Donald L. Correll
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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, 2004
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from __ to __

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)

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 (as evidenced by American Depositary Receipts), each American Depositary Share representing one ordinary share*	The New York Stock Exchange

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:

406,421,983 ordinary shares, nominal value €5 per share

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 which financial statement item the registrant has elected to follow:

Item 17 ☐ Item 18 ☒

*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.

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 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 0000. Our agent in the United States is T. Michael O'Brien. He can be reached at Veolia Water North America Operating Services, 184 Schuman Boulevard, Naperville, IL 60563.

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. Early on, it commenced developing its municipal water distribution activities in France by obtaining concessions in Nantes (1854), Nice (1864), 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 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 are today conducted under the names Veolia 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.

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.

During 2002, Vivendi, which had been renamed "Vivendi Universal" in 2000, progressively decreased its stake in our company, such that it held only 20.36% of our shares as of December 31, 2002, an interest that was further reduced to 5.30% in December 2004. See "Item 7. Major Shareholders and Related Party Transactions—Major Shareholders." In April 2003, we changed our name to "Veolia Environnement."

Since 2002, we have been conducting 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. See "—Major Developments in 2004—Refocusing of Our Activities" and "Item 5. Operating and Financial Review and Prospects—Overview—Major Developments in 2004" for further detail regarding the restructuring that occurred during 2004.

Our principal capital expenditures and divestitures are described under "Item 5. Operating and Financial Review and Prospects." Material capital expenditures currently in progress include those associated with the continued expansion of our existing businesses and replacement and maintenance spending related to our existing operations.

Major Developments in 2004

Below we discuss the main developments in our business during 2004. The discussion below and in the remainder of Item 4 includes the revenue amounts that we expect to earn from various 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 2004 have been converted into euro at the rate of exchange prevailing on December 31, 2004. 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.

Refocusing of Our Activities

During 2004, we refocused our activities in order to concentrate more fully on the development of outsourcing on behalf of public authorities, as well as on the provision of services involving long-term contracts with municipal or industrial clients.

Sale of U.S. Activities within the Water Division

On May 12, 2004, we signed an agreement for the sale of USFilter Corporation's equipment and short-term services businesses to Siemens, for total consideration of US$1,015 million based on the amount of cash these businesses were expected to hold at closing. After application of the contractual price adjustment mechanisms, total consideration amounted to US$975 million, based on the sold businesses' working capital requirements and cash held on July 31, 2004, the date of closing.

On July 22, 2004, we also announced the signing of an agreement for the sale of our Culligan business to the private equity firm Clayton Dubilier & Rice, for total consideration of US$612 million in cash. The transaction closed on September 30, 2004, following approval by regulatory authorities and satisfaction of other customary closing conditions.

These sales represent the final step in the implementation of the strategic refocusing of our water operations in North America, which was originally announced in September 2003. Including the sale of Everpure in late 2003 to Pentair and the sale of farmlands held by USFilter in California, followed by the sale of USFilter's equipment and short-term services businesses to Siemens and the sale of Culligan in 2004, the total proceeds generated from these sales amount to approximately US$2.0 billion.

Sale of FCC

On July 28, 2004, we signed an agreement to sell our 49% stake in B 1998 S.L., the holding company that owns 52.5% of FCC, to a company controlled by Ms. Esther Koplowitz. The transaction allowed us to reduce our net indebtedness by €1.1 billion, and resulted in a total cash payment to us of €916 million (before transaction fees), including an exceptional dividend paid by B 1998 S.L. to us prior to the sale. The transaction, which closed on September 15, 2004, was subject to applicable Spanish anti-trust regulatory approvals. For us, the transaction was part of our strategy to refocus on our core environmental services activities. Further, the transaction allowed us to strengthen our financial condition. See "Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions—FCC – Relationship with Our Co-Shareholder."

Continued Reduction by Vivendi Universal of its Shareholdings

In December 2004, Vivendi Universal reduced its holdings in our company to 5.30% of share capital (down from 20.36% prior to such time). See "Item 7. Major Shareholders and Related Party Transactions—Major Shareholders."

Major Business Developments in 2004

In 2004, we won major new contracts that formed part of our strategy to focus on our core environmental services business, representing a continuation of efforts undertaken since 2000.

The evolution in our contract portfolio during 2004 reaffirmed the trends witnessed in prior years in both the municipal and industrial markets. Accordingly, growth opportunities continue to present themselves in our main geographical markets, driven by accelerated urbanization and more stringent environmental regulations. Our comprehensive service offerings, which are focused in areas where we believe we have a competitive advantage, increasingly necessitate a higher level of technical expertise and involve the provision of higher value-added services, both of which should help to relieve pricing pressure despite the presence of other competitors in the market.

Pursuit of Targeted Geographical Development

We pursued targeted development in Asia, and particularly China, during 2004. We entered into two important water contracts, one in Guizhou province in southern China, and the other in Hohhot, the capital of Inner Mongolia. We also strengthened our presence in Germany (water), and in Central and Eastern Europe and the United States (transportation and waste management) through the signing of several important contracts.

The other major contracts we won during 2004 are described below under "—Business Overview—Our Services."

High Level of Contract Renewals and Extensions

We renewed a substantial number of contracts that were due to expire in 2004, reflecting the satisfaction and confidence of clients in our abilities and business model, in particular our high quality of services and technical expertise.

In the water division, for example, where contracts have come up for renewal mainly in France due to the longer maturity of the remaining contract portfolio, there has been a sustained level of contract renewal due to the confidence of municipal clients in our abilities. In the rest of the world, the expansions in the scope of services provided under a contract or the extensions in contract length that we have been able to negotiate have also reaffirmed our choice of service offerings and our business model.

Veolia Environnement Foundation

The Veolia Environnement Foundation was established in 2004. Its purpose is to organize our philanthropic initiatives, and its founding members are our company along with our four divisions. The foundation has three main fields of action, for the promotion of: (1) "solidarity" (provision of support to populations devastated by crisis or in need of development aid), (2) employment (creation or consolidation of jobs in the service sector), and (3) environment (support of research or educational initiatives in the area of the environment). The foundation may act, depending on the circumstances, in partnership with other humanitarian organizations like the Red Cross, with international organizations or with non-governmental organizations. In 2004, the foundation supported approximately 75 projects, including the construction of the Mother and Child Hospital in Kabul, the refurbishment of basement corridors used by sick children at the Armand Trousseau hospital in Paris, the establishment of skills training programs to facilitate re-entry into the workforce and the establishment of sports programs designed to foster social integration.

Veolia Environnement Campus

Our former Urban Environment Institute was renamed the Veolia Environnement Campus in January 2004. Established in 1994, the Veolia Environnement Campus is the initial and continuing education center of our company. It offers training to individuals by grouping together a training and apprenticeship center, training staff from all four of our divisions, a social observatory, partnerships with universities and a new factual-based study program.

"Veolia Environnement 2005" Efficiency Plan

We announced an efficiency plan at the end of September 2003 called "Veolia Environnement 2005," which we hope will generate €300 million in annual savings beginning in 2006. An operational pilot program has been implemented and a project team reporting directly to our chief executive officer has been formed. The efficiency plan aims to generate savings through improvements to our operational processes, purchasing functions and support functions, as well as through an optimized use of assets. The efficiency plan extends to all of our subsidiaries so as to take advantage of all possible synergies, in particular with respect to optimizing purchases, structural costs and operating efficiency. We also intend to emphasize the sharing of best practices and the use of advanced technologies in order to help achieve the goals of our efficiency plan. The efficiency plan is being implemented according to schedule. Savings realized during 2004 amounted to €126 million, of which €116 million was included in EBIT (as defined below). Accordingly, we continue to have an objective of €300 million in annual savings beginning in 2006.

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, have been provided in an uncoordinated manner, each by a different entity. Public authorities and industrial and commercial companies, moreover, have typically met many of their own environmental needs without looking to private firms that specialize in these areas. This situation has changed fundamentally in recent years, however, as industrial and commercial companies have continued to expand on a global scale and increasingly require environmental management services providers with a global reach.

We believe that demand for 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 to meet increasingly stringent environmental standards, provide growing urban populations with adequate environmental services and replace existing environmental infrastructure. In addition, there is also an increase in public demand for high-quality and reliable environmental products and services.

- 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 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. This tendency creates 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 grown.

- 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 innovative and 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 customers and individuals around the world.

Public Authorities

Demand by public authorities has been influenced and strengthened by trends relating to the search for efficiency gains and innovative solutions, the rationalization of public purchases in pursuit of reduced costs, the reorganization in France of several municipalities, and a heightened sensitivity to environmental issues, including the management of 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.

Within this context, we believe that the historical model of "delegated public service management contracts," which leaves to public authorities the role of defining, organizing and overseeing the services provided to inhabitants, can be flexibly applied to satisfy the needs of each client, resulting in a mutually beneficial relationship between the private operator and public authority. Accordingly, we believe that we can adapt to the different needs and expectations of public authorities around the world in order to assist them in (i) responding to the need for heightened efficiency and productivity in the provision of public services in order to control costs, (ii) accessing more sophisticated technical skills in order to resolve complex environmental problems, and (iii) responding to the demand for prompt and professional service expressed by end users.

In France in particular, we intend to take advantage of a new French ordinance dated June 17, 2004 allowing for the creation of a new form of partnership contract. The ordinance 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 set by the public authority as a function of performance. See "—Contracts" below.

Industrial or Commercial Companies and Individuals

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

- furnishing 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

- reducing 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 adapted to the needs of each industrial site.

We believe that the further development of our industrial client base will be a significant area of growth. 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 Clients" below.

Regarding services to individuals and meter-reading services, Veolia Water and Dalkia offer household services in France through Proxiserve and Domeo, jointly held subsidiaries that provide assistance and maintenance relating to water, heating and gas services.

While we provide services around the world, our largest market is Europe and, to a lesser extent, the United States. In 2004, we generated approximately 54.5% of our revenues in France, 28.5% in the rest of Europe, 9.0% in the Americas and 8.0% in the rest of the world, including 4.7% in the Asia-Pacific region. We are not materially dependent upon any particular customer.

Our Overall Strategy

Our strategy is to strengthen our position as a worldwide provider of integrated environmental services, by capitalizing as fully as possible on the growth potential of the environmental services market and by improving margins, while at the same time fulfilling client needs and fostering the durability of natural resources. This strategy relies on our expertise regarding contractual models, our general know-how and our competitive advantages.

One business: environmental services

We are a worldwide provider of environmental services, concentrating in four areas in particular: water, waste management, transportation and energy services. We have made a strategic choice to concentrate only in these areas and to focus fully on our environmental services business. For instance:

- since 2000, we have decided not to be present in the primary energy production market, in order to focus more fully on providing services to clients that help to optimize their energy consumption;

- in 2004, we finished disposing of our industrial assets in the water sector (mostly in the United States) relating to equipment production and the short-term service activities generated thereby;
- in 2004 as well, we sold our minority interest in FCC, a Spanish company whose activities include construction and cement services, as well as other services related to the environment.

