Reference document 2008

VEOLIA ENVIRONNEMENT

This is a free translation into English of Veolia Environnement's *document de référence* (the "reference document"), filed by Veolia Environnement with the French *Autorité des marchés financiers* on March 30, 2009 under number D.09-166, and is provided solely for the convenience of English-speaking readers. This document does not include the annexes to the French version of the reference document.

Veolia Environnement's Annual Report on Form 20-F, filed with the US Securities and Exchange Commission on April 16, 2009, contains substantially all of the information set forth in this reference document and certain additional information not included herein.

2008 REFERENCE DOCUMENT

Pursuant to article 28 of European Regulation n° 809/2004, the following information is incorporated by reference in this reference document: (i) the consolidated financial statements and the corporate financial statements for the 2007 fiscal year and the corresponding statutory auditor's report, included in chapter 20, paragraphs 20.1 and 20.2, respectively, of Veolia Environnement's reference document for the 2007 fiscal year, filed with the *Autorité des marchés financiers* on March 31, 2008 under number D.08-0172, and (ii) the consolidated financial statements and the corporate financial statements for the 2006 fiscal year and the corresponding statutory auditor's report, included in chapter 20, paragraphs 20.1 and 20.2, respectively, of Veolia Environnement's reference document for the 2006 fiscal year, filed with the *Autorité des marchés financiers* on April 3, 2007 under number D.07-0264.

This reference document was filed with the *Autorité des marchés financiers* on March 30, 2009, pursuant to Article 212-13 of its general regulations. This reference document may be used in connection with a financial transaction if supplemented by a *note d'opération* approved by the *Autorité des marchés financiers*.

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[1] The format of this reference document follows that set forth in Annex I of European Regulation n° 809/2004, adopted pursuant to European Directive 2003/71/EC.

1 PERSONS ASSUMING RESPONSIBILITY FOR THE REFERENCE DOCUMENT

1.1 PERSON ASSUMING RESPONSIBILITY FOR INFORMATION CONTAINED HEREIN

Henri PROGLIO, Chairman and Chief Executive Officer of Veolia Environnement (hereafter, the "Company" or "Veolia Environnement").

1.2 CERTIFICATION

I certify, after having taken all reasonable measures to ensure the accuracy thereof, that the information contained in this reference document is, to my knowledge, true and does not omit any information that could make it misleading.

I certify that, to my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and provide an accurate view of the financial condition and results of operation of the Company and all of the companies within its scope of consolidation, and the management report contained in this document presents a faithful and accurate picture of the business, results and financial condition of the Company and the companies within its scope of consolidation, as well as the principal risks and uncertainties that they face.

I have obtained a letter (*lettre de fin de travaux*) from the statutory auditors indicating that they have verified the information relating to the Company's financial condition and the financial statements included in this document and that they have read this document in its entirety. This letter contains no observations.

Chairman and Chief Executive Officer

Henri PROGLIO

2 PERSONS RESPONSIBLE FOR AUDITING THE FINANCIAL STATEMENTS

2.1 PRINCIPAL STATUTORY AUDITORS

KPMG SA

Member of KPMG International
Commissaire aux comptes, Member of the Compagnie régionale de Versailles
A company represented by Messrs. Jay NIRSIMLOO and Baudouin GRITON,
1 Cours Valmy, 92923 Paris La Défense Cedex.

Company appointed by the combined general shareholders' meeting of May 10, 2007 in replacement of Salustro Reydel, for a period of 6 fiscal years, expiring at the end of the general shareholders' meeting called to approve the financial statements for the fiscal year ending December 31, 2012.

ERNST & YOUNG and Others

Commissaire aux comptes, Member of the Compagnie régionale de Versailles
A company represented by Messrs. Patrick GOUNELLE and Jean BOUQUOT,
41, rue Ybry, 92576 Neuilly-sur-Seine Cedex.

Company appointed on December 23, 1999, with a term that was renewed at the general shareholders' meeting held on May 12, 2005 for a period of 6 fiscal years, expiring at the end of the general shareholders' meeting called to approve the financial statements for the fiscal year ending December 31, 2010.

2.2 DEPUTY STATUTORY AUDITORS

Mr. Philippe MATHIS

1, cours Valmy, 92923 Paris-La-Défense Cedex.

Appointed by the combined general shareholders' meeting of May 10, 2007 for a period of 6 fiscal years, expiring at the end of the general shareholders' meeting called to approve the financial statements for the fiscal year ending December 31, 2012.

AUDITEX

Tour Ernst & Young, Faubourg de l'Arche, 92037 La Défense Cedex.

Appointed on May 12, 2005, for a term of 6 fiscal years, expiring at the end of the general shareholders' meeting called to approve the financial statements for the fiscal year ended December 31, 2010.

3 SELECTED FINANCIAL INFORMATION

Consolidated financial statement presented in accordance with IFRS

	At and for the year ended December 31		
(€ million)	**2008**	2007 *	2006 *
Revenue	36,205.5	31,932.2	27,941.0
Operating income	1,951.3	2,482.5	2,124.2
Net income attributable to equity holders of the parent *(in euros)*	405.1	927.9	758.7
Net income attributable to equity holders of the parent per share (in euros) – Diluted *(in euros)*	0.88	2.13	1.89 **
Net income attributable to equity holders of the parent per share (in euros) – Basic *(in euros)*	0.89	2.16	1.90 **
Dividends paid ***	553.5	419.7	336.3
Dividend per share paid during the fiscal year *(in euros)*	1.21	1.05	0.85
Total assets	49,126.1	46,306.9	40,123.7
Total current assets	19,084.3	17,336.5	15,023.7
Equity attributable to equity holders of the parent	7,001.2	7,612.9	4,360.8
Equity attributable to minority interests	2,530.5	2,577.8	2,192.6
Operating cash flow before changes in working capital ****	4,137.3	4,163.7	3,844.3
Recurring operating income	2,283.2	2,454.9	2,213.5
Recurring net income attributable to equity holders of the parent	658.6	925.8	757.4
Net debt	16,528.2	15,124.5	14,726.3

* In accordance with IFRS5, non-current assets held for sale and discontinued operations, the results of operations of the Clemessy and Crystal entities in the Energy Service Division, divested in December 2008, are recorded as Net income from discontinued operations, in the 2008 financial statements and in comparative date for 2007 and 2006.

** The diluted and basic net earnings per share were recalculated on a retrospective basis in accordance with IAS33 accounting standard. In both cases, the july 2007 capital increase has been taken into account.

*** Dividends paid by the Company.

**** Operating cash flow before changes in working capital = cash flow from continuing operations before tax and financial elements.

4 RISK FACTORS

4.1 RISKS RELATING TO THE ISSUER

4.1.1 Risks relating to Veolia Environnement's activities

Competition and commercial development

The Company's business is highly competitive and requires substantial human and capital resources and cutting-edge technical expertise in numerous areas.

Large international competitors and local niche companies serve each of the markets in which Veolia Environnement competes. Accordingly, the Company must make constant efforts to remain competitive and convince potential customers of the quality and cost value of its service offerings. It may also need to develop new technologies and services in order to maintain or increase its competitive position, which could result in significant costs.

In addition, the Company performs a substantial portion of its business under contracts, often of a long-term nature, with public authorities and industrial and service sector customers. These contracts are often awarded through competitive bidding, at the end of which the Company may not be retained even though it may have incurred significant expenses in order to prepare the bid.

In connection with the performance of certain contracts, the Company may also be requested by its public or private customers to modify the contractual terms and conditions, regardless of whether such modifications are contemplated in the contract. These modifications may alter the services provided under the contract, required investments or billing terms.

Finally, the Company's contracts may not be renewed at the end of their term, which in the case of major contracts may require the Company to implement costly reorganization measures. When the contract does not provide for the transfer of the related assets and employees to the succeeding operator and/or appropriate compensation to cover Veolia Environnement's costs of termination, the impact on Company results could be substantial.

Business operations in some countries may be subject to additional risks

While the Group's operations are concentrated mainly in Europe and North America (sales generated outside of these regions represented approximately 50.8 % of total Group revenue in 2008), the Group conducts business in markets around the world. The risks associated with conducting business in some countries outside of Europe, the United States and Canada can include the non-payment or slower payment of invoices, which is sometimes aggravated by the absence of legal recourse for non-payment, nationalization, employee-related risks, political and economic instability, increased foreign exchange risk and currency repatriation restrictions. The Company may not be able to insure or hedge against these risks. Furthermore, the Company may not be able to obtain sufficient financing for its operations in these countries. The setting of public utility fees and their structure may depend on political decisions that can impede for several years any increase in fees, such that they no longer cover service costs and appropriate compensation for a private operator.

Unfavorable events or circumstances in certain countries may lead the Company to record exceptional provisions, write-downs and/or impairments, which could have a material adverse effect on Veolia Environnement's results.

Changes in the prices of energy and other commodities or in the price of recycled materials may reduce the Company's profits

The prices of the Company's supplies of energy and other commodities are subject to significant fluctuations and represent major operating expenses of the businesses. Although most of the Company's contracts include tariff adjustment provisions that are intended to pass-on any changes in the price of Company supplies, using, in particular, price indexing formulas, certain events such as a time delay between fuel price increases and the moment when the Company is authorized to increase its prices to cover the additional costs or a mismatch between the price-increase formula and the cost structure (including taxes), may prevent the Company from being fully protected against such increases. A sustained increase in supply costs and/or related taxes could undermine the Company's operations by increasing costs and reducing profitability, to the extent that the Company is unable to increase its prices sufficiently to cover such additional costs (see Section 6.2.7 *infra*)

In addition, a substantial portion of the Company's Environmental Services Division's revenue is generated by its sorting-recycling and trading businesses, which are particularly sensitive to fluctuations in the price of secondary raw materials (paper and ferrous and non-ferrous metal). A significant and long-term drop in the price of recycled materials, combined with the impact of the current economic crisis on volumes, has affected and could continue to affect the Company's results of operations.

Some of the Company's activities could cause damages to persons or property

Some of Veolia Environnement's activities could cause damages to persons (including injuries or death), business disruptions, and damages to movable or immovable property. It is the Company's general policy to contractually limit its liability and to take out insurances that cover its main accidental and operational risks. However, these precautions may prove to be insufficient, which could generate significant costs for the Company.

See Section 4.1.3 *infra* concerning liabilities arising from environmental and health risks.

The Company has conducted and may continue to conduct acquisitions, which could have a less favorable impact on its activities and results than anticipated, or which could affect its financial condition

As part of its external growth strategy, the Company has conducted and continues to carry out acquisitions of varying sizes, some of which are significant at the Group level. These acquisitions involve numerous risks, including the following: (i) the assumptions underlying the business plans supporting the valuations may prove inaccurate, in particular with respect to synergies and expected commercial demand; (ii) the Company may fail to successfully integrate the companies acquired and their technologies, products and personnel; (iii) the Company may fail to retain key employees, customers and suppliers of the companies acquired; (iv) the Company may be required or wish to terminate pre-existing contractual relationships, which could prove costly and/or be performed at unfavorable terms and conditions; and (v) the Company may increase its indebtedness to finance these acquisitions. As a result, the expected benefits of completed or future acquisitions may not materialize within the time periods or to the extent anticipated, or may impact the Company's financial condition.

The Group's business can be affected by variations in weather conditions

Certain of the Company's businesses are subject to seasonal variations. Dalkia generates the bulk of its operating results in the first and fourth quarters of the year, corresponding to periods in which heating is used in Europe, while in the water sector, household water consumption tends to be highest between May and September in the northern hemisphere. Accordingly, these two businesses may be affected by significant deviations from seasonal weather patterns. This risk is offset in certain cases, first by the variable compensation terms included in contracts, and second by the geographical coverage of the Group's businesses. The impact of weather conditions, together with the seasonal nature of the Group's businesses, may nonetheless affect the Company's results.

CO_2 market and emission allowance risks

As an operator of energy installations and, to a lesser extent, as a result of its transportation and landfill site businesses, the Group is exposed to the inherent risks of the CO_2 allowance system introduced by the European Union and the Kyoto Protocol. The rise in greenhouse gases in the atmosphere led certain States and the international community to introduce regulatory provisions to limit further increases. At the international level, the Kyoto Protocol, finalized in 2005, came into force in February 2005. Directive 2003/87/EC of October 13, 2003 implementing the Kyoto Protocol, created an emission allowance trading system within the European Union, known as ETS (*Emission Trading Scheme*). The resulting system, which came into operation in 2005, led to the creation of National Allowance Allocation Plans (NAAP).

In France, NAAP 1 was adopted for the period 2005-2007 and was followed by NAAP 2 covering the period 2008-2012. In 2006, the European Union launched a review of Directive 2003/87/EC aimed at extending its application scope, strengthening controls and introducing an allowance trading scheme linked with the Kyoto protocol. At the beginning of 2008, the European Commission published a revised draft directive on the CO_2 emissions allowance scheme for the period 2013-2020. This led to the adoption by the European parliament, at the end of 2008, of a "climate-energy" package which seeks to ensure compliance within the European Union of climate objectives by 2020: 20% cut in greenhouse gas emissions, 20% improvement in energy efficiency and 20% energy consumption in the European Union produced from renewable sources. This "climate-energy package" includes six new texts: a directive on renewable energies, a directive on the emission trading scheme (ETS), an effort-sharing decision on greenhouse gas emissions (outside ETS), a directive on the capture and storage of CO_2, a directive on fuel quality and a directive on reducing CO_2 emissions by cars.

The risk faced by Veolia Environnement relates to the Group's ability to achieve the emission reductions imposed by the system over a number of years. As such, major and costly investment may be necessary in order to bring Group installations into line with allocated allowances. Secondly, the ability of the Company to draw value from positions adopted in the management of the corresponding installations represents a separate risk, given the high volatility in allowance prices. While the Company has adopted an active approach to managing carbon emissions and allocated allowances, by implementing appropriate structures and setting up an entity dedicated to the purchase, sale and pricing of the various types of greenhouse gas credits, the potential overrun by the Group of allocated emission allowances and the resulting purchase of additional allowances could generate significant additional costs compared with those anticipated by the Group.

Geopolitical, criminal and terrorist risks

Water is a strategic resource that contributes to public health. Accordingly, the Group's activities must comply with laws and regulations that seek to safeguard water resources, production sites and treatment facilities against criminal or terrorist acts. In the areas of waste management, energy services and public transportation the Company's installations and vehicles may become terrorist targets around the world. In addition, Veolia Environnement employees work and travel in countries where the risk of criminal acts, kidnapping or terrorism is either temporarily or permanently high. As a result, despite the preventive and safety measures implemented by the Company and the insurance policies subscribed, a criminal or terrorist attack could negatively affect the Company's reputation or operating results.

4.1.2 Legal and contractual risks

The Company's long-term contracts may limit its capacity to quickly and effectively react to general economic changes

The initial circumstances or conditions under which the Company enters into a contract may change over time, which may result in adverse economic consequences. Such changes vary in nature and foreseeability. Certain contractual mechanisms may help in addressing such changes and restoring the initial balance of the contract, but they may not be fully effective. The implementation of such mechanisms may be triggered more or less automatically by the occurrence of a given event (for instance, price indexing clauses), or they may call for a procedure or revise or amend the contract with the agreement of both parties or of a third party. Accordingly, the Company may not be free to adapt its compensation, whether this consists of a price paid by the customer or a fee levied on end users based on an agreed-upon scale, in line with changes in the Company's costs and demand. These constraints on the Company are exacerbated by the long-term nature of contracts. In all cases and most particularly with regard to public service management contracts, the Company's actions must remain within the scope of the contract and ensure continuity of service. The Company cannot terminate unilaterally and suddenly a business that it believes to be unprofitable, or change its features, except, under certain circumstances, in the event of obvious misconduct by the customer.

Certain construction operations of the Company are performed under fixed-price contracts, containing performance bonds and cost and/or completion date commitments

Through Veolia Water Solutions & Technologies, the Company performs "turnkey" contracts for the design and construction of infrastructure in the water sector, compensated at non-revisable fixed prices. The risks to which the Company is exposed under this type of contract are generally technical (design and choice of tailored and tried-and-tested technology), operational (site management during the performance, acceptance and warranty phases) and economic (fluctuations in raw material prices or foreign exchange rates).

In accordance with standard contractual practice, to the extent possible the Company seeks to place this risk contractually with the customer. The Company may, however, encounter difficulties over which it has no control, relating, for example, to the complexity of certain infrastructure or construction contingencies, the purchase and ordering of equipment and supplies or changes in performance schedules. These may lead to non-compliance with contract specifications or generate additional costs and construction delays, triggering, in certain cases, reductions in revenue due to the Company or contractual penalties.

In certain cases, the Company must take into consideration customer requests for additional work or integrate existing information or studies provided by the customer that may prove inaccurate or inconsistent, or may be required to use existing infrastructure with poorly-defined operating characteristics.

While contracts generally include clauses providing for the payment of compensation should events such as those detailed above occur, the Company is exposed to the risk of not obtaining, or only obtaining at a later date, the amounts necessary to cover the resulting additional costs.

The rights of governmental authorities to terminate or modify the Company's contracts unilaterally could have a negative impact on its revenue and profits

Contracts with public authorities make up a significant percentage of the Company's revenue. In numerous countries, including France, public authorities may unilaterally amend or terminate contracts under certain circumstances. While the Company often is entitled to compensation, this may not be true in all cases, and even when compensation is due, it may not be able to obtain full or timely compensation should a contract be unilaterally terminated by the relevant public authority.

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

To engage in business, Veolia Environnement must in most cases obtain a contract and sometimes obtain, or renew, various permits and authorizations from regulatory authorities. The competition and/or negotiation process that must be followed in order to obtain such contracts is often long, costly, complex and hard to predict. The same applies to the authorization process for activities that may harm the environment, which are often preceded by increasingly complex studies and public investigations. The Company may invest significant resources in a project or public tender without obtaining the right to engage in the desired business or sufficient compensation or indemnities to cover the cost of its investment. This could arise due to failure to obtain necessary permits or authorizations, or approval from antitrust authorities, or because authorizations are granted contingent on the Company abandoning certain of its development projects. This result increases the overall cost of the Company's activities and could potentially, were the cost of failure to become too high, force the Company to abandon certain projects. Should such situations become more frequent, the scope and profitability of the Company's business could be affected.

The most significant litigations involving the Company or its subsidiaries are described in Chapter 20, Section 20.4 *infra*.

4.1.3 Environmental and health risks

The Company incurs significant costs of compliance with various environmental, health and safety laws and regulations

The Company has incurred and will continue to incur significant costs and other expenditures to comply with its environmental, health and safety obligations as well as to manage the sanitary-related aspects of the services it provides. The Company is continuously required to incur expenditures to ensure that the installations that it operates comply with applicable legal, regulatory and administrative requirements (see Section 6.3.1 *infra*), including specific precautionary and preventative measures, or to advise its customers so that they undertake themselves the necessary compliance work.

The costs related to these preventative measures are recorded as either operating expenses or capital expenditure. Capital expenditure totaled €2,893 million in 2008 (compared to €2,642 million in 2007).

Each of the Company's businesses, moreover, may become subject to stricter general or specific laws and regulations, and correspondingly incur greater compliance expenditures in the future. If the Company is unable to recover these expenditures through higher prices, this could adversely affect its operations and profitability. Moreover, the scope of application of environmental, health, safety and other laws and regulations is increasing constantly. These laws and regulations now govern all discharges in a natural environment, the collection, transportation and disposal of all types of waste, the rehabilitation of sites at the end of operations, as well as ongoing operations at new or existing facilities.

The Company's operations and activities may cause it to incur liability or other damages that it might be required to compensate or repair

The increasingly broad laws and regulations, under which the Company operates, expose it to greater risks of liability, in particular environmental liability, including in connection with assets that Veolia Environnement no longer owns and activities that have been discontinued. For example, the European directive of April 21, 2004 on environmental liability introduces throughout the European Union a framework of environmental liability to the competent authority, for serious environmental damage or threat of damage. This directive, as enacted into French law, extends the scope of liability, regardless of fault, for certain serious damage to the environment. With regard to the prevention of technological and environmental risks and the conduct of remediation activities, the French law of July 30, 2003 strengthens obligations to restore installations at the end of their operating life, making the recording of provisions mandatory in certain instances. In addition, the Company may be required to pay fines, repair damage or undertake improvement work, even when it has conducted its activities with care and in full compliance with operating permits. Regulatory authorities may also require Veolia Environnement to conduct specific investigations and undertake site restoration work for current or future operations or to suspend activities as a result, in particular, of an imminent threat of damage or a change in applicable standards.

In addition, the Company often operates installations that do not belong to it, and therefore does not always have the power to make the investment decisions required to bring these installations into compliance. Where the customer on whose behalf these installations are operated refuses to make the required investments, the Company may be forced to terminate its operations.

Despite this restrictive trend towards increasing regulation and constant efforts to improve risk prevention, accidents or incidents may still occur and the Company could be the subject of legal action to compensate damage caused to individuals, property or the environment (including the ecosystem). In such instances, these potential liabilities may not be covered by insurance, or may be only partially covered. The obligation to compensate for such damage might have a material adverse effect on the Company's activities, its resources, or its profitability. Accordingly, the Group focuses considerable attention on controlling health risks, whether relating to the operation of its installations or resulting from environmental pollution which conventional treatment methods cannot fully correct, such as the development of air or water-borne bacteria, increasingly identified, or the exposure of individuals (employees or third parties) to chemical products or substances.

See also Chapter 6, Section 6.3.3 and Chapter 20, Section 20.1, Note 17 to the consolidated financial statements.

Specific measures are required in connection with technological risks

The Company's subsidiaries in France or abroad may, under environmental services outsourcing contracts, perform activities at certain environmentally sensitive sites known as high threshold Seveso sites (classified "AS" under the French ICPE, "Installations Classified for the Protection of the Environment" system) or low threshold Seveso sites (or the foreign equivalent), operated by industrial customers (particularly petroleum or chemical industry sites). In these instances, the Group must manage the provision of services with even greater care, given the more dangerous nature of the products, waste, effluents and emissions to be treated, as well as the close proximity of installations managed by the Group to customer sites. The regulatory regime governing Seveso facilities applies only within the European Union, but the Group operates several similar sites outside of this region that are often subject to the same level of stringent regulation.

Among the facilities that Veolia Environnement operates in France, one has been classified as a low threshold Seveso facility (not classified as "AS" under the ICPE system). It is a hazardous waste incineration facility operated by SARP Industries (Veolia Environmental Services) in Limay (Yvelines). The handling of waste and hazardous products in this facility could, in the event of an accident, cause serious damage to the environment, local inhabitants or employees, exposing the Company to potentially substantial liabilities.

