Our Revolving Credit Facility is variable-rate debt with interest rates that are generally indexed to bank prime or LIBOR interest rates. At September 30, 2014, we had $1.1 billion of outstanding borrowings under our Revolving Credit Facility at a rate of 1.91%. A change in interest rates of 0.125% would result in an increase or decrease of our annual interest expense of $1.3 million, based on borrowings outstanding at September 30, 2014.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

The TLP Credit Facility is variable-rate debt with interest rates that are generally indexed to bank prime or LIBOR interest rates. At September 30, 2014, TLP had $252.0 million of outstanding borrowings under the TLP Credit Facility at a rate of 2.66%. A change in interest rates of 0.125% would result in an increase or decrease in TLP s annual interest expense of $0.3 million, based on borrowings outstanding at September 30, 2014.

Fair Value of Notes

The following table provides estimates of the fair values of our fixed-rate notes at September 30, 2014 (in thousands):

5.125% Notes due 2019	$	390,000
6.875% Notes due 2021		475,000
6.650% Notes due 2022		275,000

For the 2019 Notes and the 2021 Notes, the fair value estimates were developed by reference to broker quotes. These estimates would be classified as Level 2 in the fair value hierarchy. For the 2022 Notes, the estimate was developed using observed yields on publicly-traded notes issued by other entities, adjusted for differences in the key terms of those notes and the key terms of our notes (examples include differences in the tenor of the debt, credit standing of the issuer, whether the notes are publicly-traded, and whether the notes are secured or unsecured). These estimates of fair value would be classified as Level 3 in the fair value hierarchy.

Note 12 Segments

Our reportable segments are based on the way in which our management structure is organized. Certain financial data related to our segments is shown below. Transactions between segments are recorded based on prices negotiated between the segments.

Our crude oil logistics segment sells crude oil and provides crude oil transportation services to wholesalers, refiners, and producers. Our water solutions segment provides services for the treatment and disposal of wastewater generated from crude oil and natural gas production, and generates revenue from the sale of recycled water and recovered hydrocarbons. Our liquids segment supplies propane, butane, and other products, and provides natural gas liquids transportation, terminaling, and storage services to retailers, wholesalers, and refiners. Our retail propane segment sells propane and distillates to end users consisting of residential, agricultural, commercial, and industrial customers, and to

certain re-sellers. Our retail propane segment consists of two divisions, which are organized based on the location of the operations. Our refined products and renewables segment provides integrated terminaling, storage, transportation, marketing, and related services for companies engaged in the trading, distribution and marketing of refined petroleum products, ethanol, and biodiesel. This segment began with our December 2013 acquisition of Gavilon Energy and expanded with our July 2014 acquisition of TransMontaigne.

Items labeled corporate and other in the table below include the operations of a compressor leasing business that we sold in February 2014 and certain natural gas marketing operations that we acquired in our December 2013 acquisition of Gavilon Energy and wound down during fiscal year 2014. The corporate and other category also includes certain corporate expenses that are incurred and are not allocated to the reportable segments. This data is included to reconcile the data for the reportable segments to data in our condensed consolidated financial statements.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Six Months Ended September 30, 2014	Six Months Ended September 30, 2013
	(in thousands)			
Revenues:				
Crude oil logistics -				
Crude oil sales	$ 2,108,117	$ 1,013,061	$ 4,035,061	$ 1,941,595
Crude oil transportation and other	13,082	9,794	25,196	19,729
Water solutions -				
Water treatment and disposal	47,572	28,823	89,288	47,511
Water transportation	5,147	5,367	10,745	7,192
Liquids -				
Propane sales	240,433	191,437	462,879	315,274
Other product sales	306,625	308,606	594,984	558,459
Other revenues	6,814	9,250	12,530	18,114
Retail propane -				
Propane sales	48,552	40,651	100,578	87,342
Distillate sales	11,530	10,562	30,225	28,431
Other revenues	8,276	8,198	15,457	15,898
Refined products and renewables -				
Refined products sales	2,489,795		3,476,018	
Renewables sales	117,425		248,699	
Corporate and other	1,333	1,485	2,794	2,959
Elimination of intersegment sales	(24,175)	(33,297)	(75,314)	(62,610)
Total revenues	$ 5,380,526	$ 1,593,937	$ 9,029,140	$ 2,979,894
Depreciation and Amortization:				
Crude oil logistics	$ 9,240	$ 3,330	$ 18,971	$ 8,014
Water solutions	17,573	11,438	34,665	18,794
Liquids	3,384	2,672	6,585	5,376
Retail propane	7,684	6,871	15,255	14,111
Refined products and renewables	11,917		12,761	
Corporate and other	301	750	1,237	1,490
Total depreciation and amortization	$ 50,099	$ 25,061	$ 89,474	$ 47,785
Operating Income (Loss):				
Crude oil logistics	$ 38	$ 5,884	$ 1,501	$ 12,493
Water solutions	14,792	2,913	13,885	5,956
Liquids	10,929	14,605	10,016	12,490
Retail propane	(3,062)	(4,520)	(4,648)	(6,024)
Refined products and renewables	8,822		7,567	
Corporate and other	(23,749)	(8,937)	(41,106)	(22,312)
Total operating income (loss)	$ 7,770	$ 9,945	$ (12,785)	$ 2,603

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

The following table summarizes additions to property, plant and equipment for each segment. This information has been prepared on the accrual basis, and includes property, plant and equipment acquired in acquisitions.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Additions to property, plant and equipment:				
Crude oil logistics	$ 39,464	$ 31,336	$ 81,413	$ 35,462
Water solutions	40,610	62,473	48,072	70,182
Liquids	1,911	13,209	3,070	28,316
Retail propane	9,567	4,546	12,411	11,492
Refined products and renewables	512,281		512,281	
Corporate and other	1,809	217	3,262	846
Total	$ 605,642	$ 111,781	$ 660,509	$ 146,298

The following tables summarize long-lived assets (consisting of net property, plant and equipment, net intangible assets, and goodwill) and total assets by segment:

	September 30, 2014	March 31, 2014
	(in thousands)	
Total assets:		
Crude oil logistics	$ 2,079,380	$ 1,723,812
Water solutions	964,336	875,714
Liquids	756,133	577,795
Retail propane	506,958	541,832
Refined products and renewables	2,183,674	303,230
Corporate and other	61,198	144,840
Total	$ 6,551,679	$ 4,167,223
Long-lived assets, net:		
Crude oil logistics	$ 996,615	$ 980,978
Water solutions	910,467	848,479
Liquids	271,567	274,846
Retail propane	436,621	438,324
Refined products and renewables	772,916	60,720
Corporate and other	53,705	47,961
Total	$ 3,441,891	$ 2,651,308

Note 13 Transactions with Affiliates

SemGroup Corporation (SemGroup) holds ownership interests in us and in our general partner. We sell product to and purchase product from SemGroup, and these transactions are included within revenues and cost of sales in our condensed consolidated statements of operations. We also lease crude oil storage from SemGroup.

We purchase ethanol from one of our equity method investees. These transactions are reported within cost of sales in our condensed consolidated statements of operations.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

Certain members of our management own interests in entities from which we have purchased products and services and to which we have sold products and services to. The majority of these purchases represented crude oil purchases and are reported within cost of sales in our condensed consolidated statements of operations, although $5.8 million of these transactions during the six months ended September 30, 2014 represented capital expenditures and were recorded as increases to property, plant and equipment. The majority of these sales represented crude oil sales and are reported within revenues in our condensed consolidated statements of operations.

The above transactions are summarized in the following table:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Sales to SemGroup	$ 43,427	$ 3,780	$ 117,233	$ 3,780
Purchases from SemGroup	45,730	28,377	118,997	47,916
Purchases from equity method investees	34,689		70,965	
Sales to equity method investees	9,131		9,131	
Sales to entities affiliated with management	1,706	58,769	1,854	109,872
Purchases from entities affiliated with management	3,845	48,522	6,984	56,346

Receivables from affiliates consist of the following:

	September 30, 2014	March 31, 2014
	(in thousands)	
Receivables from SemGroup	$ 39,331	$ 7,303
Receivables from entities affiliated with management	1,705	142
Receivables from equity method investees	670	
Total	$ 41,706	$ 7,445

Payables to affiliates consist of the following:

	September 30, 2014	March 31, 2014

	(in thousands)			
Payables to SemGroup	$	44,015	$	27,738
Payables to equity method investees		39,549		48,454
Payables to entities affiliated with management		1,743		654
Total	$	85,307	$	76,846

Note 14 Condensed Consolidating Guarantor and Non-Guarantor Financial Information

Certain of our wholly-owned subsidiaries have, jointly and severally, fully and unconditionally guaranteed the 2019 Notes and the 2021 Notes (described in Note 7). Pursuant to Rule 3-10 of Regulation S-X, we have presented in columnar format the condensed consolidating financial information for NGL Energy Partners LP, NGL Energy Finance Corp. (which, along with NGL Energy Partners LP, is a co-issuer of the 2019 Notes and 2021 Notes), the guarantor subsidiaries on a combined basis, and the non-guarantor subsidiaries on a combined basis in the tables below.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

During the periods presented in the tables below, the status of certain subsidiaries changed, in that they either became guarantors of or ceased to be guarantors of the 2019 Notes and 2021 Notes. Such changes have been given retrospective application in the tables below.

There are no significant restrictions upon the ability of the parent or any of the guarantor subsidiaries to obtain funds from their respective subsidiaries by dividend or loan. None of the assets of the guarantor subsidiaries represent restricted net assets pursuant to Rule 4-08(e)(3) of Regulation S-X under the Securities Act.

For purposes of the tables below, (i) the condensed consolidating financial information is presented on a legal entity basis, not a business segment basis, (ii) investments in consolidated subsidiaries are accounted for as equity method investments, and (iii) contributions, distributions, and advances to or from consolidated entities are reported on a net basis within net changes in advances with consolidated entities in the condensed consolidating cash flow tables below.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

NGL ENERGY PARTNERS LP

Condensed Consolidating Balance Sheet

(U.S. Dollars in Thousands)

	September 30, 2014					
	NGL Energy Partners LP (Parent) (1)	NGL Energy Finance Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 2,841	$	$ 7,823	$ 1,159	$	$ 11,823
Accounts receivable - trade, net of allowance for doubtful accounts			1,419,442	13,675		1,433,117
Accounts receivable - affiliates			41,035	671		41,706
Inventories			937,814	3,775		941,589
Prepaid expenses and other current assets			155,332	1,486		156,818
Total current assets	2,841		2,561,446	20,766		2,585,053
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation			863,694	569,619		1,433,313
GOODWILL			1,139,374	31,116		1,170,490
INTANGIBLE ASSETS, net of accumulated amortization	1,307	17,619	778,960	40,202		838,088
INVESTMENTS IN UNCONSOLIDATED ENTITIES			214,234	268,410		482,644
NET INTERCOMPANY RECEIVABLES (PAYABLES)	248,893	849,526	(1,026,605)	(71,814)		
INVESTMENTS IN CONSOLIDATED SUBSIDIARIES	1,743,573		10,470		(1,754,043)	
OTHER NONCURRENT ASSETS			40,035	2,056		42,091
Total assets	$ 1,996,614	$ 867,145	$ 4,581,608	$ 860,355	$ (1,754,043)	$ 6,551,679
LIABILITIES AND EQUITY						
CURRENT LIABILITIES:						
Accounts payable - trade	$	$	$ 1,333,780	$ 11,244	$	$ 1,345,024
Accounts payable - affiliates			85,237	70		85,307
	554	19,021	186,226	12,681		218,482

Accrued expenses and other payables												
Advance payments received from customers						105,597		508				106,105
Current maturities of long-term debt						5,004		58				5,062
Total current liabilities		554		19,021		1,715,844		24,561				1,759,980
LONG-TERM DEBT, net of current maturities		250,000		850,000		1,085,155		252,196				2,437,351
OTHER NONCURRENT LIABILITIES						35,160		4,358				39,518
EQUITY												
Partners equity (deficit)		1,746,060		(1,876)		1,745,450		579,312		(2,322,813)		1,746,133
Accumulated other comprehensive loss						(1)		(72)				(73)
Noncontrolling interests										568,770		568,770
Total equity (deficit)		1,746,060		(1,876)		1,745,449		579,240		(1,754,043)		2,314,830
Total liabilities and equity	$	1,996,614	$	867,145	$	4,581,608	$	860,355	$	(1,754,043)	$	6,551,679

(1) The parent is a co-issuer of the 2019 Notes and 2021 Notes that are included in the NGL Energy Finance Corp. column.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

NGL ENERGY PARTNERS LP

Condensed Consolidating Balance Sheet

(U.S. Dollars in Thousands)

	March 31, 2014					
	NGL Energy Partners LP (Parent) (1)	NGL Energy Finance Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 1,181	$	$ 8,728	$ 531	$	$ 10,440
Accounts receivable - trade, net of allowance for doubtful accounts			887,789	13,115		900,904
Accounts receivable - affiliates			7,445			7,445
Inventories			306,434	3,726		310,160
Prepaid expenses and other current assets			80,294	56		80,350
Total current assets	1,181		1,290,690	17,428		1,309,299
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation			764,014	65,332		829,346
GOODWILL			1,105,008	1,998		1,107,006
INTANGIBLE ASSETS, net of accumulated amortization	1,169	11,552	700,603	1,632		714,956
INVESTMENTS IN UNCONSOLIDATED ENTITIES			189,821			189,821
NET INTERCOMPANY RECEIVABLES (PAYABLES)	327,281	437,714	(720,737)	(44,258)		
INVESTMENTS IN CONSOLIDATED SUBSIDIARIES	1,447,502		17,673		(1,465,175)	
OTHER NONCURRENT ASSETS			16,674	121		16,795
Total assets	$ 1,777,133	$ 449,266	$ 3,363,746	$ 42,253	$ (1,465,175)	$ 4,167,223

LIABILITIES AND EQUITY						
CURRENT LIABILITIES:						
Accounts payable - trade	$	$	$ 726,252	$ 13,959	$	$ 740,211
Accounts payable - affiliates			73,703	3,143		76,846
Accrued expenses and other payables	554	14,266	124,923	1,947		141,690
Advance payments received from customers			29,891	74		29,965
Current maturities of long-term debt			7,058	22		7,080
Total current liabilities	554	14,266	961,827	19,145		995,792
LONG-TERM DEBT, net of current maturities	250,000	450,000	929,754	80		1,629,834
OTHER NONCURRENT LIABILITIES			9,663	81		9,744
EQUITY						
Partners equity (deficit)	1,526,579	(15,000)	1,462,691	22,994	(1,470,449)	1,526,815
Accumulated other comprehensive loss			(189)	(47)		(236)
Noncontrolling interests					5,274	5,274
Total equity (deficit)	1,526,579	(15,000)	1,462,502	22,947	(1,465,175)	1,531,853
Total liabilities and equity	$ 1,777,133	$ 449,266	$ 3,363,746	$ 42,253	$ (1,465,175)	$ 4,167,223

(1) The parent is a co-issuer of the 2021 Notes that are included in the NGL Energy Finance Corp. column.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

NGL ENERGY PARTNERS LP

Condensed Consolidating Statement of Operations

(U.S. Dollars in Thousands)

	Three Months Ended September 30, 2014					
	NGL Energy Partners LP (Parent) (1)	NGL Energy Finance Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
REVENUES	$	$	$ 5,325,186	$ 55,364	$ (24)	$ 5,380,526
COST OF SALES			5,161,935	17,554	(24)	5,179,465
OPERATING COSTS AND EXPENSES:						
Operating			84,300	17,253		101,553
General and administrative			36,360	5,279		41,639
Depreciation and amortization			38,999	11,100		50,099
Operating Income			3,592	4,178		7,770
OTHER INCOME (EXPENSE):						
Earnings of unconsolidated entities			2,310	1,387		3,697
Interest expense	(4,067)	(13,134)	(9,956)	(1,506)	12	(28,651)
Other, net			(524)	(81)	(12)	(617)
Income (Loss) Before Income Taxes	(4,067)	(13,134)	(4,578)	3,978		(17,801)
INCOME TAX (PROVISION) BENEFIT			1,951	(29)		1,922
EQUITY IN NET INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES	(15,157)		604		14,553	
Net Income (Loss)	(19,224)	(13,134)	(2,023)	3,949	14,553	(15,879)

LESS: NET INCOME ALLOCATED TO GENERAL PARTNER					(11,056)	(11,056)
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS					(3,345)	(3,345)
NET INCOME (LOSS) ALLOCATED TO LIMITED PARTNERS	$ (19,224)	$ (13,134)	$ (2,023)	$ 3,949	$ 152	$ (30,280)

(1) The parent is a co-issuer of the 2019 Notes and 2021 Notes.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

NGL ENERGY PARTNERS LP

Condensed Consolidating Statement of Operations

(U.S. Dollars in Thousands)

	Three Months Ended September 30, 2013				
	NGL Energy Partners LP (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
REVENUES	$	$ 1,546,226	$ 47,735	$ (24)	$ 1,593,937
COST OF SALES		1,445,442	43,432	(24)	1,488,850
OPERATING COSTS AND EXPENSES:					
Operating		52,979	2,790		55,769
General and administrative		14,089	223		14,312
Depreciation and amortization		23,970	1,091		25,061
Operating Income		9,746	199		9,945
OTHER INCOME (EXPENSE):					
Interest expense	(4,179)	(6,880)	(13)	12	(11,060)
Other, net		528	(97)	(12)	419
Income (Loss) Before Income Taxes	(4,179)	3,394	89		(696)
INCOME TAX PROVISION		(236)			(236)
EQUITY IN NET INCOME OF CONSOLIDATED SUBSIDIARIES	3,238	80		(3,318)	
Net Income (Loss)	(941)	3,238	89	(3,318)	(932)
LESS: NET INCOME ALLOCATED TO GENERAL PARTNER				(2,451)	(2,451)
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS				(9)	(9)

NET INCOME (LOSS) ALLOCATED TO LIMITED PARTNERS	$	(941)	$	3,238	$	89	$	(5,778)	$	(3,392)