A long-term commitment

Our strategy consists of capitalizing on our ability to establish effective, long-term relationships with clients, an ability that we have demonstrated for more than 150 years with respect to our water distribution contracts with public authorities, and over the past few decades with respect to our other activities. In addition, we seek to develop our presence in countries where conditions are favorable, and to offer services adapted to the needs of non-public clients, in particular industrial companies.

Public authorities seeking to improve the environment for citizens must be able to rely on a partner that can develop a long-term presence in an area, who can permanently improve the functioning, for example, of a water treatment or production facility, a waste incineration or landfill facility, or an urban heating network, or who can manage the public transport network of an area, with the utmost concern for issues of security, cleanliness and the rights of employees.

Long-term contracts adapted to the needs of each client

We have developed a high level of expertise with respect to managing contracts across our four divisions, which allows us to commit ourselves to clients over the long-term. Our main contracts last anywhere from a few years to several decades; an example of the latter is the 50-year contract entered into with the municipality of Shanghai during 2002. Over the past several years, we have demonstrated our ability to adapt contracts to a variety of constraints in countries around the world involving a broad range of services.

Long-term contracts provide a measure of visibility both to our clients and shareholders. For clients, whether they be public authorities or commercial or industrial companies, long-term contracts can also provide efficiency gains by providing them with a real partner for the future. Long-term contracts can lead to improvements in performance and productivity as part of a strategy that integrates, in addition to local factors, technical, labor and management considerations and, if necessary, financing of required infrastructure or investments. Industrial and commercial companies that enter into such long-term partnering relationships are able to focus their resources on their core businesses by relying upon a specialized service provider. Our large range of skills and experience ideally positions us in the market for outsourcing of environmental services. Further, we can adapt our contracts and our services to meet specific client needs.

We therefore strive to provide our services under long-term contracts, which can provide a recurring revenue flow to our company over the course of several years. At the same time, we work to improve the profitability of our contracts over time, through consistent efforts aimed at optimizing operating performance.

Strong financing capability

We know how to partner with clients in order to help them finance required infrastructure, investments and other work, made possible through long-term contracts and optimized operating performance. Accordingly, we have the ability, in particular through forming new partnerships and obtaining third-party financing, to help our clients realize their more ambitious projects. Such projects typically would involve the water, waste management and energy services sectors, and will often lead to a lasting improvement in the environment. At the same time, we have been able over the past several years to successfully realize our strategy for reducing net debt, despite this willingness to partner with clients for all of their financing needs.

Continuous research efforts

Our activities require substantial technical knowledge. The mastery of water production and treatment, along with the mastery of waste treatment and the development of increasingly efficient energy management, all require specialized teams whose skills are constantly expanding. We have implemented a research program for all of our activities pursuant to which high-level researchers are currently preparing for our company's future. These researchers are in direct contact with our operating teams so that clients can benefit from the latest technological developments.

Strong presence of operating teams on the ground

In addition to tailoring our contract provisions to the specific needs of each client, we also tailor our services to each client on an ongoing basis. Through call centers, our operating teams are quickly informed of any required responses.

In crisis situations, our operating teams have consistently shown their professionalism, commitment and solidarity, whether it be during the floods in Prague in 2003 or during the aftermath of the tsunami that struck southeast Asia on December 26, 2004.

In an original way then, we combine the advantages of being a world leader with the ability to develop a local foothold for each of our operations.

Targeted international development

The needs of our planet in matters relating to the environment are significant. Numerous countries suffer from poor water quality, uncontrolled pollution, inefficient energy consumption and poor traffic conditions; accordingly, the need for skills in these sectors is significant. The opening of countries in Eastern Europe has amply demonstrated this. The opportunities for long-term growth in our business are therefore extensive.

Within this context, our strategy is to actively, yet carefully, develop our activities internationally. We currently conduct nearly half of our activity outside of France. Considering the growing needs in the area of environmental services, we are in a position to pursue international growth selectively, by focusing on areas of strong economic development and countries where acceptance of our business model and the ability to fulfill long-term contractual commitments is most pronounced.

While pursuing growth in France and in Western Europe, we also seek to develop our business:

- in the countries of Central and Eastern Europe, which are new entrants into the European Union;
- in certain targeted Asian countries, in particular China, where there is a significant need for services related to urban growth and compliance with environmental standards; and
- in large markets still mostly closed to management by environmental services companies like ours, such as the United States or Japan, whose medium-term potential is still important.

In 2000, we also created Proactiva, a subsidiary held jointly with FCC, in order to coordinate the development of our and FCC's water and waste management activities in Latin America and the Caribbean.

Our solid international presence accordingly allows us to partner with our industrial clients around the world, while providing uniform quality service.

Development in the industrial sector

We have developed recognized expertise in the industrial sector, and are capable of offering our industrial clients on five continents the entire range of our environmental services in the areas of water, waste management, energy services and transport. The complementarity of our various services, a strong attribute, allows us to satisfy all of our industrial clients' environmental needs. Our three key strengths with respect to our industrial client service offerings are:

- our ability to furnish the entire range of energy services necessary for the functioning of industrial processes, in particular energy fluids (steam, water, compressed air, etc.);
- our ability to control the environmental impact of liquid, solid and gaseous waste;
- our ability to accompany industrial clients around the world, thanks to our presence in nearly 80 countries and our experience in performing multiservice contracts.

We currently view ourselves as the natural choice as privileged partner of industrial clients for all of their environmental service needs. Joining with industrial clients in their development, offering them innovative outsourcing solutions and building mutually beneficial and environmentally sound partnerships are at the heart of our ambitions for the future.

Rigorous management adapted to business needs so as to protect shareholder interests

A constant effort to improve the return on capital employed is a key factor in ensuring the sustainability of our development strategy, as well as the promotion of shareholder interests.

Structurally, our activities allow results and cash flows to be estimated with some accuracy. We may therefore enter into contracts that call for us to finance certain investments. However, our operating and financial teams undertake new projects selectively, after having analyzed all of the risks involved. Further, these teams attempt to use debt leverage effectively in order to optimize the return on capital employed in the interest of shareholders.

The favoring of organic growth, the frequent search for financial partners to help finance new developments and our strong market position all help to contribute to realization of these objectives.

Focus on sustainable development

Sustainable development is part of the very nature of our activities. It is for this reason that we have made it a part of our development strategy. We partner with clients on a long-term basis in order to satisfy fundamental population needs, through an offering that seeks balanced development over the long-term.

We have also attempted to impose this culture of responsibility and solidarity on our corporate management structure, by favoring internal mobility, enrichment of skills and recognition of professional accomplishments.

The constant pursuit of these values means that we are currently well-positioned to respond to the needs and expectations engendered by the strengthening of environmental and health standards, as well as the increased sensitivity of the public, elected officials and industrial companies to environmental issues.

Our Strategy by Division

Water

Through our specialized subsidiary Veolia Water, we seek to continue to develop our water services throughout the world. While doing so, we strive to ensure the safety of drinking water, the conservation of natural resources and the protection of the environment.

The market for water services has the potential to grow worldwide, supported by four factors in particular:

- population growth and higher urban density,
- the strengthening of environmental and sanitary norms and regulations,
- the growing acceptance of private sector operators as an alternative to public management, and
- the attempt by industrial clients to refocus on their core businesses.

Given this growth potential, we will selectively pursue our development in the water sector in order to optimize our use of resources, our operating costs and our profitability. Further, Veolia Water's technical expertise, research and development efforts and mobilization of local teams on the ground, combined with the restructuring it recently conducted to focus on its core activities, should all help enable it to take advantage of this favorable market environment.

The success of Veolia Water's new commercial offers in France during 2004 (analysis of the softness of bathing water, new methods for recovering sludge and non-collective wastewater treatment, etc.) also demonstrates Veolia Water's ability to expand the scope of its services within the water sector. Continued development, together with the maturing of larger contracts and gains in productivity resulting from efficiency programs launched in 2003 (relating to purchases, information systems and sharing of best practices) should help support an improvement in the water division's operating income for 2005 and beyond.

Waste Management

Through our specialized subsidiary Onyx, we seek to pursue our development as 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 accordance 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:

- developing its waste treatment capabilities and widening its technological lead in waste treatment and recovery;
- strengthening the offering to industrial clients by capitalizing on its mastery of the entire waste management chain, while seeking to generate synergies with our other operating divisions;
- increasing the profitability of its activities by renegotiating tariffs, maximizing productivity and reducing structural costs; and
- ensuring that all of its activities contribute to the development of high value-added services.

Energy Services

Through our specialized subsidiary Dalkia, we seek to become the uncontested European leader in the energy services sector. In 2000, we entered into a strategic partnership in the energy services sector with EDF, a European leader in the production, distribution and sale of electricity, in order to be able to offer clients comprehensive energy services at the best possible price.

The opportunities in the sector are significant, due in particular to the opening of energy markets in Europe and the rapid development of countries in Central and Eastern Europe.

Our strategic priorities are focused in four main areas:

- deploying our service offerings in the deregulated energy markets of Europe;
- developing our activities in the area of large heating networks, particularly in France and the rest of Europe, as we have done so successfully over the past few years in Poland and the Czech Republic;
- developing our service offerings to industrial clients through the use of innovative technical solutions, often bringing together several of our skills in connection with an integrated service offering; and
- promoting our integrated outsourcing services to public clients as we have done in the commercial and industrial sectors, by combining optimized services for facilities management (heating, air-conditioning, utilities, electricity, lighting).

Finally, we are also developing energy services in areas outside of Europe, notably in Latin America, Asia and the United States, which offer long-term opportunities for growth.

Transportation

Through our specialized subsidiary Connex, we seek to be the leading European private operator of public transportation services in Europe.

Between 2000 and 2020, 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% (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 foremost concern for the local authorities and inhabitants of large cities. Accordingly, such changes should help to support Connex's future development strategy.

Our challenge in the transportation market is to carefully control our development, by anticipating risks and identifying the priority areas for growth. We have therefore chosen to consolidate our presence in France and the rest of Europe, by profiting from the opening of various European markets to regulated competition.

In Europe, the markets in Germany, Spain, Italy and Central Europe in the area of railway transport in particular appear promising, while France appears a promising market as well in the longer term. North America and Australia are also priority areas for growth, and we are carefully considering the market potential in China and Latin

America, due to the opportunities they may present for the transportation division. Finally, we should be able to expand our rail freight transport activities in the wake of European Union legislation that has authorized the opening of such markets.