4.1.4 Financial market risks

Currency exchange and interest rate fluctuations

Veolia Environnement holds assets, earns income and incurs expenses and liabilities in a variety of currencies. The Group's financial statements are presented in euros. Accordingly, when it prepares its financial statements, the Group must translate its foreign currency-denominated assets, liabilities, income and expense items into euros at applicable exchange rates. Consequently, fluctuations in the exchange rate of the euro against these other currencies can affect the value of these items in the financial statements, even if their intrinsic value is unchanged in the original currency. For example, an increase in the value of the euro may result in a decrease in the reported value, in euro, of the Company's investments held in foreign currencies.

At the end of 2008, net financial debt excluding the fair value of hedging instruments was €16,528 million, of which 41.5% was floating-rate and 58.5% fixed-rate, including 0.2% at capped floating rates (see Chapter 20, Section 20.1, Note 30.1.1 to the consolidated financial statements). Fluctuations in interest rates may also affect the Company's future growth and investment strategy since a rise in interest rates may force Veolia Environnement to finance acquisitions or investments or refinance existing debt at a higher cost in the future.

For further information on the management of financial risks (interest rate risk, foreign exchange risk, equity risk, counterparty risk, derivative risk, commodity risk and liquidity risk), see also Section 4.2.2.4 *infra* and Chapter 20, Section 20.1, Note 30 to the consolidated financial statements.

4.2 RISK MANAGEMENT

4.2.1 Implementation of a coordinated risk management policy

Veolia Environnement's ability to build long-lasting relationships with its customers is based on its capacity to manage risks delegated by them. By implementing a coordinated risk prevention and risk management system, the Group addresses this aspect of fundamental importance to its development.

In order to strengthen its ability to foresee, analyze and weigh various risks and to ensure the suitability of the Group's development with respect to these risks, the Group created a Risk Department at the end of 2004.

The goals of the Risk Department are to ensure the effective implementation within the Group of the following risk management actions:

- *Identify and foresee*: ensure the permanent monitoring of the Group's risks in order to guarantee that no risk is overlooked or underestimated, and also to foresee changes in the nature or intensity of risks;
- *Organize*: ensure that the main identified risks are addressed by the organization at the most appropriate level within the Group. Numerous operational risks are managed at subsidiary level, while others, which require specific expertise or are of a primarily transversal or strategic nature, are handled at Division and/or Veolia Environnement level.
- *Control*: ensure that the structure and resources implemented effectively reduce identified risks;
- *Inform*: the implementation of a coordinated risk management scheme is an important factor in corporate appraisals. Overall risk management enhances the Group's development and the predictability of its results.

The Risk Department is responsible for ensuring the consistency of the overall risk management process and has developed a process of identifying and ranking events that may prevent the Group from reaching its objectives. The Risk Department helps define corrective action plans and manages the process as a whole. It also oversees the implementation of rules of conduct that will create an internal environment that is both consistent with and favorable to risk control.

Further to financial internal control appraisal procedures performed pursuant to the Sarbanes-Oxley Act of 2002 (see Section 4.3.3 below), a mapping of major risks was drawn-up in 2006 at Group and Division levels. The Group now has a detailed analysis of risks and a summarized ranking of the main risks and an effective management tool whose objective it is to build growth and improve the forecasting of the Group's development and results. Veolia Environnement interprets the concept of risk widely, including not only threats but also challenges and even opportunities.

After having prepared a list of standard risks and risk management guidelines based on other established benchmarks (COSO II, ISO, ANZ Australian and UK Turnbull guidelines and audit firm manuals), a detailed listing and appraisal of Group risks was conducted through interviews with approximately 150 high level managers ("process pilots") of the Group. This appraisal, conducted in each Division, followed a uniform methodology aimed at analyzing gross risks, control levels in place and residual risks.

Each identified risk was appraised in its full extent (impact and frequency) and then taking account of risk reduction measures already implemented. Consequently, certain risks initially considered material (gross risk) were finally allocated an intermediary risk level (residual risk), as risk reduction measures (action plans) were considered satisfactory.

Each major risk, identified by process, was analyzed and ranked. It was then allocated to a "risk pilot", responsible for developing and rolling-out action plans to reduce exposure to the risk, in coordination with Division and Veolia Environnement risk managers. The Group Risk Committee monitors the roll-out of these action plans.

After validation by the Group Risk Committee, the mapping of major Group risks and related action plans are also regularly presented to the Group Executive Committee and the Accounts and Audit Committee, since 2007.

The main challenges identified were:

- Controlling development. Dynamics within Veolia Environnement's markets require the Company to be selective in choosing projects and investments. Furthermore, the integration of new contracts into the Group's policies and practices requires a high level of discipline.
- Constantly enhancing Veolia Environnement distinctive strengths. Veolia Environnement occupies a unique position of major player in its market, based on its technical expertise (resulting from the experience of its teams and the strength of its research and development), the sense of service of its operating staff and its legal, financial, and labor relations expertise. Maintaining these key strengths is a major challenge. For this reason, in September 2006, the Company's Board of Directors created a Strategic Committee for Research, Innovation and Sustainable Development to continue improving these strengths (see Section 16.2.1.3 below). This is also why the Company has implemented "knowledge management" actions to ensure that all Veolia Environnement customers can profit from these areas of expertise.
- All internal controls, especially financial and operational, are also essential to Veolia Environnement. The Company's ongoing objective is to maintain the right balance between decentralization, which is necessary for its service activities, the highest-level of operational and financial control, and the spreading of expertise and best practices. Accordingly, an overhaul of the financial reporting system was launched and training programs have been stepped-up.
- Environmental and health and safety issues are central concerns of the Company. Veolia Environnement is committed to providing full professional guarantees regarding the quality of the products it distributes and the services it renders, as well as compliance with environmental (notably with regards to air emissions and legionella concentrations) and health and safety standards. In order to strengthen environmental risk management, the Group has implemented, in coordination with its four Divisions, an Environmental Management System (EMS) based on the requirements of ISO 14001 with a view to continually improving its environmental performance (see Section 4.2.2.3 below). In order to optimize the management of health and safety risks, the Group also conducts voluntary prevention and monitoring actions under a global health and safety approach, in particular as part of multi-service offerings (conduct of internal and external identification and industrial risk prevention audits, negotiation of specific insurance guarantees).

The risk management approach has contributed to the following preliminary results:

- a concise and structured overview of the risks facing the Group;
- a momentum encouraging the pooling of practices and experience between the Divisions and with Veolia Environnement, spurred by the high level of involvement in this project;
- a structure set up to capitalize on current risk management mechanisms (for example relating to financial, legal, insurance and environmental risk management) and to roll-out action plans and related controls;
- the strengthening of Company control over transversal risks;

- the restructuring and roll-out of Group insurance programs to strengthen its development, while taking into account increased knowledge of risks, protecting the assets and reputation of the Group and finally improving the competitiveness of programs (simplification, improvement of coverage and premiums with comparable scope and conditions);
- the implementation of an annual internal audit program based on the mapping of major risks facing the Group.

In addition to the risk mapping, a steering organization was put in place, enabling the Group to strengthen its management of major risks, while encouraging joint initiatives across the Divisions. The holding of Risk Committee meetings, with agendas reflecting the priorities identified in the risk mapping, has already enabled the launch of transversal projects and the preparation of the coordinated roll-out throughout the Group of a global risk management system. This project is conducted in close collaboration between the Company and the Divisions. This convergence of tools and practices, implemented by “risk management” officers, will enable the implementation of effective reporting methods and will create the necessary conditions for the audit of the mapping process.

The Group Risk Committee met four times in 2008. In accordance with its work program, the Risk Committee studied the implementation of specific action plans to address significant operational risks, such as feedback on the operation of the Group alert system, the validation of the ethical charter for information system administrators, the preparation of the Group for the implementation of the REACH regulation (see Section 4.2.2.3 below), the validation of the creation of an atlas of non-financial Group risks and feedback on the crisis simulation exercise and the roll-out of the Group insurance program. Following Veolia Environnement’s example, each of the Divisions has its own risk committee to improve its management and control of operational risks and monitor the roll-out of its action plans.

Risk management within Veolia Environnement is characterized by steady improvements in the overall risk management process, thanks to being firmly grounded in corporate processes and systematically taking into account the fundamental challenges facing the organization, whether operational, legal, regulatory or governance-related. Action plans to manage or reduce risks are being rolled-out within the Divisions and the Company. The aim is to contribute to improvements in the technical, operational and financial performance of the Company.

4.2.2 Continuation and strengthening of targeted actions

4.2.2.1 Employee health and safety

The labor-intensive requirements of the Group’s businesses, their nature, the wide geographical coverage of Veolia Environnement’s employees in the field (in particular, on public roads and at customer sites), and anti-social behavior, make the management of employee health and safety particularly important.

For that reason, in September 2007 the Executive Committee declared 2008 “Veolia Environnement World Health and Safety Year”. In 2008, the Chairman of the Company and all labor organizations represented in the France Group Committee signed an agreement on the prevention of professional risks and health and safety in the workplace. This agreement, which is the result of over 12-months work within the France Group Committee, reflects the need to mobilize all parties in order to improve prevention and health and safety in the workplace within the Group.

Implementation of this agreement with labor organizations and employee representative bodies, within all Group entities and all parties concerned, offered Veolia Environnement the opportunity to strengthen its risk control policy in the workplace and improve and renew social dialogue. This was reflected by the inclusion of risks relating to changing job situations, such as the pressure exercised by service users and rising anti-social behavior and also the link between individual health and health and safety in the workplace. This agreement provides for a series of concrete and practical tools and resources for implementation and focuses on the following six priority areas:

- Encouraging consultation and the implementation of collective approaches to accident prevention and health & safety by associating structures with legal responsibility in the field, such as national health & safety committees (in France, the CHSCTs);
- Improving identification of risks associated with the different business activities, achieving progress in measuring those risks and managing them in order to increase prevention;
- Making occupational health & safety an aspect of the professionalism of all employees, in particular as part of training and appraisal interviews;
- Facilitating access to health care and raising employee awareness of their own health & safety issues, by strengthening ties between Division prevention and health and safety departments and the network of organizations providing workplace medical services;
- Encouraging career paths that guard against unfitness, in order to match health matters with skills management; and

• Encouraging a better health & safety balance between employees' professional and private lives

4.2.2.2 Management of legal risks

Veolia Environnement places great importance on the management of legal risks given the nature of its business in environmental services, an area subject to increasingly complex regulation.

The specific nature of Veolia Environnement's activities (management of local public services with operations in over 70 countries and relationships with a variety of representatives and counterparties) has led Veolia Environnement to adopt legal compliance rules to guide Veolia Environnement's employees in their activities and in the preparation of legal documents and to ensure compliance with such rules. In particular, these rules cover the reporting of major litigation and large operating contracts, anti-trust law, ethics, standard contractual clauses, sponsorship and patronage and commercial intermediaries. They are accompanied in certain instances by training programs. The rules also cover the Group's legal structure, notably the delegation of powers and monitoring thereof, and the selection of corporate officers.

As a company with shares listed on the Paris and New York Stock Exchanges, Veolia Environnement must also observe certain rules concerning:

• *Publications*: a Disclosure Committee supervises and controls the collection and communication of information included in the Company's French *document de reference* and U.S. Form 20-F (see Section 16.2.2.1 below);

• *Corporate Governance*: notably regarding the composition and activities of the Board of Directors and its committees, relations between these entities and management, the provision of information to shareholders and the proper observance of regulations applicable to listed companies (see Chapter 16 below).

• *Insider Trading*: to help prevent insider trading, Veolia Environnement has adopted a code of conduct governing trading in the Company's shares, which is regularly updated. Pursuant to this code, the Group's senior managers are deemed to be "permanent insiders" and trading by any of them in the Company's shares is prohibited, except during strictly-defined periods and provided that they do not hold material inside information during such periods. These measures also cover so-called "occasional" insiders and in general all persons possessing confidential information. The Company revised its code of conduct in 2006 to take into account new regulatory requirements applicable to issuers and their executives, such as drawing up a list of named "insiders" and reporting trades in the Company's shares performed by certain members of management, and completed additional updates in 2007 and 2008.

The Legal Departments of Veolia Environnement and each Division help ensure, on a daily basis, the adequate management of Veolia Environnement's legal risks. This is performed in liaison with operating teams in the field and consistently with the Group's overall risk management process.

4.2.2.3 Management of health and environmental risks

The environment and health are at the heart of Veolia Environnement's concerns. Veolia Environnement is committed to providing full professional guarantees regarding the quality of the products it distributes and the services it provides, as well as compliance with security and environmental standards (especially relating to air emissions and legionella concentration). The risks facing Veolia Environnement Group notably concern installations' takeover in an "as is" condition, the Group not always being responsible for performing necessary investments, and the varying levels of customer awareness of these issues. Given the nature of Veolia Environnement's business, regulatory compliance efforts involving installations and services mainly concern air pollution (including, for example, the control of exhaust fumes from Veolia Environnement's transportation vehicles and smoke from its heat generation plants and waste incineration facilities), water quality (relating to both the quality of drinking water and the disposal of wastewater and other effluents) and the protection of ground soil and biodiversity (by limiting waste produced and restricting the use of landfill sites).

In order to better manage its environmental risks, the Group, in coordination with its four Divisions implemented an "Environmental Management System" (EMS) based on ISO 14001, which aims to constantly improve its environmental performance throughout the world. In this respect, quantifiable objectives relating to the monitoring of compliance of high-priority installations have been set.

Moreover, in application of existing standards and taking account of the recommendations of internal and external experts, Veolia Environnement implements control and maintenance measures either directly or in conjunction with customers when they assume economic responsibility for the installations.

Accordingly, the incineration facilities are subject to regular controls regarding atmospheric emissions, in particular with regards to their levels of dioxins, furans and heavy metals. When Veolia Environnement designs new installations, it strives to meet more stringent technical specifications than current prevailing standards. For older installations, Veolia Environnement systematically conducts improvement work on its own facilities and strongly recommends to the owners of facilities that they do the same. The Group has implemented a semi-continuous control system for dioxins at the incineration facilities that it operates.

However, believing that mere compliance with regulatory standards is not sufficient to ensure adequate control of health risks, Veolia Environnement has also voluntarily implemented a number of measures based on strict prevention and control procedures as part of a global health policy, particularly with respect to its multi-service offerings (for example, health studies and critical control point system and inspections).

Faced with the systematic risk of being held jointly liable with its customers in the event of serious pollution or accidents, Veolia Environnement strives to satisfy its own requirements while helping to ensure that customers do the same. In particular, when Veolia Environnement provides services at a “Seveso” facility or its foreign equivalent, Veolia Environnement actively participates in the implementation of safety and hygiene measures at these sites. The application of more stringent regulatory standards for these sites, introduced in France by the Law of July 30, 2003 on the prevention of technological risks, requires Group employees to undergo specialized training, participate in the hygiene and safety committee meetings of industrial customers and comply with the Major Accident Prevention Policies (“MAPP”) implemented by its customers. Seveso facilities are also subject to specific internal control measures that seek to prevent accidents and protect employees, the public and the environment. In addition to policies for the prevention of major accidents, there are also disaster recovery and operational plans that apply to these facilities, as well as crisis intervention measures coordinated with public authorities in the event of an accident.

Given the nature and potential seriousness of all of the risks mentioned above, the Group has implemented three principal types of actions to help control and cover these risks. Firstly, in order to prevent accidents that may harm people, property or the environment, the Group has implemented procedures aimed at ensuring the compliance of installations and monitoring their operation; this is the aim of the environmental management system (EMS) which is accompanied by a certification and general appraisal approach (in particular ISO 1400, internal etc). Secondly, internal and external audits to identify and prevent industrial risks (fire, machine breakdown, environmental damage, etc.) are conducted regularly. Thirdly, the Group has purchased insurance to cover third-party civil and general liability resulting from fortuitous or accidental pollution (see Section 4.5 below).

All of these actions are implemented by the Group’s operating units in coordination with the Technical, Legal and Health Departments and the EMS. The Research, Development and Technologies Department also contributes to this effort, alongside the Legal Department and Veolia Environnement’s office in Brussels which monitors changes in regulation.

In May 2007, an Environmental Performance Department was set up to strengthen the preventive measures undertaken by the Group. The Environmental Performance Department’s role is to roll-out the Group’s environmental policy, notably through the consolidation of good practice guidelines and the organization of a management system to appraise and optimize the environmental performance of Veolia Environnement Group and the implementation of Group guidelines.

The Environmental Performance Department works closely with the Sustainable Development Department to apply the Group’s environmental policies, and with the Risk Management Committee (see Section 4.2.1 above) to address environmental risks. The process is carried out with the technical directors of the Divisions of the Veolia Environnement Group.

The REACH European Regulation of December 18, 2006 on the Registration, Evaluation, Authorization and Restriction of Chemicals, applicable since June 1, 2007 in Member States of the European Union and Norway, Liechtenstein and Island, organizes and provides a framework for the registration of chemical substances manufactured, imported, placed on the market, recycled, enhanced or simply used (in their initial form or in preparations) when the quantity handled exceeds one ton per year and per legal entity. However, the registration process may only be spread over the period to June 1, 2018, under the express condition that the substances concerned are pre-registered between June 1 and November 30, 2008. After the November 30, 2008 deadline, companies which have not pre-registered a chemical substance must register it immediately: registration is necessary before a substance may be placed on the market. Where applicable, this would necessarily lead to an interruption in manufacturing, importing or use and thus to the cessation of activities involving the substance concerned, generating immediate costs. In 2008, the Veolia Environnement Group subsidiaries concerned implemented this pre-registration phase, adopting as systematic an approach as possible. Some 394 Group entities individually pre-registered 270 identified substances.

4.2.2.4 Financial risk management

As a result of its operational and financial activities, the Group is exposed to market risks, such as interest rate risk, foreign exchange risk and liquidity risk. To avoid having to bear all of these risks, the Company set up management guidelines relating to these uncertainties, in order to ensure better risk control. The Treasury Department of Veolia Environnement is directly responsible for the implementation and monitoring of these measures. The Treasury Department is responsible for helping Divisions and their teams to identify and hedge exposure in different countries around the world. This department relies, in part, on a treasury management system, which allows for the continued monitoring of the principal liquidity indicators and all major financial instruments used at central level (interest rate/foreign exchange). The control of transactions and the monitoring of limits, ensuring the security of transactions processed, is the responsibility of the Middle and Back Office team in the Financial Services Department. Reports are produced daily, weekly and monthly, thus enabling Company senior management to stay abreast of market trends and their consequences on the liquidity of the Group (current and forecast) and on the value of the Group’s derivative portfolio and also of the details of hedging transactions and their impact on the proportion of Group debt at fixed and floating rates.

The interest rate risk management policy is decided centrally. The Group uses all interest rate risk management tools available on the market, including interest rate swaps and options.

Foreign exchange risk is linked to the international business of the Group, which is conducted in over 70 countries, and which generates cash flows in numerous currencies. As both income and expenses are usually in the currency of the country where the Group conducts business, the Group's exposure to exchange rate risk from service activities is relatively low. This risk is hedged on a case-by-case basis (in particular using currency options), generally when tenders are submitted. To manage foreign exchange risk associated with debts and financial receivables in the balance sheet, the Company has implemented a policy aimed at financing its subsidiaries in local currency, consisting of backing foreign currency-denominated financing by asset class (debts and receivables).

The liquidity of the Group is assured by Veolia Environnement. The implementation and management of significant new financing is centralized to optimize the management of present and future liquidity. The Group is financed through bank loans, commercial paper, international bond offerings, as well as the international private placement market.

See also Chapter 20, Section 20.1, Note 30 to the consolidated financial statements.

4.2.2.5 Railway security risk management

Veolia Transportation is subject to operational risks (train circulation, security of persons, preventive maintenance and repair of assets) and employee and safety risks (criminal actions, assault, vandalism, sabotage). In 2004, the Group implemented a railway safety plan aimed at analyzing the various security measures taken in coordination with security and hygiene measures. In connection with this plan, procedures to identify all legal requirements and a survey to determine local department understanding of regulatory texts were launched in the first quarter of 2005.

Security is managed at country level, with the implementation of a security management system (SMS) in accordance with national regulations.

In France, in the railway security sector, Veolia Transportation was awarded a security certificate by the Railway Security Public Authority (*Etablissement Public de Sécurité Ferroviaire*) based on the definition of a Security Management System (SGS). A National Railway Security Center was created to manage and control the proper implementation of SGS provisions and thereby guarantee a high level of railway security.

Outside France, processes are underway to copy and adapt the control structure developed in France, while integrating the lessons learned from the international study performed.

A new centralized security coordination structure will be created at the Veolia Transportation head office in 2009.

4.2.2.6 Management of geopolitical, criminal and terrorist risks

Veolia Environnement management created a Security Watch Committee to address criminal and terrorist risks in 2003. The committee is in charge of informing, protecting and acting with respect to employees. It brings together security professionals and representatives from Group headquarters and Divisions.

The committee has four duties:

- *Information:* Each month, the committee prepares a risk mapping for the countries in which Veolia Environnement operates and circulates it to all the entities of the Group.
- *Prevention:* The Group's human resources department must authorize or be informed of employee trips to high-risk countries. Advice on behavior and vigilance is circulated. In high-risk countries where Veolia Environnement has operating units, the Group has implemented security plans to ensure the safety of employees and their families.
- *Training* on how to react in dangerous situations.
- *Action in crisis situations.* Whenever necessary, the Group sets up a special security crisis unit. The role of these crisis units is to make all decisions necessary to ensure the safety of employees and their families.

In France, pursuant to anti-terrorism measures ("*Vigipirate*"), a decree was enacted in 2006 to organize the security of economic activities considered to be of vital importance to the country. The aim is to respond to the risk of malicious acts, sabotage, and terrorism, and to avoid attacks on the nation's military or economic potential or which affect its ability to survive, as well as risks to the health of the population and the environment.

These measures enable the French State to ensure that all operators designated to be of vital importance take steps that are consistent with those ordered by the government or recommended at national level. Two Veolia Environnement businesses are specifically concerned: water management and transportation. For each of these sectors, a national security directive (NSD) was developed in 2008 under the supervision of the coordinating minister.

Once notice of the NSD has been given, the major operators in the relevant sectors will have six months to develop a security plan covering their activities, and a maximum period of two years to develop a specific protection plan for each of their areas of vital importance.

The Chairman and Chief Executive Officer of Veolia Environnement is one of 24 members of a national committee appointed by order of the French Prime Minister in October 2006 to oversee the sectors conducting activities of vital importance. This is a consultative body presided by the National Defense General Secretary, created to ensure coordination between the State, local elected officials, and operators.

The committee's recommendations will then be implemented by a working group, comprised of the Risk Management Department and other operators, under the supervision of the French Government's Director of Protection and Security.