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

NGL ENERGY PARTNERS LP

Condensed Consolidating Statement of Operations

(U.S. Dollars in Thousands)

	Six Months Ended September 30, 2014					
	NGL Energy Partners LP (Parent) (1)	NGL Energy Finance Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
REVENUES	$	$	$ 8,952,772	$ 76,421	$ (53)	$ 9,029,140
COST OF SALES			8,676,881	36,690	(53)	8,713,518
OPERATING COSTS AND EXPENSES:						
Operating			150,919	18,502		169,421
General and administrative			64,124	5,388		69,512
Depreciation and amortization			77,545	11,929		89,474
Operating Income (Loss)			(16,697)	3,912		(12,785)
OTHER INCOME (EXPENSE):						
Earnings of unconsolidated entities			4,875	1,387		6,262
Interest expense	(8,313)	(21,280)	(18,058)	(1,517)	23	(49,145)
Other, net			(1,056)	71	(23)	(1,008)
Income (Loss) Before Income Taxes	(8,313)	(21,280)	(30,936)	3,853		(56,676)
INCOME TAX (PROVISION) BENEFIT			993	(106)		887
EQUITY IN NET INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES	(50,886)		337		50,549	
Net Income (Loss)	(59,199)	(21,280)	(29,606)	3,747	50,549	(55,789)

LESS: NET INCOME ALLOCATED TO GENERAL PARTNER										(20,437)		(20,437)
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS										(3,410)		(3,410)
NET INCOME (LOSS) ALLOCATED TO LIMITED PARTNERS	$	(59,199)	$	(21,280)	$	(29,606)	$	3,747	$	26,702	$	(79,636)

(1) The parent is a co-issuer of the 2019 Notes and 2021 Notes.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

NGL ENERGY PARTNERS LP

Condensed Consolidating Statement of Operations

(U.S. Dollars in Thousands)

	Six Months Ended September 30, 2013				
	NGL Energy Partners LP (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
REVENUES	$	$ 2,914,531	$ 65,421	$ (58)	$ 2,979,894
COST OF SALES		2,735,890	56,094	(58)	2,791,926
OPERATING COSTS AND EXPENSES:					
Operating		99,710	5,104		104,814
General and administrative		32,297	469		32,766
Depreciation and amortization		46,000	1,785		47,785
Operating Income		634	1,969		2,603
OTHER INCOME (EXPENSE):					
Interest expense	(8,368)	(13,309)	(28)	23	(21,682)
Other, net		627	(135)	(23)	469
Income (Loss) Before Income Taxes	(8,368)	(12,048)	1,806		(18,610)
INCOME TAX BENEFIT		170			170
EQUITY IN NET INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES	(10,206)	1,672		8,534	
Net Income (Loss)	(18,574)	(10,206)	1,806	8,534	(18,440)
LESS: NET INCOME ALLOCATED TO GENERAL PARTNER				(4,139)	(4,139)
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS				(134)	(134)

NET INCOME (LOSS) ALLOCATED TO LIMITED PARTNERS	$	(18,574)	$	(10,206)	$	1,806	$	4,261	$	(22,713)

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

NGL ENERGY PARTNERS LP

Condensed Consolidating Statements of Comprehensive Income (Loss)

(U.S. Dollars in Thousands)

	Three Months Ended September 30, 2014					
	NGL Energy Partners LP (Parent) (1)	NGL Energy Finance Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$ (19,224)	$ (13,134)	$ (2,023)	$ 3,949	$ 14,553	$ (15,879)
Other comprehensive income (loss)			4	(26)		(22)
Comprehensive income (loss)	$ (19,224)	$ (13,134)	$ (2,019)	$ 3,923	$ 14,553	$ (15,901)

(1) The parent is a co-issuer of the 2019 Notes and 2021 Notes.

	Three Months Ended September 30, 2013				
	NGL Energy Partners LP (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$ (941)	$ 3,238	$ 89	$ (3,318)	$ (932)
Other comprehensive loss			(5)		(5)
Comprehensive income (loss)	$ (941)	$ 3,238	$ 84	$ (3,318)	$ (937)

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

NGL ENERGY PARTNERS LP

Condensed Consolidating Statements of Comprehensive Income (Loss)

(U.S. Dollars in Thousands)

	Six Months Ended September 30, 2014					
	NGL Energy Partners LP (Parent) (1)	NGL Energy Finance Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$ (59,199)	$ (21,280)	$ (29,606)	$ 3,747	$ 50,549	$ (55,789)
Other comprehensive income (loss)			189	(26)		163
Comprehensive income (loss)	$ (59,199)	$ (21,280)	$ (29,417)	$ 3,721	$ 50,549	$ (55,626)

(1) The parent is a co-issuer of the 2019 Notes and 2021 Notes.

	Six Months Ended September 30, 2013				
	NGL Energy Partners LP (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$ (18,574)	$ (10,206)	$ 1,806	$ 8,534	$ (18,440)
Other comprehensive loss			(30)		(30)
Comprehensive income (loss)	$ (18,574)	$ (10,206)	$ 1,776	$ 8,534	$ (18,470)

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

NGL ENERGY PARTNERS LP

Condensed Consolidating Statement of Cash Flows

(U.S. Dollars in Thousands)

	Six Months Ended September 30, 2014				
	NGL Energy Partners LP (Parent) (1)	NGL Energy Finance Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
OPERATING ACTIVITIES:					
Net cash provided by (used in) operating activities	$ (8,180)	$ (15,383)	$ (56,019)	$ 17,947	$ (61,635)
INVESTING ACTIVITIES:					
Purchases of long-lived assets			(81,710)	(1,141)	(82,851)
Acquisitions of businesses, including acquired working capital, net of cash acquired			(657,514)	(1,250)	(658,764)
Cash flows from commodity derivatives			4,327		4,327
Proceeds from sales of assets			8,741		8,741
Investments in unconsolidated entities			(6,106)	(20,284)	(26,390)
Distributions of capital from unconsolidated entities			2,774	1,875	4,649
Net cash used in investing activities			(729,488)	(20,800)	(750,288)
FINANCING ACTIVITIES:					
Proceeds from borrowings under revolving credit facilities			1,923,500	56,000	1,979,500
Payments on revolving credit facilities			(1,766,000)	(38,000)	(1,804,000)
Issuance of notes		400,000			400,000
Payments on other long-term debt			(4,173)	(2)	(4,175)
Debt issuance costs	(269)	(7,209)	(1,720)		(9,198)
Contributions	395				395
Distributions to owners	(111,008)				(111,008)
Distributions to noncontrolling interest partners				(8,654)	(8,654)
Proceeds from sale of common units, net of offering costs	370,446				370,446
Net changes in advances with consolidated entities	(249,724)	(377,408)	632,995	(5,863)	
	9,840	15,383	784,602	3,481	813,306

Net cash provided by financing activities					
Net increase (decrease) in cash and cash equivalents	1,660		(905)	628	1,383
Cash and cash equivalents, beginning of period	1,181		8,728	531	10,440
Cash and cash equivalents, end of period	$ 2,841	$	$ 7,823	$ 1,159	$ 11,823

(1) The parent is a co-issuer of the 2019 Notes and 2021 Notes.

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

NGL ENERGY PARTNERS LP

Condensed Consolidating Statement of Cash Flows

(U.S. Dollars in Thousands)

	Six Months Ended September 30, 2013			
	NGL Energy Partners LP (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
OPERATING ACTIVITIES:				
Net cash provided by (used in) operating activities	$ (8,312)	$ (44,607)	$ 4,175	$ (48,744)
INVESTING ACTIVITIES:				
Purchases of long-lived assets		(37,180)	(30,219)	(67,399)
Acquisitions of businesses, including acquired working capital, net of cash acquired	(334,085)	(56,237)	(2,283)	(392,605)
Cash flows from commodity derivatives		(19,074)		(19,074)
Proceeds from sales of assets		2,223	1	2,224
Net cash used in investing activities	(334,085)	(110,268)	(32,501)	(476,854)
FINANCING ACTIVITIES:				
Proceeds from borrowings under revolving credit facility		1,061,500		1,061,500
Payments on revolving credit facility		(893,000)		(893,000)
Proceeds from borrowings on other long-term debt		780	100	880
Payments on other long-term debt		(4,499)	(8)	(4,507)
Debt issuance costs	(133)	(2,085)		(2,218)
Contributions	504		1,940	2,444
Distributions to owners	(60,258)		(365)	(60,623)
Proceeds from sale of common units, net of offering costs	415,089			415,089
Net changes in advances with consolidated entities	(11,459)	(15,123)	26,582	
Net cash provided by financing activities	343,743	147,573	28,249	519,565
Net increase (decrease) in cash and cash equivalents	1,346	(7,302)	(77)	(6,033)
Cash and cash equivalents, beginning of period		11,206	355	11,561
Cash and cash equivalents, end of period	$ 1,346	$ 3,904	$ 278	$ 5,528

52

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

At September 30, 2014 and March 31, 2014, and for the

Three Months and Six Months Ended September 30, 2014 and 2013

Note 15 Subsequent Events

Water Solutions Facility Acquisitions

As described in Note 4, we are party to a development agreement that provides us a right to purchase water disposal facilities developed by the other party to the agreement. During October and November 2014, we purchased five facilities under this development agreement and paid $52.2 million of cash for these facilities.

Sale of Natural Gas Liquids Terminal

In November 2014, we reached an agreement to sell one of our natural gas liquids terminals. We expect the sale to close in December 2014. We expect to record during the three months ending December 31, 2014 a loss on disposal of approximately $29.0 million, consisting of a loss of $21.0 million on property, plant and equipment and $8.0 million of allocated goodwill.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of our financial condition and results of operations as of and for the three months and six months ended September 30, 2014. The discussion should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

Overview

We are a Delaware limited partnership. NGL Energy Holdings LLC serves as our general partner. At September 30, 2014, our operations include:

- Our crude oil logistics segment, the assets of which include owned and leased crude oil storage terminals, pipeline injection stations, a fleet of trucks, a fleet of leased and owned railcars, and a fleet of barges and towboats, and a 50% interest in a crude oil pipeline. Our crude oil logistics segment purchases crude oil from producers and transports it for resale at owned and leased pipeline injection points, storage terminals, barge loading facilities, rail facilities, refineries, and other trade hubs.

- Our water solutions segment, the assets of which include water treatment and disposal facilities. Our water solutions segment generates revenues from the treatment and disposal of wastewater generated from crude oil and natural gas production, and from the sale of recycled water and recovered hydrocarbons.

- Our liquids segment, which supplies natural gas liquids to retailers, wholesalers, refiners, and petrochemical plants throughout the United States and in Canada, and which provides natural gas liquids terminaling services through its 22 terminals throughout the United States and railcar transportation services through its fleet of leased and owned railcars. Our liquids segment purchases propane, butane, and other products from refiners, processing plants, producers, and other parties, and sells the product to retailers, refiners, petrochemical plants, and other participants in the wholesale markets.

- Our retail propane segment, which sells propane, distillates, and equipment and supplies to end users consisting of residential, agricultural, commercial, and industrial customers and to certain re-sellers in more than 20 states.

- Our refined products and renewables segment, which conducts gasoline, diesel, ethanol, and biodiesel marketing operations. We also own the 2.0% general partner interest and a 19.7% limited partner interest in TransMontaigne Partners L.P. (TLP), which conducts refined products terminaling operations. TLP also owns a 42.5% interest in Battleground Oil Specialty Terminal Company LLC (BOSTCO) and a 50% interest in Frontera Brownsville LLC, which are entities that own refined products storage facilities.

Crude Oil Logistics

Our crude oil logistics business purchases crude oil from producers and transports it for resale at owned and leased pipeline injection points, storage terminals, barge loading facilities, rail facilities, refineries, and other trade hubs. We attempt to reduce our exposure to price fluctuations by using back-to-back contracts whenever possible. In addition, we enter into forward contracts, financial swaps, and commodity spread trades as economic hedges of our physical forward sales and purchase contracts with our customers and suppliers.

Most of our contracts to purchase or sell crude oil are at floating prices that are indexed to published rates in active markets, such as Cushing, Oklahoma. We seek to manage price risk by entering into purchase and sale contracts of similar volumes based on similar indexes and by entering into financial derivatives. We utilize our transportation assets to move crude oil from the wellhead to the highest value market. The spread between crude oil prices in different markets can fluctuate widely, which may expand or limit our opportunity to generate margins by transporting crude oil to different markets. We also seek to maximize margins by blending crude oil of varying properties.

Table of Contents

The range of low and high spot crude oil prices per barrel of NYMEX West Texas Intermediate Crude Oil at Cushing, Oklahoma and the prices at period end were as follows:

	Spot Price Per Barrel		
	Low	High	At Period End
Three Months Ended September 30,			
2014	$ 91.16	$ 105.34	$ 91.16
2013	97.99	110.53	102.33
Six Months Ended September 30,			
2014	$ 91.16	$ 107.26	$ 91.16
2013	86.68	110.53	102.33

We believe volatility in commodity prices will continue, and our ability to adjust to and manage this volatility may impact our financial results.

Water Solutions

Our water solutions segment generates revenues from the treatment and disposal of wastewater generated from crude oil and natural gas production, and from the sale of recycled water and recovered hydrocarbons. Our water processing facilities are strategically located near areas of high crude oil and natural gas production. A significant factor affecting the profitability of our water solutions segment is the extent of exploration and production in the areas near our facilities, which is based upon producers expectations about the profitability of drilling new wells. The primary customers of our facility in Wyoming have committed to deliver a specified minimum volume of water to our facility under long-term contracts. The primary customers of our facilities in the DJ Basin have committed to deliver to our facilities all wastewater produced at wells in a designated area. Most of the customers at our other facilities in Texas are not under volume commitments, other than one customer that has committed to deliver 50,000 barrels of wastewater per day to our facilities.

Liquids

Our liquids segment purchases propane, butane, and other products from refiners, processing plants, fractionation facilities, producers, and other parties, and sells the product to retailers, refiners, petrochemical plants, and other participants in the wholesale markets. Our liquids segment owns 22 terminals, operates a fleet of owned and leased railcars, and leases underground storage capacity. We attempt to reduce our exposure to the impact of price fluctuations by using back-to-back contracts and pre-sale agreements that allow us to lock in a margin on a percentage of our winter volumes. We also attempt to reduce our exposure to the impact of price fluctuations by entering into swap agreements whereby we agree to pay a floating rate and receive a fixed rate on a specified notional amount of product. We enter into these agreements as economic hedges against the potential decline in the value of a portion of our inventory.

Our wholesale business is a cost-plus business that can be affected both by price fluctuations and volume variations. We establish our selling price based on a pass-through of our product supply, transportation, handling, storage, and capital costs plus an acceptable margin. The margins we realize in our wholesale business are substantially less on a per gallon basis than in our retail propane business.

Weather conditions and gasoline blending can have a significant impact on the demand for propane and butane, and sales volumes and prices are typically higher during the colder months of the year. Consequently, our revenues, operating profits, and operating cash flows are typically lower in the first and second quarters of each fiscal year.

Table of Contents

The range of low and high spot propane prices per gallon at Conway, Kansas, and Mt. Belvieu, Texas, two of our main pricing hubs, and the prices at period end were as follows:

	Conway, Kansas Spot Price Per Gallon			Mt. Belvieu, Texas Spot Price Per Gallon		
	Low	**High**	**At Period End**	**Low**	**High**	**At Period End**
Three Months Ended September 30,						
2014	$ 1.00	$ 1.10	$ 1.03	$ 0.99	$ 1.11	$ 1.04
2013	0.81	1.16	1.01	0.86	1.19	1.05
Six Months Ended September 30,						
2014	$ 0.96	$ 1.13	$ 1.03	$ 0.99	$ 1.13	$ 1.04
2013	0.77	1.16	1.01	0.81	1.19	1.05

The range of low and high spot butane prices per gallon at Mt. Belvieu, Texas and the prices at period end were as follows:

	Spot Price Per Gallon		
	Low	**High**	**At Period End**
Three Months Ended September 30,			
2014	$ 1.21	$ 1.30	$ 1.22
2013	1.19	1.44	1.38
Six Months Ended September 30,			
2014	$ 1.20	$ 1.30	$ 1.22
2013	1.08	1.44	1.38

We believe volatility in commodity prices will continue, and our ability to adjust to and manage this volatility may impact our financial results.

Retail Propane

Our retail propane segment is a cost-plus business that sells propane, distillates, and equipment and supplies to residential, agricultural, commercial, and industrial end users. Our retail propane segment purchases the majority of its propane from our liquids segment. Our retail propane segment generates margins based on the difference between the wholesale cost of product and the selling price of the product in the retail markets. These margins fluctuate over time due to supply and demand conditions. Weather conditions can have a significant impact on our sales volumes and prices, as a large portion of our sales are to residential customers who purchase propane and distillates for home heating purposes.

A significant factor affecting the profitability of our retail propane segment is our ability to maintain our realized product margin on a cents per gallon basis. Product margin is the differential between our sales prices and our total product costs, including transportation and storage. Historically, we have been successful in passing on price increases to our customers. We monitor propane prices daily and adjust our retail

prices to maintain expected margins by passing on the wholesale costs to our customers. Volatility in commodity prices may continue, and our ability to adjust to and manage this volatility may impact our financial results.

The retail propane business is weather-sensitive and subject to seasonal volume variations due to propane s primary use as a heating source in residential and commercial buildings and for agricultural purposes. Consequently, our revenues, operating profits, and operating cash flows are typically lower in the first and second quarters of each fiscal year.

Table of Contents

Refined Products and Renewables

Our refined products and renewables segment provides integrated terminaling, storage, transportation, marketing, and related services for companies engaged in the trading, distribution and marketing of refined petroleum products, ethanol, and biodiesel. We conduct our operations in the United States along the Gulf Coast, in the Midwest, in Houston and Brownsville, Texas, along the Mississippi and Ohio rivers, and in the Southeast.