Our Services

Our company is a unique actor in the field of services related to the environment, offering a comprehensive array of services. We have the expertise, for example, to supply treated water and to recycle wastewater at a customer's facility, to collect, treat and recover waste generated in the facility, and to supply heating and cooling services and optimize industrial processes used in such facility, all in an integrated service package designed to address the customer's unique circumstances.

Our operations are conducted primarily through four divisions, each of which specializes in a single business: Veolia Water (water), Onyx (waste management), Dalkia (energy services) and Connex (transportation). Through these divisions, we currently provide water to approximately 100 million people, treat more than 51.7 million tons of waste, satisfy the energy requirements of hundreds of thousands of buildings for our industrial, municipal and individual customers and transport nearly 2 billion passengers per year. We strive to offer services to clients that span across our four divisions, which are either packaged in the form of a single multiservices contract, or negotiated separately in the form of several contracts.

The following table breaks down our consolidated revenue for 2004 by geographic market and division, after elimination of all inter-company transactions.

*(in millions of euro)**	Water	Waste	Energy Services	Transport	Total
Europe	8,086.3	4,368.8	4,951.1	3,064.6	20,470.7
of which: France	*6,095.5*	*2,802.4*	*3,074.7*	*1,466.5*	*13,439.1*
Other Europe	*1,990.8*	*1,566.4*	*1,876.4*	*1,598.1*	*7,031.6*
Americas	568.1	1,325.6	47.9	276.7	2,218.2
Rest of the World	1,150.4	525.6	36.5	271.7	1,984.4
of which: Africa-Middle East	*712.8*	*78.1*	*21.1*	*12.5*	*824.5*
Asia-Pacific	*437.7*	*447.5*	*15.4*	*259.2*	*1,159.9*
Total	9,804.8	6,220.0	5,035.5	3,613.0	24,673.3

* On December 31, 2004, Veolia Environnement applied the provisions of Article 23100 of French CRC Regulation 99-02, which allows companies to report their share in the net income of businesses sold during the year on a separate line item of the income statement. These businesses are excluded from the new scope of consolidation and therefore no longer contribute to consolidated revenues for the fiscal year in which they were sold. For the 2004 fiscal year, these businesses included FCC, Culligan and USFilter Corporation's equipment and short-term services businesses.

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, or to the date of our commencement of operations under such contracts, depending on the circumstances.

Water

Through our water division, Veolia Water, the lead company of which is Compagnie Générale des Eaux, we are the world's leading provider of water and wastewater services for public authorities and industrial companies. Further, Veolia Water is the world leader in the design of technological solutions and the construction of structures necessary to perform such services. With approximately 67,800 employees around the world (as of December 31, 2004, and including Proactiva's 1,633 employees who are active in water activities), Veolia Water serves more than 100 million people around the world and operates more than 5,000 contracts. Veolia Water has a permanent presence in more than 60 countries, principally in France for historical reasons, but also in the United Kingdom, Germany, Italy, Belgium and the Netherlands. It is pursuing targeted growth in Eastern Europe, where it has enjoyed commercial success in recent years, in particular in the Czech Republic and Romania. Asia (China, South Korea and Japan) also remains a long-term target for development following the win of significant contracts in the region during the past two years.

With a portfolio of more than 600 patents and a network of research centers in France and abroad employing more than 300 engineers, Veolia Water has mastered numerous technologies and tools within the water sector. As a result, Veolia Water is able to offer highly skilled services in the areas of sanitary protection, spillage reduction, productivity enhancement of water networks and plants and resource preservation. Combined with an extensive geographical presence and more than 150 years of experience in the provision of services to public authorities and industrial clients, Veolia Water's technical aptitude provides it with a unique advantage in the water services market, which is growing increasingly competitive.

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 or re-use of treated water, may also be called for depending on an individual client's circumstances.

The following table shows the consolidated revenue and operating income before amortization and depreciation of goodwill and indefinite life intangible assets and restructuring costs (EBIT) of our water operations in each of the last three fiscal years, after elimination of all inter-company transactions.

*(in millions of euro)**	**2004****	**2003 (pro forma)*****	**2003**	**2002**
Revenue	9,805	9,585	11,340	13,294
EBIT	831	743	784	1,024

* Includes Veolia Environnement's share in the results of the water activities of Proactiva, Veolia Environnement's joint venture with FCC. Results of the water activities of Proactiva were 100% consolidated in 2002, 2003 and the first half of 2004, and then 50% consolidated in the second half of 2004 following the sale of Veolia Environnement's interest in FCC. For purposes of the 2003 "pro forma" figures, results of the water activities of Proactiva were 50% consolidated.

** On December 31, 2004, Veolia Environnement applied the provisions of Article 23100 of French CRC Regulation 99-02, which allows companies to report their share in the net income of businesses sold during the year on a separate line item of the income statement. These businesses are excluded from the new scope of consolidation and therefore no longer contribute to consolidated revenues or EBIT for the fiscal year in which they were sold. For the 2004 fiscal year, these businesses included, in the water division, Culligan and USFilter Corporation's equipment and short-term services businesses.

*** Pro forma figures exclude the results of North American assets sold in 2003 and 2004 (i.e. Surface Preparation, Everpure, Culligan and USFilter's short-term equipment and short-term services activities) and FCC (leading Proactiva to be proportionally consolidated at 50%, in lieu of full consolidation).

Overview of Veolia Water

Veolia Water 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 (discussed further under "—Contracts" below). They are generally contracts that involve the operation, design or construction of installations, with the public authority remaining the owner of assets (except in the United Kingdom and Chile) and the head of water policy. Further, recent legislative changes will allow us to integrate more elaborate mechanisms into our contracts to address increases in value produced under the contract and the division thereof (e.g., productivity gains, improvement in the level of services, etc.), which will directly benefit the consumer as the end user of services. Veolia Water is often asked by public authorities to manage relations with consumers, and has developed specific services and information systems in order to do so.

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

Veolia Water's outsourcing contracts with industrial and commercial customers generally last from 3 to 10 years, although certain contracts have terms of up to 20 years. Relying on technologies designed and developed by Veolia Water Systems/OTV (a subsidiary specializing in technological solutions) in responding to the particular needs of the industrial market, Veolia Water not only designs and completes customized projects for industrial clients but offers them standardized solution kits as well. A large range of associated services, such as after-sale service, operational assistance, expert consultation and training, may also complement Veolia Water's offerings.

Service Contracts for Public Authority and Industrial Clients

The main focus of our water business is on water and wastewater management services for public authorities and industrial clients. Veolia Water provides integrated services that cover the entire water cycle, from collection from natural sources, treatment, storage and distribution of water, to collection, decontamination of wastewater and return to natural resources. Veolia Water's activities include the design, construction, management and operation of large-scale, customized drinking water plants, wastewater decontamination and recycling plants, drinking water distribution networks and wastewater collection networks. Veolia Water also provides services to end users relating to water and wastewater treatment.

Veolia Water 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 Water and its subsidiaries are attempting to capitalize on the worldwide trend towards delegated management of municipal drinking water and wastewater treatment services.

In France, Veolia Water operates in over 8,000 municipalities under the name Générale des Eaux, supplying water to more than 26 million people and treating wastewater generated by more than 17 million people.

Générale des Eaux continues to develop its service offerings for industrial clients through its regional organization, and has accordingly developed a presence in the United Kingdom, Germany and the Czech Republic, as well as a presence in Asia and South Korea in particular. Veolia Water also contributes within VE Industries to the development of common service offerings of the Group, in particular in Europe (as discussed further below under "—Development of Synergies: Multiservice Contracts to Benefit Industrial and Commercial Clients").

Engineering and Technological Solutions for the Treatment of Water

Through Veolia Water Systems, Veolia Water 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 clients. Veolia Water treats groundwater, surface water, brackish or sea water, wastewater and refined sludge. Thanks to the combination of physical, chemical or biological treatments, Veolia Water develops a complete range of differentiated solutions for the purification of water or the reduction or elimination of impurities in effluents. Veolia Water'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.

In addition, Veolia Water 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.

Through SADE, Veolia Water also designs, builds, renovates and recovers urban and industrial potable 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 domain.

Description of Activities in 2004

Veolia Water achieved solid revenue growth during 2004, within a context in which weather conditions returned to normal in Europe. It achieved this growth despite the reduction in revenues resulting from the restructuring of its activities in the United States (sale of equipment and short-term services businesses, commercial services and services to individuals).

Business was helped by a high level of contract renewal in France, sustained internal growth outside of France and new large projects in Asia. In 2004, Veolia Water won and/or renewed contracts representing expected total cumulative revenues of approximately 3.7 billion euros.

In France, public authorities continued the trend seen over the past few years of outsourcing the management of public services to private operators. Accordingly, the award of new outsourcing contracts to Veolia Water and amendments to existing contracts so as to enlarge the scope of services provided thereunder managed to compensate for any loss of revenue that occurred due to public authorities' deciding not to renew contracts in favor of direct management. In addition to the new contracts it won in 2004, Veolia Water renewed more of its contracts due to expire in 2004 than it did in 2003 (based on 2004 revenues), demonstrating the confidence of public authorities in Veolia Water's services.

Contracts renewed in 2004 represent expected total cumulative revenues of more than 730 million euros. Among the most important contracts renewed were those involving the cities of Rennes and Chartres (France). At the same time, Veolia Water lost 39 contracts (compared to 53 in 2003), representing approximately 0.15% of annual revenues from delegated public service management contracts in France.

In the rest of Europe, growth was strong generally but especially so in Germany, where at the end of 2004 Veolia Water acquired the water services company Stadtwerke in Braunschweig (Lower Saxony), and otherwise pursued its development on behalf of public authorities and industrial clients (either individually or through multiservices contracts signed with VE Industries). In the Czech Republic, Veolia Water signed a water management with Compagnie des Eaux de Kladno-Melnik (Central Bohemia), as well as a contract with a public water company in eastern Moravia involving the production and distribution of drinking water and the collection and treatment of wastewater.

In the United States, Veolia Water renewed approximately ten municipal contracts. It also won a contract that involves management of wastewater services for the islands of St. Thomas and St. Croix, and a significant extension of its contract with the city of Richmond in California.

In China, public authorities continued to award the Group delegated management contracts to improve and operate their sites. The most important contracts involved the cities of Hohhot, ZunYi and Weinan.

Finally, Veolia Water Systems' design and construction activity for new installations made significant progress during 2004, notably in France, the Netherlands and Russia. Further, in the area of construction and rehabilitation of urban and industrial networks, Veolia Water Systems enjoyed strong development, in particular in Romania and Hungary.

Principal Contracts

The following table shows the principal contracts signed or renewed in 2004 with either public authorities or industrial or commercial companies.