4.2.2.7 Crisis management

In order to respond as rapidly and as effectively as possible to serious incidents or accidents, the Group has created a crisis management structure with multiple levels. First, Veolia Environnement's alert procedure, implemented in 2003 as part of the crisis management plan, was reorganized during the summer of 2007 and implemented in January 2008. The Group's new alert procedure is based on the use of a single telephone number, manned by a director on call for a week, 24 hours a day. This new procedure enables the immediate and permanent reporting of alerts originating from the Divisions. Next, depending on the seriousness of the situation (assessed according to pre-defined criteria), the incident may be handled either at Division level, with information constantly communicated to Group headquarters, or by a special crisis unit comprising representatives from the Group head office and the Division involved. During any crisis, responses are proposed to the Group Chairman and to the Executive Committee who are kept informed as the situation evolves. The Group also keeps a record of the crisis unit's activities so that a full analysis can be conducted once the crisis has passed.

One potential crisis scenario that has been carefully prepared within the Group is the outbreak of a flu pandemic through the mutation of the H5N1 avian flu virus, considered by the World Health Organization (WHO) as a high risk that could threaten world health safety. Since 2005, the Veolia Environnement Group has been mobilized to ensure it can maintain its core activities should such circumstances arise.

Since 2007, new tools have been developed and provided to individuals in charge of the flu pandemic response on a dedicated extranet site. They now have access throughout the world to the main principles governing the Group's pandemic preparation, to the employee protection policies enabling the Group to ensure fair and uniform levels of protection throughout the Group, to specific procedures, and to internal and external communication tools. An information brochure was distributed to all officers to enable local implementation.

With regards to business continuity plans (BCP), the Risk Department drafted the plan for the Group headquarters and contributes to those of the Division headquarters. In accordance with the recommendations of the government plan, the goal is to maintain, on a temporary and reduced basis, the key critical flows in case of a shortage of human resources. At the request of Company management, the Group business continuity plan was extended to encompass other threats, including those that would require the transfer of activities to a remote site.

In parallel, the Divisions are implementing business continuity plans for the continuation of their main services.

In 2008, Veolia Environnement participated in three government-organized crisis simulations at national level. In addition, the Company tested the Group alert and crisis management system under "real life" conditions using the head office business continuity plan. Corrective measures based on feedback from this exercise are currently being implemented.

4.3 AUDIT AND INTERNAL CONTROL

4.3.1 Internal control

The Internal Control Department, a branch of the Group Finance Department, is responsible for coordinating the work of functional departments in identifying, standardizing and making more reliable the key processes for producing the Group's financial information.

The Internal Control Department manages a network of internal control officers present in each Division and operating unit. It focuses its activities on three areas:

- formalizing and updating the key financial reporting processes, which are then summarized and broadly distributed throughout all levels of the Group;
- harmonizing financial management systems relating to their implementation;
- ensuring employees possess the skills required by the organization.

The Internal Control Department relies initially on the effective management of all of the Group's business processes, including non-finance related processes (commercial, technical, human resources, legal and economic). It then requires a stringent appraisal of the application of the Group's rules, performed by the Internal Audit Department.

All aspects of internal control, and especially financial and operational aspects, are also essential to Veolia Environnement. The Group's ongoing objective is to maintain the right balance between the decentralization that is necessary for its service activities, the highest-level of operational and financial control, and the spreading of expertise and best practices. Accordingly, after overhauling the financial reporting system, the Veolia Environnement Finance Department launched the development of an integrated management system to replace the various accounting systems currently used by the subsidiaries. This system, developed around management and internal control rules, will be rolled-out in France and the United Kingdom starting from April 2009.

Finally, a permanent training program for Group financial officers has been set up in conjunction with the internal training departments.

4.3.2 Internal audit

The objective of the Veolia Environnement Internal Audit Department is to appraise risk management, control and corporate governance processes and to contribute to their improvement through a systematic and methodical approach. This appraisal covers all aspects of internal control and in particular the accuracy and integrity of financial information, the effectiveness and efficiency of operations, the protection of assets and compliance with laws, regulations and contracts.

The Internal Audit Department operates based on two main mechanisms:

- firstly, the implementation of an annual audit program approved by the Accounts and Audit Committee, and;
- secondly, a detailed and formal appraisal of internal controls prior to issuing the internal control report published each year, commencing fiscal year 2006, in accordance with the provisions of the 2002 Sarbanes-Oxley Act.

In 2006, the Group Internal Audit Department was certified by the French Audit and Internal Control Institute. This certification, confirmed annually since then, relates to professional standards and benchmarks and attests to the Internal Audit Department's ability to fulfill its role. In addition, several of our internal auditors have obtained the "Certified Internal Auditor" (CIA) diploma, the only internal audit qualification recognized around the world.

4.3.3 Regulatory context

Over recent years, several laws have increased the reporting and internal control requirements of companies.

Pursuant to the provisions of Article L.225-37 of the French Commercial Code (*Code de commerce*), as amended by the Law of July 3, 2008, Veolia Environnement must provide the shareholders' meeting with a report prepared by the Chairman of the Board of Directors and approved by the Board, on the make-up of the Board of Directors and the preparation and organization of its activities and the internal control and risk management procedures implemented by the Company. The report must provide detailed information relating to the procedures for the preparation and processing of accounting and financial information as well as the principles and rules adopted by the Board of Directors to determine the remuneration and benefits of any kind granted to corporate officers and any limits placed by the Board of Directors on Executive Officer powers. Since the Law of July 3, 2008, when a company refers voluntarily to a corporate governance code drafted by a company representative body, the report must also indicate the provisions which have not been adopted and the reasons thereof. Finally, it must detail any specific procedures governing the participation of shareholders in general meetings.

The report of the Chairman of the Board of Directors prepared in accordance with the provisions of Article L. 225-37 of the French Commercial Code will be presented to the Annual Shareholders' Meeting of May 7, 2009, together with the statutory auditors' report prepared in accordance with Article L. 225-235 of the French Commercial Code and appended to this reference document.

In addition, as a company listed on the New York Stock Exchange (NYSE), Veolia Environnement is subject to the requirements of the U.S. Sarbanes-Oxley Act of 2002 and in particular Article 404 on the adequacy of internal control over financial reporting. This law requires the Chairman and the Chief Financial Officer of all U.S. listed companies to attest to the effectiveness of internal controls over financial reporting each year, beginning at the end of 2006.

As a French company listed in the United States, Veolia Environnement must comply with both sets of regulations.

In this context, Veolia Environnement launched a process in 2005 which enabled the Company to certify the efficiency of internal controls at Group level as of December 31, 2006. This assessment process was renewed in 2007 and 2008 and is based primarily on the roll-out, in over 400 subsidiaries, of an electronic application comprising self-assessment questionnaires and tests that enable the traceability of controls performed to be documented. Over 1,300 people contribute to this corporate project, while over 22,000 key controls were verified in 2008.

This task, managed by the Internal Audit Department, is implemented in concert with management of the functions concerned where necessary, in close collaboration with the statutory auditors and under the supervision of the Accounts and Audit Committee of Veolia Environnement.

This analysis was conducted based on the following criteria: potential impact on internal financial control and level of dissemination (percentage of entities indicating a risk and verification of the materiality of the entities concerned where appropriate).

On this basis, action plans were continued in 2008 relating primarily to the segregation of duties in the purchases and sales processes. The major improvements made in 2007 were continued in 2008.

Legal requirements aside, this project resulted in key changes, in particular the appropriation of a stringent appraisal process appropriate for the Group's decentralized culture and organization, and a positive momentum strengthening not only rules but also the collective awareness of these issues.

4.4 ETHICS AND VIGILANCE

Present in over 70 countries around the world, Veolia Environnement is particularly attentive to compliance with human rights,social values and principles set forth in international laws and treaties.

These principles must take into account the Company's cultural diversity and emphasize environmental protection, one of the Company's foremost concerns. In addition, they must integrate the Company's traditional values, which are based on a close relationship with customers, consumers and civil society and the autonomy of each of the Company's operating entities.

For this purpose, the Company implemented the "Ethics, Commitment and Responsibility" program in February 2003, which was updated in late 2004 and early 2008. This program is intended to guide the daily behavior of Veolia Environnement employees. As part of the program, an ethics officer was appointed in each Division.

The program reaffirms the fundamental values shared by all Veolia Environnement employees, such as strict compliance with the laws of the different countries where Veolia Environnement operates, loyalty towards Veolia Environnement's customers and towards consumers, sustainable development, a sense of solidarity (tolerance, respect of others and social dialogue), management of risks and effective corporate governance.

In March 2004, Veolia Environnement set up an Ethics Committee to examine questions relating to the ethics program (see Chapter 16, Section 16.2.2.2 below), to which any employee may submit an ethics-related question or which may decide to review an issue independently. The role of the Ethics Committee is to issue recommendations concerning the fundamental values of Veolia Environnement, relating either to subjects it decides to examine or following questions brought to its attention. This led to the launch of a major review of the Group's employee standards in 2008, which will involve on-site visits, primarily in countries where employees have limited protection. The Ethics Committee also receives and investigates warnings addressed by Group employees under the "whistle-blowing" system and reports on them to the Accounts and Audit Committee. The Ethics Committee must act independently and hold the information relating to the matters it treats as confidential.

In 2004 and 2005, the Group held seminars attended by several hundred Group managers to raise awareness of the "Ethics, Commitment and Responsibility" program, including three outside France.

Veolia Environnement continued these actions by developing in 2007 and rolling out from 2008 a training program on compliance with antitrust laws, open internationally and targeting several thousand Group managers. This program consists of seminars, training handouts and e-learning. In early 2009, Veolia Environnement published a Guide to Compliance with Antitrust Law, to accompany this program.

4.5 INSURANCE

4.5.1 Objectives

Veolia Environnement Group's insurance procurement policy, for all of its Divisions, has the following objectives:

- subscribing common insurance policies to implement a coherent risk transfer and coverage policy designed to maximize economies of scale, while taking into account the specific characteristics of Veolia Environnement's businesses and legal or contractual constraints; and
- optimizing thresholds and the means for accessing the insurance or reinsurance markets through use of appropriate deductibles.

In 2008, Veolia Environnement continued this process to optimize the amount of insurance premiums paid to external insurers.

4.5.2 Implementation of the insurance policy

4.5.2.1 Insurance policy

The aim of Veolia Environnement's insurance policy is to (i) define a global insurance coverage policy encompassing all Group businesses, based notably on the needs expressed by subsidiaries, (ii) select and sign policies with external providers (brokers, insurers, loss adjusters, etc.), (iii) manage consolidated subsidiaries specializing in insurance or reinsurance coverage, and (iv) manage and coordinate the network of insurance managers present in the main subsidiaries.

4.5.2.2 Implementation

The policy of covering risks through insurance is implemented in coordination with Veolia Environnement's global risk management process (see Section 4.2 above). Implementation takes into account the insurability of risks associated with Veolia Environnement's activities, the availability of insurance and reinsurance coverage on the market and the premiums proposed compared with the level of coverage, exclusions, limits, sub-limits and deductibles.

The main actions undertaken in 2008 mainly concerned:

- the renegotiation of third-party liability insurance with recourse to the Group captive reinsurance company, Veolia Environnement Services-Ré;
- the adjustment of retention levels under the third-party liability insurance program (retained risk), based on an appraisal of risks and past claims and the evaluation of costs and coverage proposed by insurers;
- the continuation of efforts to identify, prevent and protect against risks, in particular through a rating system for the "property damage and business interruption" risk profile of Veolia Environnement's most important facilities throughout the world;
- the communication of detailed information regarding the Company to the insurance and reinsurance markets;
- the ongoing roll-out of Group programs;
- the organization of broker services for the placement and administration of Group insurance programs.

4.5.3 Main Group insurance policies

4.5.3.1 Third-party liability

The general third-party liability and environmental damage program was renegotiated on July 1, 2008, for the whole world (excluding the U.S. and Canada) for a period of three years. Initial coverage of up €100 million per claim and per year was subscribed. In the U.S. and Canada, several contracts cover third-party liability and environmental damage for Group subsidiaries, up to a maximum of U.S.$50 million per claim and per year.

For all Group subsidiaries worldwide, an insurance program provides excess coverage of up to €400 million per claim and per year, in addition to the basic coverage of €100 million outside the U.S. and Canada, and of €450 million in the U.S. and Canada in addition to the basic coverage of U.S.$50 million. This program encompasses liability resulting from environmental damage sustained by third parties as a result of a sudden and accidental event.

Third-party liability coverage for terrorist acts was renewed under the general liability program on July 1, 2008, with coverage of up to €150 million per claim and per year, excluding the U.S. and Canada. Coverage for the U.S. and Canada is €100 million per claim and per year, in addition to coverage of U.S.$50 million.

Certain activities, such as a maritime transport, motor vehicles and construction, have their own specific insurance policies.

4.5.3.2 Property damage and business interruption

All four Veolia Environnement Divisions are covered by property damage insurance policies, insuring the installations they own as well as those they operate on behalf of customers. The Group insurance program provides either "business interruption" coverage or "additional operating cost" coverage depending on each subsidiary's ability to use internal or external solutions to ensure service continuity. These policies contain standard insurance market terms.

The level of premiums, deductibles and sub-limits for exceptional socio-political or natural events reflects the terms proposed, or sometimes required, by insurers in the markets in which the risk is underwritten. Group insurance coverage renewed on January 1, 2007 for a term of three years, carries a limit per event of €300 million per claim. Some of this coverage includes additional sub-limits per claim or per year.

4.5.4 Self-insurance and retained risks

For any insured claim or loss, Veolia Environnement remains liable for the deductible amount set out in the policy. This amount may range from several thousand euros to more than one million euros.

In 2008, Codeve Insurance Company Limited, Veolia Environnement's insurance subsidiary, had a retention (retained risk) of €2.5 million per claim for property damage and associated financial losses, and €5 million for third-party liability insurance.

As of July 1, 2008, pursuant to the renegotiation of the third-party liability insurance program, Veolia Environnement's reinsurance subsidiary, Veolia Environnement Services-Ré, recommenced business activity with a retention of €1.5 million per claim.

For both property damage and third-party liability, Codeve Insurance Company Limited and Veolia Environnement Services-Ré have set-up reinsurance policies to limit their exposure to frequency risks ("stop loss"-type contracts) and risks tied to intensity (excess-type contracts).

The insurance policy described above is constantly changing in response to the ongoing appraisal of risks, market conditions and available insurance capacity.

Veolia Environnement ensures that the main accidental and operating risks brought to its attention are covered by the insurance markets, where insurance is available on the market and where it is economically feasible to do so.

5 INFORMATION RELATING TO THE ISSUER

5.1 HISTORY AND DEVELOPMENT OF THE COMPANY

5.1.1 History of the Company

The 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. The Company developed its municipal water distribution activities in France by obtaining concessions in Nantes (1854), Nice (1864), a 50-year concession for Paris (1860) and its suburbs (1869).

In 1980, Compagnie Générale des Eaux reorganized its water activities by bringing together all of its design, engineering and operating activities relating to drinking water and wastewater treatment facilities within its subsidiary Omnium de Traitement et de Valorisation (OTV). At the same time, Compagnie Générale des Eaux expanded its business during the 1980s with the acquisition of Compagnie Générale d'Entreprises Automobiles (CGEA, which would become Connex and Onyx, and later Veolia Transportation and Veolia Environmental Services) 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 "Vivendi Environnement" to conduct all of its environmental management activities, which were then conducted under the names Veolia Water (water), Onyx (environmental services), Dalkia (energy services) and Connex (transportation).

On July 20, 2000, Vivendi Environnement shares were listed on the Premier Marché of Euronext Paris, which became the Eurolist of Euronext Paris on February 21, 2005 and Euronext Paris since January 1, 2008.

In August 2001, Vivendi Environnement shares were included in the CAC 40, the main equity index published by Euronext, and in October 2001 were listed in the form of American Depositary Receipts (ADR) on the New York Stock Exchange.

From 2002 to 2004, Vivendi Universal, progressively decreased its stake in the Company through successive disposals and dilution and held only 5.3% of the Company's shares by December 2004. Since July 6, 2006, Vivendi no longer holds any shares in Veolia Environnement. (see Section 18.2 below).

In April 2003, the Company changed its name to Veolia Environnement.

Between 2002 and 2004, Veolia Environnement undertook a major restructuring in order to refocus on its core environmental services activities. This process was completed in 2004 with the sale of various U.S. subsidiaries in the Water Division and Veolia Environnement's indirect interest in Fomento de Construcciones y Contratas (FCC), a Spanish company whose activities include construction and cement activities.

In November 2005, Veolia Environnement rolled out a new brand system aimed at increasing consistency between the Divisions of the Group and the visibility of the Company, by strengthening the identity and common culture of Veolia Environnement around its service values. The Water, Environmental Services and Transportation Divisions are now united under a single brand, "Veolia", which is linked to the name of their activity. The Energy Services Division primarily operates under the brand "Dalkia" (see Section 6.2.5 below).

5.1.2 General information regarding the Company

Corporate Name and Registered Office

Since April 30, 2003, the name of the Company is Veolia Environnement. The Company's abbreviated name is VE.

The Company's registered office is located at 36/38, avenue Kléber, 75116 Paris. The telephone number is (33) 1 71 75 00 00.

Legal Form and Applicable Law

Veolia Environnement is a French *société anonyme à conseil d'administration* (limited liability company with a Board of Directors) subject to the provisions of Book II of the French Commercial Code (*Code de commerce*).

Date of Incorporation and Term

The Company was incorporated on November 24, 1995, for a term of 99 years beginning on the date of its registration in the Trade and Companies Register, i.e. for a term lasting until December 18, 2094.

Trade and Companies Registry

The Company is registered in the Paris Trade and Companies Register under number 403 210 032. The Company's APE business code is 7010Z.

5.2 INVESTMENTS

Total Group investment (capital expenditure, financial investment and new operating financial assets) amounted to €4,376 million in 2008, compared to €5,029 million in 2007 and €4,010 million in 2006.

A detailed description of investments performed in 2008 as well as their financing is set forth in Chapter 9, Sections 9.3.3.1 (Investments) and 9.3.3.2 (Divestitures) and Chapter 20, Section 20.1, Note 5 (Concession Intangible Assets), Note 7 (Property, Plant and Equipment), Note 10 (Non-Current and Current Operating Financial Assets) and Note 43 (Segment Reporting) to the consolidated financial statements.

Veolia Environnement's investment strategy is focused on environmental activities, primarily in Europe, Asia, and North America.

This investment policy can take several forms:

Veolia Environnement makes certain growth investments (financial investment and capital expenditure) in order to capture new markets, win new contracts, increase capacity, or extend its services. Some investments in particular may be made over several years, notably in certain types of concession arrangements. Veolia Environnement also makes financial investments in companies carrying contracts, particularly as part of privatizations and targeted acquisitions. All of these investments are carefully reviewed in order to ensure they comply with the Group's standards of profitability, financial structure and risk.

The Group also carries out maintenance capital expenditure consisting in the renovation and/or maintenance of existing infrastructure so as to extend its lifespan or improve efficiency.

In both cases, capital expenditure is spread over a large number of entities and is subject to budget authorizations.

Major investment projects over the last three years were as follows:

- In 2008: acquisition of Bartin Recycling Group in France for €149 million and Praterm in Poland for €111 million (see Chapter 20, Section 20.1, Note 44 to the consolidated financial statements).
- In 2007: acquisition of Sulo Group companies for €1,450 million, TMT for €338 million (based on an enterprise value of 100 %), Thermal North America for U.S.$788 million (enterprise value) and the non-regulated activities of Thames Water for €233 million (enterprise value).
- In 2006: acquisition of Cleanaway UK for €745 million.

The acquisitions of Cleanaway UK, Sulo, TMT and Thermal North America represent a cumulative investment of nearly €3.1 billion.

Finally, the Group is often faced with numerous types of price adjustment clauses as part of its divestiture and acquisition activities. As of the date of filing of this reference document, none of these price adjustment clauses is likely to have a material impact at Group level.

As of the date of filing of this reference document, no material external growth transactions are planned.

6 BUSINESS OVERVIEW

6.1 MAIN BUSINESS ACTIVITIES

6.1.1 General description of Veolia Environnement

Veolia Environnement is a global reference in the environmental services sector(2), offering a comprehensive range of services and possessing the expertise necessary to define a service offer tailored to individual customer needs, such as the supply of water and wastewater recycling, waste collection, processing and recycling, the supply of heating and cooling services, and the optimization of industrial processes.

Veolia Environnement's operations are conducted through four Divisions, each specializing in a single business sector: Veolia Eau (Water), Veolia Energie (Dalkia) (Energy Services), Veolia Propreté (Environmental Services) and Veolia Transport (Transportation). Through these Divisions, Veolia Environnement currently provides drinking water to more than 80.4 million people and treats wastewater for 58.5 million people in the world, processes nearly 68 million tons of waste, satisfies the energy requirements of hundreds of thousands of buildings for its industrial, public authority and private individual customers and transports approximately 2.6 billion passengers each year. Veolia Environnement strives to develop service offers combining several Group businesses, either through several individual contracts or by combining services within a multi-service contract.

The following table breaks down Veolia Environnement 2008 consolidated revenue by geographical market and Division, after elimination of inter-division transactions.

2008 Revenues

(€ million)		Water	Environmental Services	Energy Services	Transportation	Total
Europe		**8,611.4**	**7,666.0**	**6,769.0**	**4,651.4**	**27,697.8**
Of which:	*France*	*4,883.5*	*3,693.9*	*3,628.2*	*2,317.3*	*14,522.9*
	Germany	*1,376.7*	*1,108.8*	*57.8*	*621.9*	*3,165.2*
	United Kingdom	*671.5*	*1,667.7*	*487.9*	*128.2*	*2,955.3*
	Rest of Europe	*1,679.7*	*1,195.6*	*2,595.1*	*1,584.0*	*7,054.4*
Unites States		**612.2**	**1,350.4**	**322.0**	**760.4**	**3,045.0**
Rest of the world		**3,334.3**	**1,127.7**	**358.4**	**642.3**	**5,462.7**
Of which :	*Middle East*	*862.1*	*79.9*	*60.6*	*24.2*	*1026.8*
	Asia-Oceania	*1,335.4*	*706.0*	*109.4*	*556.8*	*2,707.6*
	Rest of the world	*1,136.8*	*341.3*	*188.4*	*61.3*	*1,728.3*
TOTAL		**12,557.9**	**10,144.1**	**7,449.4**	**6,054.1**	**36,205.5**

6.1.2 Strategy

6.1.2.1 Veolia Environnement's strategy

Since its creation, Veolia Environnement's strategy is aimed at strengthening its position as global reference in the expanding environmental services market

Veolia Environnement is the sole international company focused entirely on the environmental services business, operating through four Divisions housing its expertise in Water, Environmental Services, Transportation and Energy Services. The Company operates both in France and abroad, serving a customer base primarily composed of public authorities, but also industrial and service sector customers.

2 Unless otherwise indicated, information and statistics presented herein regarding market trends and Veolia Environnement's market share relative to its competitors have been estimated by Veolia Environnement based on revenue figures published by competitors or by analysts.