The range of low and high spot gasoline prices per gallon using NYMEX gasoline prompt-month futures and the prices at period end were as follows:

	Spot Price Per Gallon		
	Low	**High**	**At Period End**
Three Months Ended September 30,			
2014	$ 2.52	$ 3.04	$ 2.59
Six Months Ended September 30,			
2014	$ 2.52	$ 3.13	$ 2.59

The range of low and high spot diesel prices per gallon using NYMEX ULSD prompt-month futures and the prices at period end were as follows:

	Spot Price Per Gallon		
	Low	**High**	**At Period End**
Three Months Ended September 30,			
2014	$ 2.65	$ 2.98	$ 2.65
Six Months Ended September 30,			
2014	$ 2.65	$ 3.05	$ 2.65

Recent Developments

Development of Crude Oil Rail Transloading Facility

On October 2, 2014, we announced plans to build a crude oil rail transloading facility, backed by executed producer commitments, capable of handling unit trains west of Albuquerque, New Mexico in the San Juan Basin. We expect the terminal to be completed in the third quarter of calendar year 2015 and, we expect the terminal to have multiple inbound truck unloading bays, an initial outbound capacity of at least two unit trains per week, and over 240,000 barrels of storage.

Grand Mesa Pipeline, LLC

On September 5, 2014, we formed the Grand Mesa Pipeline, LLC (Grand Mesa) joint venture in which we have a 50% ownership interest. Grand Mesa expects to build a crude oil pipeline with initial capacity exceeding 130,000 barrels per day, originating in Weld County, Colorado, and terminating at our crude oil storage terminal in Cushing, Oklahoma.

TransMontaigne Inc.

On July 1, 2014, we acquired TransMontaigne Inc. (TransMontaigne) for $174.2 million of cash, net of cash acquired. As part of this transaction, we also purchased $380.4 million of inventory from the previous owner of TransMontaigne (including $346.9 million paid at closing and $33.5 million subsequently paid as the working capital settlement process progressed). The operations of TransMontaigne include the marketing of refined products and crude oil. As part of this transaction, we acquired the 2.0% general partner

Table of Contents

interest, the incentive distribution rights, and a 19.7% limited partner interest in TLP, and assumed certain terminaling service agreements with TLP from an affiliate of the previous owner of TransMontaigne. The acquisition agreement contemplates a post-closing adjustment to the purchase price for certain working capital items. We estimate that we will pay an additional $27.5 million once the working capital settlement process has been completed.

On July 10, 2014, we submitted a nonbinding proposal to the conflicts committee of the board of directors of TLP s general partner. Under this proposal, each outstanding unit of TLP would be exchanged for one of our common units. On August 15, 2014, we and TLP s general partner terminated discussions regarding our previously submitted nonbinding proposal to acquire the outstanding common units of TLP.

Water Solutions Facilities

As described below, we are party to a development agreement that provides us a right to purchase water disposal facilities developed by the other party to the agreement. During the six months ended September 30, 2014, we purchased four water disposal facilities under this development agreement. We also purchased a 75% interest in one additional water disposal facility in July 2014 from a different seller. On a combined basis, we paid $82.9 million of cash for these five water disposal facilities.

During October and November 2014, we purchased five facilities under this development agreement and paid $52.2 million of cash for these facilities.

Water Supply Company

In June 2014, we acquired an interest in a water supply company that expands our water solutions business in the DJ Basin.

Gavilon, LLC

In December 2013, we acquired the ownership interests of Gavilon, LLC (Gavilon Energy). Gavilon Energy s assets include crude oil terminals in Oklahoma, Texas and Louisiana, a 50% interest in Glass Mountain Pipeline, LLC (Glass Mountain), which owns a crude oil pipeline that originates in western Oklahoma and terminates in Cushing, Oklahoma, and an 11% interest in an ethanol production facility in the Midwest. The operations of Gavilon Energy include the marketing of crude oil, refined products, ethanol, biodiesel, and natural gas liquids and owned and leased crude oil storage in Cushing, Oklahoma.

Coastal Plains Disposal #1, LLC (Coastal)

In September 2013, we acquired the ownership interests in three water disposal facilities in the Eagle Ford Basin in Texas, and an option to acquire an additional facility which we exercised in March 2014.

Oilfield Water Lines LP (OWL)

In August 2013, we acquired the ownership interests in four water disposal facilities and a fleet of approximately 55 water transportation vehicles located in the Eagle Ford Basin in Texas.

High Roller Wells Big Lake SWD No. 1 Ltd. (Big Lake)

In July 2013, we acquired a water disposal facility located in the Permian Basin in Texas. As part of this transaction, we entered into a five-year development agreement that provides us a right to purchase water disposal facilities that may be developed by the other party to the agreement.

Crescent Terminals, LLC and Cierra Marine, LP

In July 2013, we acquired the operating assets of Crescent Terminals, LLC (Crescent), which operates a leased crude oil storage and dock facility in Port Aransas, Texas. In addition, we also purchased the ownership interests of Cierra Marine, LP (Cierra Marine), whereby we acquired a fleet of four towboats and seven crude oil barges operating in the intercoastal waterways of Texas.

Table of Contents

Summary Discussion of Operating Results for the Three Months Ended September 30, 2014

During the three months ended September 30, 2014, we generated operating income of $7.8 million, compared to operating income of $9.9 million during the three months ended September 30, 2013.

Our crude oil logistics segment generated operating income of less than $0.1 million during the three months ended September 30, 2014, compared to operating income of $5.9 million during the three months ended September 30, 2013. Spreads between the price of crude oil in different markets narrowed during the three months ended September 30, 2013 and remained narrow, which reduced our opportunity to generate increased margins by transporting crude oil from lower-price markets to higher-price markets. In addition, prices declined steadily during the three months ended September 30, 2014, which adversely impacted our margins.

Our water solutions segment generated operating income of $14.8 million during the three months ended September 30, 2014, compared to operating income of $2.9 million during the three months ended September 30, 2013. This increase was due in part to an increase in the volume of wastewater processed, which was due to increased demand for existing facilities and to the development and acquisition of new facilities.

Our liquids segment generated operating income of $10.9 million during the three months ended September 30, 2014, compared to operating income of $14.6 million during the three months ended September 30, 2013. Although sales volumes were higher during the three months ended September 30, 2014 than during the three months ended September 30, 2013, product margins were similar. This was due in part to the impact of unrealized gains on derivatives, which reduced cost of sales by $0.3 million during the three months ended September 30, 2014 and by $3.3 million during the three months ended September 30, 2013. Operating and general and administrative expenses were higher during the three months ended September 30, 2014 than during the three months ended September 30, 2013, due to expanded operations. Due to the seasonal nature of demand for natural gas liquids, sales volumes of our liquids segment are typically lower during the first and second quarters of the fiscal year than during the third and fourth quarters of the fiscal year.

Our retail propane segment generated an operating loss of $3.1 million during the three months ended September 30, 2014, compared to an operating loss of $4.5 million during the three months ended September 30, 2013. Sales volumes increased due to high demand as a result of cold weather conditions during the previous winter. Due to the seasonal nature of demand for propane, sales volumes of our retail propane business typically are lower during the first and second quarters of the fiscal year than during the third and fourth quarters of the fiscal year.

Our refined products and renewables segment generated operating income of $8.8 million during the three months ended September 30, 2014. Our refined products and renewables segment began with our December 2013 acquisition of Gavilon Energy and expanded with our July 2014 acquisition of TransMontaigne.

We recorded $3.7 million of earnings from our equity method investments during the three months ended September 30, 2014. Most of our equity method investments were acquired in our December 2013 acquisition of Gavilon Energy and our July 2014 acquisition of TransMontaigne.

We incurred interest expense of $28.7 million during the three months ended September 30, 2014, compared to interest expense of $11.1 million during the three months ended September 30, 2013. The increase was due primarily to borrowings to finance acquisitions.

Table of Contents

Consolidated Results of Operations

The following table summarizes our historical unaudited condensed consolidated statements of operations for the periods indicated:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Total revenues	$ 5,380,526	$ 1,593,937	$ 9,029,140	$ 2,979,894
Total cost of sales	5,179,465	1,488,850	8,713,518	2,791,926
Operating and general and administrative expenses	143,192	70,081	238,933	137,580
Depreciation and amortization	50,099	25,061	89,474	47,785
Operating income (loss)	7,770	9,945	(12,785)	2,603
Earnings of unconsolidated entities	3,697		6,262	
Interest expense	(28,651)	(11,060)	(49,145)	(21,682)
Other, net	(617)	419	(1,008)	469
Loss before income taxes	(17,801)	(696)	(56,676)	(18,610)
Income tax (provision) benefit	1,922	(236)	887	170
Net loss	(15,879)	(932)	(55,789)	(18,440)
Less: Net income allocated to general partner	(11,056)	(2,451)	(20,437)	(4,139)
Less: Net income attributable to noncontrolling interests	(3,345)	(9)	(3,410)	(134)
Net loss attributable to parent equity	$ (30,280)	$ (3,392)	$ (79,636)	$ (22,713)

See the detailed discussion of revenues, cost of sales, operating expenses, general and administrative expenses, depreciation and amortization expense and operating income by segment below. The acquisitions described above had a significant impact on the comparability of our results of operations during the three months and six months ended September 30, 2014 and 2013.

Non-GAAP Financial Measures

The following table reconciles net loss attributable to parent equity to our EBITDA and Adjusted EBITDA, each of which are non-GAAP financial measures:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Net loss attributable to parent equity	$ (19,224)	$ (941)	$ (59,199)	$ (18,574)

Income tax provision (benefit)	(1,933)	236	(898)	(170)
Interest expense	27,929	11,060	48,446	21,682
Depreciation and amortization	48,366	25,753	92,716	48,948
EBITDA	55,138	36,108	81,065	51,886
Net unrealized (gains) losses on derivative contracts	(13,700)	167	(8,690)	3,745
Lower of cost or market adjustment	2,837		2,837	
Loss on disposal or impairment of assets	4,150	1,790	4,608	2,163
Equity-based compensation expense	13,745	3,217	21,659	10,292
Adjusted EBITDA	$ 62,170	$ 41,282	$ 101,479	$ 68,086

We define EBITDA as net income (loss) attributable to parent equity, plus interest expense, income taxes, and depreciation and amortization expense. We define Adjusted EBITDA as EBITDA excluding unrealized gains or losses on derivative contracts, gains or losses on the disposal or impairment of assets, and equity-based compensation expense. EBITDA and Adjusted EBITDA should not be considered an alternative to net income, income before income taxes, cash flows from operating activities, or any other measure of financial performance calculated in accordance with accounting principles generally accepted in the United States (GAAP) as

Table of Contents

those items are used to measure operating performance, liquidity or the ability to service debt obligations. We believe that EBITDA provides additional information to investors for evaluating our ability to make quarterly distributions to our unitholders and is presented solely as a supplemental measure. We believe that Adjusted EBITDA provides additional information for evaluating our financial performance without regard to our financing methods, capital structure and historical cost basis. Further, EBITDA and Adjusted EBITDA, as we define them, may not be comparable to EBITDA and Adjusted EBITDA or similarly titled measures used by other entities.

For purposes of our Adjusted EBITDA calculation, we make a distinction between unrealized gains and losses on derivatives and realized gains and losses on derivatives. During the period when a derivative contract is open, we record changes in the fair value of the derivative as an unrealized gain or loss. When a derivative contract is settled, we reverse the previously-recorded unrealized gain or loss and record a realized gain or loss. The realized gain or loss is equal to the amount received or paid on the contract. We acquired Gavilon Energy in December 2013 and TransMontaigne in July 2014. We are still in the process of developing procedures to calculate realized and unrealized gains and losses for these operations in the same way we calculate them for our other operations. Accordingly, the net unrealized gains and losses in the table above exclude any unrealized gains and losses related to Gavilon Energy or TransMontaigne. For the three months and six months ended September 30, 2014, we excluded a lower-of-cost-or-market adjustment to crude oil inventory from the calculation of Adjusted EBITDA. A large portion of this adjustment was hedged through financial derivatives, and the related unrealized gain was also excluded from the calculation of Adjusted EBITDA.

The following tables reconcile depreciation and amortization amounts per the EBITDA table above to depreciation and amortization amounts reported in our condensed consolidated statements of operations and condensed consolidated statements of cash flows:

	Three Months Ended September 30,		**Six Months Ended September 30,**	
	2014	**2013**	**2014**	**2013**
	(in thousands)			
Reconciliation to condensed consolidated statements of operations:				
Depreciation and amortization per EBITDA table	$ 48,366	$ 25,753	$ 92,716	$ 48,948
Intangible asset amortization recorded to cost of sales	(1,984)	(949)	(4,121)	(1,574)
Depreciation and amortization of unconsolidated entities	(5,734)		(8,615)	
Depreciation and amortization attributable to noncontrolling interests	9,451	257	9,494	411
Depreciation and amortization per condensed consolidated statements of operations	$ 50,099	$ 25,061	$ 89,474	$ 47,785

	Six Months Ended September 30,	
	2014	**2013**
	(in thousands)	
Reconciliation to condensed consolidated statements of cash flows:		
Depreciation and amortization per EBITDA table	$ 92,716	$ 48,948
Amortization of debt issuance costs recorded to interest expense	4,029	2,462
Depreciation and amortization of unconsolidated entities	(8,615)	
Depreciation and amortization attributable to noncontrolling interests	9,494	411
Depreciation and amortization per condensed consolidated statements of cash flows	$ 97,624	$ 51,821

Segment Operating Results for the Three Months Ended September 30, 2014 and 2013

Items Impacting the Comparability of Our Financial Results

Our current and future results of operations may not be comparable to our historical results of operations for the periods presented, due to business combinations. We expanded our crude oil logistics business through a number of acquisitions, including our acquisitions of Gavilon Energy in December 2013 and TransMontaigne in July 2014. We expanded our water solutions business through several acquisitions of water disposal and transportation businesses, including OWL in August 2013, Coastal in September 2013, and other water disposal facilities subsequent to September 30, 2013. Our refined products and renewables businesses began with our December 2013 acquisition of Gavilon Energy and expanded with our July 2014 acquisition of TransMontaigne. The results of operations of our liquids and retail propane segments are impacted by seasonality, primarily due to the increase in volumes

Table of Contents

sold during the peak heating season from October through March. In addition, product price fluctuations can have a significant impact on our sales volumes and revenues. For these and other reasons, our results of operations for the three months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full fiscal year.

Volumes

The following table summarizes the volume of product sold and water delivered during the three months ended September 30, 2014 and 2013. Volumes shown in the following table include intersegment sales.

	Three Months Ended September 30,		
Segment	**2014**	**2013**	**Change**
		(in thousands)	
Crude oil logistics			
Crude oil sold (barrels)	21,549	9,280	12,269
Water solutions			
Water delivered (barrels)	30,869	16,459	14,410
Liquids			
Propane sold (gallons)	240,234	183,415	56,819
Other products sold (gallons)	197,510	195,292	2,218
Retail propane			
Propane sold (gallons)	23,551	20,599	2,952
Distillates sold (gallons)	3,434	3,072	362
Refined products and renewables			
Refined products sold (gallons)	890,141		890,141
Renewable products sold (gallons)	51,557		51,557

Operating Income (Loss) by Segment

Our operating income (loss) by segment is as follows:

	Three Months Ended September 30,		
Segment	**2014**	**2013**	**Change**
		(in thousands)	
Crude oil logistics	$ 38	$ 5,884	$ (5,846)
Water solutions	14,792	2,913	11,879
Liquids	10,929	14,605	(3,676)
Retail propane	(3,062)	(4,520)	1,458
Refined products and renewables	8,822		8,822

Corporate and other	(23,749)	(8,937)	(14,812)
Operating income	$ 7,770	$ 9,945	$ (2,175)

Table of Contents

Crude Oil Logistics

The following table summarizes the operating results of our crude oil logistics segment for the periods indicated:

	Three Months Ended September 30, 2014	2013	Change
		(in thousands)	
Revenues:			
Crude oil sales	$ 2,108,117	$ 1,013,061	$ 1,095,056
Crude oil transportation and other	13,082	9,794	3,288
Total revenues (1)	2,121,199	1,022,855	1,098,344
Expenses:			
Cost of sales	2,093,744	1,000,982	1,092,762
Operating expenses	12,432	11,760	672
General and administrative expenses	5,745	899	4,846
Depreciation and amortization expense	9,240	3,330	5,910
Total expenses	2,121,161	1,016,971	1,104,190
Segment operating income	$ 38	$ 5,884	$ (5,846)

(1) Revenues include $10.1 million and $8.8 million of intersegment sales during the three months ended September 30, 2014 and 2013, respectively, that are eliminated in our condensed consolidated statements of operations.

Revenues. Our crude oil logistics segment generated $2.1 billion of revenue from crude oil sales during the three months ended September 30, 2014, selling 21.5 million barrels at an average price of $97.83 per barrel. During the three months ended September 30, 2013, our crude oil logistics segment generated $1.0 billion of revenue from crude oil sales, selling 9.3 million barrels at an average price of $109.17 per barrel.

Crude oil transportation and other revenues of our crude oil logistics segment were $13.1 million during the three months ended September 30, 2014, compared to $9.8 million of crude oil transportation and other revenues during the three months ended September 30, 2013. This increase was due primarily to the Gavilon acquisition in December 2013.

Cost of Sales. Our cost of crude oil sold was $2.1 billion during the three months ended September 30, 2014, as we sold 21.5 million barrels at an average cost of $97.16 per barrel. Our cost of sales during the three months ended September 30, 2014 was reduced by $0.7 million of net unrealized gains on derivatives. During the three months ended September 30, 2013, our cost of crude oil sold was $1.0 billion, as we sold 9.3 million barrels at an average cost of $107.86 per barrel. Our cost of sales during the three months ended September 30, 2013 was increased by $3.1 million of net unrealized losses on derivatives.

The most significant drivers of the increase in our volumes, revenues, and cost of sales were the acquisitions of Gavilon Energy in December 2013 and TransMontaigne in July 2014. Spreads between the price of crude oil in different markets narrowed during the three months ended September 30, 2013 and remained narrow, which reduced our opportunity to generate increased margins by transporting crude oil from lower-price markets to higher-price markets.

Operating Expenses. Our crude oil logistics segment incurred $12.4 million of operating expenses during the three months ended September 30, 2014, compared to $11.8 million of operating expenses during the three months ended September 30, 2013.