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 to be Provided**
France					
Public Authorities					
City of Rennes	January	Renewal	10 years	150 million	Production and distribution of water.
City of Chartres	September	Renewal	10 years	85 million	Production and distribution of water and management of wastewater treatment services.
SIAEP Tremblaye Claye Souilly	June	Renewal	12 years	47 million	Management of drinking water services.
Europe (outside France)					
Public Authorities					
V.A.K. Zlin (Czech Republic)	June	New	30 years	360 million	Production and distribution of drinking water, customer relations and wastewater collection and treatment on behalf of V.A.K. Zlin, the public water authority for the eastern part of Moravia.
Compagnie des Eaux de Kladno-Melnik (Czech Republic)	November	New	20 years	600 million	Production and distribution of drinking water, customer relations and wastewater collection and treatment.
Asia					
Public Authorities					
City of ZunYi (China)	May	New	35 years	210 million	Rehabilitation of ZunYi's two drinking water plants (600,000 inhabitants), in the province of Guizhou.

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 to be Provided
City of Hohhot (China)	October	New	30 years	600 million	Rehabilitation and operation of a drinking water production site, including a treatment plant and a well field.
City of Weinan (China)	October	New	22 years	190 million	Rehabilitation and operation of a drinking water production site.
North America					
Public Authorities					
Government of the U.S. Virgin Islands	March	New	20 years	81 million	Management of wastewater services for the islands of St. Thomas and St. Croix.
City of Richmond (California)	October	New	18 years	50 million	Operation and reinforcement of wastewater networks.

Acquisitions and Divestitures in 2004

In 2004, we completed implementation of our policy adopted in 2000 to refocus our operations on our core water businesses. In the United States, we completed the sale of our Culligan business to the private equity firm Clayton Dubilier & Rice for total consideration of US$612 million in cash, as well as the sale of USFilter Corporation's equipment and short-term services businesses to Siemens for US$1,015 million, before price adjustments. Veolia Water's divestments worldwide generated proceeds of €1.6 billion in 2004 (€1.3 billion in the U.S.).

In addition, Veolia Water integrated 33 companies into its group in 2004, of which 9 companies were located in France and 24 companies outside of France. Veolia Water also divested 33 companies in 2004, in addition to the divestitures previously mentioned (71 companies in the U.S.).

At the end of 2004, Veolia Water Systems finalized the acquisition of two companies, Wabag (now known as Krüger Wabag) and Elga Berkefeld, which provide technological water treatment solutions in Germany.

As of December 31, 2004, Veolia Water's group included 524 companies (compared to 595 in 2003), of which 452 companies were fully consolidated, 65 companies were proportionally consolidated and 7 companies were accounted for under the equity method.

ITEM 6: DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS AND SENIOR MANAGEMENT

Until April 30, 2003, our company was a *société anonyme à directoire et conseil de surveillance,* a form of stock corporation with a two-tier management structure pursuant to which a management board (*directoire*) managed our day-to-day affairs under the general supervision of a supervisory board (*conseil de surveillance*). On April 30, 2003, our shareholders approved the change of our corporate form to a *société anonyme à conseil d'administration,* which is a French corporation with a single board of directors.

Board of Directors

At its meeting on April 30, 2003, our board of directors adopted a charter aimed at following the recommendations of the report of a French blue ribbon panel presided over by Mr. Daniel Bouton for the improvement of corporate governance in French public companies.

Composition

Pursuant to our articles of association, our board of directors must have between 3 and 18 members. Each director must own at least 750 of our shares in registered form. Each director is elected by the shareholders at an ordinary general meeting of the shareholders for a renewable six-year term, based on proposals by the board of directors, which itself receives proposals from the nominations and compensation committee. The board of directors elects a chairman and, if necessary, one or two vice-chairmen, for a term not exceeding the length of such persons' terms as directors. Our directors can be removed from office by a majority shareholder vote at any time.

The board of directors does not include any members elected by employees or any deputy directors (*censeurs*), but a representative of our works council attends board of director meetings in a consultative role.

The terms of half of our directors (or, if we have an uneven number of directors, half plus one additional director) will come up for renewal every three years on a rolling basis. Accordingly, the terms of seven pre-selected directors will be subject to renewal or replacement in 2006. Thereafter, the terms of board members will come up for renewal or replacement every three years based on seniority of appointment.

Our board of directors currently consists of 14 members, who were all elected at our ordinary general meeting of shareholders on April 30, 2003 for six years, except for 7 directors whose terms will end in 2006 in order to establish the rolling renewal mechanism described above. These directors are Serge Michel, Daniel Bouton, Jean-Marc Espalioux, Jacques Espinasse, Paul-Louis Girardot, Georges Ralli and Murray Stuart.

Evaluation of the Independence of Directors

To qualify as "independent" under our charter, a director must not have any relations with our company, our subsidiaries or our management that could impair his objective judgment. Our charter sets forth in detail the independence criteria that each director must satisfy, which are based on the recommendations of the report of a French blue ribbon panel presided over by Mr. Daniel Bouton for the improvement of corporate governance in French public companies.

Nevertheless, our charter also provides a certain measure of flexibility in applying these independence criteria, since our board of directors may deem that one of its members is independent in light of the specific facts and circumstances of that member, his share ownership or any other reason, even if that member fails to meet all of the independence criteria set forth in the charter. Conversely, our board of directors may deem one of its members not to be independent, even though he otherwise meets all of the independence criteria set forth in our charter.

Our charter provides that the board must annually evaluate the independence of each of its members prior to publication of our French *document de référence.* This evaluation must take into account the independence rules set forth in our charter, the particular facts and circumstances involved and the conclusions of our nominations and compensation committee.

On March 30, 2004, our nominations and compensation committee conducted an evaluation of the independence of our directors and submitted its conclusions to our board of directors. On April 5, 2004, our board of directors determined that Messrs. Jean Azema, Daniel Bouton, Jean-Marc Espalioux, Philippe Kourilsky, Arthur Laffer, Francis Mayer, Baudouin Prot, Georges Ralli, Louis Schweitzer and Murray Stuart qualified as independent directors under the independence criteria set forth above and the particular facts and circumstances involved.

Regarding Messrs. Bouton, Prot and Ralli in particular, they were deemed to satisfy our independence criteria, despite the banking relationship we maintain with Société Générale, BNP Paribas and Banque Lazard, respectively. The board of directors concluded so on the basis of our financial situation, our independence with regard to bank financing and the limited nature of our commitments with these banks.

On March 29, 2005, our board of directors conducted a new evaluation of board members' independence, which reaffirmed its earlier conclusions, except with respect to Mr. Georges Ralli, whom the board deemed no longer independent due to the nature of the banking relationship between our company and Banque Lazard during 2004.

As a result, the board of directors currently contains nine independent directors.

Compensation

Director compensation may take two forms: directors' fees paid for attending meetings of our board of directors (*jetons de presence*), which are set by our annual shareholders' meeting and modified at subsequent meetings if necessary, and exceptional compensation, which may be awarded by the board of directors under conditions set by law.

In 2004, our nominations and compensation committee recommended that the total amount of directors' fees for the 2004 fiscal year and their allocation between the members of the board be maintained at the same level as in 2003, and the board of directors followed this recommendation. Allocation of fees between directors takes into account individual workload and participation in the work of board committees, if any. At its meeting of March 29, 2005, the board of directors decided that the total amount of directors' fees for the 2005 fiscal year would be maintained at the same level as in 2004. No exceptional compensation was awarded to directors in 2004.

Functioning

Under French law, the chairman of our board of directors organizes and supervises the work of the board, on which he reports to shareholders. The chairman is also responsible for supervising our corporate bodies and, in particular, ensuring that our directors are capable of fulfilling their duties. Under the French commercial code, our directors can be held civilly liable for unlawful actions and omissions taken in connection with their duties as directors, particularly for failing to supervise adequately the management of our company.

Directors may participate in board deliberations through videoconference. They are deemed present for purposes of calculating quorum and majority requirements when participating through such means, except when certain important decisions are made as set forth under applicable law.

The charter of our board of directors calls for the board to meet at least four times per year. During the 2004 fiscal year, the board of directors met nine times.

In addition, the board of directors must devote at least one meeting per year to a review of our entire commercial and financial strategy. In 2004, one such meeting of the board of directors occurred on September 16, 2004.

Board Evaluation

Under its charter, our board of directors is required to evaluate its work and procedures each year, verify that important matters are adequately prepared and discussed within the board and measure the contribution to its work and the participation in its debates by each of its members. An evaluation occurred during first half of 2004, with the preliminary analysis being conducted under the supervision of the chairman of the nominations and compensation committee. The functioning of our board of directors, its committees and executive management was considered to be satisfactory as a whole by our directors.

Based on the results of this evaluation, the board of directors, at its meeting of March 15, 2005, appointed Mr. Girardot as a member of the accounts, audit and commitments committee, and decided that Mr. Bouton would replace Mr. Girardot on the nominations and compensation committee. These appointments, as well as the termination of Mr. Girardot's duties as a member of the nominations and compensation committee, took effect on April 1, 2005.

Information Available to Directors

Each director can request training to allow him to better understand our company and our group. Our chairman supplies directors with timely information allowing them to fully exercise their duties, and communicates to directors in a continuous manner all significant information concerning our company. In continuation of the effort to keep directors informed, we provide directors with a detailed update on our company's and the group's activities at least twice per year.

In order to perform their duties, directors may meet with our principal executive officers upon prior notice to the chairman of the board of directors. At the request of the chairman or a director, an executive officer may be invited to a meeting of the board of directors.

Duties of Directors

The charter of the board of directors provides that each of our directors is bound by a number of duties and obligations, such as: a duty to act in the corporate interest of our company; an obligation to inform the board of directors of any existing or potential conflict of interest and to abstain from voting in any situation where such a conflict of interest exists, as well as an obligation to inform the chairman of the board of any agreement entered into by our company or on our behalf in which he has any direct or indirect interest; a duty of professional secrecy; and an obligation to comply with our company's insider trading policy.

Powers of the Board of Directors

Under French law and our articles of association, our board of directors has broad powers to act on behalf of our company to further our corporate purposes and to define and implement our company's policies, subject to those powers expressly granted by law or our articles of association to our shareholders.

In addition, the board of directors' charter provides that certain significant decisions made by our chief executive officer must first be pre-approved by the board of directors. Decisions of our chief executive officer on any of the following matters are subject to such prior authorization: (i) strategic orientation of our group, (ii) transactions in line with our strategy in excess of €300 million per transaction or, if these transactions are not part of our budget, in excess of €150 million, (iii) transactions not in line with our strategy in excess of €100 million per transaction, (iv) financing transactions (whatever their terms) representing an amount in excess of €1.5 billion per transaction, and (v) transactions involving our shares representing an amount in excess of 1% of our total outstanding shares.

Board Members

The following table sets forth the names and ages of the members of our board of directors, their current function in our company and their principal business activities outside of our company. The terms of the members of our board of directors expire on the date of the general shareholders' meeting called to approve our financial statements for fiscal year 2008, except for the terms of Messrs. Bouton, Michel, Espalioux, Espinasse, Girardot, Ralli and Stuart, which expire on the date of the general shareholders' meeting called to approve our financial statements for fiscal year 2005.