The Company provides most of its services under secured long-term contracts that generate recurring income. Services rendered are tailored to the specific requirements of each customer. To achieve both economic efficiency and environmental performance is time-consuming and the contract term enables such performance gains as part of an overall strategy encompassing technical, management and social considerations.

Over the past fifteen years, Veolia Environnement has demonstrated the exportability of its management models, developed in France since the 19th century and the Group now performs over half of its business abroad. Given the scale of requirements in the environmental services sector, the Veolia Environnement Group has the opportunity to continue its international expansion in a selective manner, favoring high economic development regions and countries with the best track record for accepting its corporate model and complying with long-term contractual commitments.

While continuing to expand in France and Western Europe, Veolia Environnement is also focusing on Eastern and Central European countries, i.e. the new members of the European Union, and certain Asian countries, particularly China, where there is an important need for service requirements linked to urban growth that would meet the environmental standards. Other targets include major markets still relatively closed to the delegated management model, such as the United States and Japan, but where medium term potential is significant, and finally the Middle East and the Persian Gulf.

2008 operating performance meets the latest forecasts published in fall 2008, despite a major downturn in the economic and financial context

The economic crisis hit fourth quarter results the hardest. Combined with a series of one-off negative factors (energy costs, foreign exchange fluctuations), _it notably led to disappointing results in the Environmental Services business, most affected due to its greater exposure to the industrial sector, which is more cyclical by nature.

This slowdown was, nonetheless, partially offset by the healthy resistance of other activities and, by not concentrating on a limited number of techniques or activities, Veolia Environnement confirms its excellent growth potential. The demand for improved and increased services in the Group's sector is unprecedented in the service industry throughout the world. Up until 2008, this momentum naturally led the Group to forecast the doubling of its size within the next 7 to 10 years without any change in service range, based on the prudent assumption that it would retain its current market shares.

When the economy will emerge from current uncertainties, these long-term trends will hold true. However, even at the heart of an exceptional crisis both in nature and intensity, the demand for services provided by the Group shall continue to grow, as all support and recovery plans announced by public authorities provide for substantial investments in environmental infrastructures.

Adapting the Group strategy to the economic climate

To make the most out of this potential in the long-term certain adjustments have to be made. Veolia Environnement is therefore strengthening its efficiency program, by focusing in particular on the Environmental Services notably in Germany.

The challenge for the quarters to come is to improve cash flow, while preserving the key balances of the Group's financial structure.

With regard to the second point, the significant growth enjoyed in recent years has been primarily internal. Financial resources have been strengthened by operating results themselves and by a share capital issue in 2007 that refinanced external growth transactions. Thus, in 2009, Veolia Environnement enjoys a healthy financial structure. Group liquidity as of December 31, 2008 exceeds €7.6 billion and the ratio of net financial debt to operating cash flow plus principal payments on operating financial assets is 3.6. Furthermore, no major debt repayments are due before 2012 and the average maturity of debt is 9 years, with 68% of net debt in the form of bonds.

The Company's profitability suffered a mechanical dilution following strategic acquisitions that were focused on providing high quality platforms, notably in Germany and the United States, to strengthen the Group's positions. Its improvement will be achieved through measures package that has already been launched, so as to reach Veolia Environnement's announced objective of a positive free cash flow in 2009 after payment of dividends (see Chapter 9, Section 9.2.1 and Chapter 13 below).

The achievement of this objective requires an increased attention to investment, whether for internal or external growth purposes and the Company forecasts a reduction in investment net of divestitures of at least €1.6 billion in 2009 compared to 2008 (i.e. a decrease of over 40%). Veolia Environnement has also intensified its asset disposal plan which should yield some €3 billion for the period 2009-2011, with an objective of €1 billion for 2009 alone, in order to generate, internally, the resources necessary for long-term growth.

This commitment also calls for an acceleration of the cost reduction program launched pursuant to strategic objectives set in 2007, in order to adapt the Company to the global economic crisis. Cost savings will total €280 million in 2009, including €180 million under the 2010 Efficiency Plan and €100 million under the adjustment planof the Environmental Services Division in addition to measures already taken in Germany.

Generally speaking, the success of these measures will depend, at all levels of the Group structure and particularly at Group level itself, on an increased interaction between finance departments and operating activities, which will be subject to additional pressure.

Operating activities will also be strengthened by the progressive roll-out of the geographical structure launched in 2008. This development is based on the appointment of Company managers in charge of one or several countries in each geographical region where Veolia Environnement is present (Central and Eastern Europe, France, Asia/Middle East/Africa, North America and Australia, Northern Europe, South America and Southern Europe). The role of these managers is transversal and primarily involves, at a local level, the coordination and implementation of the strategy and commercial policy of the Company and its subsidiaries, the representation of the Group and its businesses and the implementation of shared and mutualised resources. Coordination within each region will be the responsibility of persons chosen notably among Division CEOs that are members of the Group's Executive Committee. The aim is to satisfy the demand of Group customers for a single contact able to provide a comprehensive response to major transversal challenges, such as climate change.

By adapting to the negative effects of the current economic downturn, Veolia Environnement will be ready to capitalize, when the time comes, on its position as a global reference in complementary diversified activities, as well as on the benefits of its size, wide geographical presence and synergies between its businesses.

Veolia Environnement's businesses offer strong growth potential in the medium to long term as a result of demographical growth, notably in urban areas, and to increasingly strict environmental standards

Some examples include:

- By 2015, the potential market for seawater desalination, a market led by the Group thanks to its technological expertise, will represent €5 billion per year, while used water recycling capacity will increase by more than 10%.
- By 2020, household waste production will continue to rise, increasing for OECD countries alone from 500 to 650 kg per inhabitant and 30% of current energy consumption could be optimized without the need for any major technological changes.
- In the urban public transportation sector, the projected rise by30% in the population of urban and peri-urban areas over the next 30 years, combined with the necessarily increasing commitments to reduce greenhouse gas emissions, opens up significant development opportunities.

The Group has taken a proactive approach to these challenges and offers ways of accelerating or facilitating the necessary or foreseeable changes that may be decided by its partners and more generally, by our companies and all other players. This approach is primarily reflected by a research and development policy and the practical development of technological innovations, by the systematic development of synergies between current and future components of Veolia Environnement activities and businesses, by constant attention to the best way of organizing and forming Group teams and on the excellence of practices and professional skills of their members and finally by the development of contractual engineering progressively integrating a "thriftier" management of natural resources (water, energy, raw materials, public spaces, etc.) and by emphasizing even more on the quality of services provided by the Group.

6.1.2.2 Veolia Environnement strategy by Division

Water

Veolia Environnement's Water Division intends to continue to expand its services around the world, while striving to ensure the quality and safety of the water it provides, the conservation of natural resources and the protection of the environment.

The growth potential of the international market for water services is enhanced by four main factors:

- the population growth and higher urban density;
- the tightening of environmental standards and health regulations;
- the growing acceptance of the delegated management model and public-private partnerships as alternatives to public management, and;
- the refocusing of industrial customers on their core business.

Given this growth potential, Veolia Environnement will continue to adopt a selective approach to optimize the allocation of its resources, its operating costs and its profitability. To take advantage of market opportunities, the Water Division capitalizes on its technical expertise, its experience in managing customer relations and the mobilization of local teams in order to anticipate the future needs of public authorities. It focuses, in particular, on developing employee skills so as to meet future challenges. Its technical expertise in areas such as desalination and wastewater recycling solutions, represents a major effort to adapt to ongoing changes in the market. Going forward, the Water Division will seek to capitalize on long-term international development opportunities, the maturing of its larger contracts and productivity gains resulting from efficiency programs that have been implemented (encompassing purchases, information systems and sharing of best practices).

Environmental Services

Through its Veolia Propreté Division, Veolia Environnement intends to maintain its position among the world leader in this sector.

The environmental services sector is currently enjoying steady and long-term growth in demand, encouraged by increased regulation and higher public expectations in a number of countries. As a result, experts who can provide long-term services under cost-effective conditions and in compliance with environmental regulations are highly sought after.

In this favorable market environment in Europe, the United States and the Asia-Pacific region, Veolia Propreté has the following main objectives:

- enhance its waste processing capabilities and develop its technological expertise in waste processing and recovery;
- strengthen its service offering to industrial customers by capitalizing on its command of the entire waste management chain, while seeking wherever possible to generate synergies with the Group's other businesses;
- increase the profitability of its activities by renegotiating fees, maximizing the use of its production tools and reducing structural costs, while ensuring that all of its activities contribute to the development of high value-added services.

Energy Services

Through its Veolia Energie Division, Veolia Environnement counts among the world leaders in the management of energy services. The opportunities in this sector are significant, due to the increase over the long-term in energy prices and greater public awareness of environmental problems. These are linked in particular to the risk of climate change and have led to the search for solutions such as Dalkia's initiatives to reduce greenhouse gases and encourage energy savings.

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

Dalkia has fully embraced the objectives of reducing energy intensity and promoting renewable energy sources discussed internationally as part of the fight against climate change, and makes a priority of pursuing these two objectives while providing its expertise and service offers.

Dalkia's development strategy focuses on the following geographical priorities:

- growth in Southern Europe (Italy, Spain etc) by participating in the trend toward market consolidation and by developing the Group's multi-service offers aimed at the private sector;
- pursuing growth in the area of large heating networks, particularly in France and in Central and Eastern Europe, and of large cooling networks in the Middle East, as well as entering the Russian market for heating network;
- establishing a presence in North America by offering management services for networks, industrial utilities and shopping malls; and
- the development of activities in China (networks and industrial utilities) and in Australia.

These priorities are based on the Group's ability to offer, in the context of deregulated energy markets in Europe, innovative technical solutions focused on energy efficiency, that often combine Veolia Environnement's expertise in several areas. The Group also aims to promote its integrated outsourcing services to public clients as well as to service sector and industrial clients, by combining optimized services for facilities management (heating, air-conditioning, utilities, electricity, lighting).

Transportation

Through its specialized subsidiary, Veolia Transport, Veolia Environnement aims to become a major transportation service provider on a worldwide scale.

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

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

Veolia Transport's strategy is to improve its performance in its core business of passenger transportation, with the following priorities:

- Continued efforts in marketing, innovation and addressing environmental concerns to constantly improve customer satisfaction;
- A focus on local or regional passenger transportation;
- Selective growth based on the attractiveness of markets and the intensity of local competition;
- Continued growth in similar activities such as railway freight given the potential synergies and their importance for the environment.

6.1.3 Description of Veolia Environnement's main businesses

6.1.3.1 Water

Veolia Environnement, through Veolia Eau– Compagnie Générale des Eaux, is the world's leading provider of water and wastewater services for public authorities and industrial companies. In addition, Veolia Eau, through its subsidiary Veolia Water Solutions & Technologies, is the world leader in the conception of technological solutions and the construction of structures for the performance of such services. Veolia Eau provides drinking water to more than 80.4 million people, supplies 58.5 million people with wastewater serves and manages more than 4,400 operating contracts.

As of December 31, 2008, Veolia Eau has 93,433 employees around the world [(3)]. The Water Division is present in more than 64 countries, principally in France for historical reasons, but also in the United Kingdom, Germany, Italy, Belgium, the Netherlands, the Czech Republic, Slovakia and Romania. The Asia-Pacific region (mainly China, Korea, Japan and Australia) also remains an important development objective, with the signing of a number of significant contracts with municipal and industrial clients over the past several years. Veolia Eau also has a presence in the United States through its contracts for the operation and maintenance of water and wastewater treatment plants, including its contract with the city of Indianapolis and more recently Milwaukee. Finally, Veolia Eau also has established a presence in the Middle East and Africa, primarily in Morocco and Gabon. Thanks to its network of research centers in France and abroad coordinated by the Company, Veolia Eau has mastered numerous major technologies and tools within the water sector. Veolia Eau is therefore able to offer highly skilled services in the areas of sanitary protection, spillage reduction, productivity enhancement of water networks and plants and preservation of resources.

Combined with its strong local presence and more than 150 years of experience providing services to public authorities and industrial customers, Veolia Eau's technical expertise is a significant advantage in the extremely competitive water services market. Increased demand within the water services market has been substantially driven 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 of seawater, a sector where Veolia Eau won a tender offer in 2008 for the supply of ten desalination units in Ras Laffan (Qatar), or the re-use of treated water, may represent an adequate response to specific situations.

The following table shows the consolidated revenue (revenue from ordinary activities under IFRS) and operating income of the Water Division, after elimination of inter-company transactions.

3 Employees managed as of December 31, 2008, including 3,795 Proactiva employees allocated to its water business.

Water*

(€ million)	2008	2007	Change 2008/2007
Revenue	12,557.9	10,927.4	14.9%
Operating income	1,198.5	1,267.7	-5.5,%

* Including Veolia Environnement's share in the results of the water activities of Proactiva, Veolia Environnement's joint venture with FCC.

Overview of the Water business

Veolia Eau manages municipal drinking water and/or wastewater services on five continents through a geographical organization featuring a strong local presence. Contracts with public authorities are typically long-term and range from 10 to 20 years in length and potentially up to 50 years under certain circumstances. These contracts take various forms, tailored to the needs and goals of the public authority, and may include outsourcing contracts, public-private partnerships, concessions, BOT (Build, Operate & Transfer) contracts, DBO (Design, Build & Operate) contracts and others. They are generally contracts that involve the operation, design or construction of installations, with the public authority usually remaining the owner of the assets (except in the United Kingdom) and retaining authority over water policy. Recent legislative changes have enabled Veolia Environnement to integrate more elaborate mechanisms into its contracts allowing it to share in the added value (productivity gains, improvement in the level of services, efficiency criteria, etc.). Public authorities often rely on Veolia Eau to manage client relations and the Company is constantly improving the efficiency of its services and specific information systems. In certain countries where public authorities have sought to either implement new water and wastewater treatment systems or to improve the functioning of existing ones, Veolia Eau offers feasibility studies and technical assistance, which may include research plans, coordination and acceptance, network modeling and financial analysis. Outsourcing contracts with industrial and commercial customers generally have a term of 3 to 10 years, although certain contracts have terms of up to 20 years.

Service Contracts with Public Authorities and Industrial Customers

The main focus of Veolia Environnement's water business is on water and wastewater management services for public authorities and industrial customers. Veolia Eau provides integrated services that cover the entire water cycle. Its activities include the management and operation of large-scale, customized drinking water plants, wastewater decontamination and recycling plants, drinking water distribution networks and wastewater collection networks. Veolia Eau also manages customer relations, providing billing services and call centers. Veolia Eau and its subsidiaries have provided outsourced water services to public authorities in France and in the rest of the world for more than 150 years under long-term contracts tailored to local environments. Veolia Eau continues to develop its service offering for industrial customers, capitalizing on its local presence in many areas and an adapted organizational structure. As a result, it is active in this field in France, the United Kingdom, Germany and the Czech Republic, as well as in Asia (South Korea and China in particular) and the United States. Veolia Eau also contributes, through VE Industries, to the development of common service offerings of the Group, in particular in Europe.

Engineering and Technological Solutions for the Treatment of Water

Through Veolia Water Solutions & Technologies, Veolia Eau develops technological solutions and designs/builds the infrastructures necessary to providing water services on behalf of public authorities and industrial and service sector customers. In addition, Veolia Water Solutions & Technologies designs, assembles, manufactures, installs and operates modular standardized and semi-standardized equipment, which is both reliable and high-performing, designed to treat water for municipal and industrial uses. A local technical assistance network is available at all times for the upkeep, maintenance and customer service of these installations. Veolia Eau treats groundwater, surface water, brackish or seawater, wastewater and refined sludge. Thanks to the combination of physical, chemical and biological treatments, Veolia Eau has developed a comprehensive range of specific solutions for the purification of water or the reduction or elimination of impurities in effluents. The recycling/re-use systems installed by Veolia Eau provide customers with the ability to circulate part or all of their treated water back into plant processes, thereby reducing water consumption, operating costs and environmental damage. Through SADE, Veolia Eau also designs, builds, renews and recovers urban and industrial drinking water and wastewater networks and related infrastructures, in France and around the world. SADE's services cover each stage of the water cycle, from collection to release, and its public and industrial customers benefit from SADE's experience in this area.

Description of Activities in 2008

In 2008, Veolia Eau enjoyed several commercial successes and reported an increase in revenue of 14.9% compared to 2007, thanks to a high level of contract renewal in France, a sustained organic growth outside France, in particular in Asia, and strong growth in the engineering and construction business in France and internationally. Veolia Eau revenue was not affected by the loss of any major contracts in 2008.

In 2008, the city of Paris announced its decision not to renew the delegated management contracts that expire at the end of 2009. The Paris contract represented a revenue of 140 million in 2008 for Veolia Eau.

In France, Veolia Eau provides approximately 24 million inhabitants with drinking water and 16 million with wastewater services. Contracts renewed in 2008 represent expected total cumulative revenue of almost €1,419 million. The key renewals include contracts for the production and distribution of drinking water for the city of Toulon, the Cergy-Pontoise conurbation and the city of Cambrai. Contracts for wastewater services include the new contract with the Marne la Vallée wastewater authority, the contract with the Lens-Liévin conurbation and the new contract for the operation of the Nancy wastewater treatment plant.

As part of its sustainable development policy, Veolia Eau continues its efforts to further widen the scope of its activities with contractual models tailored to services enabling it to cover the full water cycle from extraction to recycling, by managing infrastructures and related services to preserve water resources and receiving bodies of water downstream. Finally, while the structural fall in unit consumption was exacerbated in France by unfavorable weather conditions in the summer of 2008 (-1.9% in 2008 compared to 2007), productivity efforts were stepped up compared to previous years.

In the Middle East, business was marked by the creation at the end of the year of a joint venture with Mubadala Development Company, aimed at developing a strategic partnership. The joint venture, named NAM1, brings together the operating activities of Veolia Eau in Morocco and the Middle East, and is held 51% by Veolia Eau and 49% by Mubadala. The Middle East continues to be a major growth area for the engineering and construction business. After several contract wins in 2007, notably for seawater desalination in Fujairah (United Arab Emirates) and Jubail (Saudi Arabia), two new major contracts were signed in 2008 in Ras Laffan (Qatar) and Abu Dhabi.

In Asia, the major contracts won in China in 2007 reached maturity in 2008 and in particular, the Lanzhou (Gansu province), Haikou (Hainan Island) and Tianjin Shibei contracts. In Japan, the Company strengthened its activities in the provision of services to public authorities and industrial customers, with the acquisition of several companies.

Major Contracts in 2008

The following table shows the major contracts signed in 2008 with either public authorities, industrial or service sector companies[4].

Public authority or company and location thereof	Month of signature of contract	New contract or renewal	Contract term	Estimated cumulated revenue *(in euros)*	Services provided
France Public authorities					
Achères	May	New	55 months	135 million	Compliance work on a wastewater treatment plant
Les Grésillons 2	May	New	55 months	89 million	Second tranche of the Seine Grésillons wastewater treatment plant
Europe Public authorities					
Czajka (Poland)	June	New	28 months	150 million	Modernization and extension of a wastewater treatment plant
Mafra (Portugal)	December	New	15 years	93 million	Management of municipal waste water services
Mullingar (Ireland)	November	New	22 years	48 million	Renovation and operation of the Mullingar wastewater treatment plant near Dublin
Castlebar (Ireland)	November	New	22 years	26 million	Renovation and operation of a wastewater treatment plant
Asia Public Authorities					

4 Revenues expected under the contracts won in 2008 have been converted into euros at the closing exchange rate as of December 31, 2008 and represent the portion due to Veolia Eau under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier press releases.

Public authority or company and location thereof	Month of signature of contract	New contract or renewal	Contract term	Estimated cumulated revenue *(in euros)*	Services provided
Changle (China)	December	New	30 years	294 million	Operation of municipal drinking water services
Nagpur (India)	May	New	15 years	20 million	Design, construction and operation (15 years) of a drinking water treatment plant
Rosehill & Camelia (Australia)	September	New	20 years	99 million	Construction, financing and operation of the Rosehill and Camellia water recycling plant (west of Sydney)
Asia Companies					
Dongbu (South Korea)	September	New	15 years	180 million	Construction, financing and operation of the water treatment facilities of the Dongbu Steel plant in Asan Bay
Americas Companies					
Petrobras (Brazil)	September	New	30 months	60 million	Renovation of a wastewater treatment plant and construction of a new "re-use" plant and a sludge treatment unit in Parana
Africa Public authorities					
Bata (Equatorial Guinea)	June	New	32 months	145 million	Construction of a drinking water treatment plan
Middle East Public authorities					
Abu Dhabi and Al Ain (U.A.E.)	July	New	27 years (including a 25-year operating contract)	461 million	Financing, design, construction and operation of two new wastewater treatment plants
Riyadh (Saudi Arabia)	April	New	6 years	43 million	Delegated management of municipal drinking water treatment and distribution and wastewater collection services
Ras Laffan (Qatar)	June	New	28 months	305 million	Turnkey delivery of 10 desalination units

Main acquisitions and divestitures in 2008

In 2008, the main change in the scope of consolidation in the Water Division in Europe was the divestiture of the Czech water and wastewater company, 1.JVS, operating in South Bohemia.

In the Middle East, as part of the strategic partnership with the commercial development and investment company Mubadala, 49% of the share capital of NAM1, created to house Veolia Eau's investments in Morocco and the Middle East, were sold to Mubadala.

In Israel, Veolia Eau increased its stake in the company managing the BOT contract for the Ashkhelon seawater desalination plant from 25% to 50%.

In Japan, Veolia Eau strengthened its activities in the provision of services to industrial customers and public authorities, with the acquisition of several companies, including Dai Nippon Eco Engineering, Eco Creative Japan and Yamagata Kankyo Engineering and by increasing its stake in Nishihara Environment Technology from 18% to 51%.

Finally, in the engineering and construction sector, Veolia Water Systems & Technologies purchased Biothane, a specialist in the anaerobic treatment of wastewater.

Following the creation, acquisition or consolidation of 59 companies in 2008 and the liquidation, divestiture or transfer of 32 companies, the Water Division (excluding Proactiva) comprised 711 companies as of December

31, 2008, compared to 684 in 2007.The main movements in the scope of consolidation include the acquisition or creation of new companies carrying operating contacts that came into effect in 2008.

6.1.3.2 Environmental Services

Veolia Environnement, through its subsidiary Veolia Propreté, is the number one reference in its sector, where it is involved in waste collection, recycling and processing and handles waste in all forms and at all stages of the waste cycle. Veolia Propreté manages liquid and solid waste, non-hazardous and hazardous waste (with the exception of nuclear waste) from collection to recovery, on behalf of both public authorities and industrial customers.

As of December 31, 2008, Veolia Propreté employed 105,267 people[5] around the world, in approximately 32 countries.

Veolia Propreté is a partner of over 740,000 industrial and service sector customers [6] and serves nearly 70 million inhabitants on behalf of public authorities.