General and Administrative Expenses. Our crude oil logistics segment incurred $5.7 million of general and administrative expenses during the three months ended September 30, 2014, compared to $0.9 million of general and administrative expenses during the three months ended September 30, 2013. This increase was due to the acquisitions of Gavilon Energy in December 2013 and TransMontaigne in July 2014. General and administrative expenses during the three months ended September 30, 2014 were increased by $2.2 million of compensation expense related to bonuses that the previous owners of Gavilon Energy granted to employees, contingent upon successful completion of the sale of the business. These bonuses will be payable in December 2014, contingent upon the continued service of the employees. General and administrative expenses during the three months ended September 30, 2014 were also increased by $1.2 million of compensation expense related to termination benefits for certain TransMontaigne employees.

Table of Contents

Depreciation and Amortization Expense. Our crude oil logistics segment incurred $9.2 million of depreciation and amortization expense during the three months ended September 30, 2014, compared to $3.3 million of depreciation and amortization expense during the three months ended September 30, 2013. This increase was primarily due to acquisitions and capital expansions.

Operating Income. Our crude oil logistics segment generated operating income of less than $0.1 million during the three months ended September 30, 2014, compared to operating income of $5.9 million during the three months ended September 30, 2013. Operating income during the three months ended September 30, 2014 was increased by $0.7 million of net unrealized gains on derivatives. Operating income during the three months ended September 30, 2013 was reduced by $3.1 million of net unrealized losses on derivatives. Spreads between the price of crude oil in different markets narrowed during the three months ended September 30, 2013 and remained narrow, which reduced our opportunity to generate increased margins by transporting crude oil from lower-price markets to higher-price markets.

Water Solutions

The following table summarizes the operating results of our water solutions segment for the periods indicated:

	Three Months Ended September 30,		Change	
	2014	2013	Acquisitions (1)	Other
	(in thousands)			
Revenues:				
Water treatment and disposal	$ 47,572	$ 28,823	$ 14,861	$ 3,888
Water transportation	5,147	5,367	1,354	(1,574)
Total revenues	52,719	34,190	16,215	2,314
Expenses:				
Cost of sales	(9,439)	3,782	1,152	(14,373)
Operating expenses	29,019	15,003	13,947	69
General and administrative expenses	774	1,054	126	(406)
Depreciation and amortization expense	17,573	11,438	5,708	427
Total expenses	37,927	31,277	20,933	(14,283)
Segment operating income	$ 14,792	$ 2,913	$ (4,718)	$ 16,597

(1) Represents the change in revenues and expenses attributable to acquisitions subsequent to June 30, 2013. The cost of sales amount shown in this column does not include derivative gains and losses, as these cannot be attributed to specific facilities.

Revenues. The acquisitions subsequent to June 30, 2013 generated $19.4 million of treatment and disposal revenue during the three months ended September 30, 2014, taking delivery of 14.0 million barrels of wastewater at an average revenue of $1.39 per barrel. Exclusive of the acquisitions subsequent to June 30, 2013, our water solutions segment generated $28.2 million of treatment and disposal revenue during the three months ended September 30, 2014, taking delivery of 16.9 million barrels of wastewater at an average revenue of $1.67 per barrel. The acquisitions subsequent to June 30, 2013 generated $4.5 million of treatment and disposal revenue during the three months ended September 30, 2013, taking delivery of 2.7 million barrels of wastewater at an average revenue of $1.68 per barrel. Exclusive of the acquisitions subsequent to

June 30, 2013, our water solutions segment generated $24.3 million of treatment and disposal revenue during the three months ended September 30, 2014, taking delivery of 13.8 million barrels of wastewater at an average revenue of $1.76 per barrel. The primary reasons for the increase in revenues and water delivered were acquisitions made subsequent to June 30, 2013, including our acquisitions of OWL and Coastal, and to an increase in water volumes processed due to higher demand from customers.

Water transportation revenues decreased by $0.2 million during the three months ended September 30, 2014 compared to the three months ended September 30, 2013. During September 2014, we sold our water transportation business in order to focus our efforts on water processing. As part of this transaction, the buyer of the transportation business committed to deliver to our facilities substantially all of the water it transports for a period of two years.

Table of Contents

Cost of Sales. We enter into derivatives in our water solutions business to protect against the risk of a decline in the market price of the hydrocarbons we expect to recover when processing the wastewater. Our cost of sales for the three months ended September 30, 2014 was reduced by $12.7 million of net unrealized gains on derivatives and increased by $0.3 million of net realized losses on derivatives. Our cost of sales for the three months ended September 30, 2013 was increased by $0.2 million of net unrealized losses on derivatives and $0.9 million of net realized losses on derivatives. In the table above, the full impact of the change in derivative gains and losses during the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 is reported in the other column, as it is not possible to attribute these gains and losses to individual water facilities.

Operating Expenses. Our water solutions segment incurred $29.0 million of operating expenses during the three months ended September 30, 2014, compared to $15.0 million of operating expenses during the three months ended September 30, 2013. Of this increase, $13.9 million related to the acquisitions subsequent to June 30, 2013, which includes a loss of $4.0 million related to the sale of our water transportation business. This increase was partially offset by losses on disposal of property, plant and equipment of $2.0 million during the three months ended September 30, 2013 as a result of property damage from lightning strikes at two of our facilities.

General and Administrative Expenses. Our water solutions segment incurred $0.8 million of general and administrative expenses during the three months ended September 30, 2014, compared to $1.1 million of general and administrative expenses during the three months ended September 30, 2013.

Depreciation and Amortization Expense. Our water solutions segment incurred $17.6 million of depreciation and amortization expense during the three months ended September 30, 2014, compared to $11.4 million of depreciation and amortization expense during the three months ended September 30, 2013. Of this increase, $5.7 million related to the acquisitions subsequent to June 30, 2013, which included $0.5 million of amortization expense related to trade name intangible assets. Exclusive of the acquisitions subsequent to June 30, 2013, the increase is due in part to $0.6 million of amortization expense related to trade name intangible assets. During the year ended March 31, 2014, we ceased using certain trade names and began amortizing them as finite-lived defensive assets.

Operating Income. Our water solutions segment generated operating income of $14.8 million during the three months ended September 30, 2014, compared to operating income of $2.9 million during the three months ended September 30, 2013. This increase was due in part to an increase in the volume of wastewater processed, which was due to increased demand for existing facilities and to the development and acquisition of new facilities.

Table of Contents

Liquids

The following table summarizes the operating results of our liquids segment for the periods indicated:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Change
		(in thousands)	
Revenues:			
Propane sales	$ 240,433	$ 191,437	$ 48,996
Other product sales	306,625	308,606	(1,981)
Other revenues	6,814	9,250	(2,436)
Total revenues (1)	553,872	509,293	44,579
Expenses:			
Cost of sales - propane	230,729	184,565	46,164
Cost of sales - other products	293,262	292,142	1,120
Cost of sales - other	4,222	7,106	(2,884)
Operating expenses	9,183	6,800	2,383
General and administrative expenses	2,163	1,403	760
Depreciation and amortization expense	3,384	2,672	712
Total expenses	542,943	494,688	48,255
Segment operating income	$ 10,929	$ 14,605	$ (3,676)

(1) Revenues include $14.1 million and $24.4 million of intersegment sales during the three months ended September 30, 2014 and 2013, respectively, that are eliminated in our condensed consolidated statements of operations.

Revenues. Our liquids segment generated $240.4 million of wholesale propane sales revenue during the three months ended September 30, 2014, selling 240.2 million gallons at an average price of $1.00 per gallon. During the three months ended September 30, 2013, our liquids segment generated $191.4 million of wholesale propane sales revenue, selling 183.4 million gallons at an average price of $1.04 per gallon. The increase in volume was due to higher market demand, due in part to cold weather conditions during the previous winter.

Our liquids segment generated $306.6 million of other wholesale products sales revenue during the three months ended September 30, 2014, selling 197.5 million gallons at an average price of $1.55 per gallon. During the three months ended September 30, 2013, our liquids segment generated $308.6 million of other wholesale products sales revenue, selling 195.3 million gallons at an average price of $1.58 per gallon.

Cost of Sales. Our cost of wholesale propane sales was $230.7 million during the three months ended September 30, 2014, as we sold 240.2 million gallons at an average cost of $0.96 per gallon. Our cost of wholesale propane sales during the three months ended September 30, 2014 was increased by $1.9 million of net unrealized losses on derivatives. During the three months ended September 30, 2013, our cost of wholesale propane sales was $184.6 million, as we sold 183.4 million gallons at an average cost of $1.01 per gallon. Our cost of wholesale propane sales during the three months ended September 30, 2013 was increased by $3.6 million of net unrealized losses on derivatives.

Our cost of sales of other products was $293.3 million during the three months ended September 30, 2014, as we sold 197.5 million gallons at an average cost of $1.48 per gallon. Our cost of sales of other products during the three months ended September 30, 2014 was reduced by $2.2 million of net unrealized gains on derivatives. During the three months ended September 30, 2013, our cost of sales of other products was $292.1 million, as we sold 195.3 million gallons at an average cost of $1.50 per gallon. Our cost of sales of other products during the three months ended September 30, 2013 was reduced by $6.9 million of net unrealized gains on derivatives.

Operating Expenses. Our liquids segment incurred $9.2 million of operating expenses during the three months ended September 30, 2014, compared to $6.8 million of operating expenses during the three months ended September 30, 2013. This increase was due primarily to expanded operations.

Table of Contents

General and Administrative Expenses. Our liquids segment incurred $2.2 million of general and administrative expenses during the three months ended September 30, 2014, compared to $1.4 million of general and administrative expenses during the three months ended September 30, 2013. This increase was due primarily to expanded operations.

Depreciation and Amortization Expense. Our liquids segment incurred $3.4 million of depreciation and amortization expense during the three months ended September 30, 2014, compared to $2.7 million of depreciation and amortization expense during the three months ended September 30, 2013.

Operating Income. Our liquids segment generated operating income of $10.9 million during the three months ended September 30, 2014, compared to operating income of $14.6 million during the three months ended September 30, 2013. Although sales volumes were higher during the three months ended September 30, 2014 than during the three months ended September 30, 2013, product margins were similar. This was due in part to the impact of unrealized gains on derivatives, which reduced cost of sales by $0.3 million during the three months ended September 30, 2014 and by $3.3 million during the three months ended September 30, 2013. Operating and general and administrative expenses were higher during the three months ended September 30, 2014 than during the three months ended September 30, 2013, due to expanded operations. The wholesale natural gas liquids business is weather-sensitive and subject to seasonal volume variations due to propane s primary use as a heating source and butane s use in gasoline blending, and sales prices and volumes are typically higher during the colder months of the year. Consequently, our revenues, operating profits, and operating cash flows are typically lower in the first and second quarters of each fiscal year.

Retail Propane

The following table summarizes the operating results of our retail propane segment for the periods indicated:

	Three Months Ended September 30, 2014	2013	Change
		(in thousands)	
Revenues:			
Propane sales	$ 48,552	$ 40,651	$ 7,901
Distillate sales	11,530	10,562	968
Other revenues	8,276	8,198	78
Total revenues	68,358	59,411	8,947
Expenses:			
Cost of sales - propane	27,434	21,848	5,586
Cost of sales - distillates	9,840	9,265	575
Cost of sales - other	2,620	2,457	163
Operating expenses	21,205	20,997	208
General and administrative expenses	2,637	2,493	144
Depreciation and amortization expense	7,684	6,871	813
Total expenses	71,420	63,931	7,489
Segment operating loss	$ (3,062)	$ (4,520)	$ 1,458

Revenues. Our retail propane segment generated revenue of $48.6 million from propane sales during the three months ended September 30, 2014, selling 23.6 million gallons at an average price of $2.06 per gallon. During the three months ended September 30, 2013, our retail propane segment generated $40.7 million of revenue from propane sales, selling 20.6 million gallons at an average price of $1.97 per gallon. The increase in average sales prices during the three months ended September 30, 2014 compared to the three months ended September 30, 2013 was due primarily to higher market demand as a result of cold weather conditions during the recent winter.

Our retail propane segment generated revenue of $11.5 million from distillate sales during the three months ended September 30, 2014, selling 3.4 million gallons at an average price of $3.36 per gallon. During the three months ended September 30, 2013, our retail propane segment generated $10.6 million of revenue from distillate sales, selling 3.1 million gallons at an average price of $3.44 per gallon.

Cost of Sales. Our cost of retail propane sales was $27.4 million during the three months ended September 30, 2014, as we sold 23.6 million gallons at an average cost of $1.16 per gallon. During the three months ended September 30, 2013, our cost of retail propane sales was $21.8 million, as we sold 20.6 million gallons at an average cost of $1.06 per gallon.

Table of Contents

Our cost of distillate sales was $9.8 million during the three months ended September 30, 2014, as we sold 3.4 million gallons at an average cost of $2.87 per gallon. During the three months ended September 30, 2013, our cost of distillate sales was $9.3 million, as we sold 3.1 million gallons at an average cost of $3.02 per gallon.

Operating Expenses. Our retail propane segment incurred $21.2 million of operating expenses during the three months ended September 30, 2014, compared to $21.0 million of operating expenses during the three months ended September 30, 2013.

General and Administrative Expenses. Our retail propane segment incurred $2.6 million of general and administrative expenses during the three months ended September 30, 2014, compared to $2.5 million of general and administrative expenses during the three months ended September 30, 2013.

Depreciation and Amortization Expense. Our retail propane segment incurred $7.7 million of depreciation and amortization expense during the three months ended September 30, 2014, compared to $6.9 million of depreciation and amortization expense during the three months ended September 30, 2013.

Operating Loss. Our retail propane segment generated an operating loss of $3.1 million during the three months ended September 30, 2014, compared to an operating loss of $4.5 million during the three months ended September 30, 2013. The decrease in operating loss was due primarily due to an increase in propane sales volumes. Demand was high during the three months ended September 30, 2014, as customers sought to replenish their supplies of natural gas liquids that had been depleted during the winter. The retail propane business is weather-sensitive and subject to seasonal volume variations due to propane s primary use as a heating source in residential and commercial buildings and for agricultural purposes. Consequently, our revenues, operating profits, and operating cash flows are typically lower in the first and second quarters of each fiscal year.

Refined Products and Renewables

The following table summarizes the operating results of our refined products and renewables segment during the three months ended September 30, 2014 (in thousands). Our refined products and renewables segment began with our December 2013 acquisition of Gavilon Energy and expanded with our July 2014 acquisition of TransMontaigne.

Revenues:		
Refined products sales	$	2,489,795
Renewables sales (1)		117,425
Total revenues		2,607,220
Expenses:		
Cost of sales - refined products		2,435,868
Cost of sales - renewables (1)		114,983
Operating expenses		29,838
General and administrative expenses		5,792
Depreciation and amortization expense		11,917

Total expenses		2,598,398
Segment operating income	$	8,822

(1) Revenues and cost of sales include $4.9 million and $2.0 million, respectively, associated with freely tradable Renewable Identification Numbers (RINs) with no corresponding sales volume during the three months ended September 30, 2014.

Revenues. Our refined products and renewables segment generated $2.5 billion of refined products sales revenue during the three months ended September 30, 2014, selling 890.1 million gallons at an average price of $2.80 per gallon.

Our refined products and renewables segment generated $112.5 million of renewables sales revenue (excluding freely tradable RINS) during the three months ended September 30, 2014, selling 51.6 million gallons at an average price of $2.18 per gallon.

Table of Contents

Cost of Sales. Our cost of refined products sales was $2.4 billion during the three months ended September 30, 2014, as we sold 890.1 million gallons at an average cost of $2.74 per gallon.

Our cost of renewables sales was $113.0 million (excluding freely tradable RINS) during the three months ended September 30, 2014, as we sold 51.6 million gallons at an average cost of $2.19 per gallon. We use a weighted-average inventory costing method for our ethanol inventory. During periods of declining prices, our margins are reduced, as the weighted-average costing pool includes inventory that was purchased when prices were higher.

Operating Expenses. Our refined products and renewables segment incurred $29.8 million of operating expenses during the three months ended September 30, 2014.

General and Administrative Expenses. Our refined products and renewables segment incurred $5.8 million of general and administrative expenses during the three months ended September 30, 2014. General and administrative expenses during the three months ended September 30, 2014 were increased by $0.1 million of compensation expense related to bonuses that the previous owners of Gavilon Energy granted to employees, contingent upon successful completion of the sale of the business. These bonuses will be payable in December 2014, contingent upon the continued service of the employees. General and administrative expenses during the three months ended September 30, 2014 were also increased by $1.5 million of compensation expense related to termination benefits for certain TransMontaigne employees.

Depreciation and Amortization Expense. Our refined products and renewables segment incurred $11.9 million of depreciation and amortization expense during the three months ended September 30, 2014.

Operating Income. Our refined products and renewables segment generated operating income of $8.8 million during the three months ended September 30, 2014. The adverse impact resulting from declining refined products prices during the quarter was mitigated by gains on hedges entered into to protect against the risk of declines in inventory prices.

Corporate and Other

The operating loss within corporate and other includes the following components:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Change
	(in thousands)		
Equity-based compensation expense	$ (13,745)	$ (3,217)	$ (10,528)
Acquisition expenses	(3,230)	(785)	(2,445)
Other corporate expenses	(6,774)	(4,935)	(1,839)
	$ (23,749)	$ (8,937)	$ (14,812)

The increase in equity-based compensation expense is due primarily to $10.5 million of expense associated with restricted units granted in July 2014 to certain employees as a discretionary bonus that vested in September 2014.

Acquisition expenses during the three months ended September 30, 2014 related primarily to the acquisition of TransMontaigne.

The increase in other corporate expenses is due primarily to increases in compensation expense, due to the addition of new corporate employees to provide general and administrative services in support of the growth of our business.