Name	**Age**	**Function in Veolia Environnement**	**Principal Business Activities Outside Veolia Environnement**	**Date Initially Appointed**
Henri Proglio	55	Chairman and Chief Executive Officer	None	April 2003
Jean Azema*	52	Director	CEO of Groupama SA	April 2003
Daniel Bouton*	54	Director	Chairman and CEO of Société Générale	April 2003
Jean-Marc Espalioux*	53	Director	President of the Management Board of Groupe Accor	April 2003
Jacques Espinasse	61	Director	Executive Vice President and CFO of Vivendi Universal	April 2003

Paul-Louis Girardot	71	Director	Chairman of the Supervisory Board of Compagnie Générale des Eaux	April 2003
Philippe Kourilsky*	62	Director	Chief Executive Officer of the Institut Pasteur	April 2003
Arthur Laffer*	63	Director	Chairman and CEO of Laffer Associates and Laffer Investments	April 2003
Francis Mayer*	54	Director	CEO of Caisse des Dépôts et Consignations	April 2003
Serge Michel	77	Director	Chairman of Soficot SAS	April 2003
Baudouin Prot*	52	Director	Director and CEO of BNP Paribas	April 2003
Georges Ralli	56	Director	Executive Vice President of Lazard Frères SAS	April 2003
Louis Schweitzer*	62	Director	Chairman and CEO of Renault	April 2003
Murray Stuart*	71	Director	None	April 2003

* Independent directors.

All positions and offices of our directors indicated below are given as of January 31, 2005. Directors may be contacted at our headquarters, located at 36/38 avenue Kléber, 75116 Paris.

Henri Proglio is a graduate of the HEC business school in Paris. He joined Compagnie Générale des Eaux in 1972 and was appointed President and Chief Executive Officer of CGEA in 1990. He was appointed Executive Vice President of Vivendi Universal and President and Chief Executive Officer of Vivendi Water in 1999. He became Chairman of our Management Board in 2000 and Chairman of our Board of Directors and Chief Executive Officer in April 2003. Mr. Proglio is a director of Thales, EDF, Casino Guichard-Perrachon, SARP Industries, Dalkia International, Onyx North America Corp., Société des Eaux de Marseille, GIE Anjou Recherche, GIE CREED, Connex Transport AB, Onyx Environmental Group Plc and Collex Pty. He is also a member of the supervisory board of Elior and Lagardère and of the A and B Dalkia supervisory boards, a managing director (*gérant*) of Compagnie Générale des Eaux, a deputy (*censeur*) on the supervisory board of the Caisse Nationale des Caisses d'Epargne, a member and vice-president of the supervisory board of SARP, a member and president of the supervisory board of Dalkia France, a permanent representative of CSP on the board of directors of Onyx, a director and vice-president of Onyx Asia Holdings, the chairman of Campus Veolia Environnement, and chairman of the board of directors of Veolia Water, Onyx and Connex.

Jean Azema holds an engineering degree from the Ecole Supérieure d'Agriculture de Purpan (ESAP) as well as a degree from the Centre National d'Etudes Supérieures de Sécurité Sociale (CNESS). He began his career at Caisse Régionale des Pyrénées Orientales from 1975 to 1978, and later worked at Caisse Régionale de l'Allier from 1979 to 1987. From 1987 to 1995, Mr. Azema served as director of account management and consolidation at Caisse Centrale des Assurances Mutuelles Agricoles (CCAMA) and director of insurance at CCAMA. In 1996, he was appointed Chief Executive Officer of Groupama Southwest and, in 1998, of Groupama South. In June 2000, Mr. Azema was appointed Chief Executive Officer of CCAMA. He has been the President of the French Federation of Mutual Insurance Companies (*Fédération Française des Sociétés d'Assurance Mutuelles*) since December 2001. He has been the Chief Executive Officer of Groupama SA and of Fédération Nationale Groupama since June 2000. Mr. Azema is the chief executive officer of Groupama Holding and Groupama Holding 2, a director of Société Générale, ACMA and Mediobanca, and represents Groupama SA on the board of directors of Bolloré Investissement.

Daniel Bouton holds a degree in political science and is a graduate of the Ecole Nationale d'Administration (ENA). As part of the French financial controllers' civil service corps, he occupied a number of different positions in the French Ministry of Economy, Finance and Industry, including that of Budget Director, between 1988 and 1991. Since 1991, he has worked at Société Générale, serving as Managing Director from 1993 to 1997, and as President from 1997 to the present. Mr. Bouton is a director of Schneider Electric SA and Total SA, and is chairman of the Fédération Bancaire Francaise.

Jean-Marc Espalioux holds degrees in political science, law and economics, is an alumnus of ENA and served in the French financial controllers' civil service corps from 1978 to 1983. In 1984, he joined Compagnie Générale des Eaux, where he served as Chief Financial Officer from 1987 to 1996 and as Deputy Managing Director from 1996 to 1997. Having been a director of Accor from 1987 to 1996, he was appointed to his current position as President of the Management Board of Accor in 1997. Mr. Espalioux is a director of Air France-KLM and Accor UK, a deputy of the supervisory board of Caisse Nationale des Caisses d'Epargne, a member of the supervisory board of Club Méditerranée and a permanent representative of Accor on the supervisory board of Groupe Lucien Barrière SAS.

Jacques Espinasse holds an MBA degree from the University of Michigan. Since 2002, Mr. Espinasse has served as Executive Vice President and Chief Financial Officer of Vivendi Universal. Prior to 2002, Mr. Espinasse was the Chief Executive Officer (from 1999) and a Director (from 2001) of TPS – Télévision Par Satellite. Before joining TPS, he held several senior positions within large French companies, including CEP Communication, and Groupe Larousse Nathan, where he was appointed Executive Vice President in 1984, and Groupe Havas, where he was appointed Chief Financial Officer in 1985 and, at the time of the privatization of Havas, served as Executive Vice President from 1987 to 1994. Mr. Espinasse is the chairman of Light France Acquisition (SAS), a member of the supervisory board of Groupe Canal+ and Maroc Telecom and a director of Multithématiques, SFR-Cegetel Groupe, Vivendi Universal Net and Vivendi Universal Publishing. He is also a vice president of Vivendi Communications NA, a permanent representative of Vivendi Universal on the board of directors of UGC and SOGECABLE, a vice-president of Vivendi Communications NA, president of Vivendi Universal Canada Inc., chairman and chief executive officer of Vivendi Universal Exchangeco Inc. and chairman and chief executive officer of Vivendi Universal Holdings Cy.

Paul-Louis Girardot was a Director and the Chief Executive Officer of Vivendi Universal until 1998. He was a member of our supervisory board from October 2000 to April 2003, and has been serving as the Chairman of the Supervisory Board of Compagnie Générale des Eaux since 2001. Mr. Girardot is also a member of the supervisory boards of Dalkia France and Compagnie des Eaux et de l'Ozone, chairman of the supervisory board of Compagnie des Eaux de Paris, and a director of Onyx, Veolia Water and Société des Eaux de Marseille.

Philippe Kourilsky is a graduate of the École Polytechnique in France. He joined the Institut Pasteur in 1972, which he currently presides over as chief executive officer. Mr. Kourilsky is a director of the Institut Curie, the Institut Pasteur of Lille, l'Ecole Polytechnique, Collège International de Philosophie, LEEM Recherche, the Institut Pasteur of Montevideo, the Institut Pasteur of Hong Kong, the Institut Pasteur of Shanghai and the Institut Pasteur of Seoul. He is also the permanent representative of l'Institut Pasteur on the board of directors of Aventis Pasteur.

Arthur Laffer, PhD holds degrees in economics from Yale and Stanford Universities. He has a long and distinguished career in academia as well as in public service. He has held professorships at the Universities of Chicago, Southern California and Pepperdine. He has been Economic Director of the Federal Office of Management and Budget (1970), special advisor to the Secretary of the Treasury and to the Secretary of Defense (1972-1977) and a member of the Presidential Council of Economic Advisors (1981 to 1989). In 1979, he founded Laffer Associates, an economic research and consulting firm, of which he is currently the chairman and chief executive officer. He is also the founder, chairman and chief executive officer of Laffer Investments. Mr. Laffer is a founding member of the Policy Consultative Committee of the U.S. Congress, a member of the Council of Economic Advisors of Governor Schwartzenegger, and a member of the board of directors or consultative councils of Oxigene Inc., Nicholas-Applegate Growth Equity Fund, Petco Animal Supplies, Provide Commerce and MPS Group.

Francis Mayer is a graduate of ENA and a tenured university professor. He joined the French Finance Ministry in 1979 where, after holding several positions, he became Deputy Director in 1994. In October 1997, Mr. Mayer was appointed President of the Paris Club, and in October 1999 Vice President of the European Investment Bank. Mr. Mayer has been the Chief Executive Officer of the Caisse des Dépôts et Consignations (CDC) since October 2002. Mr. Mayer is a director of Accor, Eiffage, Casino Guichard-Perrachon and Dexia. He is also a member of the supervisory board of CNP Assurances and Ixis Capital Investment Bank, and a member of the supervisory board and vice-president of Caisse Nationale des Caisses d'Epargne.

Serge Michel has spent his entire career in the construction and public works business, having served as Deputy Managing Director and President of SOCEA, President of S.G.E. until 1991, President of CISE until 1997 and Deputy Managing Director of Compagnie Générale des Eaux (which became Vivendi Universal) until 1992. He is currently President of Soficot, founded in 1997. Mr. Michel is a director of SARP Industries, Vinci, LCC and Infonet Services, and chairman of CIAM SAS and SAS Carré des Champs Elysées. He is also chairman of the supervisory board of SEGEX and a member of the supervisory board of Compagnie des Eaux de Paris, G+H Montage and Société des Eaux de Trouville Deauville et Normandie, and a permanent representative of EDRIF on the supervisory board of Compagnie Générale des Eaux as well as a permanent representative of CEPH on the board of directors of SEDIBEX.

Baudouin Prot is a graduate of the HEC business school in Paris and of ENA. From 1974 to 1983, Mr. Prot was successively the Deputy Prefect of the Franche-Comté region of France, French General Inspector of Finance, and the Deputy Director of Energy and Raw Materials of the Ministry of Industry. He joined Banque Nationale de Paris (BNP) in 1983, where he served in various positions before becoming Executive Vice-President in 1992 and Chief Executive Officer in 1996. After having been a director and executive vice president of BNP Paribas since March 2000, he was named a director and chief executive officer of BNP Paribas in June 2003. In addition to several directorships within the BNP Paribas group, Mr. Prot is also a member of the supervisory board of Pinault-Printemps-Redoute, a permanent representative of BNP Paribas on the supervisory board of Accor, a member of the board of directors of Pargesa Holding SA and a member of the supervisory board of ERBE.