In 2008, Veolia Propreté estimates that it collected nearly 46 million tons of waste and processed nearly 67 million tons of waste, including 63 million tons of non-hazardous household and industrial waste and 3.9 million tons of hazardous waste. As of December 31, 2008, Veolia Propreté managed approximately 852 waste processing units.

The term of Veolia Propreté contracts usually depends on the nature of services provided, applicable local regulations and the level of capital expenditure required. Collection contracts usually range from 1 to 5 years, while waste processing contracts can range from 1 year (for services provided on sites belonging to Veolia Propreté) to 30 years (for services involving the financing, construction, installation and operation of new waste processing infrastructures).

The following table shows the consolidated revenue (revenue from ordinary activities under IFRS) and operating income of the Environmental Services Division, after elimination of inter-company transactions.

Environmental Services*

(€ million)	**2008**	**2007**	**Change 2008/2007**
Revenue	10,144.1	9,214.3	10.1,%
Operating income	285.5	803.5	-64.5,%

* Includes Veolia Environnement's share in the results of the environmental service activities of Proactiva, Veolia Environnement's joint venture with FCC.

Overview of the Environmental Services

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

Downstream, Veolia Propreté conducts basic or more complex waste processing operations in order to reduce pollution and transform waste into a resource. Thus, Veolia Propreté:

- sorts and processes waste in order to create new raw materials, otherwise referred to as recycling or material recovery;
- transforms organic material into compost to be returned to the soil, otherwise referred to as composting or agronomic recovery;
- returns waste to the natural environment in the least damaging way possible, through landfill sites or incineration;
- produces electricity or heat using waste in landfill sites or incinerated, otherwise referred to as waste-to-energy recovery.

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5 Employees managed as of December 31, 2008, including 7,244 Proactiva employees allocated to its environmental services business.

6 Unless otherwise indicated, commercial data reported in Section 6.1.3.2 (number of customers, number of inhabitants served, tonnage collected, etc.) excludes Proactiva activities, unless otherwise indicated.

The services referred to above fall into three major business sectors: environmental services and logistics for local authorities and industrial companies, sorting and recycling of materials and waste recovery and processing through composting, incineration and landfilling.

Environmental Services and Logistics for Local Authorities and Industrial Companies

Maintenance of Public Spaces and Urban Cleaning

Each day, Veolia Propreté provides urban cleaning services in many cities throughout the world, including London, Paris, Alexandria, Singapore and Dresden. Veolia Propreté also provides mechanized street cleaning and building façade treatment services.

Cleaning and Maintenance of Industrial Sites

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

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

Liquid Waste Management

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

Veolia Propreté has developed liquid waste management procedures that emphasize environmental protection, such as on-site collection and the recycling and reuse of water during the processing of liquid waste. Used oil, which is hazardous for the environment, is collected before processing and re-refining by a Veolia Environment Services subsidiary specializing in the management of hazardous waste.

Soil Decontamination

Land redevelopment and the expansion of residential and business areas may lead to the use of sites where the soil has been polluted through prior use. Veolia Propreté has specific techniques for treating difficult sites, which include treating polluted soil and rehabilitating temporarily inactive industrial areas, cleaning accidental spills and bringing active industrial sites into compliance with applicable environmental regulations.

Collection

In 2008, Veolia Propreté collected approximately 46 million tons of waste from private individuals, local authorities and commercial and industrial sites. More than 70 million people around the world benefited from Veolia Propreté' waste collection services.

Veolia Propreté collects household waste through door-to-door pickup or through pickup at designated drop-off sites, and collects commercial and non-hazardous industrial waste. It maintains the cleanliness of green spaces and carries away "green" waste and also collects hazardous waste on behalf of its service sector and industrial clients, including hospital waste, laboratory waste and oil residue (ships, gas stations and drilling platforms) and diffused dangerous waste. In 2008, Veolia Propreté collected approximately 2 million tons of hazardous waste.

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

Transfer and Grouping of Waste

Waste of the same type is transported either to transfer stations in order to be carried in large capacity trucks, or to grouping centers where it is separated by type and then sorted before being sent to the appropriate processing center.

Hazardous waste is usually transported to specialized physico-chemical processing centers, recycling units, special industrial waste incineration units or landfill sites designed to receive inert hazardous waste.

Sorting and Recycling of Materials

Veolia Propreté processes waste with a view to reintroducing such waste into the industrial production cycle.

Veolia Propreté' recycling activities generally involve the selective collection of paper, cardboard, glass, plastic, wood and metal that customers either separate into different containers or mix with other recyclable materials.

Veolia Propreté received approximately 10.7 million tons of solid waste at its 339 sorting and recycling units in 2008, of which 7.7 million tons were recovered, including 3.3 million tons of paper. Veolia Propreté also provides decomposition services for complex waste products at specialized treatment centers, such as electric and electronic products and fluorescent lamps. Veolia Propreté works upstream in partnership with industrial customers and with Veolia Environnement's CREED research center to develop new recycling activities. Recycled material is sold or distributed to intermediaries or directly to industrial customers.

Waste Recovery and Treatment through Composting, Incineration and Landfilling

In 2008, Veolia Propreté processed nearly 67 million tons of waste in its sorting and recycling centers, composting units, hazardous waste treatment centers, incineration units and landfill sites.

Composting and Recovery of Organic Material from Fermentable Waste

Veolia Propreté and Veolia Eau work together to recover sludge from wastewater treatment plants. In 2008, Veolia Propreté recovered almost 2.7 million tons of waste at its 125 composting units. 250 000, tons of urban and industrial sludge were reintegrated by Veolia Propreté into the agricultural cycle through land spreading, with a related tracking service offering.

Incineration and Waste-to-Energy Recovery

Veolia Propreté processes approximately 11.8 million tons of non-hazardous solid waste (consisting mainly of urban waste) per year at its 77 waste-to-energy recovery and incineration plants.

Energy is generated from the heat created by incinerating waste at these plants. Veolia Propreté uses this energy to supply urban heating networks or sells it to electricity providers.

Landfilling and Waste-to-Energy Recovery

In 2008, Veolia Propreté processed approximately 37 million tons of non-hazardous waste in 154 landfill sites. Veolia Propreté has developed the expertise to process waste through methods that reduce emissions of liquid and gas pollutants. Veolia Propreté currently has 168 landfill sites that accept or have accepted biodegradable waste and that are equipped to recover and treat biogas emissions from the anaerobic fermentation of waste. 81 landfill sites have recovery systems to transform biogas emissions into alternative energies.

Processing of Hazardous Waste

In 2008, Veolia Propreté processed 3.9 million tons of hazardous waste, of which 1.06 million tons were incinerated in 23 incineration units for specialized industrial waste, 750,000 tons were placed in 14 class 1 landfill sites and 1.6 million tons were processed in 70 units by physico-chemical or stabilization methods. The remaining 450 000 tons were processed in 35 specialized recycling centers.

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

Through its specialized subsidiaries, SARP Industries and VES Technical Solutions (in the United States), Veolia Propreté has a worldwide network of experts, which has helped it become a world leader in processing, recycling and recovering hazardous waste.

Description of Activities in 2008

In 2008, the Environmental Services Division reported 10.1% revenue growth compared to 2007. Excluding changes in exchange rate and consolidation scope, organic growth was 4.5%.

Growth in France reached 11.2 % (including organic growth of 3.8%), as a result of the acquisition of the Bartin Recycling Group, the third largest company in France specializing in the recycling and recovery of ferrous and non-ferrous metal and the commercial development of industrial services and incineration activities, sectors in which new contracts were won or came into effect in 2008. Waste Electrical and Electronic Equipment (WEEE) activities continued to develop in 2008. A ship dismantling unit was created in Bordeaux and the first production unit to produce biomethane fuel from biogas was brought on-line in the Greater Paris region in 2008.

In the United Kingdom, organic growth was 8.6%, boosted by integrated contracts in East Sussex and Shropshire and two new 25-year PFI (Private Finance Initiative) contracts in the county of Southwark and the district of West Berkshire for the comprehensive management of household waste. Price increases in the collection and landfill sector also contributed to this growth.

The rest of Europe reported negative growth (-6.4%), primarily attributable to the downturn in revenue in Germany following the loss of contracts in the used packaging business in 2007 and the closure of a clay mine landfill site in 2008. A new organizational structure and recovery measures were implemented in Germany in 2008.

In North America, organic growth reached 8.7% and was attributable to increased fees for solid waste, the industrial services business, the operating contract for the waste-to-energy facility in Pinellas, Florida and the contract for the processing of military waste at Port Arthur. In addition, Veolia Propreté consolidated its position in the marine industrial services sector with the commissioning of a new ship, specially equipped for deep-water maintenance and repair services on oil platforms.

In the Asia-Pacific region, internal growth was 16.5%, boosted by industrial service activities, ground soil decontamination, and liquid waste processing in Australia and by the start-up of new incineration contracts in Asia. In 2008, Veolia Propreté signed a 20-year contract for the management and maintenance of a waste-to-energy incineration unit in YongKang, Taiwan, which will process household and industrial waste from the county of TaiNan and generate electricity for the neighboring areas.

Major contracts lost in 2008 include the operating contract for the Romainville sorting center (Syctom, Greater Paris), the municipal waste collection and recycling contract in Liverpool (United Kingdom) and the industrial services contract in Marathon (United States). These contracts represented a total annual revenue of €35 million.

Overall, Veolia Propreté' activities were affected by a significant drop in secondary raw material prices in the last months of 2008 and industrial and commercial waste volumes have fallen in line with general economic activity since the end of 2008.

Major Contracts in 2008

The following table shows the major contracts signed in 2008 with either public authorities, industrial or service sector companies[7].

Public authority or company and location thereof	Month of signature of contract	New contract or renewal	Contract term	Estimated cumulated revenue *(in euros)*	Services provided
France Public Authorities					
Bordeaux Urban Community	December	New	12 years	69 million	Operation of the Hauts de Garonne thermal complex (Cenon household waste incineration plant and Cenon & Lormont heating plant)
SEAPFA (Greater Paris)	November	Renewal	5 years	34 million	Collection of household waste and equivalent
SYCTOM Greater Paris	July	New	4 years	21 million	Receipt, sorting and packaging of large items collected from households
SMTD 65 (South-West region)	April	Renewal	5 years	22 million	Processing of household and equivalent waste at landfill sites
Pays de Montbéliard	December	Renewal	15 years	82 million	Operation and maintenance of the Montbéliard household waste incineration plant
Europe (excl. France) Public Authorities					
London Borough of Southwark (United Kingdom)	February	New	25 years	700 million	Integrated comprehensive waste management contract
West Berkshire District Council (United Kingdom)	March	New	25 years	533 million	Integrated comprehensive waste management contract
London Borough of Croydon (United Kingdom)	May	Renewal	4 years	80 million	Collection and recycling of municipal, industrial and commercial waste and urban cleaning services
Rushmoor Borough Council (United Kingdom)	June	Renewal	7 years	34 million	Collection of household and equivalent waste, recyclable products and urban maintenance and cleaning services

7 Revenues expected under the contracts won in 2008 have been converted into euros at the closing exchange rate as of December 31, 2008 and represent the portion due to Veolia Propreté under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier press releases.

North America Public Authorities					
Pinellas County (Florida)	August	Renewal	7 years	39 million	Operation and maintenance of the Pinellas landfill site
Sarasota County (Florida)	May	Renewal	5 years	15 million	Operation and maintenance of the Sarasota landfill site
Orange County (Florida)	April	Renewal	7 years	35 million	Collection of household and equivalent waste, and recyclable products
Asia – Pacific Public Authorities					
TaiNan County (Taiwan)	March	New	20 years	62 million	Management and maintenance of the YongKang incineration and waste-to-energy plant

Main acquisitions and divestitures in 2008

The acquisition of Bartin Recycling Group, the number three company in France for the recycling and recovery of ferrous and non-ferrous metal, was finalized on February 13, 2008.

Other smaller acquisitions in 2008 helped increase Veolia Propreté' sorting-recycling capacity in Europe (C&C Recycling in the United Kingdom and Miljøfabrikken AS in Norway) and contributed to the development of industrial services in North America and the Pacific region (Pacific Liner in the United States and Allied Industrial Services Pty Ltd in Australia).

Following the creation, acquisition or consolidation of 71 companies in 2008 and the liquidation, divestiture or transfer of 61 companies, the Environmental Services Division (excluding Proactiva) comprised 763 companies as of December 31, 2008, compared to 753 in 2007.

6.1.3.3 Energy Services

Veolia Environnement conducts its energy service activities through Dalkia, a leading European provider of energy services to companies and public authorities. Dalkia provides services relating to heating and cooling networks, decentralized energy production, thermal and multi-technical systems, industrial utilities, installation and maintenance of production equipment, integrated facilities management and electrical services on public streets and roads. The Company seizes opportunities offered by the development of the energy and greenhouse gas emission reduction markets. Dalkia joins forces with its customers, helping them optimize their energy purchases and improve the efficiency of their installations (both in terms of cost and atmospheric emissions).

As of December 31, 2008, Dalkia had 52,802 employees in 41 countries around the world, particularly in Europe.

The following table shows the consolidated revenue (revenue from ordinary activities under IFRS) and operating income of the Energy Services Division, after elimination of inter-company transactions.

Energy Services

(€ million)	**2008**	**2007***	**Change 2008/2007**
Revenue	7,449.4	6,200.4	20.1,%
Operating income	429.7	384.3	11.8,%

* In accordance with IFRS 5, Non-current assets held for sale and discontinued operations, the Income Statements of the Clemessy and Crystal entities in the Energy Services Division, divested in December 2008, are grouped together in a separate line, Net income from discontinued operations, in 2008 and in fiscal years 2007 and 2006, presented for comparative purposes.

Overview of Energy Services

Dalkia's business is currently facing three major challenges:

- global warming and the need to reduce carbon dioxide emissions;
- the increase in the price of fossil fuels and their eventual scarcity;
- growing urban expansion and related industrial development.

Dalkia's business is focused on optimal energy management. Dalkia has progressively set up a range of activities linked to energy management, including heating and cooling networks, decentralized energy production, thermal and multi-technical services, industrial utilities, installation and maintenance of production equipment, integrated facilities management and electrical services on public streets and roads. The health sector is also of strategic importance to Dalkia.

Dalkia provides energy management services to public and private customers with which it forms long-term partnerships. Management contracts for the operation of urban heating or cooling networks are typically long-term, lasting up to 30 years, while contracts for the operation of thermal and multi-technical installations for public or private customer may have terms of up to 16 years. Contracts to provide industrial utilities services generally have shorter terms (6 to 7 years on average), while contracts in the facilities management sector generally have terms of 3 to 5 years.

Whenever possible, Dalkia offers solutions to its customers using renewable or alternative energy sources such as geothermal energy, biomass (organic material), solar energy (thermal, photovoltaic, solar concentration), heat recovered from household waste incineration, "process" heat (heat produced by industrial processes) and thermal energy produced by co-generation projects. Energy sources are combined, wherever possible, to take advantage of the complementary nature of each source. In the biomass sector, Dalkia considerably stepped-up its development in 2008, winning three major cogeneration contracts in France following calls for bids launched by the French Energy Regulation Commission.

Heating and Cooling Networks

Dalkia is one of Europe's leading operators of large urban heating and cooling networks. Dalkia currently manages 700 urban heating and cooling networks worldwide, particularly in the United States, France, the United Kingdom, Italy, Germany, Eastern and Central Europe and the Baltic states. In 2008, Dalkia signed its first contract in the major Russian heating network market. Dalkia does not necessarily own the networks it operates and, in some cases, the networks are owned by public authorities which delegate the responsibility for their management, maintenance and repair to Dalkia. The networks operated by Dalkia provide heating, sanitary hot water and air conditioning to a wide range of public and private facilities, including schools, health centers, office buildings and residences.

Thermal and Multi-Technical Services

Thermal services consist of operating heating, sanitary hot water and air conditioning systems to provide comfortable living and working environments, as well as improving the operation of existing systems to optimize their efficiency. Dalkia provides public, industrial and service sector customers with integrated energy services including plant design, construction and improvement, energy supply, and plant management and maintenance. Dalkia provides customers with a wide range of technical services and implements new service offerings to satisfy demands for improved energy efficiency. It manages more than 100,000 energy plants throughout the world

Industrial Utilities, Installation and Maintenance of Production Equipment

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

Integrated Facilities Management

Facilities management contracts combine, in a single comprehensive service offer, a range of services from the maintenance of thermal, electrical and mechanical equipment to logistics. Accordingly, the various needs of customers are satisfied by a single company. Dalkia provides facilities management services for industrial and service sector customers (business premises, corporate offices, health institutions, etc.).

Street lighting services

Citélum, a subsidiary of Dalkia, has earned a worldwide reputation for the management of urban street lighting, the regulation of urban traffic and the lighting of monuments and other structures. Citélum operates and maintains lighting in a number of cities in France and abroad, and provides artistic lighting services at important architectural works and sites.

Services to Individuals

Together with Veolia Eau, Dalkia provides residential services to private individuals through Proxiserve, a joint subsidiary (energy/water services), including the maintenance of heating, air conditioning and plumbing systems and meter-reading services.

Description of Activities in 2008

In 2008, the Energy Services Division reported revenue growth of 20% compared to 2007 pro forma figures (excluding Clemessy and Crystal divested in 2008). This growth is due to both commercial development and significant international expansion, with a major new presence established in the United States at the end of December 2007.

In France, Dalkia renewed close to 80% of its contracts due to expire during the year. Contracts that were lost include the Bordeaux Communal Buildings contract , the Montereau Communal Social Center contract, the termination of the contract with the Pont de Claix paper mills placed in receivership, the public services delegation contract with the Cherbourg-Octeville urban development area and one of the cogeneration contracts with Michelin in Clermont-Ferrand. Contracts not renewed in 2008 represented a cumulated revenue of approximately 14.5 million euros, *i.e.* 2% of Dalkia revenue in France.

In addition to the contracts signed in 2008, presented in the table below, Dalkia began a 5-year operating and maintenance contract in Bahrain in September 2008 for the International School and commenced activities in India under two industrial utilities management contracts for Motorola and IBM.

Major Contracts in 2008

The following table shows the major contracts signed in 2008 with either public authorities, industrial or service sector companies[(8)].

Public authority or company and location thereof	Month of signature of contract	New contract or renewal	Contract term	Estimated cumulated revenue *(in euros)*	Services provided
France Public Authorities					
Bordeaux Urban Community	December	New	12 years	127 million	Operation of a heating network using biomass energy
City of Martigues	July	New	24 years	43 million	Operation of the Canto Perdrix public service heating network
City of Saint Dié des Vosges	June	Renewal	25 years	54 million	Public service delegation contract for the production and distribution of heat via the Kellermann neighborhood network. Creation of a biomass heating plant
Seclin Hospital Center (59)	August	Renewal	13 years	22 million	Contract for the supply of cogenerated energy, the operation of heating, ventilation, cooling and sanitary hot water production installations and the cleaning of hydraulic networks
France Industrial and service sector companies					
Alès University Hospital	January	New	20 years	41 million	Construction and operation of hospital energy facilities, networks and sub-stations
Rungis SEMMARIS International Market	June	New	6 years	7 million	Management and maintenance of production installations and the market heat distribution network
Solvay site, Tavaux	June*	New	20 years	500 million	Biomass electricity production plant
SMURFIT plant Facture, Gironde	August	New	20 years	1,002 million	Biomass electricity production plant
Europe (excluding France)					
Nova Karolina (Czech Republic)	June	New	30 years	26.6 million	Contract for the supply of cooling services to the new Nova Karolina neighborhood in Ostrava
OC Forum (Czech Republic)	December	New	25 years	22 million	Supply of heating and cooling services to the new shopping mall, OC Forum in Usti
FINEP (Czech Republic)	July	New	15 years	25.7 million	Construction and operation of thermal installations for new residential accommodation in Prague

8 Revenues expected under the contracts won in 2008 have been converted into euros at the closing exchange rate as of December 31, 2008 and represent the portion due to Dalkia under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier press releases.

Rest of the World					
Asia					
Myongji Medical Foundation Hospital (South Korea)	February	New	5 years	6.5 million	Installations management contract: supply of heating, cooling and electricity services to the Hanbul hospital
Queensbay Mall, Penang (Malaysia)	July	New	5 years	15 million	Contract for the supply of energy, the maintenance of electrical and mechanical installations and facilities management
South America					
City of Sao Luis (Brazil)	May	Renewal	5 years	26 million	Comprehensive management of the city's public lighting
Middle East					
Bahrain City center shopping mall (Bahrain)	December	New	3 years	4.5 million	Contract for the operation and maintenance of the site, energy monitoring and optimization and mechanical, electrical and plumbing maintenance services

* Date of contract award and of grant of the operating licence.

Main acquisitions and divestitures in 2008

In 2008, Dalkia continued its European expansion with various acquisitions and major projects and in particular the acquisition of the Polish group, Praterm, in February 2008.

In addition, the Energy Services Division consolidated for a full year the number two U.S. urban heating network management company, Thermal North America Inc., acquired in 2007.

Finally, Dalkia continued its development in the solar energy sector, with the acquisition of the Spanish company, MECANOVA, on April 25, 2008.

On December 16, 2008, Dalkia finalized the sale to Eiffage of Clemessy and Crystal, two companies providing electrical installation and maintenance and climate engineering services, respectively.

In total, over the course of 2008, Dalkia created or purchased 62 companies, and sold, liquidated or merged 42 companies. As a result, Dalkia held 528 consolidated companies, including 315 foreign companies, as of December 31, 2008.

6.1.3.4 Transportation

Veolia Environnement, through its Transportation Division, Veolia Transport, is a leading private operator of public transportation in Europe. Veolia Transport operates passenger transportation services on behalf of national, regional and local authorities.

Veolia Transport has been managing and operating urban, regional and interregional road and rail networks and maritime transport for more than a century, having won its first tramway concessions at the end of the 19th century.

Veolia Transport estimates that the worldwide transportation market currently represents revenue of €460 billion, of which only 15%, or approximately €70 billion, is currently open to competition. Growth potential therefore stands at around €390 billion. The opening of transportation markets to competition in recent years has been particularly significant in Europe, but has also occurred on other continents. Thus, by 2016, the worldwide public transportation market is expected to generate estimated revenue of €760 billion, with €100 to 200 billion open to competition.

Moreover, the global trend towards greater urbanization automatically increases the need for mass transportation services, thus strengthening the market potential in areas that Veolia Transport seeks to service. The Company, alongside the other Divisions of the Group, represents a major and steady contributor to Veolia Environnement's integrated environmental services offering.

As of December 31, 2008, Veolia Transport had 83,654 employees around the world. It has a presence in more than 28 countries, and conducts its business mainly in Europe, North America and Australia. While continuing to strengthen its position in France and the French overseas departments and territories, Veolia Transport also has a strong presence outside of France, where it earns approximately 60% of its revenues. In 2008, Veolia Transport continued its growth in North America, Asia and Europe. Veolia Transport estimates that it provided transportation to more than 2.6 billion passengers in 2008, and that it managed contracts with approximately 5,000, public authorities.