Table of Contents

Segment Operating Results for the Six Months Ended September 30, 2014 and 2013

Items Impacting the Comparability of Our Financial Results

Our current and future results of operations may not be comparable to our historical results of operations for the periods presented, due to business combinations. We expanded our crude oil logistics business through a number of acquisitions, including our acquisitions of Crescent and Cierra Marine in July 2013, Gavilon Energy in December 2013 and TransMontaigne in July 2014. We expanded our water solutions business through several acquisitions of water disposal and transportation businesses, including Big Lake in July 2013, OWL in August 2013, Coastal in September 2013, and other water disposal facilities subsequent to September 30, 2013. Our refined products and renewables businesses began with our December 2013 acquisition of Gavilon Energy and expanded with our July 2014 acquisition of TransMontaigne. The results of operations of our liquids and retail propane segments are impacted by seasonality, primarily due to the increase in volumes sold during the peak heating season from October through March. In addition, product price fluctuations can have a significant impact on our sales volumes and revenues. For these and other reasons, our results of operations for the six months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full fiscal year.

Volumes

The following table summarizes the volume of product sold and water delivered during the six months ended September 30, 2014 and 2013. Volumes shown in the following table include intersegment sales.

	Six Months Ended September 30,		
Segment	**2014**	**2013**	**Change**
		(in thousands)	
Crude oil logistics			
Crude oil sold (barrels)	40,806	18,535	22,271
Water solutions			
Water delivered (barrels)	51,804	26,498	25,306
Liquids			
Propane sold (gallons)	423,992	310,834	113,158
Other products sold (gallons)	384,235	373,722	10,513
Retail propane			
Propane sold (gallons)	47,142	43,992	3,150
Distillates sold (gallons)	8,712	8,176	536
Refined products and renewables			
Refined products sold (gallons)	1,221,949		1,221,949
Renewable products sold (gallons)	104,591		104,591

Table of Contents

Operating Income (Loss) by Segment

Our operating income (loss) by segment is as follows:

Segment	Six Months Ended September 30, 2014	2013	Change
		(in thousands)	
Crude oil logistics	$ 1,501	$ 12,493	$ (10,992)
Water solutions	13,885	5,956	7,929
Liquids	10,016	12,490	(2,474)
Retail propane	(4,648)	(6,024)	1,376
Refined products and renewables	7,567		7,567
Corporate and other	(41,106)	(22,312)	(18,794)
Operating income (loss)	$ (12,785)	$ 2,603	$ (15,388)

Crude Oil Logistics

The following table summarizes the operating results of our crude oil logistics segment for the periods indicated:

	Six Months Ended September 30, 2014	2013	Change
		(in thousands)	
Revenues:			
Crude oil sales	$ 4,035,061	$ 1,941,595	$ 2,093,466
Crude oil transportation and other	25,196	19,729	5,467
Total revenues (1)	4,060,257	1,961,324	2,098,933
Expenses:			
Cost of sales	4,001,158	1,917,876	2,083,282
Operating expenses	28,417	21,175	7,242
General and administrative expenses	10,210	1,766	8,444
Depreciation and amortization expense	18,971	8,014	10,957
Total expenses	4,058,756	1,948,831	2,109,925
Segment operating income	$ 1,501	$ 12,493	$ (10,992)

(1) Revenues include $19.8 million and $16.5 million of intersegment sales during the six months ended September 30, 2014 and 2013, respectively, that are eliminated in our condensed consolidated statements of operations.

Revenues. Our crude oil logistics segment generated $4.0 billion of revenue from crude oil sales during the six months ended September 30, 2014, selling 40.8 million barrels at an average price of $98.88 per barrel. During the six months ended September 30, 2013, our crude oil logistics segment generated $1.9 billion of revenue from crude oil sales, selling 18.5 million barrels at an average price of $104.75 per barrel.

Crude oil transportation and other revenues of our crude oil logistics segment were $25.2 million during the six months ended September 30, 2014, compared to $19.7 million of crude oil transportation and other revenues during the six months ended September 30, 2013. This increase was due primarily to the Crescent and Cierra Marine acquisition in July 2013 and the Gavilon acquisition in December 2013.

Cost of Sales. Our cost of crude oil sold was $4.0 billion during the six months ended September 30, 2014, as we sold 40.8 million barrels at an average cost of $98.05 per barrel. Our cost of sales during the six months ended September 30, 2014 was reduced by $3.1 million of net unrealized gains on derivatives. During the six months ended September 30, 2013, our cost of crude oil sold was $1.9 billion, as we sold 18.5 million barrels at an average cost of $103.47 per barrel. Our cost of sales during the six months ended September 30, 2013 was reduced by $1.5 million of net unrealized gains on derivatives.

Table of Contents

The most significant drivers of the increase in our volumes, revenues, and cost of sales were the acquisition of Gavilon Energy in December 2013 and TransMontaigne in July 2014. Spreads between the price of crude oil in different markets narrowed during the six months ended September 30, 2013 and remained narrow, which reduced our opportunity to generate increased margins by transporting crude oil from lower-price markets to higher-price markets.

Operating Expenses. Our crude oil logistics segment incurred $28.4 million of operating expenses during the six months ended September 30, 2014, compared to $21.2 million of operating expenses during the six months ended September 30, 2013. This increase was primarily due to the Gavilon acquisition in December 2013.

General and Administrative Expenses. Our crude oil logistics segment incurred $10.2 million of general and administrative expenses during the six months ended September 30, 2014, compared to $1.8 million of general and administrative expenses during the six months ended September 30, 2013. This increase was due to the acquisitions of Gavilon Energy in December 2013 and TransMontaigne in July 2014. General and administrative expenses during the six months ended September 30, 2014 were increased by $4.3 million of compensation expense related to bonuses that the previous owners of Gavilon Energy granted to employees, contingent upon successful completion of the sale of the business. These bonuses will be payable in December 2014, contingent upon the continued service of the employees. General and administrative expenses during the six months ended September 30, 2014 were also increased by $1.2 million of compensation expense related to termination benefits for certain TransMontaigne employees.

Depreciation and Amortization Expense. Our crude oil logistics segment incurred $19.0 million of depreciation and amortization expense during the six months ended September 30, 2014, compared to $8.0 million of depreciation and amortization expense during the six months ended September 30, 2013. This increase was primarily due to acquisitions and capital expansions.

Operating Income. Our crude oil logistics segment generated operating income of $1.5 million during the six months ended September 30, 2014, compared to operating income of $12.5 million during the six months ended September 30, 2013. Operating income during the three months ended September 30, 2014 was increased by $3.1 million of net unrealized gains on derivatives. Operating income during the three months ended September 30, 2013 was increased by $1.5 million of net unrealized gains on derivatives. Spreads between the price of crude oil in different markets narrowed during the six months ended September 30, 2013 and remained narrow, which reduced our opportunity to generate increased margins by transporting crude oil from lower-price markets to higher-price markets.

Water Solutions

The following table summarizes the operating results of our water solutions segment for the periods indicated:

	Six Months Ended September 30,		Change	
	2014	**2013**	**Acquisitions (1)**	**Other**
	(in thousands)			
Revenues:				
Water treatment and disposal	$ 89,288	$ 47,511	$ 28,627	$ 13,150

Water transportation	10,745	7,192	6,954	(3,401)
Total revenues	100,033	54,703	35,581	9,749
Expenses:				
Cost of sales	1,134	4,365	4,984	(8,215)
Operating expenses	48,748	24,010	23,141	1,597
General and administrative expenses	1,601	1,578	199	(176)
Depreciation and amortization expense	34,665	18,794	15,348	523
Total expenses	86,148	48,747	43,672	(6,271)
Segment operating income	$ 13,885	$ 5,956	$ (8,091)	$ 16,020

(1) Represents the change in revenues and expenses attributable to acquisitions subsequent to March 31, 2013. The cost of sales amount shown in this column does not include derivative gains and losses, as these cannot be attributed to specific facilities.

Table of Contents

Revenues. The acquisitions subsequent to March 31, 2013 generated $35.6 million of treatment and disposal revenue during the six months ended September 30, 2014, taking delivery of 22.9 million barrels of wastewater at an average revenue of $1.56 per barrel. Exclusive of the acquisitions subsequent to March 31, 2013, our water solutions segment generated $53.7 million of treatment and disposal revenue during the six months ended September 30, 2014, taking delivery of 28.9 million barrels of wastewater at an average revenue of $1.85 per barrel. The acquisitions subsequent to March 31, 2013 generated $7.0 million of treatment and disposal revenue during the six months ended September 30, 2013, taking delivery of 5.1 million barrels of wastewater at an average revenue of $1.37 per barrel. Exclusive of the acquisitions subsequent to March 31, 2013, our water solutions segment generated $40.5 million of treatment and disposal revenue during the six months ended September 30, 2014, taking delivery of 21.4 million barrels of wastewater at an average revenue of $1.89 per barrel. The primary reasons for the increase in revenues and water delivered were acquisitions made subsequent to March 31, 2013, including our acquisitions of Big Lake, OWL and Coastal, and to an increase in water volumes processed due to higher demand from customers.

Water transportation revenues increased by $3.6 million during the six months ended September 30, 2014 compared to the six months ended September 30, 2013, due primarily to the acquisition of OWL. During September 2014, we sold our water transportation business in order to focus our efforts on water processing. As part of this transaction, the buyer of the transportation business committed to deliver to our facilities substantially all of the water it transports for a period of two years.

Cost of Sales. We enter into derivatives in our water solutions business to protect against the risk of a decline in the market price of the hydrocarbons we expect to recover when processing the wastewater. Our cost of sales for the six months ended September 30, 2014 was reduced by $6.6 million of net unrealized gains on derivatives and increased by $1.5 million of net realized losses on derivatives. Our cost of sales for the six months ended September 30, 2013 was reduced by $0.3 million of net unrealized gains on derivatives and increased by $1.1 million of net realized losses on derivatives. In the table above, the full impact of the change in derivative gains and losses during the six months ended September 30, 2014 as compared to the six months ended September 30, 2013 is reported in the other column, as it is not possible to attribute these gains and losses to individual water facilities.

Operating Expenses. Our water solutions segment incurred $48.7 million of operating expenses during the six months ended September 30, 2014, compared to $24.0 million of operating expenses during the six months ended September 30, 2013. Of this increase, $23.1 million related to the acquisitions subsequent to March 31, 2013, which includes a loss of $4.0 million related to the sale of our water transportation business. This increase was partially offset by losses on disposal of property, plant and equipment of $2.0 million during the six months ended September 30, 2013 as a result of property damage from lightning strikes at two of our facilities.

General and Administrative Expenses. Our water solutions segment incurred $1.6 million of general and administrative expenses during the six months ended September 30, 2014 and the six months ended September 30, 2013.

Depreciation and Amortization Expense. Our water solutions segment incurred $34.7 million of depreciation and amortization expense during the six months ended September 30, 2014, compared to $18.8 million of depreciation and amortization expense during the six months ended September 30, 2013. Of this increase, $15.3 million related to the acquisitions subsequent to March 31, 2013, which included $1.0 million of amortization expense related to trade name intangible assets. Exclusive of the acquisitions subsequent to March 31, 2013, the increase is due in part to $1.2 million of amortization expense related to trade name intangible assets. During the year ended March 31, 2014, we ceased using certain trade names and began amortizing them as finite-lived defensive assets.

Operating Income. Our water solutions segment generated operating income of $13.9 million during the six months ended September 30, 2014, compared to operating income of $6.0 million during the six months ended September 30, 2013. This increase was due in part to an increase in the volume of wastewater processed, which was due to increased demand for existing facilities and to the development and acquisition of new facilities.

Table of Contents

Liquids

The following table summarizes the operating results of our liquids segment for the periods indicated:

	Six Months Ended September 30,		
	2014	2013	Change
		(in thousands)	
Revenues:			
Propane sales	$ 462,879	$ 315,274	$ 147,605
Other product sales	594,984	558,459	36,525
Other revenues	12,530	18,114	(5,584)
Total revenues (1)	1,070,393	891,847	178,546
Expenses:			
Cost of sales - propane	449,636	302,108	147,528
Cost of sales - other products	574,524	541,077	33,447
Cost of sales - other	7,403	12,474	(5,071)
Operating expenses	18,248	15,532	2,716
General and administrative expenses	3,981	2,790	1,191
Depreciation and amortization expense	6,585	5,376	1,209
Total expenses	1,060,377	879,357	181,020
Segment operating income	$ 10,016	$ 12,490	$ (2,474)

(1) Revenues include $55.5 million and $46.0 million of intersegment sales during the six months ended September 30, 2014 and 2013, respectively, that are eliminated in our condensed consolidated statements of operations.

Revenues. Our liquids segment generated $462.9 million of wholesale propane sales revenue during the six months ended September 30, 2014, selling 424.0 million gallons at an average price of $1.09 per gallon. During the six months ended September 30, 2013, our liquids segment generated $315.3 million of wholesale propane sales revenue, selling 310.8 million gallons at an average price of $1.01 per gallon. The increase in volume was due to higher market demand, due in part to cold weather conditions during the previous winter.

Our liquids segment generated $595.0 million of other wholesale products sales revenue during the six months ended September 30, 2014, selling 384.2 million gallons at an average price of $1.55 per gallon. During the six months ended September 30, 2013, our liquids segment generated $558.5 million of other wholesale products sales revenue, selling 373.7 million gallons at an average price of $1.49 per gallon.

Cost of Sales. Our cost of wholesale propane sales was $449.6 million during the six months ended September 30, 2014, as we sold 424.0 million gallons at an average cost of $1.06 per gallon. Our cost of wholesale propane sales during the six months ended September 30, 2014 was increased by $1.7 million of net unrealized losses on derivatives. During the six months ended September 30, 2013, our cost of wholesale propane sales was $302.1 million, as we sold 310.8 million gallons at an average cost of $0.97 per gallon. Our cost of wholesale propane sales during the six months ended September 30, 2013 was increased by $5.2 million of net unrealized losses on derivatives.

Product margins per gallon of propane sold were lower during the six months ended September 30, 2014 than during the six months ended September 30, 2013. Propane prices were high during the recent winter due to cold weather conditions, and prices declined during February and March 2014. We use a weighted-average inventory costing method for our wholesale propane inventory, with the costing pools segregated based on the location of the inventory. During periods of declining prices, our margins are reduced, as the weighted-average costing pool includes inventory that was purchased when prices were higher.

One of our business strategies is to purchase and store inventory during the warmer months for sale during the winter months. We seek to lock in a margin on inventory held in storage through back-to-back purchases and sales, fixed-price forward sale commitments, and financial derivatives. We also have contracts whereby we have committed to purchase ratable volumes each month at index prices. We seek to manage the price risk associated with these contracts primarily by selling the inventory immediately after it is received. When we sell product, we record the cost of the sale at the average cost of all inventory at that location, which may

Table of Contents

include inventory stored for sale in the future. During periods of rising prices, this can result in greater margins on these sales. During periods of falling prices, this can result in negative margins on these sales.

Our cost of sales of other products was $574.5 million during the six months ended September 30, 2014, as we sold 384.2 million gallons at an average cost of $1.50 per gallon. Our cost of sales of other products during the six months ended September 30, 2014 was reduced by $0.8 million of net unrealized gains on derivatives. During the six months ended September 30, 2013, our cost of sales of other products was $541.1 million, as we sold 373.7 million gallons at an average cost of $1.45 per gallon. Our cost of sales of other products during the six months ended September 30, 2013 was increased by $0.3 million of net unrealized losses on derivatives.

Operating Expenses. Our liquids segment incurred $18.2 million of operating expenses during the six months ended September 30, 2014, compared to $15.5 million of operating expenses during the six months ended September 30, 2013. This increase was due primarily to expanded operations.

General and Administrative Expenses. Our liquids segment incurred $4.0 million of general and administrative expenses during the six months ended September 30, 2014, compared to $2.8 million of general and administrative expenses during the six months ended September 30, 2013. This increase was due primarily to expanded operations.

Depreciation and Amortization Expense. Our liquids segment incurred $6.6 million of depreciation and amortization expense during the six months ended September 30, 2014, compared to $5.4 million of depreciation and amortization expense during the six months ended September 30, 2013.

Operating Income. Our liquids segment generated operating income of $10.0 million during the six months ended September 30, 2014, compared to operating income of $12.5 million during the six months ended September 30, 2013. The wholesale natural gas liquids business is weather-sensitive and subject to seasonal volume variations due to propane s primary use as a heating source and butane s use in gasoline blending, and sales prices and volumes are typically higher during the colder months of the year. Consequently, our revenues, operating profits, and operating cash flows are typically lower in the first and second quarters of each fiscal year.

Retail Propane

The following table summarizes the operating results of our retail propane segment for the periods indicated:

	Six Months Ended September 30,		
	2014	**2013**	**Change**
		(in thousands)	
Revenues:			
Propane sales	$ 100,578	$ 87,342	$ 13,236

Distillate sales	30,225	28,431	1,794
Other revenues	15,457	15,898	(441)
Total revenues	146,260	131,671	14,589
Expenses:			
Cost of sales - propane	56,721	47,027	9,694
Cost of sales - distillates	25,876	24,509	1,367
Cost of sales - other	4,821	5,100	(279)
Operating expenses	42,687	41,839	848
General and administrative expenses	5,548	5,109	439
Depreciation and amortization expense	15,255	14,111	1,144
Total expenses	150,908	137,695	13,213
Segment operating loss	$ (4,648)	$ (6,024)	$ 1,376

Revenues. Our retail propane segment generated revenue of $100.6 million from propane sales during the six months ended September 30, 2014, selling 47.1 million gallons at an average price of $2.13 per gallon. During the six months ended September 30, 2013, our retail propane segment generated $87.3 million of revenue from propane sales, selling 44.0 million gallons at an average price of $1.99 per gallon. The increase in volumes and average sales prices during the six months ended September 30, 2014 compared to the six months ended September 30, 2013 was due primarily to higher market demand as a result of cold weather conditions during the recent winter.

Table of Contents

Our retail propane segment generated revenue of $30.2 million from distillate sales during the six months ended September 30, 2014, selling 8.7 million gallons at an average price of $3.47 per gallon. During the six months ended September 30, 2013, our retail propane segment generated $28.4 million of revenue from distillate sales, selling 8.2 million gallons at an average price of $3.48 per gallon.