Georges Ralli holds degrees in finance, political science (from the Paris Institute of Political Science (IEP)) and business. He began his banking career at Crédit Lyonnais (1970-1981) and later headed the department of financial negotiations at Crédit du Nord. In 1982, he served as Secretary of the Commission for the Development and Protection of Savings. In 1986, Mr. Ralli rejoined Lazard, becoming a managing partner in 1993 and then co-head of mergers and acquisitions at Lazard LLC in 1999. Since 2000, Mr. Ralli has been deputy chairman and a member of the executive committee of Lazard LLC and an executive vice president of Lazard Frères. Mr. Ralli is also an executive vice president and managing partner of Maison Lazard SAS and Lazard Frères SAS, president of Lazard Frères Gestion, chairman and chief executive officer of Lazard Frères Banque, deputy chairman of Lazard LLC and a member of the executive committee of Lazard Strategic Coordination Company LLC. He also serves as a director of Fonds Partenaires Gestion, V.L.G.I., Chargeurs, Silic and Eurazeo.

Louis Schweitzer is a graduate of the Institut d'Etudes Politiques de Paris and of ENA. He has served as Inspector of Finances and, from 1981 to 1986, as Chief of Staff of Mr. Laurent Fabius, who over the same period was Deputy Minister of Budget, Minister of Industry and Research and Prime Minister of France. In 1986, Mr. Schweitzer joined Renault's senior management as Director, and later served as Director of Planning and Management Control, Chief Financial Officer (in 1989) and Executive Vice President. He became Chief Executive Officer of Renault in 1990 and Chairman and Chief Executive Officer in May 1992 and he is now Chairman of the board of directors of Renault. Mr. Schweitzer is a director of Renault Crédit International-Banque, EDF, BNP Paribas and AB Volvo. He is also the chairman of the management board of Renault-Nissan BV, a member of the supervisory board of Philips, a member of the consulting board of Allianz and Banque de France, a member of the consultative committee of the Banque de France and chairman of the board of directors of Astra Zeneca.

Murray Stuart holds degrees in literature and law from the University of Glasgow, and is also trained as an accountant. He has pursued a career in industry, commerce and financial services. Mr. Stuart has worked for International Computers Plc (as Chief Financial Officer and Deputy Director), Metal Box plc and Carnaud Metalbox (as Vice-President) and Scottish Power Plc (as President from 1992 to 2000). Until May 2002, he also served as Executive Vice President of the Audit Commission for Public Services in the UK, as President of Trust Hammersmith Hospitals NHS, an important public health education and research center in London, and as a director of Royal Bank of Scotland Group plc.

Management

Our board of directors directs the manner in which we are managed in accordance with our articles of association. In particular, our board of directors appoints a chief executive officer to manage our business on a day-to-day basis. The chairman of our board of directors may serve, if appointed by the board of directors, as chief executive officer. On April 30, 2003, our board of directors appointed its chairman, Mr. Henri Proglio, to act as our chief executive officer. The chief executive officer has broad powers to act on our behalf, including the power to represent us in dealings with third parties, within the limits of our corporate purpose and the powers expressly reserved to our shareholders and our board of directors.

Following the change of our corporate form on April 30, 2003, and in application of our governance principles, our chairman and chief executive officer created an executive committee composed of seven members (all of whom, with the exception of Mr. Eric Marie de Ficquelmont, were members of our former management board until April 30, 2003). Our executive committee meets approximately every fifteen days, and is chaired by Mr. Henri Proglio. The executive committee helps to determine our principal strategy.

The following table sets forth the names and ages of the members of our executive committee, their current function in our company and their principal business activities outside of our company.

Name	Age	Function in Veolia Environnement	Principal Business Activities Outside Veolia Environnement
Henri Proglio	55	Chairman and Chief Executive Officer	None
Jérôme Contamine	47	Senior Executive Vice President and Chief Financial Officer	None
Eric Marie de Ficquelmont	50	Executive Vice President – Human Resources	None
Olivier Barbaroux	49	Executive Vice President, Head of Energy Services Division	None
Antoine Frérot	46	Executive Vice President, Head of Water Division	None
Denis Gasquet	51	Executive Vice President, Head of Waste Management Division	None
Stéphane Richard	43	Executive Vice President, Head of Transportation Division	None

Jérôme Contamine holds degrees from the Ecole Polytechnique, the Ecole Nationale de la Statistique et de l'Administration Economique and ENA. He served as auditor for the Cour des Comptes from 1984 to 1988 and held a variety of senior positions with Elf (and later TotalFinaElf) between 1988 and 2000. He became Chief Financial Officer and Deputy Managing Director of our company in June 2000. Mr. Contamine is a director of Connex, Onyx, VE Services-Ré, Veolia UK Ltd, Onyx Environmental Group Plc, Onyx UK Holdings and Veolia Environnement North America Company. He is also a member of the supervisory board of Dalkia France, chairman of Veolia Environnement North America Operations, and a director of Rhodia.

Eric Marie de Ficquelmont joined our group in 1991 as Head of Human Resources of CGEA Onyx. He was appointed Executive Vice President, Human Resources of our company in 2000. Mr. de Ficquelmont is also a director of Connex, Onyx Northern Europe Limited and Onyx North America Corp.

Olivier Barbaroux is a graduate of the Ecole Polytechnique, the Ecole Nationale des Ponts et Chaussées and the Massachusetts Institute of Technology. He began his career in 1979 as head of the International Investments Bureau at the French Ministry of Industry. He was appointed to the Port Authority of Marseilles-Fos in 1981, first as Director of New Construction and Ship Repair and then as Director of Marseilles Terminals and Facilities in 1983. He joined the Paribas Group in 1987 as Deputy Director of Industrial Affairs, and in 1993 was appointed as a member of the Executive Committee of Paribas Affaires Industrielles, in charge of Energy, Natural Resources and Transportation, and as Chairman and CEO of Coparex International (listed). In 1996, he was appointed Chairman and CEO of VIA GTI (listed). He became global Head of the Energy Division at Paribas in 1998. He joined our company in 1999 as Chief Operating Officer of Vivendi Water. He was appointed Chairman and Chief Executive Officer of Dalkia in February 2003. Mr. Barbaroux is also a director of Clemessy, member of the supervisory boards of Compagnie des Eaux et de l'Ozone and Compagnie des Eaux de Paris, chairman and chief executive officer of Dalkia International and managing director (*gérant*) of Dalkia France.

Antoine Frérot is a graduate of the Ecole Polytechnique and holds a doctorate from the Ecole Nationale des Ponts et Chaussées. He began his career as an engineer and joined Cergrene, a research center, in 1983, becoming a Director in 1984. He joined Compagnie Générale des Eaux in 1990, and was appointed Chief Executive Officer of Connex in 1995. Mr. Frérot is a director of Connex and Onyx. He is also chairman of the supervisory board of Compagnie des Eaux et de l'Ozone, chief executive officer of Veolia Water and Compagnie Générale des Eaux, and director and chairman of the board of Veolia Water Systems.

Denis Gasquet is a graduate of the Ecole Polytechnique and the Centre de Perfectionnement aux Affaires. From 1979 to 1989, he served in a variety of positions in the Office National des Forets. He joined Compagnie

Générale des Eaux in 1989, becoming Chief Executive Officer of Onyx in 1996. Mr. Gasquet is also a director of Onyx Environmental Group Plc, Onyx UK Holdings and SARP Industries, a member of the supervisory board of SARP, and chairman of the board of directors of Collex Pty.

Stéphane Richard is a graduate of the HEC business school and *Inspecteur des Finances*. He began his career in 1991 as a technical advisor at the Ministry of Industry and Exterior Commerce. He joined Compagnie Générale des Eaux in 1992 as a head of mission. In 1994, he was named Director and Chief Executive Officer of Compagnie Immobilière Phénix, and then in 1995, he joined CGIS, which later became Nexity, where he became Chairman and Chief Executive Officer in 1997. Mr. Richard was appointed Chief Executive Officer of Connex in 2003. Mr. Richard is also chairman of the board of directors of CFTI and Connex Transport AB, and a director of Connex North America, Connex Group Australia and FCC-Connex. Mr. Richard is a director of Nexity SA, UGC, France Telecom and Société des Autoroutes Paris Rhin Rhône.

COMPENSATION

The members of our board of directors received the following compensation during the 2004 fiscal year for services to us and our subsidiaries, including benefits and directors' fees paid for attending meetings of our board of directors (*jetons de présence*):

	Compensation paid (in €) by	
	Our company	Our subsidiaries
Henri Proglio	1,402,035[(1)]	70,395
Jean Azema	35,625	0
Daniel Bouton	26,250	0
Jean-Marc Espalioux	35,625	0
Jacques Espinasse	26,250	0
Paul-Louis Girardot	35,625	45,829
Philippe Kourilsky**	26,250	0
Arthur Laffer	19,687*	0
Francis Mayer	26,250	0
Serge Michel	48,750	11,268
Baudouin Prot	26,250	0
Georges Ralli	26,250	0
Louis Schweitzer	35,625	0
Murray Stuart	36,562*	0

* After withholding tax.

(1) This amount consists of €1,377,518 in gross compensation and €24,517 in directors' fees.

With the exception of Mr. Henri Proglio, the members of the board of directors did not receive any compensation in 2004 other than the fees paid in connection with their participation in board or committee meetings (*jetons de presence*). The figures above therefore represent such persons' compensation for serving as directors only.

In 2004, the aggregate amount of compensation paid to members of our executive committee other than our chairman and chief executive officer (6 persons in total) for services in all capacities was €3,328,800, of which €2,280,000 represented the fixed portion of 2004 compensation and €1,048,800 represented the variable portion of compensation relating to the 2003 fiscal year which was paid in the first quarter of 2004.

The table below sets forth the aggregate amount of compensation (including fixed and variable compensation) paid to members of our executive committee other than our chairman and chief executive officer in 2003 and 2004:

	Fixed compensation	**Variable compensation**	**Total compensation**
Compensation paid in 2003*	2,208,874	810,000	3,018,874
Compensation paid in 2004**	2,280,000	1,048,800	3,328,800

* Includes the variable compensation due in respect of the 2002 fiscal year and paid in 2003.

** Includes the variable compensation due in respect of the 2003 fiscal year and paid in 2004.

None of our directors or executive officers are parties to contracts with us or our subsidiaries that provide for the award of benefits upon termination of their employment.

Details of the Compensation Paid to Our Chairman and Chief Executive Officer

Compensation paid to Mr. Proglio in 2004 was determined according to terms proposed by the nominations and compensation committee and approved by the board of directors. During 2004, Mr. Proglio received the fixed portion of his compensation for 2004 as well as the variable portion of his compensation for the 2003 fiscal year paid in early 2004, which was determined at the board of directors' meeting of April 5, 2004. He also received other benefits, as well as the directors' fees to which he was entitled as a director of Veolia Environnement and certain of its subsidiaries.