The following table shows the consolidated revenue (revenue from ordinary activities under IFRS) and operating income of the Transportation Division, after elimination of inter-company transactions.

Transportation

(€ million)	2008	2007	Change 2008/2007
Revenue	6,054.1	5,590.1	8.3,%
Operating income	145.4	130.3	11.6,%

Overview of the Transportation Business

Veolia Transport mainly operates passenger transportation networks and regular services in accordance with public service specifications (covering schedules, routes and fare structures) set by the competent public authorities (which generally retains ownership of the infrastructures). Contracts are awarded following public tenders.

Veolia Transport primarily conducts its business through the outsourced management of transportation activities, under conditions and structures that differ from one country to another due to varying legal and regulatory requirements. The relationship between the public authority and the transportation company is governed by fixed-term contracts that determine the risks to be borne by each party and the remuneration of the transportation company. As the fares charged by Veolia Transportation to passengers of its transportation networks are usually insufficient to cover costs, the public authority typically provides Veolia Transportation with a payment or other compensation for services rendered. Moreover, in the case of certain contracts, Veolia Transport is paid a flat fee for its transportation services and consequently does not bear the risks associated with lower receipts or decreased passenger use (such contracts are referred to as "Public Market" contracts in France).

Management contracts generally have a term of 2 to 12 years, with the exception of "operating concessions," which have an average term of 30 years.

Veolia Transport's activities fall into five main categories:

- urban mass transportation (urban transport, urban beltway and other specific transportation services);
- intercity and regional transportation;
- industrial markets (rail freight and related logistic services);
- infrastructure management and airport services
- transportation management (passenger information services, clearing-houses, call centers).

Urban Mass Transportation

Veolia Transport operates a number of bus networks, suburban trains, tramways and metros, and provides customized transportation-on-demand services. Veolia Transport is either partially or fully responsible for designing, planning and operating services, managing personnel, providing drivers and ticket inspectors, marketing efforts and customer service, as well as the maintenance, cleanliness and security of vehicles and network stations.

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

Veolia Transport operates also ferry services in tandem with its bus services in various urban areas. This is notably the case of services provided in Toulon harbor and services to the Morbihan islands in France, and services provided in Finnmark (Norway) and in Sweden.

Urban and Suburban Transportation

In France, Veolia Transport operates the tramway, bus and light rail networks in Rouen, Saint-Etienne, Nancy, Nice and Bordeaux. It also manages bus networks in some 40 French cities.

Veolia Transport has a strong presence in the Greater Paris region, where it operates numerous bus lines in the intermediate suburbs of Paris and the greater metropolitan area. It is the main private operator in the region, operating the bus networks of Melun, Rambouillet, Argenteuil, St. Germain-en-Laye and Seine-Saint-Denis and several highway express routes.

In Northern and Central Europe, Veolia Transport operates tramway, metro and light rail networks in Görlitz and Berlin (Germany), Dublin (Ireland), Trondheim (Norway) and Norrköping. It also operates the Stockholm metro (Sweden) and bus routes in Scandinavia, the Netherlands, Switzerland, the Czech Republic and several cities in Poland.

In Southern Europe, Transporte España SL, a wholly-owned subsidiary of Veolia Transport, won a public tender to operate the Bilbao urban network, which came into effect on August 1, 2008. This enabled Veolia Transport to consolidate its position in Northern Spain where it also operates the Pamplona urban bus network. Via its subsidiary FCC-Connex, a joint venture with the Spanish group FCC, Veolia Transport manages urban transportation services in several other cities, including the Barcelona tramway.

In the United States, Veolia Transport provides bus transportation services principally in California, Arizona, Nevada (Las Vegas), Colorado, Texas, Maryland and Virginia. Veolia Transport also manages suburban train services in Boston (MBCR), Los Angeles (Metrolink), San Diego (Sprinter) and Miami (Tri-Rail). In Austin (Texas), it is also operates rail freight services.

In Australia, Veolia Transport operates the entire suburban rail network of Melbourne as well as the monorail and light rail network of Sydney and bus services in Perth, Brisbane and Sydney. In New Zealand, Veolia Transport operates regional train services around the capital city, Auckland.

In India, work started on November 1, 2008 on the contract for the preparation, launch and operation of the future metro line 1 in Mumbai, scheduled for opening in 2012. Veolia Transport also submitted a bid in February 2008 for a sub-contracting contract for the operation and maintenance of line 2 of the Mumbai metro, as part of a consortium led by its local partner, Reliance Infrastructure Ltd.

In the rest of the world, Veolia Transport operates, through partnerships with other operators, a high-frequency right-of-way bus system (BRT: Bus Rapid Transit) in Bogota (Colombia), a network of bus lines in Santiago, Chile and three urban bus networks and inter-city bus lines in Israel.

Other Transport Services (transportation-on-demand, para-transit, taxis, etc.)

Veolia Transport offers innovative transportation services in certain cities that supplement traditional transportation networks. For example, Veolia Transport offers Créabus, an on-demand minibus service that is tracked by a Global Positioning System, or GPS, which operates in Dieppe, Vierzon, Bourges, Bordeaux, the Greater Paris region and Fairfax (United States). Veolia Transport also manages all transportation on-demand services in the North Brabant region and Limburg in the Netherlands. Veolia Transport manages taxi services in the United States, in particular in Baltimore, Denver, and Kansas City and in the Netherlands, France and Sweden. It provides transport for persons with reduced mobility in Bordeaux and other regions of France, in Canada and in the United States (para-transit), in particular California, Arizona, Nevada, Texas, Maryland and South Carolina.

In addition, Veolia Transport decided in 2007 to add “self-service bike hire” to the range of services offered to local authorities. Via its specialist subsidiary, Veloway, Veolia Transport won contracts to operate self-service bike hire systems in the city of Vannes and Greater Nice. Bike pools comprising some 180 bikes in Vannes and 1,750 bikes in Nice are expected to be brought into service soon.

Intercity and Regional Transportation

Veolia Transport provides regional transportation services through the operation of road and rail networks. As with urban transportation services, Veolia Transport is responsible for designing, planning, operating and maintaining the network and stations and ensuring their security, as well as selling tickets and providing customer service.

In France, Veolia Transport has a strong presence in the intercity and school transportation markets, covering over 60 French departments across the country. Veolia Transport also operates a number of regional rail networks, covering approximately 300 kilometers, through contracts with regional public authorities (notably in the Provence-Alpes-Côte d’Azur region) and through sub-contracts with the French national railroad company, SNCF (notably in Brittany). In December 2008, Veolia Transport signed a 12-year inter-city bus transportation contract with the Oise department.

In Europe, Veolia Transport has a strong presence in Germany, with over 2,500 kilometers of regional railway lines.

Through its subsidiary, Eurolines, Veolia Transport provides transport by motor coach on regular international routes serving over 1,500 cities throughout Europe.

In the rail transportation sector in the United States, Veolia Transport operates suburban networks in Boston and Los Angeles, the Sprinter network in South Los Angeles, the Miami suburban network and rail services around Austin, Texas.

Veolia Transport continues to develop ferry transportation services in areas such as Finnmark and Norrland (Norway), Zeeland province (Netherlands) and Gothenburg (Sweden) , as well as through its 66% shareholding in the Société Nationale Maritime Corse Méditerranée (SNCM)[9], which manages passenger and freight maritime transportation services between Marseille, Nice, Corsica and North Africa.

Industrial Markets

Other than personnel road transport services provided by subsidiaries in France, such as at the Eurocopter site in Marignane, and in the rest of Europe, Veolia Transport industrial activities primarily focus on rail transport (freight transport and management of industrial rail junctions and related logistics). This activity generates approximately 3.1% of revenue.

Rail freight transportation

This business is operated in Europe through Veolia Cargo, with the support of national subsidiaries in Germany, Italy, Belgium, France and the Netherlands.

In the rail freight sector, Veolia Transport operates a number of regional, national, and international freight trains throughout Western Europe.

In 2008, Veolia Cargo strengthened its position in Europe and notably Germany and the Benelux countries, with the acquisition and consolidation of Rail4Chem. The creation of a subsidiary in Switzerland enabled the launch of North-South rail traffic via Switzerland.

Veolia Cargo also strengthened its presence in the French domestic market and diversified its customer portfolio, notably by signing several contracts in the agri-food sector.

Moreover, in the industrial rail junctions and related logistics sector, Veolia Cargo, through its subsidiaries in France and Germany, manages industrial and port rail junctions for major industrial customers (in particular in the steel and refining industries), with factories that are connected to the national rail network.

Veolia Transport is therefore a major player in the European rail freight sector, offering a wide range of services from straight-forward transportation to comprehensive logistic services, irrespective of the distance, the goods to be transported or the form they take.

Hub management and airport services

Management of airport infrastructures

After entering the airport management market in 2007 with the management contract for the Nimes-Garons Airport, Veolia Transport currently operates, maintains and manages the two largest French regional airports, Beauvais and Lille-Lesquin, in partnership with the Oise Chamber of Commerce and Industry and the Greater Lille Chamber of Commerce and Industry and SANEF, respectively.

Paris-Beauvais Airport, which specializes in the development of a "low-cost" offering, welcomes some 2.4 million passengers annually. With constantly rising traffic volumes (forecast at around 3 million passengers by the end of the concession term in 2022), the construction of a second terminal and the installation of a new ILS (instrument-landing system) is necessary. The operation and maintenance of the Beauvais Airport hub was awarded for a period of 15 years, commencing March 1, 2008, to SAGEB, a company owned 51% by the Oise Chamber of Commerce and Industry and 49% by Veolia Transport. This contract also encompasses the operation of a stage coach service linking Beauvais and Paris, and the maintenance of installations and the construction of commercial infrastructures at the hub.

The Lille-Lesquin Airport is a general hub that receives both regular and occasional (charter) traffic. With over 68,000 tons of freight in 2007, it is also a major air-truck freight hub. The aim is develop activity at the hub, with an objective of 1.6 million passengers and 130,000 tons of freight annually by 2018. In December 2008, the Greater Lille Chamber of Commerce and Industry was selected to continue managing and operating the regional airport hub in partnership with Veolia Transport and SANEF, via a special purpose entity owned 34% by Veolia Transport.

In Beauvais and Lille, the expertise of all Veolia Environnement Group Divisions will be mobilized for the success of ambitious environmental programs: selective recycling and waste-to-energy recovery of non-recycled waste, preservation of air quality, optimization of water and energy consumption, solar energy farm project in Lille, diversification of access methods (shuttle bus, transportation-on-demand, etc.).

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9 Since December 15, 2008, Veolia Transportation's equity stake in SNCM is 66% (compared to 28% previously) alongside the French State (25%) and company employees (9%).

Airport Groundhandling Services

This business covers a wide range of services for airlines in the airport zone, such as the transportation of freight, baggage handling, maintenance of and fuel distribution to vehicles, assistance to airlines on stop-over and all “runway” and “traffic” activities relating to aircraft departures and arrivals. These services are currently primarily offered at the Roissy – Charles-De-Gaulle hub by the company, VE Airport.

Veolia Transport also manages airline passenger transportation services inside airports.

Transportation Management

Growth in Veolia Transport’s businesses also depends on increased use of public transportation networks, which is in turn closely linked to the quality of service provided by these networks.

Veolia Transport focuses its efforts on matching service offerings with demand for such services, and developing passenger information services. For this purpose, Veolia Transport developed “Optio”, a comprehensive passenger information system (call center, Internet, text messages and WAP) covering all transportation networks in a region (regardless of the operator). This system currently operates in the French departments of Oise and Isére. Similarly in Australia, the real-time information system, “SMS-Updates”, covering the Melbourne rail network, notifies users of service interruptions or delays through text messages sent to their mobile phones. This system is also installed in Stockholm.

In addition, Veolia Transport has recently created several internet sites that allow users to prepare their itineraries using local transportation systems in France and Australia.

Description of activities in 2008

In 2008, the Transportation Division reported revenue growth of 8.3% compared to 2007 at current exchange rates and 10.6% at constant exchange rates.

In the road transportation sector, Veolia Transport signed a contract in 2008 for the management of the Bilbao bus network in Spain and won and renewed several contracts of average size, notably in France (Department of the Seine Saint-Denis, Royan and La Rochelle) and Europe (the Hague, etc.).

Veolia Transport strengthened its presence in the rail sector in 2008. After the United States, France, Australia, the Netherlands, the Czech Republic and Sweden, Veolia Transport continued its expansion notably in Germany, with the win by its local subsidiaries of a number of contracts, including a portion of the Leipzig urban express network, the regional express network serving the Brême and Lower Saxony regions and the Niers-Rhein-Emscher network in the Ruhr region.. These contracts, which should represent aggregate estimated revenue over their term in excess of €1 billion, make Veolia Transport the leading European private operator of regional rail services.

Key events last year include Veolia Transport’s continued development of airport hub management and operating activities, with the signature of operating, management and maintenance contracts for the two largest French regional airports, Beauvais-Tillé and Lille-Lesquin, following the Nimes–Garons airport contract signed in 2007. In addition to airport hub management and comprehensive operating services, Veolia Transport also offers shuttles services, notably in the United States, Germany and France.

Through its various Divisions, Veolia Environnement is now present in over 20 airports in France and abroad, with inter-divisional synergies offering a real competitive edge.

The revenue represented by contracts not renewed in 2008 is not significant compared with total revenue of the Transportation Division. Legal action has been taken and is currently in progress concerning the legality of the tender process which led to the renewal of contracts in Bordeaux (bus and tramway network) and Stockholm (subway management), not being awarded to Veolia Transport at the end of 2008.

Major Contracts in 2008

The following table shows the major contracts signed in 2008 with either public authorities, industrial or service sector companies[10].

Public authority or company and location thereof	**Month of signature of contract**	**New contract or renewal**	**Contract term**	**Estimated cumulated revenue** *(in euros)*	**Services provided**
France					
Beauvais Airport	March	New	15 years	238 million	Management and operation of the Beauvais-Tillé airport hub
Lille Airport	December	New	10 years	61 million	Management and operation of the Lille Lesquin airport hub
Oise Department	December	New	12 years	334 million	Operation of the Oise department bus transportation network (inter-city)
Europe (excluding France)					
Bilbao (Spain)	July	New	8 years (plus 2 years at the customer's option)	305 million	Management of the Bilbao urban bus network
Dublin (Ireland)	October	Extension	5 years	175 million	Operation and management of the Dublin tramway
North America					
Seattle	May	Partial renewal	5 years	74 million	Renewal of the Seattle para-transit contract
Los Angeles	May	New	5 years	36 million	Operation of regular bus passenger transportation routes and maintenance services
Baltimore	August	Renewal	3 years	39 million	Renewal of the Baltimore para-transit contract
California	October	New	6 years	82 million	Maintenance of the railway lines and infrastructures relating to the Metrolink passenger rail transportation contract in South California
Australia and New Zealand					
Auckland	December	Extension	4 years	110 million	Passenger rail transportation in the Auckland suburbs
Sydney	August	Extension	5 years	30 million	Passenger transportation by light rail and monorail in Sydney and its surrounding suburbs

10 Revenues expected under the contracts won in 2008 have been converted into euros at the closing exchange rate as of December 31, 2008 and represent the portion due to Veolia Transport under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier press releases.

Asia					
Mumbai (India)	December	New	8 years (incl. 5 years of operation)	70 million	Operation from 2012 of the Mumbai metro line 1

Main acquisitions and divestitures in 2008

In 2008, Veolia Transport continued its expansion, making a number of acquisitions outside France, such as the acquisition of Golden Touch Transportation in the United States, a supplier of transportation-on-demand services (taxis, limousines, minibus and bus), notably to international airports. Veolia Transport also bought out the 19% stake held by a minority shareholder in the share capital of Veolia Transportation-on-Demand (company serving over 17 airports in the United States), increasing its stake to 100%.

In China, Veolia Transport created in December 2008 with Nanjing Zhongbei, a major public transportation operator in Nanjing, a joint venture held 49% by Veolia Transport China Ltd, for the operation of transportation networks in six Chinese cities, including Nanjing and cities with an average population of between 500,000 and 1,500,000, for a period of 30 years. The company should generate estimate revenue of over €40 million in 2009 (including approximately €20 millions for Veolia Transport). The six transportation networks will count 6,500 employees and 2,000 buses and will transport 360 million passengers each year.

In Lebanon, Veolia Transport finalized during summer 2008 the sale of Connex Liban SAL and its subsidiaries, an inter-city bus transportation company operating between Beirut and Tripoli.

In France, Veolia Transport is now the sole shareholder of VE Airport, following the buyout on December 12, 2008 of the 40% stake held by the minority founding shareholder. Veolia Transport also increased its interest in Société Nationale Maritime Corse Méditerranée (SNCM) from 28% to 66%, alongside the French State and company employees (who hold 25% and 9% of the share capital, respectively) following the buyout on December 15, 2008 of the stake held by Butler Capital Partners.

Finally, during the second half of 2008, Veolia Transport launched a major legal restructuring of its UK, Irish, Belgian, Dutch and Norwegian subsidiaries, held until then by a Northern Europe holding company, Veolia Transport Northern Europe. Each holding company is now owned directly by Veolia Transport. This reorganization took effect in January 2009.

As of December 31, 2008, Veolia Transport comprised 530 consolidated companies, compared to 528 as of December 31, 2007. During the year, 52 companies were consolidated for the first time, 35 companies were merged and 15 companies were liquidated or sold.

6.1.3.5 Development of synergies: Multi-service contracts to the benefit of industrial and service sector customers

Outsourcing and multi-service market

The position forged over several years by Veolia Environnement in the industrial services market and, more recently, the public and private service sector market, reflects the synergies that exist between the four Divisions, which enable it to provide management services covering a wide range of services. Growth in this market, of over 10% annually, is primarily driven by the expansion of outsourcing, as industrial companies seek to confer the management of certain ancillary activities to third party service providers.

This outsourcing trend applies to several Veolia Environnement businesses, including energy services, management of the water cycle, waste processing and recovery, on-site management of rail junctions and rail freight transport. Veolia Environnement offers a “multi-service” alternative to its customers, which involves the provision of services by several of its Divisions under a single contract. This option enables Veolia Environnement to better satisfy the expectations of customers who wish to outsource a range of services to a single service provider.

From an operational standpoint, the customer relationship changes: the service provider becomes the customer’s sole contact and a dialogue develops to seek solutions which satisfy the interests of both parties. This approach also allows for greater technical synergies, economies of scale and mutual commercial benefits.

Veolia Environnement's multi-service contract signed in 2003 with PSA Peugeot Citroën, is a good example of these synergies. The subsidiary that was created to service this contract, Société d'Environnement et de Services de l'Est, manages all environmental services at Peugeot's sites in eastern France, which involves more than twenty different activities. By delegating such a broad range of activities to Veolia Environnement, PSA Peugeot Citroën is able to ensure that its sites comply with regulations while achieving significant cost savings. These savings are mainly the result of an overhaul of the previous organization and work plan, the implementation of skills training programs, the taking over of management activities that were previously sub-contracted, and the implementation of a new energy policy. In 2005, the economic and operational success of this partnership led the PSA group to seek the same scope of services from Veolia Environnement at its new facility in Travna (Slovakia).

Veolia Environnement Organizational Structure for the Provision of Multi-services

In order to develop this multi-service activity, Veolia Environnement set up a specific structure to coordinate these activities without replacing the Divisions, each of which remains responsible for the ultimate performance of services falling within its area of expertise.

The project structure Veolia Environnement Industries ("VEI") manages Veolia Environnement's bids for multi-service contracts, and a project manager from VEI is appointed for each multi-service contract. Commercial projects and bids are prepared in conjunction with Veolia Environnement's Divisions, and are then reviewed by a commitments committee before being presented to customers.

The contract is then performed by a dedicated, special purpose entity managed in part by the Divisions involved in the project, in particular if Veolia Environnement decides to takeover the customer's personnel.

Multi-services Business Activity

The Group's activities in the multi-service market primarily consist of approximately 15 major contracts, which together generate average annual revenue of more than €480 million and are expected to generate cumulated revenue over their term in excess of €3.3 billion. The average contract term is ten years.

Multi-service activities have a strong international dimension, and particularly industrial customer investment abroad involving the construction of new factories (so called "Greenfield" sites). This is notably the case for Arcelor in Brazil, PSA Peugeot Citroën in Trnava (Slovakia) and La Seda de Barcelona in Sines (Portugal).

Under a multi-service contract renewed in December 2007 for 7 years with Novartis and relating to the pharmaceutical group's site in Basel (Switzerland), Veolia Environnement renovated and took over operating responsibility for what is now the largest waste incinerator in Switzerland. This installation, a reference of excellence in Europe, can process, under optimal efficiency and security conditions, some 30,000 tons of industrial waste, including highly toxic products (e.g. PCB). The waste incinerator generates steam that feeds a turbine producing 5,500 MWh of electricity annually, equivalent to the consumption of approximately 4,000 households. The steam recovered downstream of the turbine feeds a neighboring heating network.

In April 2008, Veolia Environnement signed a contract with Artenius, a subsidiary of the La Seda de Barcelona chemical group, for its new site in Sines, south of Lisbon (Portugal). Veolia Environnement will build and then operate the production plant for all utilities, including steam, electricity, demineralized water, industrial gas and effluent treatment. Utilities production (including a 40 megawatt co-generation electricity plant) is scheduled to commence in the last quarter of 2009. Veolia Environnement's offer has been optimized to limit environmental impacts, in particular by installing an anaerobic effluent treatment process in order to reduce the volume of waste and recover biogas, which will be used instead of natural gas to produce steam. This 15-year contract will generate cumulated revenue estimated at €730 million.

Under multi-service contracts signed in May and July 2008 with Diageo, Veolia Environnement has been entrusted with the construction and operation of treatment installations for solid by-products and effluents produced by two Scottish sites in Elgin and Cameron Bridge. The solutions adopted enable the recycling of water and the waste-to-energy recovery of liquid effluents through the production of methane and of biomass through the treatment of solid by-products. Consequently, between 66% and 98% of the industrial customer's steam requirements will be covered by biogas or biomass.

In September 2008, Veolia Environnement signed a multi-service contract with General Motors at its Luton site, north-west of London. This site houses the head office of General Motors UK and produces 100,000 utility vehicles annually. Services provided by Veolia encompass the management and maintenance of utilities (water and energy) and installations (management of buildings and roads, excluding industrial maintenance). This 5-year contract will generate cumulated revenue estimated at GBP16 million.

In April 2008, Veolia Environnement joined forces with Clairvoyant Energy, a U.S. company specializing in the development of photovoltaic solar projects, and the government of Aragon, for the construction and operation of the world's largest rooftop photovoltaic solar power station at the General Motors plant in Figueruelas, near Saragossa in Spain. With installed power of 12 megawatts, annual output is expected to reach 15.1 million KWh, sufficient to satisfy the electricity requirements of some 4,600 households. The solar power station will feed electricity into the local Red Electrica grid, which will then be sold to Endesa under a contract guaranteeing a preferential rate for 25 years. The construction phase, led by Veolia Environnement, lasted less than one year and the plant was turned on at the end of September 2008.