Cost of Sales. Our cost of retail propane sales was $56.7 million during the six months ended September 30, 2014, as we sold 47.1 million gallons at an average cost of $1.20 per gallon. During the six months ended September 30, 2013, our cost of retail propane sales was $47.0 million, as we sold 44.0 million gallons at an average cost of $1.07 per gallon.

Our cost of distillate sales was $25.9 million during the six months ended September 30, 2014, as we sold 8.7 million gallons at an average cost of $2.97 per gallon. During the six months ended September 30, 2013, our cost of distillate sales was $24.5 million, as we sold 8.2 million gallons at an average cost of $3.00 per gallon.

Operating Expenses. Our retail propane segment incurred $42.7 million of operating expenses during the six months ended September 30, 2014, compared to $41.8 million of operating expenses during the six months ended September 30, 2013.

General and Administrative Expenses. Our retail propane segment incurred $5.5 million of general and administrative expenses during the six months ended September 30, 2014, compared to $5.1 million of general and administrative expenses during the six months ended September 30, 2013.

Depreciation and Amortization Expense. Our retail propane segment incurred $15.3 million of depreciation and amortization expense during the six months ended September 30, 2014, compared to $14.1 million of depreciation and amortization expense during the six months ended September 30, 2013.

Operating Loss. Our retail propane segment generated an operating loss of $4.6 million during the six months ended September 30, 2014, compared to an operating loss of $6.0 million during the six months ended September 30, 2013. The decrease in operating loss was due primarily to an increase in propane sales volumes. Demand was high during the six months ended September 30, 2014, as customers sought to replenish their supplies of natural gas liquids that had been depleted during the winter. The retail propane business is weather-sensitive and subject to seasonal volume variations due to propane s primary use as a heating source in residential and commercial buildings and for agricultural purposes. Consequently, our revenues, operating profits, and operating cash flows are typically lower in the first and second quarters of each fiscal year.

Refined Products and Renewables

The following table summarizes the operating results of our refined products and renewables segment during the six months ended September 30, 2014 (in thousands). Our refined products and renewables segment began with our December 2013 acquisition of Gavilon Energy and expanded with our July 2014 acquisition of TransMontaigne.

Revenues:		
Refined products sales	$	3,476,018
Renewables sales (1)		248,699
Total revenues		3,724,717
Expenses:		
Cost of sales - refined products		3,418,880
Cost of sales - renewables (1)		246,284
Operating expenses		31,462
General and administrative expenses		7,763
Depreciation and amortization expense		12,761
Total expenses		3,717,150
Segment operating income	$	7,567

(1) Revenues and cost of sales include $6.7 million and $4.4 million, respectively, associated with freely tradable RINs with no corresponding sales volume during the six months ended September 30, 2014.

Table of Contents

Revenues. Our refined products and renewables segment generated $3.5 billion of refined products sales revenue during the six months ended September 30, 2014, selling 1.2 billion gallons at an average price of $2.84 per gallon.

Our refined products and renewables segment generated $242.0 (excluding freely tradable RINs) million of renewables sales revenue during the six months ended September 30, 2014, selling 104.6 million gallons at an average price of $2.31 per gallon.

Cost of Sales. Our cost of refined products sales was $3.4 billion during the six months ended September 30, 2014, as we sold 1.2 billion gallons at an average cost of $2.80 per gallon.

Our cost of renewables sales was $241.9 (excluding freely tradable RINs) million during the six months ended September 30, 2014, as we sold 104.6 million gallons at an average cost of $2.31 per gallon. We use a weighted-average inventory costing method for our ethanol inventory. During periods of declining prices, our margins are reduced, as the weighted-average costing pool includes inventory that was purchased when prices were higher.

Operating Expenses. Our refined products and renewables segment incurred $31.5 million of operating expenses during the six months ended September 30, 2014.

General and Administrative Expenses. Our refined products and renewables segment incurred $7.8 million of general and administrative expenses during the six months ended September 30, 2014. General and administrative expenses during the six months ended September 30, 2014 were increased by $0.4 million of compensation expense related to bonuses that the previous owners of Gavilon Energy granted to employees, contingent upon successful completion of the sale of the business. These bonuses will be payable in December 2014, contingent upon the continued service of the employees. General and administrative expenses during the six months ended September 30, 2014 were also increased by $1.5 million of compensation expense related to termination benefits for certain TransMontaigne employees.

Depreciation and Amortization Expense. Our refined products and renewables segment incurred $12.8 million of depreciation and amortization expense during the six months ended September 30, 2014.

Operating Income. Our refined products and renewables segment generated operating income of $7.6 million during the six months ended September 30, 2014. The adverse impact resulting from declining refined products prices during the quarter was mitigated by gains on hedges entered into to protect against the risk of declines in inventory prices.

Corporate and Other

The operating loss within corporate and other includes the following components:

	Six Months Ended September 30,		
	2014	**2013**	**Change**
		(in thousands)	
Equity-based compensation expense	$ (21,659)	$ (10,292)	$ (11,367)
Acquisition expenses	(4,328)	(1,368)	(2,960)
Other corporate expenses	(15,119)	(10,652)	(4,467)
	$ (41,106)	$ (22,312)	$ (18,794)

The increase in equity-based compensation expense is due primarily to $10.5 million of expense associated with restricted units granted in July 2014 to certain employees as a discretionary bonus that vested in September 2014.

Acquisition expenses during the six months ended September 30, 2014 related primarily to the acquisition of TransMontaigne.

Table of Contents

The increase in other corporate expenses is due primarily to increases in compensation expense, due to the addition of new corporate employees to provide general and administrative services in support of the growth of our business.

Operating loss during the six months ended September 30, 2014 was increased by $0.4 million of compensation expense related to bonuses that the previous owners of Gavilon Energy granted to employees, contingent upon successful completion of the sale of the business. These bonuses will be payable in December 2014, contingent upon the continued service of the employees. This amount is reported within other corporate expenses in the table above.

Interest Expense

The largest component of interest expense during the three months and six months ended September 30, 2014 and 2013 has been interest on our Revolving Credit Facility, the 2019 Notes, the 2021 Notes, the 2022 Notes, and the TLP Credit Facility (each as hereinafter defined). See Note 7 to our condensed consolidated financial statements included in this Quarterly Report for additional information on our long-term debt. The change in interest expense during the periods presented is due primarily to fluctuations in the average outstanding debt balance and the applicable interest rates, as summarized below:

	Revolving Credit Facility		**2019 Notes**		**2021 Notes**		**2022 Notes**		**TLP Credit Facility**	
	Average Balance Outstanding (in thousands)	**Average Interest Rate**	**Average Balance Outstanding (in thousands)**	**Interest Rate**	**Average Balance Outstanding (in thousands)**	**Interest Rate**	**Average Balance Outstanding (in thousands)**	**Interest Rate**	**Average Balance Outstanding (in thousands)**	**Average Interest Rate**
Three Months Ended September 30,										
2014	$ 1,026,011	2.48%	$ 360,870	5.13%	$ 450,000	6.88%	$ 250,000	6.65%	$ 246,750	2.70%
2013	572,353	3.63%					250,000	6.65%		
Six Months Ended September 30,										
2014	$ 987,224	2.38%	$ 181,424	5.13%	$ 450,000	6.88%	$ 250,000	6.65%	$ 246,750	2.70%
2013	521,202	3.65%					250,000	6.65%		

Interest expense also includes amortization of debt issuance costs, letter of credit fees, interest on equipment financing notes, and accretion of interest on noninterest bearing debt obligations assumed in business combinations.

The increased level of debt outstanding during the three months and six months ended September 30, 2014 is due primarily to borrowings to finance acquisitions.

Income Tax Provision

We qualify as a partnership for income tax purposes. As such, we generally do not pay United States federal income tax. Rather, each owner reports his or her share of our income or loss on his or her individual tax return.

We have certain taxable corporate subsidiaries in the United States and in Canada, and our operations in Texas are subject to a state franchise tax that is calculated based on revenues net of cost of sales. We utilize the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which these temporary differences are expected to be recovered or settled. Changes in tax rates are recognized in income in the period that includes the enactment date.

Income tax benefit was $1.9 million during the three months ended September 30, 2014, compared to $0.2 million of income tax expense during the three months ended September 30, 2013. The increase in the income tax benefit was primarily due to the July 2014 acquisition of TransMontaigne, as TransMontaigne is subject to United States federal and state income taxes.

Income tax benefit was $0.9 million during the six months ended September 30, 2014, compared to $0.2 million of an income tax benefit during the six months ended September 30, 2013. The increase in the income tax benefit was primarily due to the July 2014 acquisition of TransMontaigne, as TransMontaigne is subject to United States federal and state income taxes.

Table of Contents

Noncontrolling Interests

We have certain consolidated subsidiaries in which outside parties own interests. The noncontrolling interest shown in our condensed consolidated statements of operations represents the other owners share of the net income of these entities.

Net income attributable to noncontrolling interests was $3.3 million during the three months ended September 30, 2014, compared to less than $0.1 million of net income attributable to noncontrolling interests during the three months ended September 30, 2013. The increase was primarily due to the July 2014 acquisition of TransMontaigne, in which we acquired the general partner interest and a 19.7% limited partner interest in TLP.

Net income attributable to noncontrolling interests was $3.4 million during the six months ended September 30, 2014, compared to $0.1 million of net income attributable to noncontrolling interests during the six months ended September 30, 2013. The increase was primarily due to the July 2014 acquisition of TransMontaigne, in which we acquired the general partner interest and a 19.7% limited partner interest in TLP.

Seasonality

Seasonality impacts our liquids and retail propane segments. A large portion of our retail propane business is in the residential market where propane is used primarily for home heating purposes. Consequently, for these two segments, revenues, operating profits and operating cash flows are generated mostly in the third and fourth quarters of each fiscal year. See Liquidity, Sources of Capital and Capital Resource Activities Cash Flows.

Liquidity, Sources of Capital and Capital Resource Activities

Our principal sources of liquidity and capital are the cash flows from our operations and borrowings under our Revolving Credit Facility. Our cash flows from operations are discussed below.

Our borrowing needs vary significantly during the year due to the seasonal nature of our business. Our greatest working capital borrowing needs generally occur during the period of June through December, when we are building our natural gas liquids inventories in anticipation of the heating season. Our working capital borrowing needs generally decline during the period of January through March, when the cash flows from our retail propane and liquids segments are the greatest.

Our partnership agreement requires that, within 45 days after the end of each quarter we distribute all of our available cash (as defined in our partnership agreement) to unitholders as of the record date. Available cash for any quarter generally consists of all cash on hand at the end of that quarter, less the amount of cash reserves established by our general partner, to (i) provide for the proper conduct of our business, (ii) comply

with applicable law, any of our debt instruments or other agreements, and (iii) provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters. TLP s partnership agreement also requires that, within 45 days after the end of each quarter it distribute all of its available cash (as defined in its partnership agreement) to its unitholders as of the record date. Available cash is defined similarly in TLP s partnership agreement and our partnership agreement.

We believe that our anticipated cash flows from operations and the borrowing capacity under our Revolving Credit Facility are sufficient to meet our liquidity needs for the next 12 months. If our plans or assumptions change or are inaccurate, or if we make acquisitions, we may need to raise additional capital. Our ability to raise additional capital, if necessary, depends on various factors and conditions, including market conditions. We cannot give any assurances that we can raise additional capital to meet these needs. Commitments or expenditures, if any, we may make toward any acquisition projects are at our discretion.

We continue to pursue a strategy of growth through acquisitions. We expect to consider financing future acquisitions through a variety of sources, including the use of available capacity on our Revolving Credit Facility, the issuance of equity to sellers of the businesses we acquire, private placements of common units or debt securities, and public offerings of common units or debt securities. Our ability to raise additional capital through the issuance of debt or equity securities will have a significant impact on our ability to continue to pursue our growth strategy.

Credit Agreement

On June 19, 2012, we entered into a credit agreement (as amended, the Credit Agreement) with a syndicate of banks. The Credit Agreement includes a revolving credit facility to fund working capital needs (the Working Capital Facility) and a revolving credit facility to fund acquisitions and expansion projects (the Expansion Capital Facility, and together with the Working Capital Facility, the Revolving Credit Facility).

Table of Contents

The Working Capital Facility had a total capacity of $1.335 billion for cash borrowings and letters of credit at September 30, 2014. At that date, we had outstanding borrowings of $942.5 million and outstanding letters of credit of $209.2 million on the Working Capital Facility. The Expansion Capital Facility had a total capacity of $858.0 million for cash borrowings at September 30, 2014. At that date, we had outstanding borrowings of $137.0 million on the Expansion Capital Facility. The capacity available under the Working Capital Facility may be limited by a borrowing base, as defined in the Credit Agreement, which is calculated based on the value of certain working capital items at any point in time.

The commitments under the Credit Agreement expire on November 5, 2018. We have the right to prepay outstanding borrowings under the Credit Agreement without incurring any penalties, and prepayments of principal may be required if we enter into certain transactions to sell assets or obtain new borrowings.

All borrowings under the Credit Agreement bear interest, at our option, at (i) an alternate base rate plus a margin of 0.50% to 1.50% per annum or (ii) an adjusted LIBOR rate plus a margin of 1.50% to 2.50% per annum. The applicable margin is determined based on our consolidated leverage ratio, as defined in the Credit Agreement. At September 30, 2014, all borrowings under the Credit Agreement were LIBOR borrowings with an interest rate at September 30, 2014 of 1.91%, calculated as the LIBOR rate of 0.16% plus a margin of 1.75%. At September 30, 2014, the interest rate in effect on letters of credit was 2.00%. Commitment fees are charged at a rate ranging from 0.38% to 0.50% on any unused credit. At September 30, 2014, our outstanding borrowings and interest rates under our Revolving Credit Facility were as follows (dollars in thousands):

	Amount	Rate
Expansion Capital Facility		
LIBOR borrowings	$ 137,000	1.91%
Working Capital Facility		
LIBOR borrowings	942,500	1.91%

The Credit Agreement is secured by substantially all of our assets. The Credit Agreement specifies that our leverage ratio, as defined in the Credit Agreement, cannot exceed 4.25 to 1 at any quarter end. At September 30, 2014, our leverage ratio was approximately 3.4 to 1. The Credit Agreement also specifies that our interest coverage ratio, as defined in the Credit Agreement, cannot be less than 2.75 to 1 at any quarter end. At September 30, 2014, our interest coverage ratio was approximately 4.8 to 1.

The Credit Agreement contains various customary representations, warranties, and additional covenants, including, without limitation, limitations on fundamental changes and limitations on indebtedness and liens. Our obligations under the Credit Agreement may be accelerated following certain events of default (subject to applicable cure periods), including, without limitation, (i) the failure to pay principal or interest when due, (ii) a breach by the Partnership or its subsidiaries of any material representation or warranty or any covenant made in the Credit Agreement, or (iii) certain events of bankruptcy or insolvency.

At September 30, 2014, we were in compliance with the covenants under the Credit Agreement.

2019 Notes

On July 9, 2014, we issued $400.0 million of 5.125% Senior Notes Due 2019 (the 2019 Notes) in a private placement exempt from registration under the Securities Act of 1933, as amended (the Securities Act), pursuant to Rule 144A and Regulation S under the Securities Act. We received net proceeds of $393.5 million, after the initial purchasers discount of $6.0 million and estimated offering costs of $0.5 million. We used the net proceeds to reduce the outstanding balance on our Revolving Credit Facility.

The 2019 Notes mature on July 15, 2019. Interest is payable on January 15 and July 15 of each year. We have the right to redeem the 2019 Notes prior to the maturity date, although we would be required to pay a premium price for early redemption.

The Partnership and NGL Energy Finance Corp. are co-issuers of the 2019 Notes, and the obligations under the 2019 Notes are guaranteed by certain of our existing and future restricted subsidiaries that incur or guarantee indebtedness under certain of our other indebtedness, including the Revolving Credit Facility. The purchase agreement and the indenture governing the 2019 Notes contain various customary representations, warranties, and additional covenants, including, without limitation, limitations on fundamental changes and limitations on indebtedness and liens. Our obligations under the purchase agreement and the indenture may be accelerated following certain events of default (subject to applicable cure periods), including, without limitation, (i) the failure to pay principal or interest when due, (ii) experiencing an event of default on certain other debt agreements, or (iii) certain events of bankruptcy or insolvency.

Table of Contents

At September 30, 2014, we were in compliance with the covenants under the purchase agreement and indenture governing the 2019 Notes.

We also entered into a registration rights agreement whereby we have committed to exchange the 2019 Notes for a new issue of notes registered under the Securities Act that has substantially identical terms to the 2019 Notes on or before July 9, 2015. If we are unable to fulfill this obligation, we would be required to pay liquidated damages to the holders of the 2019 Notes.

2021 Notes

On October 16, 2013, we issued $450.0 million of 6.875% Senior Notes Due 2021 (the 2021 Notes) in a private placement exempt from registration under the Securities Act pursuant to Rule 144A and Regulation S under the Securities Act. We received net proceeds of $438.4 million, after the initial purchasers discount of $10.1 million and offering costs of $1.5 million. We used the net proceeds to reduce the outstanding balance on our Revolving Credit Facility.

The 2021 Notes mature on October 15, 2021. Interest is payable on April 15 and October 15 of each year. We have the right to redeem the 2021 Notes prior to the maturity date, although we would be required to pay a premium for early redemption.

The Partnership and NGL Energy Finance Corp. are co-issuers of the 2021 Notes, and the obligations under the 2021 Notes are guaranteed by certain of our existing and future restricted subsidiaries that incur or guarantee indebtedness under certain of our other indebtedness, including the Revolving Credit Facility. The purchase agreement and the indenture governing the 2021 Notes contain various customary representations, warranties, and additional covenants, including, without limitation, limitations on fundamental changes and limitations on indebtedness and liens. Our obligations under the purchase agreement and the indenture may be accelerated following certain events of default (subject to applicable cure periods), including, without limitation, (i) the failure to pay principal or interest when due, (ii) experiencing an event of default on certain other debt agreements, or (iii) certain events of bankruptcy or insolvency.

At September 30, 2014, we were in compliance with the covenants under the purchase agreement and indenture governing the 2021 Notes.