Fixed Portion of 2004 Compensation

The board of directors left the fixed portion of Mr. Proglio's compensation for the 2004 fiscal year unchanged from the prior year, equal to €900,000.

Variable Portion of Compensation

70% of the variable portion of compensation is based on the satisfaction of various performance criteria that are pre-determined by the board of directors, while 30% is based on qualitative performance as determined by the board.

<u>Variable Compensation for 2003</u>: At Mr. Proglio's request, given the losses that our company suffered in 2003, the qualitative portion of variable compensation to which he was otherwise entitled for fiscal year 2003 (€202,980) was not awarded to him by the board of directors. The remaining 70% of variable compensation to which he was entitled was paid to him on April 30, 2004, in the amount of €473,620.

<u>Variable Compensation for 2004</u>: The amount of Mr. Proglio's variable compensation in respect of the 2004 fiscal year was determined by the board of directors at its meeting of March 29, 2005, based on the recommendation of the nominations and compensation committee. This amount will be paid during the first half of 2005. The performance indicators used by the board to determine this amount, based on the objectives of the 2004 budget, were: the level of return on capital employed (excluding FCC), net recurring income and the improvement in net financial debt, with each indicator carrying a 1/3 weighting. Since each of these indicators had reached the desired level during 2004, the board of directors awarded Mr. Proglio variable compensation of €850,000 for fiscal year 2004, including the qualitative part of the variable compensation.

Other Benefits

In addition to the fixed and variable compensation described above, Mr. Proglio received benefits in 2004 totaling €3,898, relating to use of a company car.

Directors' fees paid by Veolia Environnement and its subsidiaries

In 2004, Mr. Proglio received net directors' fees from our company totaling €24,517, which were paid in respect of the first three quarters of 2004 (fees due for the last quarter of 2004 were paid in January 2005). This net amount of €24,517 takes into account a tax deduction for 2003 of €1,733 that was recorded in December 2004.

Mr. Proglio also received directors' fees from our subsidiaries in both France and abroad totaling €70,395.

Variation between Mr. Proglio's Compensation in 2003 and 2004

The table below sets forth total gross compensation paid to Mr. Proglio in 2003 and 2004 (including fixed and variable compensation, directors' fees and benefits):

	Various compensation			**Directors' fees paid by subsidiaries**	**Benefits***	**Total gross compensation**
	Fixed	**Variable**	**Directors' fees paid by VE**			
Compensation paid in 2003	900,000	493,000	23,333	165,924	1,558	1,613,143**
Compensation paid in 2004	900,000	473,620	24,517	70,395	3,898	1,472,430

* Related to a company car.

** In addition to fixed and variable compensation paid in 2003, this amount includes a corporate and tax reinstatement in respect of gross compensation paid in 2003 and a remaining balance of 16,733 euros due in respect of fixed compensation for 2002.

Retirement Plan

Mr. Proglio benefits from the supplementary retirement plan that we provide to our senior management.

Pension or Retirement Benefits

The aggregate amount that we set aside or accrued to provide pension, retirement or similar benefits during 2004 for members of senior management as of December 31, 2004 was €348,760. We do not provide pension, retirement or similar benefits to directors except to our chairman and chief executive officer, who benefits from the supplementary retirement plan we provide to our senior management.

BOARD PRACTICES

Following our transformation into a *société anonyme à conseil d'administration* on April 30, 2003, our existing accounts, audit and commitments committee and nominations and compensation committee were retained and their charters adapted to the needs of the new board of directors of our company.

Accounts, audit and commitments committee

Our *accounts, audit and commitments committee* principally performs the following functions:

- Regarding accounting matters, the committee reviews with the auditors the appropriateness and consistency of the accounting methods adopted to prepare the financial statements and examines whether significant transactions have been adequately treated, provides an opinion on accounting methods and on the draft semi-annual and annual financial statements and examines significant commitments, and meets, if necessary, with the auditors, management and financial officers to discuss various issues, the committee being entitled to meet with such persons outside of the presence of management;

ITEM 7: MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

MAJOR SHAREHOLDERS

The table below shows the ownership of our shares and voting rights at December 31, 2004:

Shareholder	Number of shares	Percentage of share capital	Number of voting rights	Percentage of voting rights
Caisse des Dépôts et Consignations[1]	34,137,203	8.40%	34,137,203	8.75%
Groupe Société Générale[2]	26,708,356	6.57%	26,708,356	6.84%
Groupe Groupama[3]	23,400,642	5.76%	23,400,642	6.00%
Vivendi Universal [4]	21,523,527	5.30%	21,523,527	5.52%
EDF[5]	16,255,492	4.00%	16,255,492	4.17%
Veolia Environnement[6]	16,183,548	3.98%	-	-
Public and other investors	268,213,215	65.99%	268,213,215	68.73%
Total	**406,421,983**	**100%**	**390,238,435**	**100%**

1) According to Caisse des Dépôts et Consignations' ("CDC") filing with French market authorities as of January 3, 2005 (AMF *avis* no. 205C0033 dated January 7, 2005). In its filing of April 23, 2003 with French market authorities (Euronext *avis* no. 2003-1290 dated May 5, 2003), CDC declared that it was acting as a medium-term institutional investor and that it retained the right to purchase additional shares based on market conditions, but that it did not intend to assume control of our company.

2) According to Société Générale's filing with French market authorities as of January 4, 2005 (AMF *avis* no. 205C0032 dated January 7, 2005, which was updated by *avis* no. 205C0043 dated January 10, 2005).

3) According to Groupama's filing with French market authorities as of December 30, 2004 (AMF *avis* no. 205C0030 dated January 7, 2005).

4) According to Vivendi Universal's filing with French market authorities as of December 30, 2004 (AMF *avis* no. 205C0031 dated January 7, 2005).

5) According to our register of registered shareholders (*actionnaires au nominatif*) as of December 31, 2004, which was prepared on our behalf by Société Générale on January 13, 2005. To the best of our knowledge, EDF's last share ownership filing with French market authorities occurred on December 30, 2002 (Euronext *avis* no. 2002-4424 dated December 31, 2002), in which EDF declared that it held 16,155,492 shares as of that date. EDF further declared in the November 24, 2002 addendum to the June 24, 2002 contract described below that it would hold the shares as a financial investment, that it did not seek to influence our company's management and that it would exercise its voting rights with the sole aim of enhancing the value of its investment.

6) As set forth in our monthly filing with French market authorities of transactions we have effected with respect to our own shares, filed on January 3, 2005 for the month of December 2004.

To the best of our knowledge, no person other than those listed above directly or indirectly held 5% or more of our shares or voting rights as of December 31, 2004. Neither Vivendi Universal nor any other major shareholder has different voting rights than our other shareholders, except by virtue of the large number of shares each may hold.

We estimate that, as of December 31, 2004, approximately 67 million of our shares (representing approximately 16.5% of our share capital) were held by holders in the United States. As of December 31, 2004, 1,730,236 of our shares (representing approximately 0.4% of our share capital) were held in the form of ADRs by over 5,000 registered ADR holders (including The Depository Trust Company) and beneficial holders.

The following table shows the evolution of the ownership of our shares over the past three years:

	As of December 31, 2002[1]			As of December 31, 2003[2]			As of December 31, 2004[3]		
Shareholders	*Number of shares*	*% of capital*	*% of voting rights*	*Number of shares*	*% of capital*	*% of voting rights*	*Number of shares*	*% of capital*	*% of voting rights*
Vivendi Universal	82,486,072	20.36%	20.83%	82,486,072	20.36%	20.83%	21,523,527	5.30%	5.52%
Our Company	9,142,362	2.26%	-	9,195,942	2.27%	-	16,183,548	3.98%	-
Public and other investors	313,442,025	77.38%	79.17%	313,388,501	77.37%	79.17%	368,714,908	90.72%	94.48%
Total	**405,070,459**	**100%**	**100%**	**405,070,515**	**100%**	**100%**	**406,421,983**	**100%**	**100%**

(1) As of December 31, 2002, French investors held approximately 72.5% of our shares (and foreign investors the remaining 27.5%), our directors and senior managers did not hold a material percentage of our shares and shareholders holding more than 5% of our share capital were Vivendi Universal, Caisse des Dépôts et Consignations, Groupama and Putnam Investment Management LLC/Putnam Advisory Company LLC (on behalf of clients).

(2) As of December 31, 2003, French investors held approximately 72.9% of our shares (and foreign investors the remaining 27.1%), our directors and senior managers did not hold a material percentage of our shares and shareholders holding more than 5% of our share capital were Vivendi Universal, Caisse des Dépôts et Consignations, Groupama and JPMorgan Chase Bank (on behalf of its clients).

(3) As of December 31, 2004, French investors held approximately 70.55% of our shares (and foreign investors the remaining 29.45%), our directors and senior managers did not hold a material percentage of our shares and shareholders holding more than 5% of our share capital were those indicated in the first table set forth above.

Prior to July 2000, our company was a wholly-owned subsidiary of Vivendi Universal. In July 2000, Vivendi Universal's interest in our company was reduced to approximately 72.3% as a result of a global offering of our shares and the conversion of our convertible bonds into our shares.

In March 2001, Vivendi Universal issued €1.8 billion principal amount of bonds due in 2006 that are exchangeable for existing shares of our company held by Vivendi Universal. Each bond is exchangeable for 1.0221 of our existing shares, subject to adjustments. Between January 27, 2003 and February 17, 2003, 98.47% of the outstanding bonds were redeemed early. Accordingly, as of December 31, 2004, 494,323 bonds remained outstanding, which may be exchanged for a total of 505,247 of our existing shares, representing approximately 0.12% of our share capital. Because the bonds are only exchangeable into already existing shares of our company, any exchange would not alter our share capital.

In December 2001, Vivendi Universal sold an additional block of our shares representing 9.3% of our total share capital in an over-the-counter transaction, reducing its interest in our company to approximately 63%. In December 2001, we distributed one free stock warrant for each of our 346,174,955 shares to persons who held our shares on December 14, 2001. Subject to adjustments, including those resulting from our capital increase through a rights offering conducted on August 2, 2002, each 7 warrants will entitle the holder to subscribe 1.009 shares of our company, nominal value 5 euros per share, at a subscription price of €55 per share. The warrants may be exercised at any time up to and including March 8, 2006. The warrants are listed on the Eurolist of Euronext Paris. As of December 31, 2004, 99,526 warrants had been exercised, which resulted in the issuance of 14,218 new shares and a corresponding increase in share capital of €71,090. As of December 31, 2004, the number of outstanding shares of our company before exercise of outstanding warrants was 406,421,983 shares. At this date, if all of the outstanding warrants had been exercised, 49,884,301 new shares would have been issued, representing a 12.27% ownership dilution.