Multi-service contracts signed in 2008 [11]

Company	Location	Month of signature of the contract	New contract or renewal	Contract term	Estimated cumulated revenue *(in euros)*	Services provided
Artenius (La Seda de Barcelona)	Sines (Portugal)	April	New	15 years	730 million	Supply of utilities: steam, electricity, demineralized water, industrial gas, treatment of effluents
General Motors	Luton (UK)	September	New	5 years	16,8 million	Maintenance of utilities (water and energy) and installations (management of buildings and roads)
Diageo	Scotland	May and July	New	15 years	210 million	Management and treatment of waste and effluents at the Elgin and Cameron Bridge distilleries

6.2 MARKET OVERVIEW

6.2.1 The market for environmental management services

The market for environmental management services emerged only recently and comprises drinking water treatment and distribution, wastewater treatment and collection, waste management, energy services (excluding the production, trading and sale of electricity) and transportation. Traditionally, the opinion was, and often remains, that these services have little in common and should be outsourced to individual providers. Moreover, many public authorities and industrial and service sector companies satisfied their own environmental needs without calling on private firms specialized in these areas. This situation has changed significantly in recent years. The need to take action to prevent further damage to the environment has become a global reality. There is a growing need for excellence and efficiency, which has led decision-makers to seek a global approach to the management of activities having an impact on the environment with a view to developing solutions that allow interaction between and optimization of these environmental management services. These measures, now largely shared, have led to an increased demand for integrated environmental management services. This trend has increased with the continued global expansion of companies, which has generated a need for environmental management service providers who are able to respond to their customers needs on an international scale.

Veolia Environnement considers that the demand for external and global environmental management services is likely to grow around the world for the following reasons:

- Faced with increasingly strict environmental standards, public and private players do not always have the necessary technical or operational resources that specialist private operators can mobilize to deal with environmental problems effectively and at minimum cost; they therefore seek the legal security offered by an operator that accepts responsibility for the management of these activities. Expertise in environmental regulations is a determining factor in the choice of operators and an asset which sets Veolia Environnement apart from the competition.

[11] Contract revenue was translated into euros at the closing exchange rate as of December 31, 2008. As such, amounts indicated may differ from those reported in Group press releases.

- In addition, public demand, which now widely reflects a concern for sustainable development, must respect commitments made at international level and set exemplary standards. In a world that combines accelerated urbanization with demographic growth, major investments in environmental projects and services, as well as sustainable management, are needed in order to provide growing urban populations with adapted environmental services and replace existing environmental infrastructures.

Nonetheless, the financial difficulties that plague all economic players, whether they are public authorities or private companies, could lead to certain decisions being postponed, especially when they involve new investment.

However, these financial restrictions could also encourage public authorities and companies to seek the most cost efficient solutions and lead them to consider outsourcing part of their activities, or turning to a specialist service provider able to set-up a structure satisfying these requirements. They often seek to simplify the contractual process by entrusting the performance of highly varied services to a single partner, offering numerous opportunities to companies able to propose a wide range of integrated environmental management services. Increasingly, they expect service offers that both reflect their specific requirements and are adaptable and which have been tailored to closely match their expectations. Finally, they expect the organizational structure to generate productivity gains, to be shared by both parties.

Veolia Environnement believes that each of these trends, taken individually, offers significant opportunities and, taken as a whole, they enable the Veolia Environnement Group to provide high quality, innovative, and depending on customer needs, integrated environmental management services in markets around the world. In order to seize these opportunities, the Company must, more than ever, strive to offer competitive prices.

6.2.2 Customers

Veolia Environnement provides environmental management services to a wide range of public authorities, industrial and service sector customers and private individuals around the world.

Public Authorities

Demand from public authorities (often small local authorities that are increasingly pooling resources) is influenced and strengthened by the search for quality, efficiency, innovation, the rationalization of public procurement and cost reduction (by integrating operating concerns from the design stage), and by a commitment to assuming their responsibility for the environment and particularly 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.

Veolia Environnement has the know-how to adapt to customer expectations and needs, but it believes that its global contract model, which gives the Company the ability to provide services tied to performance obligations, as well as, depending on customer needs, to design, build and even finance necessary investments, remains as relevant as ever. It contributes to innovation and efficiency through mutual research efforts, stimulated by the periodic competitive tendering of contracts. This model takes on different legal forms depending on the traditions in each country. Certain countries, including those governed by European Union law, distinguish public markets from concessions (or other forms of Public Private Partnership, or PPP) based on whether the service is provided to a public entity or directly to the end user and depending on whether the contract focuses on the service to be provided or the construction of infrastructure and the extent of revenue risk borne by the company.

In France, since the middle of the 19th century, public authorities have generally chosen to entrust the management of public services (water, sanitation, transportation, waste collection, urban heating) to companies under contracts that were traditionally considered to be concessions (or operating contracts in the absence of an investment component) and which are now classified by law as public service delegation contracts, but which remain concessions under the European Union definition. They have frequently preferred, at least for certain public services, to retain control over the construction of installations, as well as their financing, before making them available to the service provider for the term of the contract.

In the last few years, a new trend has emerged whereby public authorities in all countries, including France, have asked companies to manage not only the design and construction of the necessary public infrastructures, installations and equipment (as varied as administrative and educational buildings, hospitals, transportation infrastructure, prisons, wastewater treatment facilities or household waste processing plants), but also their financing and long-term maintenance before recovering them at the end of the contract. Two main categories have emerged from these contracts, which, together, are often qualified as PPPs. In the first case, which includes contracts belonging to the market category, the resources intended to cover the cost of infrastructures and their financing are similar to a price paid or guaranteed by the public authority, and the service is provided to the public authority using the completed infrastructures. In the second case, which includes contracts equivalent to concessions as defined by the European Union, the resources must be obtained through the commercial operation of the public service (the public or general-interest service whose operation has been delegated) which is the main purpose of the contract, the construction of infrastructure only providing the necessary means. Different IFRS accounting treatments apply in each case (recognition or not of a financial asset corresponding to a receivable from the public authority). We prefer to distinguish these PPPs based on the nature of the services entrusted, such as “Build Operate Transfer” (BOT) with financing, or “Design, Build, Operate” (DBO), with design but excluding financing.

In France, as the Public Procurement Contracts Code (*Code des marchés publics*) progressively prohibited entrusting companies with construction and operating activities on the one hand, and any financing of commissioned work on the other, it became necessary, in order to encourage the development of this type of global PPP contract (which does not fall into the public service delegation category, the French term for EU concessions), to create a new category of contracts classified as partnerships by an order dated June 17, 2004.

This contractual model between a public entity responsible for providing a collective service and the company operating this service, whatever its legal form, is frequently used, but is not the only model available. The development of its use is often slowed by preconceived ideas entrenched in a country’s history, which require the management of certain services to inhabitants, such as water distribution, to be provided by public entities. The Company therefore offers its services to these entities. Conversely, public authorities may decide that they should not be directly involved in the provision of some of these public services, even general interest services. In such cases, they usually do not own the facilities or networks, and do not enter into contracts with preferred private operators; instead, they leave the provision of the public service to the market. Sometimes, however, they verify the competence of private operators by issuing operating licenses and regulating service conditions and prices, although they may limit their intervention to ensuring compliance with general regulations. This situation rarely arises with respect to water services, considered essential, but is more common for energy services, waste management and transportation. Public authorities may also demonstrate their interest in the services rendered by taking an ownership interest in the private operator. Veolia Environnement may seek to acquire a stake in such operators.

Services Sold Directly to Individuals

The Company also offers household services directly to private individuals through its specialized subsidiaries. These services include assistance and maintenance of privately-owned water installations (located on private property after the water meter) and heating and gas installations.

Industrial and Service Sector Companies

Veolia Environnement offers its industrial and service sector customers a wide range of services, covering two major environmental goals: firstly, providing customers with the utilities necessary for their industrial processes (steam, industrial heating and cooling, process water, demineralized water, compressed air, etc.) and optimizing consumption and, secondly, 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.

Veolia Environnement offers customers innovative solutions tailored to the needs of each industrial site. It adopts a long-term partnership approach, entering into long-term contracts which require services to take account of changes in customer requirements or their business.

Veolia Environnement considers that the further development of its industrial customer base offers considerable growth potential. In particular, the importance of multi-service contracts with industrial customers is constantly increasing (see Section 6.1.3.5 above).

6.2.3 Competition

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

Competition in each of the markets in which Veolia Environnement participates is based primarily on the quality of the products and services provided, and the suppliers’ reliability, customer service, financial position, technology, price, reputation and experience in providing services. Additional considerations include the ability to adapt to changing legal and regulatory environments, as well as the ability to manage employees accustomed to working for public authorities or non-outsourced departments of industrial or service sector companies. In each of the markets in which Veolia Environnement operates, its competitive advantages are its technological and technical expertise, its financial position, its geographical reach, its experience in providing environmental management services, its management of outsourced employees, and its ability to comply with regulatory requirements.

In the environmental services to industry sector, Suez Environnement provides a range of services including energy, water and waste management. In the energy sector, the GDF-Suez merger does not significantly change Veolia Environnement’s competitive position, even if the merger of Cofatech (GDF) and Elyo (Suez) not only produced the most powerful competitor but also simplified the market. Certain players are originally from neighboring industrial sectors and are seeking to extend the scope of their business. This is the case for the subsidiaries of certain energy providers, notably in the heating network sector (Vattenfall, RWE). Companies specialized in electronic installation, such as Cegelec, have also expanded their environmental services offering. In the facilities management sector, companies such as Johnson Controls seek to provide multi-service offers to their commercial clients. Cleaning companies, such as ISS, are looking to expand their offerings and to provide solutions that extend beyond the cleaning business. Finally, among new competitors, GE announced its intention to expand its business into the water sector. However, the vast majority of competitors do not offer the same range of technical expertise in environmental services as Veolia Environnement. Therefore, in certain cases, Veolia Environnement's competitors are required to set up special purpose entities to cover the service scope required by customers.

Veolia Environnement expects that its competitors in individual sectors will, in the coming years, seek to expand their activities to become integrated environmental management service providers. This change has been prompted by the desire of potential clients to outsource a larger portion of their business. It was therefore observed a development of companies with worldwide capabilities focusing on multi-site and international calls for tenders, such as Jones Lang Lasalle in facilities management. Industrial service providers are also moving towards greater consolidation by creating multi-service subsidiaries. This is the case of Voith in Germany.

A new form of competition has developed over the last few years due to the growing role of financial groups such as infrastructure funds (Macquarie Bank, etc.) or private equity funds. Although they are not global or strategic competitors, these players are often present in privatization tenders and asset sales and can occasionally compete with the Group for growth opportunities. The development of PPP has also resulted in the emergence of new players from the construction sector that are able to manage the major construction and financing challenges required by these operations. Service providers such as Veolia Environnement may join forces with these companies as part of alliances formed to respond to tender offers. Such companies mainly include Bouygues, Vinci and Eiffage.

Finally, it is important to note that Veolia Environnement's main competitor is often the customer itself. Customers systematically compare the benefits and advantages of outsourcing with maintaining the status quo.

With regards to the provision of environmental services to public authorities, there has been a tendency in France in recent years towards a return to local government control, which has reduced the number of delegated management contracts available on the market. In Germany, the *Stadtwerke* play a leading role in the environmental services market (in the areas of water, waste management and energy services). In a number of countries in Eastern Europe, markets are slowly opening to competition, albeit partially. This trend nonetheless remains limited. Finally, new players from the public works and building sectors could look to offer services in the service market involving major and/or complex new investment, which subsequently require the provision of services (e.g. construction of a hospital which then requires operation and maintenance of common and technical services). These new players may provide services as part of a BOT or concession contract or, in France, as part of a "partnership contract" authorized by the new regulation of June 2004. The emergence of such new players is a natural outgrowth of the development of a global service market integrating the construction and financing of the infrastructures necessary to the performance of services, which then revert to the customer at the term of a contract. For the moment, however, these new players act on a project-by-project basis, and do not seem to have a global strategy for establishing a competitive presence on the market.

Water

The main international competitor of Veolia Eau is Suez Environnement.

In national and regional markets, Veolia Eau has a number of local competitors, including both public and mixed private-public operators. Its main competitors in France are Lyonnaise des Eaux (Suez), Saur (Séché) and local public authorities.

In Spain, the Company's main competitors are Suez Environnement (via Aguas de Barcelona and Aguas de Valencia) and construction and public works companies such as Acciona, Aqualia-FCC, Sacyr and ACS. In the rest of Europe, the Company is in competition with ACEA in Italy, Gelsenwasser in Germany and RWE which, after initially announcing it would focus its activities on energy services, announced its intention to develop a Water business in Germany and Eastern Europe by serving local authorities to which the RWE Group already supplies electricity and gas.

In the United States, American Water (the shares of wich were initially publicly offered by RWE) and United Water (Suez) are solely present in the U.S. market. Through United Water and Degrémont, Suez Environnement purchased Earth Tech / AECOM operating contracts and the company Water & Power Technologies. In Latin America, Mitsui purchased Earth Tech Mexico as a springboard for future growth.

In North African, Middle East, Chinese and Indian markets, Veolia Eau is in competition with Asian companies (Singaporean companies such as Hyflux, Japanese companies such as Marubeni and Mitsui and Malaysian companies such as Ranhill) and Spanish companies (Acciona, Aqualia-FCC, ACS), as well as conglomerates, notably General Electric and Siemens, which have long shown their international ambitions in the market for water treatment technologies.

Environmental Services

Veolia Propreté' main competitors in its sector are either regional players, or cover only part of the services offered by Veolia Propreté.

In Europe (including Central and Eastern Europe), where Veolia Propreté conducts the majority of its business, its principal competitors are Suez Environnement, acting through its subsidiary SITA, Remondis and Biffa.

North America represents a promising growth market for Veolia Propreté, where its principal competitor is Waste Management. 2008 was marked by the merger of Allied Waste Industries and Republic Services, completed on December 5, 2008. This new group, renamed Republic Services Inc., comprises over 35,000 employees spread across 40 U.S. states and Puerto Rico and is expected to generate annual revenue of over €6 billion. It will be Veolia Propreté' main competitor in the region.

Finally, in the Asia-Pacific region, the Company's main competitors are Suez Environnement and various local companies.

Energy Services

The energy services market combines a diversified range of services and has many different types of market player. Veolia Environnement, through its Energy Services Division, therefore faces strong competition composed of sector-specific players. Only the Group formed by the GDF-Suez merger, with its energy services subsidiaries, Elyo and Cofatech, has the ability to offer a diversified and comprehensive range of services with a strong international presence that is comparable to Dalkia's own presence and services. Among sector-specific players, Dalkia faces the active presence of large local competitors such as ENEL, Vattenfall, Fortum, ATEL and EON.

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

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

Transportation

In the transportation sector, Veolia Environnement's principal competitors are large private operators, primarily French, American or British, and public companies (national or local) operating public monopolies.

The main private competitors on the global stage are the British groups Firstgroup, National Express, Stagecoach, Arriva and Go Ahead and the French groups Keolis and Transdev.

Firstgroup is the number one group worldwide in the provision of private public transport.

Keolis' main industrial shareholder is SNCF. The remaining 53% of its share capital is held by Axa Private Equity and the Caisse de Dépôt et Placement du Québec. Transdev, a subsidiary of Caisse des dépôts et Consignations, has an alliance with RATP.

Among Veolia Transport's largest public competitors are Deutsche Bahn (the national rail operator in Germany) and RATP and SNCF in France.

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

In Asia, companies with growing international ambitions represent new competitors in the European and Asian markets. These companies include, in particular, ComfortDelgro, the transport network operator in Singapore, which generates 40% of its revenue from international business, especially in China and the United Kingdom, and MTRC, the metro operator in Hong Kong, which participated in several railway calls for tenders in Asia and Europe.

6.2.4 Contracts

Contracts with public authorities under which the Company provides general-interest services to the public or public services, for which the local authority is responsible, can take a number of forms depending on whether the local authority decides to delegate operating activities to a company which acts on its behalf but under its control or whether it decides to perform the services itself with the assistance of the company.

These so-called "general economic interest" services or public services are considered in numerous countries to be the responsibility of the competent public authority, which should not merely implement regulations and controls but also play an active role in their management, through one of the following approaches:

- the public authority can decide to directly manage and provide public services on its own ("direct" or "internal" management);
- the public authority can decide to provide the service itself, but use private operators as subcontractors to manage the service on its behalf, or to provide limited services;

- the public authority may prefer to delegate to a third party the entire responsibility for providing the public services, in which case the third party, under the terms of a contract comprising technical performance commitments, would be responsible for providing the human resources, equipment and financing necessary. The public authority may also request that the third party finance and build any required infrastructure under the contract. Third parties selected by the public authority may be either private operators, mixed public-private companies or other public entities.

The different ways in which public authorities choose to manage the provision of public services lead to different contractual mechanisms between the public authority and the company, to which Veolia Environnement easily adapts. The contracts Veolia Environnement uses generally fall into one of three categories, depending on whether Veolia Environnement is entrusted with full responsibility for provision of a public service and whether Veolia Environnement has a financial and commercial relationship with end users:

- the public authority chooses to manage and provide public services on its own (direct management), but has only limited means and therefore calls upon a private operator to provide certain limited services or work. It pays the operator a contractually-agreed set price;
- where new infrastructure is necessary for the provision of the services, the public authority may prefer a more comprehensive build/operate contract, which may include the financing of required infrastructure. These are known as public market contracts under EU law and also referred to as Build, Operate, Transfer (BOT) contracts, or since 2004 in France, as “partnership contracts”,
- the public authority entrusts a company with responsibility for the full provision of a public service, with the company assuming all or part of the operational risks. Generally, the provision of the service is then financed by the fees and charges paid by the end user of the service. The contractor thus has financial and operating responsibility for provision of the service, but must do so in accordance with the terms set by the public authority encompassing needs to be satisfied, expected performance and prices charged to end users. This is the logic of “delegated management” contracts or “concession arrangements” under EU law (also known as a Public Private Partnerships – PPP), which transfer to the concession holder the “risks and perils” or “risks and benefits” of the activity, to the extent compensation is linked to operating results.

In certain countries and for certain services, public authorities may also choose to be involved as little as possible in the provision of public services to inhabitants or be satisfied with more or less restrictive regulation of the relevant activities. This requires a company to seek out customers directly among the local population and creates opportunities for Veolia Environnement, most often through acquisition of a private operator already serving a given area.

The historic traditions of the various countries in which Veolia Environnement operates tend to favor one of the above-mentioned contract types over the others. In France, for example, where there is a long tradition of granting concessions, delegated public service management is often the preferred approach.

Current practices in various countries are, however converging, with public authorities adopting one or other contract types depending on the situation. All contracts have, in most cases, the common feature of being long-term agreements. They increasingly comprise the building of infrastructure, or at least the upgrade of existing infrastructure and in all events its maintenance and may also comprise the financing thereof.

Veolia Environnement also enters into outsourcing contracts for the management of complex services with its industrial and service sector customers, which are similar to the above contracts. Such contracts take a variety of forms but are always tailored to customer expectations.

Despite differences relating to the nature of customers, the services contracted and the nature of the legal systems in which Veolia Environnement operates, the expectations of Veolia Environnement’s customers tend towards a demand for transparency during the bid process and during contract performance, formation of a real partnership in search of ways to improve productivity and performance and a desire for clear performance targets and variable compensation depending on achievement.

Veolia Environnement is also very attentive to contractual provisions, in particular when Veolia Environnement must finance the investments required under a contract. Given the complexity of management agreements and their long-term nature, Veolia Environnement possesses skills in contract analysis and control. The legal departments of Veolia Environnement’s Divisions are involved in the preparation of contracts, and verifications are made on the implementation of Veolia Environnement’s main contracts. Each year, Veolia Environnement’s Internal Audit Department includes a review of the contractual and financial stakes of Veolia Environnement’s most significant contracts in its annual program.

6.2.5 Intellectual property – Company Dependence

Veolia Environnement owns a number of brands, including the “Veolia” brand. Since November 2005, the Group has adopted a new brand strategy aimed at uniting the Water, Environmental Services and Transportation Divisions under the Veolia banner. The three Divisions remain identifiable according to their business descriptions: “Water”, “Environmental Services” or “Transportation”, while the Veolia Energy Services Division is known under the name “Dalkia”. As a result, the companies at the head of the Water, Environmental Services and Transportation Divisions, as well as most of companies in the countries and regions where the Group is based, are progressively modifying their corporate names in order to include “Veolia”. This strategy, implemented by Company Executive Management, illustrates Veolia Environment’s desire to increase the global consistency of its Divisions and the visibility of the Company, by strengthening the identity and global culture of Veolia Environnement based on its service values. Accordingly, the “Veolia” brand will become an international reference for trust, reliability and expertise in the environmental services sector.

Innovation is essential to the growth and profitability of Veolia Environnement. The Group holds a portfolio of patents protecting the know-how of its Water, Environmental Services, Transportation and Energy Services Divisions and also innovative discoveries of the Company’s Research Department. With this patent portfolio and the associated expertise, Veolia Environnement sets itself apart from the competition and strengthens its position as a reference for environmental services.

In Veolia Environnement’s opinion, its business is not dependent on the existence or validity of one or several of these patents nor on any contract covering one or more intellectual property rights. Furthermore, the Company is not dependent on any customer, major license or industrial, commercial or financial supply contract.

6.2.6 Seasonality

Certain of the Company's businesses are subject to seasonal variations. Dalkia generates the bulk of its operating results in the first and fourth quarters of the year, corresponding to periods in which heating is used in Europe. In the water sector, household water consumption and the related wastewater treatment services tend to be higher between May and September in the northern hemisphere, where Veolia Eau conducts most of its activities. Finally, in transportation, SNCM’s activity is strongest in the summer season. Thanks to the diverse nature of Veolia Environnement’s operations and its worldwide presence, Group results are, in general, not significantly affected by seasonal variations.

6.2.7 Raw materials

Fuel prices (mainly gas and coal) can be subject to significant fluctuations. Energy prices have fluctuated widely in the past few years. After a lull at the end of 2006, the price of a barrel of Brent oil nearly tripled from its low in January 2007 (USD 49) to its high in the summer of 2008 (USD 145), spurred by fears of potential supply problems in light of geopolitical tensions within the major oil producing countries (Nigeria, Venezuela) and OPEC’s reluctance to raise its production quotas in response to strong global growth. During the fourth quarter of 2008, following the eruption of the global economic crisis, the price of crude oil plummeted, falling in just two months to below its level at the beginning of the year. The general consensus of opinion among energy product analysts is, however, that energy price will increase significantly in the long-term, due to the increasing rarity of known oil reserves, a marked increase in extraction costs and the need to adopt new energy sources in response to growing environmental requirements. However, the timing of this upturn is difficult to forecast, due to the limited visibility of market participants regarding economic growth. Therefore, the possibility of a further drop in commodity prices cannot be excluded. In all events, 2009 should, like 2008, be marked by considerable volatility.