We also entered into a registration rights agreement whereby we have committed to exchange the 2021 Notes for a new issue of notes registered under the Securities Act that has substantially identical terms to the 2021 Notes on or before October 16, 2014. Our inability to register the notes on time may result in liquidated damages of approximately $0.1 million per month.

2022 Notes

On June 19, 2012, we entered into a Note Purchase Agreement (as amended, the Note Purchase Agreement) whereby we issued $250.0 million of Senior Notes in a private placement (the 2022 Notes). The 2022 Notes bear interest at a fixed rate of 6.65%. Interest is payable quarterly. The

2022 Notes are required to be repaid in semi-annual installments of $25.0 million beginning on December 19, 2017 and ending on the maturity date of June 19, 2022. We have the option to prepay outstanding principal, although we would incur a prepayment penalty. The 2022 Notes are secured by substantially all of our assets and rank equal in priority with borrowings under the Credit Agreement.

The Note Purchase Agreement contains various customary representations, warranties, and additional covenants that, among other things, limit our ability to (subject to certain exceptions): (i) incur additional debt, (ii) pay dividends and make other restricted payments, (iii) create or permit certain liens, (iv) create or permit restrictions on the ability of certain of our subsidiaries to pay dividends or make other distributions to us, (v) enter into transactions with affiliates, (vi) enter into sale and leaseback transactions and (vii) consolidate or merge or sell all or substantially all or any portion of our assets. In addition, the Note Purchase Agreement contains substantially the same leverage ratio and interest coverage ratio requirements as our Credit Agreement, which is described above.

The Note Purchase Agreement provides for customary events of default that include, among other things (subject in certain cases to customary grace and cure periods): (i) nonpayment of principal or interest, (ii) breach of certain covenants contained in the Note Purchase Agreement or the 2022 Notes, (iii) failure to pay certain other indebtedness or the acceleration of certain other indebtedness prior to maturity if the total amount of such indebtedness unpaid or accelerated exceeds $10.0 million, (iv) the rendering of a judgment for the payment of money in excess of $10.0 million, (v) the failure of the Note Purchase Agreement, the 2022 Notes, or the guarantees by the subsidiary guarantors to be in full force and effect in all material respects and (vi) certain events of bankruptcy

Table of Contents

or insolvency. Generally, if an event of default occurs (subject to certain exceptions), the trustee or the holders of at least 51% in aggregate principal amount of the then outstanding 2022 Notes of any series may declare all of the 2022 Notes of such series to be due and payable immediately.

At September 30, 2014, we were in compliance with the covenants under the Note Purchase Agreement.

TLP Credit Facility

On March 9, 2011, TLP entered into an amended and restated senior secured credit facility (TLP Credit Facility), which has been subsequently amended from time to time. The TLP Credit Facility provides for a maximum borrowing line of credit equal to the lesser of (i) $350 million and (ii) 4.75 times Consolidated EBITDA (as defined in the TLP Credit Facility: $352.9 million at September 30, 2014). TLP may elect to have loans under the TLP Credit Facility that bear interest either (i) at a rate of LIBOR plus a margin ranging from 2% to 3% depending on the total leverage ratio then in effect, or (ii) at the base rate plus a margin ranging from 1% to 2% depending on the total leverage ratio then in effect. TLP also pays a commitment fee on the unused amount of commitments, ranging from 0.375% to 0.50% per annum, depending on the total leverage ratio then in effect. TLP s obligations under the TLP Credit Facility are secured by a first priority security interest in favor of the lenders in the majority of TLP assets.

The terms of the TLP Credit Facility include covenants that restrict TLP s ability to make cash distributions, acquisitions and investments, including investments in joint ventures. TLP may make distributions of cash to the extent of its available cash as defined in the TLP partnership agreement. TLP may make acquisitions and investments that meet the definition of permitted acquisitions ; other investments which may not exceed 5% of consolidated net tangible assets ; and permitted JV investments . Permitted JV investments include up to $225 million of investments in BOSTCO, the Specified BOSTCO Investment . In addition to the Specified BOSTCO Investment, under the terms of the TLP Credit Facility, TLP may make an additional $75 million of other permitted JV investments (including additional investments in BOSTCO). The principal balance of loans and any accrued and unpaid interest are due and payable in full on the maturity date, March 9, 2016.

The TLP Credit Facility also contains customary representations and warranties (including those relating to organization and authorization, compliance with laws, absence of defaults, material agreements and litigation) and customary events of default (including those relating to monetary defaults, covenant defaults, cross defaults and bankruptcy events). The primary financial covenants contained in the TLP Credit Facility are (i) a total leverage ratio test (not to exceed 4.75 times), (ii) a senior secured leverage ratio test (not to exceed 3.75 times) in the event TLP issues senior unsecured notes, and (iii) a minimum interest coverage ratio test (not less than 3.0 times).

If TLP were to fail any financial performance covenant, or any other covenant contained in the TLP Credit Facility, TLP would seek a waiver from its lenders under such facility. If TLP was unable to obtain a waiver from its lenders and the default remained uncured after any applicable grace period, TLP would be in breach of the TLP Credit Facility, and the lenders would be entitled to declare all outstanding borrowings immediately due and payable. TLP was in compliance with all of the financial covenants under the TLP Credit Facility as of September 30, 2014.

At September 30, 2014, TLP had $252.0 million of outstanding borrowings under the TLP Credit Facility and no outstanding letters of credit.

Table of Contents

The following table summarizes our basis in the assets and liabilities of TLP at September 30, 2014, inclusive of the impact of our acquisition accounting for the business combination with TransMontaigne (in thousands):

Cash and cash equivalents	$	726
Accounts receivable - trade, net		12,252
Accounts receivable - affiliates		1,105
Inventories		1,613
Prepaid expenses and other current assets		1,363
Property, plant and equipment, net		504,272
Goodwill		29,118
Intangible assets, net		38,571
Investments in unconsolidated entities		268,410
Other noncurrent assets		1,910
Accounts payable - trade		(4,009)
Accounts payable - affiliates		(146)
Accrued expenses and other payables		(11,625)
Advance payments received from customers		(141)
Long-term debt		(252,000)
Other noncurrent liabilities		(4,247)
Net assets	$	587,172

Revolving Credit Balances

The following table summarizes Revolving Credit Facility borrowings:

		Average Daily Balance		Lowest Balance (in thousands)		Highest Balance
Six Months Ended September 30, 2014:						
Expansion borrowings	$	346,855	$	114,000	$	578,500
Working capital borrowings		640,369		339,500		1,024,500
TLP credit facility		246,750		228,000		258,500
Six Months Ended September 30, 2013:						
Expansion borrowings	$	440,423	$	255,000	$	546,000
Working capital borrowings		80,779				229,500

Table of Contents

Cash Flows

The following table summarizes the sources (uses) of our cash flows:

Cash Flows Provided by (Used in):	Six Months Ended September 30, 2014		2013
	(in thousands)		
Operating activities, before changes in operating assets and liabilities	$ 19,091		$ 60,976
Changes in operating assets and liabilities	(80,726)		(109,720)
Operating activities	$ (61,635)		$ (48,744)
Investing activities	(750,288)		(476,854)
Financing activities	813,306		519,565

Operating Activities. The seasonality of our natural gas liquids businesses has a significant effect on our cash flows from operating activities. The changes in our operating assets and liabilities caused by the seasonality of our retail and wholesale natural gas liquids businesses also have a significant impact on our net cash flows from operating activities. Increases in natural gas liquids prices will tend to result in reduced operating cash flows due to the need to use more cash to fund increases in inventories, and price decreases tend to increase our operating cash flow due to lower cash requirements to fund increases in inventories.

In general, our operating cash flows are at their lowest levels during our first and second fiscal quarters, or the six months ending September 30, when we experience operating losses or lower operating income as a result of lower volumes of natural gas liquids sales and when we are building our inventory levels for the upcoming heating season. Our operating cash flows are generally greatest during our third and fourth fiscal quarters, or the six months ending March 31, when our operating income levels are highest and customers pay for natural gas liquids consumed during the heating season months. We borrow under our revolving credit facilities to supplement our operating cash flows as necessary during our first and second quarters.

Investing Activities. Our cash flows from investing activities are primarily impacted by our capital expenditures. In periods where we are engaged in significant acquisitions, we will generally realize negative cash flows in investing activities, which, depending on our cash flows from operating activities, may require us to increase borrowings under our Revolving Credit Facility.

During the six months ended September 30, 2014, we paid $82.9 million for capital expenditures. Of this amount, $65.7 million represented expansion capital and $17.2 million represented maintenance capital. During the six months ended September 30, 2013, we paid $67.4 million for capital expenditures. Of this amount, $52.4 million represented expansion capital and $15.0 million represented maintenance capital.

During the six months ended September 30, 2014, we paid (i) $554.5 million in the TransMontaigne acquisition, (ii) $82.9 million to acquire water disposal facilities, (iii) $15.0 million to acquire an interest in a water supply company, and (iv) $6.4 million to acquire retail propane businesses. During the six months ended September 30, 2013, we completed a number of business combinations for which we paid $392.6

million of cash, net of cash acquired, on a combined basis.

Financing Activities. Changes in our cash flow from financing activities include borrowings from and repayments on our revolving credit facilities, to fund our operating or investing requirements. In periods where our cash flows from operating activities are reduced (such as during our first and second quarters), we may fund the cash flow deficits through our Working Capital Facility. During the six months ended September 30, 2014, we borrowed $175.5 million on our revolving credit facilities (net of repayments). During the six months ended September 30, 2014, we issued the 2019 Notes for $400.0 million. During the six months ended September 30, 2014, we received net proceeds of $370.4 million from the sale of our common units. During the six months ended September 30, 2013, we borrowed $168.5 million on our Revolving Credit Facility (net of repayments). During the six months ended September 30, 2013, we received net proceeds of $415.1 million from the sale of our common units.

Table of Contents

Cash flows from financing activities also include distributions paid to owners and noncontrolling interest partners. We expect our distributions to our partners to increase in future periods under the terms of our partnership agreement. Based on the number of common units outstanding at September 30, 2014 (exclusive of unvested restricted units issued pursuant to employee and director compensation programs), if we made distributions equal to our minimum quarterly distribution of $0.3375 per unit ($1.35 annualized), total distributions would equal $29.9 million per quarter ($119.7 million per year). To the extent our cash flows from operating activities are not sufficient to finance our required distributions, we may be required to increase borrowings under our Working Capital Facility.

The following table summarizes the distributions declared since our initial public offering:

Date Declared	Record Date	Date Paid	Amount Per Unit	Amount Paid To Limited Partners (in thousands)	Amount Paid To General Partner (in thousands)
July 25, 2011	August 3, 2011	August 12, 2011	$ 0.1669	$ 2,467	$ 3
October 21, 2011	October 31, 2011	November 14, 2011	0.3375	4,990	5
January 24, 2012	February 3, 2012	February 14, 2012	0.3500	7,735	10
April 18, 2012	April 30, 2012	May 15, 2012	0.3625	9,165	10
July 24, 2012	August 3, 2012	August 14, 2012	0.4125	13,574	134
October 17, 2012	October 29, 2012	November 14, 2012	0.4500	22,846	707
January 24, 2013	February 4, 2013	February 14, 2013	0.4625	24,245	927
April 25, 2013	May 6, 2013	May 15, 2013	0.4775	25,605	1,189
July 25, 2013	August 5, 2013	August 14, 2013	0.4938	31,725	1,739
October 23, 2013	November 4, 2013	November 14, 2013	0.5113	35,908	2,491
January 23, 2014	February 4, 2014	February 14, 2014	0.5313	42,150	4,283
April 24, 2014	May 5, 2014	May 15, 2014	0.5513	43,737	5,754
July 24, 2014	August 4, 2014	August 14, 2014	0.5888	52,036	9,481
October 23, 2014	November 4, 2014	November 14, 2014	0.6088	53,902	11,141

Distributions to noncontrolling interest partners are primarily comprised of distributions that TLP is required to make within 45 days after the end of each quarter to its unitholders as of the record date. To the extent TLP s cash flows from operating activities are not sufficient to finance its required distributions, it may be required to increase borrowings under the TLP Credit Facility.

Table of Contents

Contractual Obligations

The following table summarizes our contractual obligations at September 30, 2014 for our fiscal years ending thereafter:

	Total	Six Months Ending March 31, 2015	Years Ending March 31, 2016	2017	2018	Thereafter
			(in thousands)			
Principal payments on long-term debt						
Expansion capital borrowings	$ 137,000	$	$	$	$	$ 137,000
Working capital borrowings	942,500					942,500
2019 Notes	400,000					400,000
2021 Notes	450,000					450,000
2022 Notes	250,000				25,000	225,000
TLP Credit Facility	252,000		252,000			
Other long-term debt	10,913	2,345	3,128	2,362	1,459	1,619
Interest payments on long-term debt						
Revolving credit facility (1)	115,595	14,097	28,194	28,194	28,194	16,916
2019 Notes	102,500	10,250	20,500	20,500	20,500	30,750
2021 Notes	232,031	15,469	30,938	30,938	30,938	123,748
2022 Notes	91,438	8,313	16,625	16,625	16,209	33,666
TLP Credit Facility (1)	5,868	3,352	2,516			
Other long-term debt	655	220	206	123	78	28
Letters of credit	209,188					209,188
Future minimum lease payments under noncancelable operating leases	507,354	71,007	106,384	88,666	74,265	167,032
Future minimum throughput payments under noncancelable agreements (2)	441,168	41,822	95,050	82,916	62,565	158,815
Fixed-price commodity purchase commitments	102,000	101,344	656			
Index-price commodity purchase commitments (3)	984,872	950,613	34,259			
Total contractual obligations	$ 5,235,082	$ 1,218,832	$ 590,456	$ 270,324	$ 259,208	$ 2,896,262
Natural gas liquids gallons under fixed-price purchase commitments (thousands) (4)	88,574	87,944	630			
Natural gas liquids gallons under index-price purchase commitments (thousands) (4)	528,459	520,243	8,216			
Crude oil barrels under index-price purchase commitments (thousands) (4)	4,437	4,079	358			

(1) The estimated interest payments on our revolving credit facilities are based on principal and letters of credit outstanding at September 30, 2014. See Note 7 to our condensed consolidated financial statements included in this Quarterly Report for additional information

on our revolving credit facilities.

(2) At September 30, 2014, we had agreements with crude oil and refined products pipeline operators obligating us to minimum throughput payments in exchange for pipeline capacity commitments.

(3) Index prices are based on a forward price curve at September 30, 2014. A theoretical change of $0.10 per gallon in the underlying commodity price at September 30, 2014 would result in a change of $52.8 million in the value of our index-price natural gas liquids purchase commitments. A theoretical change of $1.00 per barrel in the underlying commodity price at September 30, 2014 would result in a change of $4.4 million in the value of our index-price crude oil purchase commitments.

(4) At September 30, 2014, we had fixed-price and index-price sales contracts for 278.4 million and 370.6 million gallons of natural gas liquids, respectively. At September 30, 2014, we had index-price sales contracts for 3.9 million barrels of crude oil.

Table of Contents

Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements other than the operating leases described in Note 9 to our condensed consolidated financial statements included in this Quarterly Report.

Environmental Legislation

Please see our Annual Report on Form 10-K for the fiscal year ended March 31, 2014 for a discussion of proposed environmental legislation and regulations that, if enacted, could result in increased compliance and operating costs. However, at this time we cannot predict the structure or outcome of any future legislation or regulations or the eventual cost we could incur in compliance.

Trends

Crude Oil Logistics

Crude oil prices fluctuate widely due to changes in supply and demand conditions. The opportunity to generate revenues in our crude oil logistics business is heavily influenced by the volume of crude oil being produced. Currently, production of crude oil in North America is increasing, but changes in the level of production could impact our ability to generate revenues in the future.

Spreads between the price of crude oil in different markets can also fluctuate widely. If these price differences are wide, we are able to generate increased margins by transporting crude oil from lower-price markets to higher-price markets. During the six months ended September 30, 2013, spreads remained narrow. When price differences between markets are reduced, it is necessary to renegotiate price terms with producers and to not fully utilize our transportation fleet until this process has been completed and margins have improved.

Crude oil prices declined steadily during the three months ended September 30, 2014. Declining prices can have an adverse impact on product margins, due to delays between when product is purchased and when it is sold. If prices continue to decline, low prices could have an adverse effect on the level of crude oil production.

Water Solutions

Our opportunity to generate revenues in our water solutions business is based on the level of production of natural gas and crude oil in the areas where our facilities are located. Currently, production levels are strong, and we are expanding our operations in Colorado and Texas to meet this

demand. Crude oil prices declined steadily during the three months ended September 30, 2014. A portion of our revenues are generated from the sale of recovered hydrocarbons, and therefore crude oil prices impact the revenues of our water solutions segment. If crude oil prices continue to decline, the low prices could have an adverse effect on the level of crude oil production.

Liquids

The volumes we sell in our wholesale natural gas liquids business are heavily dependent on the demand for propane and butane, which is influenced by weather conditions and gasoline blending. The margins we generate in our wholesale natural gas liquids business are influenced by changes in prices over the course of a year. During years when demand is higher during the winter months, we have the opportunity to utilize our storage assets to increase margins.

Demand for natural gas liquids was high during the recent winter, due to cold weather conditions. Demand continued to be high during the six months ended September 30, 2014, as customers sought to replenish their supplies of natural gas liquids that had been depleted during the winter. As a result, sales volumes and prices were higher during the six months ended September 30, 2014 than during the corresponding period in the prior year. However, our product margin per gallon sold was lower during the six months ended September 30, 2014 than during the corresponding period in the prior year, as we began the year with inventory that had a high cost basis as a result of the high demand during the previous winter.

We use a weighted-average inventory costing method for our wholesale propane inventory, with the costing pools segregated based on the location of the inventory. During periods of declining prices, our margins are reduced, as the weighted-average costing pool includes inventory that was purchased when prices were higher.