In July 2002, we conducted a share capital increase through the issuance of preferential subscription rights to our shareholders. This share capital increase was recorded on August 2, 2002. Pursuant to the terms of an agreement dated June 24, 2002, several financial investors, whom we refer to as the Group of Declared Investors (GID), acquired and exercised the preferential subscription rights granted to Vivendi Universal and subscribed for the remainder of our shares not subscribed by the public. The GID consisted of the Caisses des Dépôts et Consignations, Groupama, BNP Paribas, AGF, Société Générale, Dexia, Caisses d'Epargne, Crédit Lyonnais and Natexis Banques Populaires. Following the transaction, the GID held 9.4% of our share capital.

On November 24, 2002, Vivendi Universal, our company, the GID and a group of new investors, whom we refer to as the New Investors, signed an addendum to the June 24, 2002 agreement pursuant to which Vivendi Universal sold to the New Investors and to our company a total of 82,486,072 of our shares (of which 3,624,844 were sold to our company, representing approximately 0.9% of our share capital at the time of sale) on December 24, 2002. Our company and the New Investors also received, for each share purchased, a call option that was exercisable at any time between December 24, 2002 and December 23, 2004 inclusive, entitling the holder thereof to purchase one of our shares at a price of €26.50 per share. On the date that these call options expired, *i.e.* December 23, 2004, none had been exercised. The New Investors were EDF, Caisse des Dépôts et Consignations, Groupama SA, AXA, Compagnie d'Investissement de Paris SAS, Eurazeo, Aurélec, Dexia Crédit Local, Caisse Nationale des Caisses d'Epargne, Assurances Générales de France Holding, CNP-Assurances, Crédit Agricole Indosuez (Suisse) SA (for its own account and the account of a client), CIC, Generali, Crédit Lyonnais, Médéric Prévoyance and Wasserstein Family Trust LLC.

On December 8 and December 9, 2004, Vivendi Universal reduced its shareholding in our company by a total of 15% of share capital, reducing its interest from 20.36% of share capital to only 5.30%. Vivendi Universal reduced its holdings through (i) a private placement to investors involving 10% of share capital, (ii) a sale to Société Générale involving 3% of share capital, and (iii) a sale to our company involving 2% of share capital, which closed on December 29, 2004.

To our knowledge, there are no shareholders' or other agreements relating to our shares other than as described above.

RELATED PARTY TRANSACTIONS

Vivendi Universal

Vivendi Universal formally created our company in 1999 by grouping together the majority of its existing environment-related operations. Prior to July 2000, our company was a wholly-owned subsidiary of Vivendi Universal. Following our initial public offering in July 2000, Vivendi Universal held 72.3% of our shares. Following a series of share sales by Vivendi Universal in 2001 and 2002, Vivendi Universal's participation in our company was reduced to 20.36% of our share capital. Finally, in December 2004, Vivendi Universal further reduced its equity stake such that it held only 5.30% of our share capital at the end of this period.

In addition, in April 1999 we issued 10,516,606 bonds (or "OCEANEs") for an aggregate principal amount of €2,850,000,226 (par value €271 per OCEANE), which were convertible and/or exchangeable at any time into new or existing shares of Vivendi Universal and/or shares of our company if and when our company became a public company. At the time of our initial public offering in 2000, we decided to convert these OCEANEs into new shares of our company at a ratio of 10.213 new shares per OCEANE, which represented a share capital increase of €714,709,238. The remaining 5,331,058 OCEANEs that were not converted were repayable in January 2005 or otherwise exchangeable into shares of Vivendi Universal.

On January 3, 2005, we redeemed 5,330,827 outstanding OCEANEs at par value plus an additional non-conversion premium of €17 per OCEANE, representing €288 per OCEANE, for an aggregate redemption price of €1,568,379,191 including fees. In addition, 231 OCEANEs not so redeemed were exchanged into 725 shares of Vivendi Universal.

Transfer of Participations and Interests

In order to complete the separation of Vivendi Universal and our company, we entered into a Master Agreement with Vivendi Universal dated December 20, 2002, as well as an ancillary cooperation agreement, pursuant to which both parties agreed to the transfer of various securities and interests historically held by Vivendi Universal in companies related to our environmental management services business. As of December 31, 2004, Vivendi Universal had transferred substantially all of these interests to us.

Financial Agreements

We entered into a number of agreements with Vivendi Universal in connection with our formation and the initial public offering of our shares so as to establish and organize the financial relationship between Vivendi Universal and our company. Following transactions that occurred during 2004, the following agreements remained between Vivendi Universal and our company:

Loan Agreement of June 19, 2000

On June 19, 2000, we and Vivendi Universal entered into a loan agreement that was later terminated pursuant to an agreement dated January 13, 2003, except for provisions relating to the shareholder's account, which could be temporarily and automatically reactivated at any time that a holder of our OCEANEs (as described above) exercised its right to exchange its OCEANEs into shares of Vivendi Universal. Upon maturity of the OCEANEs on January 3, 2005, 231 OCEANEs were exchanged for 725 shares of Vivendi Universal. As a result, we were required to reimburse Vivendi Universal for drawdowns under the shareholder's account in a total amount of €62,601. Following this reimbursement, the June 19, 2000 loan agreement has been fully terminated.

Guarantee Agreement

In connection with our assumption of control of Vivendi Universal's water and energy services operations, we replaced Vivendi Universal in 2000 as managing partner (*associé commandité*) of Vivendi Universal's water and energy services subsidiaries. As managing partner of these subsidiaries, we assumed Vivendi Universal's statutory obligations for the financial management of such subsidiaries' expenses in France related to the maintenance and replacement of equipment, in discharge of their contractual obligations.

Under a guarantee agreement dated June 20, 2000, as modified on December 20, 2002, Vivendi Universal agreed to indemnify us for any loss that we suffered as a result of our having assumed such obligations, in instances where our reimbursement of expenses associated with the maintenance or replacement of equipment exceeded the related contributions we received from such subsidiaries. On December 21, 2004, Vivendi Universal delegated its obligations under the guarantee agreement to Société Générale in respect of the 2004 fiscal year and onward, which we accepted. At the time of such delegation, the parties took note of the guarantee limits already in place, and set forth the maximum amounts that we could seek from Société Générale under the guarantee agreement in respect of the 2004 fiscal year and subsequent fiscal years. In 2004 value, the total maximum amount guaranteed by Société Générale was €207.26 million. We may draw on this guarantee annually in an amount of up to €34.66 million per year (which amount shall increase by 4.5% annually). The last fiscal year in respect of which we may claim reimbursement under the guarantee agreement is 2011.

Counter-Guarantee Agreement

Prior to our formation and the initial public offering of our shares, Vivendi Universal granted a variety of guarantees (for an initial amount of €6 billion) to third parties on behalf of our subsidiaries, generally in connection with those subsidiaries' attempts to obtain contracts, receipt of funds from bank financing and sales of assets (the "subsidiary guarantees"). We have entered into a counter-guarantee agreement dated June 20, 2000, pursuant to which we will indemnify Vivendi Universal for any costs, losses or expenses it incurs in connection with the subsidiary guarantees. We are also required to use our best efforts to obtain the consent of beneficiaries of the subsidiary guarantees to the transfer of the subsidiary guarantees from Vivendi Universal to us or to the substitution of us for Vivendi Universal.

Pursuant to the Master Agreement dated December 20, 2002, and in light of the transfer or expiration of certain of the guarantees initially covered by the June 20, 2000 protocol, we and Vivendi Universal have redefined both the list of subsidiary guarantees that will be transferred to, or otherwise counter-guaranteed by, our company as well as the conditions under which Vivendi Universal can appeal our counter-guarantee. As of December 31, 2004, the maximum aggregate amount that could become due under these subsidiary guarantees was approximately €110.5 million.

Aguas Argentinas

Pursuant to the December 20, 2002 Master Agreement, we and Vivendi Universal agreed that Vivendi Universal would definitively remain the owner of shares of Aguas Argentinas, an Argentinean company, which were listed among the interests that we were supposed to acquire pursuant to an annex to the June 20, 2000 counter-guarantee agreement. As a result, Vivendi Universal definitively waived the counter-guarantee relating to this interest given by us pursuant to the June 20, 2000 agreement. In exchange, we agreed to pay, subject to a cap of US$5 million, the first sums due under Vivendi Universal's guarantees in respect of Aguas Argentinas' financial commitments.

As of December 31, 2004, the amount guaranteed by us was fully paid in the amount of US$5 million. Accordingly, we do not have any further commitments or obligations to Vivendi Universal with respect to the above transaction. However, we do benefit from a return to better fortune clause, pursuant to which we may be reimbursed for all or part of the US$5 million we have paid to Vivendi Universal in the event that Aguas Argentinas returns to profitability.

FCC – Relationship with Our Co-Shareholder

Until September 15, 2004, we held a 49% interest in the holding company B 1998 SL, which itself holds 52.5% of the Spanish company FCC (amounting to a 25.7% indirect interest in FCC on our part).

During 2003, certain disagreements relating to the strategic development of FCC arose between us and our 51% co-shareholder in B 1998 SL, Ms. Esther Koplowitz. In the fall of 2003, negotiations began for Ms. Koplowitz to repurchase our indirect interest in FCC. A contract for sale was signed on July 28, 2004 and came into force on September 15, 2004, pursuant to which we sold to Ms. Koplowitz our entire interest in the holding company B 1998 SL.

This contract put an end to the shareholders' agreement of October 6, 1998 between us and Ms. Koplowitz. The contract also ended a put option agreement, pursuant to which Ms. Koplowitz had the option, exercisable at any time through October 16, 2008, to require us to purchase her remaining 51% interest in FCC's holding company.

This sale forms part of our effort to refocus our activities on our historical environmental services business, which began in 2002. We and FCC have nevertheless retained our joint interests in the Spanish subsidiaries

Proactiva Medio Ambiente and FCC Connex Corporación. See "Item 4. Information on the Company—Business Overview."

Proactiva's shareholders have not entered into a shareholders' agreement. Accordingly, Proactiva's management is governed by its articles of association, which provide that shareholders have a preferential right to acquire any shares offered for sale by another shareholder.

Pursuant to a shareholders' agreement dated December 13, 2001, the shareholders of FCC Connex Corporación (which are CGT, the transportation subsidiary of FCC, and Connex) are required to act in the company's best interest so as to avoid deadlock when strategic decisions are made. In the event of any deadlock, or in the event a shareholder fails to fulfill any of its obligations, the shareholders' agreement contains specific provisions relating to shareholder divestment. These provisions also apply in the event of a change in control of CGT or Connex. Under these provisions, our company or FCC, as the case may be, may require its partner to either repurchase the other's interest in the company or to sell its own interest, depending on the circumstances.