Table of Contents

One of our business strategies is to purchase and store inventory during the warmer months for sale during the winter months. We seek to lock in a margin on inventory held in storage through back-to-back purchases and sales, fixed-price forward sale commitments, and financial derivatives. We also have contracts whereby we have committed to purchase ratable volumes each month at index prices. We seek to manage the price risk associated with these contracts primarily by selling the inventory immediately after it is received. When we sell product, we record the cost of the sale at the average cost of all inventory at that location, which may include inventory stored for sale in the future. During periods of rising prices, this can result in greater margins on these sales. During periods of falling prices, this can result in negative margins on these sales.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in GAAP. The core principle of this ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU is effective for the Partnership beginning April 1, 2017, and allows for both full retrospective and modified retrospective (with cumulative effect) methods of adoption. We are in the process of determining the method of adoption and assessing the impact of this ASU on our consolidated financial statements.

Critical Accounting Policies

The preparation of financial statements and related disclosures in compliance with GAAP requires the selection and application of appropriate accounting principles to the relevant facts and circumstances of the Partnership s operations and the use of estimates made by management. We have identified the following accounting policies that are most important to the portrayal of our financial condition and results of operations. The application of these accounting policies, which requires subjective or complex judgments regarding estimates and projected outcomes of future events, and changes in these accounting policies, could have a material effect on our consolidated financial statements.

Revenue Recognition

We record revenues from product sales at the time title to the product transfers to the purchaser, which typically occurs upon receipt of the product by the purchaser. We record terminaling, transportation, storage, and service revenues at the time the service is performed, and we record tank and other rentals over the term of the lease. Pursuant to terminaling services agreements with certain of our throughput customers, we are entitled to the volume of product gained resulting from differences in the measurement of product volumes received and distributed at our terminaling facilities. Such measurement differentials occur as the result of the inherent variances in measurement devices and methodology. We recognize as revenue the net proceeds from the sale of the product gained. Revenues for our water solutions business are recognized upon receipt of the wastewater at our disposal facilities.

We report taxes collected from customers and remitted to taxing authorities, such as sales and use taxes, on a net basis. Amounts billed to customers for shipping and handling costs are included in revenues in our condensed consolidated statements of operations.

We enter into certain contracts whereby we agree to purchase product from a counterparty and to sell the same volume of product to the same counterparty at a different location or time. When such agreements are entered into concurrently and are entered into in contemplation of each other, we record the revenues for these transactions net of cost of sales.

Impairment of Long-Lived Assets

Goodwill is subject to at least an annual assessment for impairment. We perform our annual assessment of impairment during the fourth quarter of our fiscal year, and more frequently if circumstances warrant. To perform this assessment, we consider qualitative factors to determine whether it is more likely than not that the fair value of each reporting unit exceeds its carrying amount. We completed the assessment of each of our reporting units and determined it was more likely than not that no impairment existed for the year ended March 31, 2014. The assessment of the value of our reporting units requires us to make certain assumptions relating to future operations. When evaluating operating performance, various factors are considered, such as current and changing economic conditions and the commodity price environment, among others. If the growth assumptions embodied in the current year impairment testing prove inaccurate, we could incur an impairment charge.

We evaluate property, plant and equipment and amortizable intangible assets for potential impairment when events and circumstances warrant such a review. A long-lived asset group is considered impaired when the anticipated undiscounted future cash flows from the use and eventual disposition of the asset group is less than its carrying value.

Table of Contents

We evaluate equity method investments for impairment when we believe the current fair value may be less than the carrying amount. We record impairments of equity method investments if we believe the decline in value is other than temporary.

Asset Retirement Obligations

We are required to recognize the fair value of a liability for an asset retirement obligation if a reasonable estimate of fair value can be made. In order to determine the fair value of such a liability, we must make certain estimates and assumptions including, among other things, projected cash flows, the estimated timing of retirement, a credit-adjusted risk-free interest rate, and an assessment of market conditions, which could significantly impact the estimated fair value of the asset retirement obligation. These estimates and assumptions are very subjective and can vary over time. We have recorded a liability of $2.7 million at September 30, 2014. This liability is related to wastewater disposal facilities and crude oil facilities for which we have contractual and regulatory obligations to perform remediation and, in some instances, dismantlement and removal activities when the assets are retired.

In addition to the obligations described above, we may be obligated to remove facilities or perform other remediation upon retirement of certain other assets. We do not believe the present value of these asset retirement obligations, under current laws and regulations, after taking into consideration the estimated lives of our facilities, is material to our consolidated financial position or results of operations.

Depreciation Methods and Estimated Useful Lives of Property, Plant and Equipment

Depreciation expense represents the systematic write-off of the cost of our property, plant and equipment, net of residual or salvage value (if any), to the results of operations for the quarterly and annual periods during which the assets are used. We depreciate the majority of our property, plant and equipment using the straight-line method, which results in us recording depreciation expense evenly over the estimated life of the individual asset. The estimate of depreciation expense requires us to make assumptions regarding the useful economic lives and residual values of our assets. At the time we acquire and place our property, plant and equipment in service, we develop assumptions about the useful economic lives and residual values of such assets that we believe to be reasonable; however, circumstances may develop that could require us to change these assumptions in future periods, which would change our depreciation expense prospectively. Examples of such circumstances include changes in laws and regulations that limit the estimated economic life of an asset, changes in technology that render an asset obsolete, or changes in expected salvage values.

Amortization of Intangible Assets

Amortization expense represents the systematic write-off of the cost of our amortizable intangible assets to the results of operations for the quarterly and annual periods during which the assets are used. We amortize the majority of these intangible assets using the straight-line method, which results in us recording amortization expense evenly over the estimated life of the individual asset. The estimate of amortization expense requires us to make assumptions regarding the useful economic lives of our assets. At the time we acquire intangible assets, we develop assumptions about the useful economic lives of such assets that we believe to be reasonable; however, circumstances may develop that could require us to change these assumptions in future periods, which would change our amortization expense prospectively. Examples of such circumstances include changes in customer attrition rates and changes in laws and regulations that could limit the estimated economic life of an asset.

Business Combinations

We have made in the past, and expect to make in the future, acquisitions of other businesses. We record business combinations using the acquisition method, in which the assets acquired and liabilities assumed are recorded at their estimated fair values. Fair values of assets acquired and liabilities assumed are based upon available information and may involve us engaging an independent third party to perform an appraisal. Estimating fair values can be complex and subject to significant business judgment. We must also identify and include in the allocation all acquired tangible and intangible assets that meet certain criteria, including assets that were not previously recorded by the acquired entity. The estimates most commonly involve property, plant and equipment and intangible assets, including those with indefinite lives. The estimates also include the fair value of contracts including commodity purchase and sale agreements, storage and transportation contracts, and employee compensation commitments. The excess of the purchase price over the net fair value of acquired assets and assumed liabilities is recorded as goodwill, which is not amortized but is reviewed annually for impairment. Pursuant to GAAP, an entity is allowed a reasonable period of time (not to exceed one year) to obtain the information necessary to identify and measure the fair value of the assets acquired and liabilities assumed in a business combination. The impact of subsequent changes to the identification of assets and liabilities may require retrospective adjustments to our previously-reported consolidated financial position and results of operations.

Table of Contents

Inventories

Our inventories consist primarily of crude oil, natural gas liquids, refined products, ethanol, and biodiesel. The market values of these commodities change on a daily basis as supply and demand conditions change. We value our inventories at the lower of cost or market, with cost determined using either the weighted-average cost or the first in, first out (FIFO) methods, including the cost of transportation and storage. At the end of each fiscal year, we also perform a lower of cost or market analysis; if the cost basis of the inventories would not be recoverable based on market prices at the end of the year, we reduce the book value of the inventories to the recoverable amount. In performing this analysis, we take into consideration fixed-price forward sale commitments and the opportunity to transfer propane inventory from our wholesale business to our retail business to sell the inventory in retail markets. When performing this analysis during interim periods within a fiscal year, accounting standards do not require us to record a lower of cost or market write-down if we expect the market values to recover by our fiscal year end of March 31. We are unable to control changes in the market value of these commodities and are unable to determine whether write-downs will be required in future periods. In addition, write-downs at interim periods could be required if we cannot conclude that market values will recover sufficiently by our fiscal year end.

Equity-Based Compensation

Our general partner has granted certain restricted units to employees and directors under a long-term incentive plan. These units vest in tranches, subject to the continued service of the recipients.

We record the expense for the first tranche of each award on a straight-line basis over the period beginning with the grant date of the awards and ending with the vesting date of the tranche. We record the expense for succeeding tranches over the period beginning with the vesting date of the previous tranche and ending with the vesting date of the tranche.

At each balance sheet date, we adjust the cumulative expense recorded using the estimated fair value of the awards at the balance sheet date. We calculate the fair value of the awards using the closing price of our common units on the New York Stock Exchange on the balance sheet date, adjusted to reflect the fact that the holders of the unvested units are not entitled to distributions during the vesting period. We estimate the impact of the lack of distribution rights during the vesting period using the value of the most recent distribution and assumptions that a market participant might make about future distribution growth.

We report unvested units as liabilities on our condensed consolidated balance sheets. When units vest and are issued, we record an increase to equity.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

At September 30, 2014, a significant portion of our long-term debt is variable-rate debt. Changes in interest rates impact the interest payments of our variable-rate debt but generally do not impact the fair value of the liability. Conversely, changes in interest rates impact the fair value of the fixed-rate debt but do not impact its cash flows.

Our Revolving Credit Facility is variable-rate debt with interest rates that are generally indexed to bank prime or LIBOR interest rates. At September 30, 2014, we had $1.1 billion of outstanding borrowings under our Revolving Credit Facility at a rate of 1.91%. A change in interest rates of 0.125% would result in an increase or decrease of our annual interest expense of $1.3 million, based on borrowings outstanding at September 30, 2014.

The TLP Credit Facility is variable-rate debt with interest rates that are generally indexed to bank prime or LIBOR interest rates. At September 30, 2014, TLP had $252.0 million of outstanding borrowings under the TLP Credit Facility at a rate of 2.66%. A change in interest rates of 0.125% would result in an increase or decrease in TLP s annual interest expense of $0.3 million, based on borrowings outstanding at September 30, 2014.

Commodity Price and Credit Risk

Our operations are subject to certain business risks, including commodity price risk and credit risk. Commodity price risk is the risk that the market value of crude oil, propane, and other natural gas liquids will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers or financial counterparties to a contract.

Table of Contents

As is customary in the crude oil industry, we generally receive payment from customers for sales of crude oil on a monthly basis. As a result, receivables from individual customers in our crude oil logistics segment are generally higher than the receivables from customers in our other segments.

Procedures and limits for managing commodity price risks and credit risks are specified in our market risk policy and credit risk policy, respectively. Open commodity positions and market price changes are monitored daily and are reported to senior management and to marketing operations personnel. We attempt to minimize credit risk exposure through credit policies and periodic monitoring procedures as well as through customer deposits, restrictions on product liftings, letters of credit and entering into netting agreements that allow for offsetting counterparty receivable and payable balances for certain transactions, as deemed appropriate. The principal counterparties associated with our operations at September 30, 2014 were retailers, resellers, energy marketers, producers, refiners and dealers.

The natural gas liquids and crude oil industries are margin-based and cost-plus businesses in which gross profits depend on the differential of sales prices over supply costs. As a result, our profitability may be impacted by changes in wholesale prices of natural gas liquids and crude oil. When there are sudden and sharp increases in the wholesale cost of natural gas liquids and crude oil, we may not be able to pass on these increases to our customers through retail or wholesale prices. Natural gas liquids and crude oil are commodities and the price we pay for them can fluctuate significantly in response to supply or other market conditions. We have no control over supply or market conditions. In addition, the timing of cost increases can significantly affect our realized margins. Sudden and extended wholesale price increases could reduce our gross margins and could, if continued over an extended period of time, reduce demand by encouraging end users to conserve or convert to alternative energy sources.

We engage in derivative financial and other risk management transactions, including various types of forward contracts and financial derivatives, to reduce the effect of price volatility on our product costs, protect the value of our inventory positions, and to help ensure the availability of product during periods of short supply. We attempt to balance our contractual portfolio by purchasing volumes when we have a matching purchase commitment from our wholesale and retail customers. We may experience net unbalanced positions from time to time. In addition to our ongoing policy to maintain a balanced position, for accounting purposes we are required, on an ongoing basis, to track and report the market value of our derivative portfolio.

Although we use derivative commodity instruments to reduce the market price risk associated with forecasted transactions, we have not accounted for such derivative commodity instruments as hedges. We record the changes in fair value of these derivative commodity instruments within cost of sales. The following table summarizes the hypothetical impact on the fair value of our commodity derivatives of an increase of 10% in the value of the underlying commodity (in thousands):

		Increase (Decrease) To Fair Value
Crude oil (crude oil logistics segment)	$	(3,699)
Crude oil (water solutions segment)		(10,595)
Propane (liquids segment)		5,519
Other products (liquids segment)		(930)
Refined products (refined products and renewables segment)		(51,414)
Renewables (refined products and renewables segment)		346

Fair Value

We use observable market values for determining the fair value of our derivative instruments. In cases where actively quoted prices are not available, other external sources are used which incorporate information about commodity prices in actively quoted markets, quoted prices in less active markets and other market fundamental analysis.

Table of Contents

Item 4. Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rules 13(a)-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act), that are designed to provide reasonable assurance that information required to be disclosed in our filings and submissions under the Exchange Act is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer of our general partner, as appropriate, to allow timely decisions regarding required disclosure.

We completed an evaluation under the supervision and with participation of our management, including the principal executive officer and principal financial officer of our general partner, of the effectiveness of the design and operation of our disclosure controls and procedures at September 30, 2014. Based on this evaluation, the principal executive officer and principal financial officer of our general partner have concluded that as of September 30, 2014, such disclosure controls and procedures were effective to provide the reasonable assurance described above.

Other than changes that have resulted or may result from our acquisitions of Gavilon Energy or TransMontaigne, as discussed below, there have been no changes in our internal controls over financial reporting (as defined in Rule 13(a) 15(f) of the Exchange Act) during the three months ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

We acquired Gavilon Energy in December 2013 and TransMontaigne in July 2014, as described in Note 4 to our condensed consolidated financial statements included in this Quarterly Report. At this time, we continue to evaluate the business and internal controls and processes of these acquired businesses and are making various changes to their operating and organizational structures based on our business plan. We are in the process of implementing our internal control structure over these acquired businesses. We expect that our evaluation and integration efforts related to those operations will continue into future fiscal quarters.

Table of Contents

PART II

Item 1. Legal Proceedings

For information related to legal proceedings, please see the discussion under the captions Legal Contingencies and Customer Dispute in Note 9 to our unaudited condensed consolidated financial statements in Part I, Item I, of this Quarterly Report, which information is incorporated by reference into this Item 1.

Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in Item 1A Risk Factors in our Annual report on Form 10-K for the fiscal year ended March 31, 2014, as supplemented and updated by Part II, Item 1A Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

Exhibit Number		Exhibit
3.1		Amendment No. 2 to Third Amended and Restated Limited Liability Company Agreement of NGL Energy Holdings LLC, dated as of June 27, 2014 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 001-35172) filed on July 3, 2014)
4.1		Amendment No. 6 to Note Purchase Agreement, dated as of June 30, 2014, among the Partnership and the purchasers named therein (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K (File No. 001-35172) filed on July 3, 2014)
4.2		Indenture, dated as of July 9, 2014, by and among NGL Energy Partners LP, NGL Energy Finance Corp., the guarantors party thereto and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K (File No. 001-35172) filed with the SEC on July 9, 2014)
4.3		Forms of 5.125% Senior Notes due 2019 (incorporated by reference and included as Exhibits A1 and A2 to Exhibit 4.1 to the Current Report on Form 8-K (File No. 001-35172) filed with the SEC on July 9, 2014)
4.4		Registration Rights Agreement, dated as of July 9, 2014, by and among NGL Energy Partners LP, NGL Energy Finance Corp., the guarantors listed therein on Exhibit A and RBS Securities Inc. as representative of the several initial purchasers (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K (File No. 001-35172) filed with the SEC on July 9, 2014)
4.5	*	First Supplemental Indenture, dated as of July 31, 2014, among NGL Energy Partners LP, NGL Energy Finance Corp., the guaranteeing Subsidiaries party thereto and U.S. Bank National Association, as Trustee.
4.6	*	Third Supplemental Indenture, dated as of July 31, 2014, among NGL Energy Partners LP, NGL Energy Finance Corp., the guaranteeing subsidiaries party thereto and U.S. Bank National Association, as Trustee.
10.1		Amendment No. 6 to Credit Agreement, dated as of June 12, 2014, among NGL Energy Operating LLC, the Partnership, the subsidiary borrowers party thereto, Deutsche Bank Trust Company Americas and the other financial institutions party thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-35172) filed on June 16, 2014)
10.2		Amendment No. 7 to Credit Agreement, dated as of June 27, 2014, among NGL Energy Operating LLC, the Partnership, the subsidiary borrowers party thereto, Deutsche Bank Trust Company Americas and the other financial institutions party thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-35172) filed on July 3, 2014)
12.1	*	Ratios of earnings to fixed charges
31.1	*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1	*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002
32.2	*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002
101.INS	**	XBRL Instance Document
101.SCH	**	XBRL Schema Document
101.CAL	**	XBRL Calculation Linkbase Document
101.DEF	**	XBRL Definition Linkbase Document
101.LAB	**	XBRL Label Linkbase Document
101.PRE	**	XBRL Presentation Linkbase Document

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* Exhibits filed with this report.

** Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2014 and March 31, 2014, (ii) Condensed Consolidated Statements of Operations for the three months and six months ended September 30, 2014 and 2013, (iii) Condensed Consolidated Statements of Comprehensive Loss for the three months and six months ended September 30, 2014 and 2013, (iv) Condensed Consolidated Statement of Changes in Equity for the six months ended

September 30, 2014, (v) Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2014 and 2013, and (vi) Notes to Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	NGL ENERGY PARTNERS LP		
	By:	NGL Energy Holdings LLC, its general partner	
Date: November 10, 2014		By:	/s/ H. Michael Krimbill H. Michael Krimbill Chief Executive Officer
Date: November 10, 2014		By:	/s/ Atanas H. Atanasov Atanas H. Atanasov Chief Financial Officer

Table of Contents

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