In this context, Veolia Environnement’s businesses are not, and should not in the future, be materially affected in the long-term by an increase in costs, the availability of fuel or fluctuations in the price of other raw materials. The contracts entered into by Veolia Environnement generally include price review and/or indexation clauses which enable it to pass on the majority of any increases in commodity or fuel prices to the price of services sold to customers, even if this may be performed with a time delay.

In the Transportation Division, numerous contracts contain indexing clauses that take fluctuations in fuel costs into account, significantly reducing the impact of a rise or fall in fuel prices. In certain contracts, especially contracts entered into in the United States, Veolia Environnement is entitled to full compensation in the event of a rise in fuel prices. Approximately 70% of costs are covered by contractual indexing clauses. For those contracts not containing indexing clauses, a fuel hedging policy was implemented in 2008 in order to manage fluctuations in fuel costs. The Group uses derivative instruments for this purpose, whose characteristics (notional, maturity) are defined in accordance with forecast fuel requirements (based on firm orders or highly probable forecast flows). The majority of derivatives used are swaps.

In the Environmental Services Division, collection services involving non-hazardous solid and liquid waste are the most sensitive to fluctuations in fuel prices. However, for customers that have contracts with Veolia Environnement, indexing clauses in their contracts generally allow the Company to pass on a significant portion of increases in such costs to the prices charged. Two-thirds of costs are covered contractually. For customers not bound by contract, increases in fuel costs are either fully or partially passed on through an increase in fees or negotiation.

In the Transportation and Environmental Services Divisions, fluctuations in fuel prices had a negative impact on operating income of approximately €48 million in 2008, including the cost of hedging arrangements. Conversely, the increase in energy prices in general, impacted positively the operating income of the Energy Services Division.

A major portion of Environmental Services Division revenue is generated by its sorting-recycling and trading businesses, which are particularly sensitive to fluctuations in the price of secondary raw materials (paper and ferrous and non-ferrous metal). A significant drop in the price of these secondary raw materials, combined with the impact of the current economic crisis on volumes, affected Division results in the second half of 2008.

In the other Divisions, as part of supply management and cost optimization measures, certain Group subsidiaries may be required, depending on their businesses, to contract forward purchases or sales of commodities (gas, electricity).

The Group also entered into long-term contracts for the purchase of gas, coal, electricity and biomass in order to secure its supply chain. The majority of these commitments are reciprocal, with the third parties concerned required to deliver the quantities indicated in these contracts and the Group obliged to take them.

Finally, with respect to its building activities, particularly in the Water Division, the Group purchases financial instruments to hedge against increases in the price of nickel and copper notably.

For further information, please refer to Chapter 20, Section 20.1, Note 30.1.3 to the consolidated financial statements.

6.3 ENVIRONMENTAL REGULATION, POLICIES AND COMPLIANCE

6.3.1 Environmental regulation

Veolia Environnement's businesses are subject to extensive, evolving and increasingly stringent environmental regulations in developing countries as well as in the European Union and North America. On April 21, 2004, the European Union adopted a directive on environmental responsibility that has been enacted, or is in the process of being enacted, by member states. This directive generalizes across the European Union, a framework of environmental liability of competent public authorities for serious environmental damage or threat of damage to water, land, protected species or natural habitats, excluding individuals and property. This potential liability encourages the implementation of preventive measures. This Directive, as enacted in French law, extends the scope of liability, in the absence of fault, for certain serious damage to the environment.

In addition, the REACH regulation on chemicals, which came into effect on June 1, 2007, establishes a new European methodology for the management of chemicals that is aimed at enhancing the knowledge of substances currently circulating within the European market and which implies in particular for the Group as a user of such substances, the strengthening of cooperation and exchange of information with suppliers and customers.

This led to the adoption by European MPs, at the end of 2008, of a "climate-energy" package which seeks to ensure compliance within the European Union of climate objectives by 2020: 20% cut in greenhouse gas emissions, 20% improvement in energy efficiency and 20% share of energy consumption in the European Union produced from renewable sources. This "climate-energy package" comprises six new texts: a directive on renewable energies, a directive on the emission trading scheme (ETS), an effort-sharing decision on greenhouse gas emissions, (outside ETS), a directive on the capture and storage of CO_2, a directive on fuel quality and a directive on reducing CO_2 emissions by cars.

Finally, in application of decisions made regarding the conclusions of the Convention on Biological Diversity, the European Commission implemented in May 2006 an action plan comprising objectives aimed at halting the decline in biodiversity and measures enabling the achievement of objectives by 2010. This action plan is based on an evaluation of lost biodiversity in Europe and elsewhere in the world and measures already taken by the European Union to resolve this problem.

Water

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

The quality of drinking water is strictly regulated at European Union level by Directive 98/83/EC of November 3, 1998, on the quality of water intended for human consumption, which was enacted by EU member states and into French law by the Decree of December 20, 2001 (certain provisions were incorporated into the French Public Health Code). In addition to quality control measures, this directive introduces the concept of evaluating risks on an ongoing basis. The collection, treatment and discharge of urban, industrial and commercial wastewater is governed by Directive 91/271/EC of May 21, 1991, the objectives of which were confirmed and extended by the water framework Directive 2000/60/EC of October 23, 2000. Directive 2006/118/EC of December 12, 2006 on the protection of groundwater provides for oversight of and restrictions on chemical substances in water by 2015. Directive 2008/105/EC of December 16, 2008 lays down environmental quality standards for 43 chemical substances presenting a major risk to the environment or public health in the field of water policy. In France, regulations governing water intended for human consumption were revised, resulting in new water quality limits and references. The recovery of rainwater is also governed by a strict regulatory framework, covering, in particular, the use of rainwater in buildings and which introduces specific provisions aimed at protecting the quality of groundwater from the introduction of dangerous substances. For installations serving more than 10,000 inhabitants, the person responsible for water distribution must prepare a study of the vulnerability of water facilities to malicious acts. In establishments where water is provided to the public, it is the responsibility of the person in charge of the establishment (and not the public service provider) to ensure that the water is fit for consumption.

The treatment of wastewater is also directly impacted by Directive 2008/56/EC of June 17, 2008, known as the "Marine Strategy Framework Directive", which seeks to protect and conserve the marine environment and thereby conserve the ecosystem and to establish marine protected areas in order to contribute to achieving the healthy ecological condition of the European Union marine environment by 2020 and by European Directive 2006/7/EC of February 15, 2006 concerning "bathing water".

Public authorities also impose strict regulations concerning industrial wastewater likely to penetrate collection systems, as well as wastewater and sludge originating in urban used water treatment installations. In this respect, the waste framework directive of November 19, 2008 classifies land treatment using sludge produced by wastewater treatment plants as a recovery operation.

France has numerous laws and regulations concerning water pollution, as well as numerous administrative agencies involved in the enforcement of those laws and regulations. Certain discharges, disposals, and other actions with a potentially negative impact on the quality of surface or ground water sources require authorization or notification. For instance, public authorities must be notified of any facility that pumps groundwater in amounts that exceed specified volumes and French law prohibits or restricts release of certain substances in water. The law of December 30, 2006 on water and aquatic environments, addresses EU requirements for high quality water and significantly modifies French legislation on water, also addressing EU water quality objectives for 2015. Sources feeding into drinking water collection areas are of strategic supply importance and must benefit from protective measures to prevent widespread pollution and excessive withdrawal for irrigation purposes.

The violation of these texts is punished by both civil and criminal law and a company may even be found criminally liable. In the United States, the main federal laws concerning the provision of water and wastewater treatment services are the Water Pollution Control Act of 1972, the Safe Drinking Water Act of 1974 and related regulations promulgated by the Environmental Protection Agency (EPA). These laws and regulations establish standards for drinking water and liquid discharges. Each U.S. state has the right to establish criteria and standards stricter than those set up by the EPA and a number of states have done so.

Environmental Services

In numerous countries, waste processing facilities are subject to laws and regulations that require service providers to obtain permits from public authorities to operate most of their facilities. The permitting process requires Veolia Environnement to complete environmental and health impact studies and risk assessments with respect to the relevant facility. Operators of landfill sites must provide specific financial guarantees (which typically take the form of bank guarantees) that cover in particular the monitoring and rehabilitation of sites during, and up to 30 years after, their operation. In addition, landfill sites must comply with a number of specific standards and incineration plants are usually subject to rules that limit the emission of pollutants. Waste may also be subject to various regulations depending on the type of waste. For example, sludge produced at wastewater treatment stations to be used in agriculture must comply with strict regulations relating to its content of organic materials and trace metals (heavy metals such as cadmium, mercury or led). Moreover, the NFU 44-095 standard, implemented in 2002 and henceforth applicable in France, strictly regulates the composting of material produced by the treatment of wastewater.

In France, pursuant to the provisions of Articles L. 511-1 et seq. of the Environmental Code (*Code de l'environnement*) relating to classified facilities for the protection of the environment, several decrees and ministerial and administrative orders establish rules applicable to landfill sites for household, industrial, commercial and hazardous waste. These orders govern, among other things, the design and construction of waste processing centers. Hazardous waste is subject to strict monitoring at all stages of the processing cycle. Hazardous waste is tracked using a waste monitoring slip (b*ordereau de suivi des déchets* - BSD). Waste-to-energy centers are subject to numerous restrictions, including in particular limitations on the amount of pollutant emissions: for example, Directive 2000/76/EC of December 4, 2000 on the incineration of waste sets emission thresholds for dioxins and NOX in particular. In connection with the application of this directive in France, compliance studies were submitted to the French governmental authorities in June 2003, in order to determine the necessary compliance measures to be implemented by the end of 2005.

At European Union level, a new Waste Directive was adopted on November 19, 2008, setting up a hierarchy of different waste management measures and favoring (i) the prevention of production, notably by requiring Member States to draft national programs, (ii) re-use, (iii) recycling, by defining new objectives to be attained by Member States by 2020, (iv) other forms of recovery and (v) safe disposal. It clarifies the concepts of recovery, elimination, end-of-waste status and by-products. The aim of this directive is to promote recycling, composting and waste-to-energy recovery of household waste.

With respect to the cross-border transportation of waste, the regulation of June 14, 2006 concerning the transportation of waste entered into force in July 2007. This text defines the conditions of the supervision and audit of waste transfers and simplifies and defines current procedures for the supervision of waste transfers for non-hazardous, recyclable waste.

Furthermore, through Directive 2003/87/EC of October 13, 2003, the European Union implemented an allowance system for greenhouse gas emissions, targeting carbon dioxide only. Veolia Environnement's environmental services business falls outside the scope of the first and second phases (2005-2007 and 2008-2012).

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

Energy Services

Veolia Environnement's energy-related activities in Europe (primarily the supply of energy services involving thermal and independent energy) are subject to directives and regulations that seek to control environmental impact and risks.

One such directive of October 23, 2001 establishes emission limits for sulfur dioxide, nitrogen oxides and dust and regulates the construction of large combustion plants. It requires the implementation of national emission ceilings for certain atmospheric pollutants such as sulfur dioxide, nitrogen oxide and volatile organic compounds.

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

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

As a result of the Kyoto Protocol, European Regulation 842/2006/EC of May 17, 2006 requires stringent confinement and traceability measures for greenhouse gases, whether HFC refrigerating liquids or SF6 electrical insulators. Two European regulations clarify leakage control measures for refrigeration equipment containing hydro fluorocarbons (European Regulation 1516/2007 of December 19, 2007) and fire protection systems (European Regulation1497/2007 of December 18, 2007).

Energy services are concerned by European Directive 2003/87/EC of October 13, 2003 on greenhouse gases emission allowances, and as the Group has combustion installations with thermal output greater than 20 MW, it is also concerned by EU member state national plans for the allocation of allowances, effective since 2005.

European Directive 97/23/EC of May 29, 1997, aimed at harmonizing Member State legislation in the area of pressure equipment, imposes various security requirements for the design and manufacturing of such equipment, and requires an inspection of the compliance of the units housing such equipment.

Finally, with respect to its production of sanitary hot water, Dalkia is directly affected by European Directive 98/83/EC of November 3, 1998, which addresses the quality of water intended for human consumption. 18 Member States, including France, have taken the position that this directive applies to cold and hot water and to all types of management systems for production and distribution.

All of the directives and regulations mentioned are enacted by each Member State of the European Union.

In France, this primarily means compliance with the Law of July 19, 1976 on the environmental protection of designated installations, now integrated into the Environmental Code.

Under this law, Dalkia must obtain various permits and authorizations from regulatory authorities in order to operate its facilities, and ensure that its operations comply strictly with the terms of such permits. For large combustion installations (thermal output greater than 20 MW), new regulations were imposed in 2002 (for new installations) and in 2003 (for existing installations) with respect to emission limits, in application of European Directive 2001/80/EC of October 23, 2001.

Articles R.512-55 to R.512-66 of the Environmental Code also require periodic inspection of certain installations classified as subject to reporting requirements. All orders governing the performance of such periodic inspections were published in 2008.

Decree n° 2007/737 of May 7, 2007, also integrated in the Environmental Code, completes Regulation 842/2006/EC and regulates the conditions of the market release, use, recovery and destruction of substances used or intended for use as refrigerating fluid in refrigeration or air-conditioning equipment.

With regard to pressure equipment, Directive 97/23/EC of May 29, 1997 (applicable to equipment manufactured since 2002) also modifies the procedure and inspection regulatory frameworks of member states and has helped to harmonize the operation of all installations that use such equipment. In France, the decree of March 15, 2000, as amended by the more recent decree of March 30, 2005, enacts this directive into national law.

In relation to managing the risk of legionnella disease, the European Working Group for Legionella Infections (EWGLI), with the support and approval of the European Commission and based on the European Surveillance Scheme for Travel Associated Legionnaires' Disease (EWGLINET), has published new European guidelines for the control and prevention of travel-associated legionnaires disease (EWGLI 2005). In general, texts of varying reach are issued in Europe and around the world by public health authorities and associations for the protection of workers. Very often, these texts are presented in the form of preventive recommendations, which take into account the physico-chemical and biological nature of water and prescribe corrective actions when certain indicators are present. Various professional associations have also issued their own guidelines for prevention.

In France, the health ministry has recommended, since 1997, that health professionals and managers of establishments implement best practices for the design and maintenance of sanitary hot water production installations and networks, air-conditioning systems and other high-risk installations. In December 2004, a new French ICPE classification was created to define guidelines for the design and operation of cooling facilities using vapor processes (cooling towers).

In Spain, decree (real decreto) 865/2003 of July 4, 2003 establishes criteria for the quality of water and the frequency of inspection procedures, as well as for when action must be taken once certain limits are exceeded. A Spanish standard-setting association has issued guidelines on the subject (100030IN).

In the United Kingdom, an Approved Code of Practice (ACOP L8) issued by the Health and Safety Executive is the authoritative text. This text also inspired similar procedures in Belgium, the Netherlands, Ireland and at EWGLI.

In the United States, the Occupational Safety and Health Administration (OSHA) issues its own guidelines and action plans. The American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE) and the Cooling Technology Institute (CTI) have also issued recommendations.

Italy and Portugal have partially adopted the ASHRAE guidelines, focusing preventive measures on the protection of tourists.

Transportation

Veolia Environnement's transportation business is subject to a number of national and European regulations and particularly European Union directives that limit emissions by petrol and diesel engines and require Veolia Environnement to obtain certain permits.

In the European Union, so-called "EURO" standards have been implemented for polluting emissions from thermal engines. All new vehicles currently manufactured in the European Union comply with "EURO 4" standards and Veolia Transport's networks are renewing their fleets with "EURO 4" or "EURO 5" vehicles. In 2006, the "EURO 4" standard imposed stricter requirements for the reduction of polluting emissions. Further, Veolia Transport is committed, as part of its environmental management system, to lowering its total emissions and is preparing for new standards by testing and experimenting with emission reduction systems which will subsequently be marketed, thereby reaffirming its role as expert and advisor to customer public authorities.

Veolia Transport is subject to the environmental standards applicable to depots, garages and underground tanks, which may present a danger or inconvenience to the environment. For this reason, the majority of sites in France are subject to the regulations governing facilities classified for the protection of the environment, although generally only the simplified reporting system.

Finally, in France, the Law of February 11, 2005, concerning equal rights and opportunities and the involvement and citizenship of handicapped persons, provides that all public transport must be accessible to handicapped persons within 10 years.

6.3.2 Environmental policies

Veolia Environnement strives to help enhance the quality of life wherever it operates, and has placed the challenges of sustainable development at the heart of its strategy. For this purpose, Veolia Environnement focuses not only on the preservation of the environment and the protection of natural resources and biodiversity, but also assumes its economic and social responsibilities, particularly at a local level where Veolia Environnement is committed to stimulating progress. Further information concerning Veolia Environnement's commitment to sustainable development may be found in its Sustainable Development Report.

Veolia Environnement actions regarding greenhouse gases

An increase in greenhouse gases in the atmosphere has led certain countries, as well as the international community, to implement regulatory measures in order to limit this trend. At the international level, the Kyoto Protocol, finalized in 2005, came into force in February 2005. Directive 2003/87/EC of October 13, 2003 created an emission allowance trading system within the European Union, known as ETS (Emission Trading Scheme). The resulting system operates in parallel with the Kyoto Protocol system, which came into operation in 2005 and led to the creation of National Allowance Allocation Plans (NAAP). In France, NAAP 1 was adopted for the period 2005-2007 and was followed by NAAP2 covering the period 2008-2012. In 2006, the European Union launched a review of Directive 2003/87/EC aimed at extending its application scope, strengthening controls and introducing an allowance trading system linked with the Kyoto protocol. At the beginning of 2008, the European Union adopted a climate-energy package (see Section 6.3.1 above).

The Group is already active in this field at European Union level and internationally, as well as at national level (see Chapter 20, Section 20.1, Note 42 and Section 20.2, Note 1 and Section 1.25).

- In the European Union, all large combustion installations with thermal output greater than 20 MW are subject to the new allowance trading scheme. For the Group, this primarily affects the Energy Services Division, which manages over 77,000 combustion installations in Europe, including 250 installations concerned by emission allowances. Allowances awarded to Dalkia represent approximately 1% of total European allowances. Dalkia has adopted an active approach to managing carbon dioxide emissions and allowances, by implementing an appropriate structure and creating a special-purpose legal entity, VEETRA, to purchase, sell and price different types of greenhouse gas credits. These initiatives have enabled it to be an early participant in the allowance trading market, and through the pricing of allowances, to optimize the profitability of its contracts and in some cases finance new investments that help reduce greenhouse gas emissions.

  Some of Veolia Eau's sites in Germany have also been affected, following its takeover of public authority contracts (*Stadtwerke*).

- At the international level (Kyoto Protocol), the Group seeks to generate emission credits that can be traded on the market, by participating in projects in partnership with other European or developing countries that help to reduce greenhouse gas emissions. Veolia Propreté has completed five projects classified as Clean Development Mechanisms (CDM) by the CDM Executive Council: two in Brazil, one in Egypt, Mexico and Argentina. The experience gathered during these projects is now used for new projects under development. Approximately ten projects are expected to be carried out in South America, most of which relate to sites operated by Proactiva, and others are under consideration or currently ongoing in Asia and Africa. Dalkia has also completed a joint project in Hungaria. Veolia Propreté and Dalkia have already tested these mechanisms and intend to further develop implementation using dedicated teams.

- Application in the transportation sector is subject to the existence of reliable measurement tools. Veolia Transport actively participated in developing an initial tool that would apply to business transportation, in collaboration with EpE and ADEME.

- At the national level, a number of countries have designed mechanisms to reduce greenhouse gas emissions, either in the form of a set of targeted incentives (such as the "Climate Plan" and "Domestic Projects" in France) or in the form of domestic markets already set-up or under study (New Zealand, Canada, Australia, and some U.S. states), that allow certain domestic projects to benefit from emission credits. The Group's teams are monitoring all of these developments and working on integrating them into their projects.

In 2008, the Company commenced the operational phase of its research program on the capture, transportation, use and storage of CO_2 and launched preliminary geological studies at industrial sites in the Paris region at which Veolia Propreté operates non-hazardous waste recovery installations and landfill sites (see Chapter 11, Section 11.1.5 above). The study phase of this project was launched in 2005. This solution should contribute in 2050, to a 20 to 30% reduction in greenhouse gases worldwide.

Direct greenhouse emissions on sites that the Group managed in 2008 totaled 42,8 million tons of CO_2 (carbon dioxide) equivalents (compared to 42.8 million tons in 2007).

Overall, the Group is contributing to a reduction in greenhouse gas emissions, both through the daily management of sites that it operates and through the use of renewable and alternative energies (in particular biomass, landfill gas and geothermal energy).

It is actively following regulatory developments that will undoubtedly become more restrictive in the future, viewing them as new opportunities to develop and market its environmental management skills.

Preserving ecological balance

Whether through limiting water wastage, enhancing the quality of discharges or optimizing energy consumption in connection with water distribution and treatment activities, using alternative energies in its heating operations, recovering and processing biogas emissions at its landfill sites or using low-emission fuels in its fleet of public or private transport vehicles, Veolia Environnement is involved in the main environmental problems currently affecting our planet by applying its know-how, technological capabilities and research potential to these problems. Veolia Environnement contributes to enhancing quality of life and sanitary conditions of local populations in its day-to-day operations. For example, by supplying drinking water to impoverished areas Veolia Environnement helps to reduce infant mortality. In developed countries Veolia Environnement has implemented plans to protect against the risk of the presence of legionella in public or industrial facilities, thereby improving public and environmental sanitation. Similarly, improved waste management has a positive impact on quality of life, the environment and public health. Environmental service businesses offer a true means of accelerating sociological revolution.

Preserving economic and social balances

Veolia Environnement also considers the economic and social factors that underlie the course of development in the countries where it operates, and works to develop solutions that are adapted to local restrictions and to transfer know-how in the geographical areas where the Group Divisions have operational responsibilities. Veolia Environnement favors a partnership approach with non-governmental organizations (NGOs), local authorities and associations in the implementation of action plans for the populations of emerging countries, which permits the development of model plans that can be reproduced. In each of its projects, Veolia Environnement seeks to create a beneficial and educational dimension for the improvement of public health and the protection of the environment. It also tries to assist in the development of areas where it provides services.

In 2008, Veolia Environnement continued its strategy of forming partnerships with international institutions in 2008, reflecting its active participation in the United Nation's Global Compact. Projects are focused on themed actions which involve Veolia Environnement working alongside UN agencies, local authorities and civil society.

At the UN-Habitat World Urban Forum organized in Nanjing (China) in November 2008, for example, Veolia Environnement participated in a group of experts formed to finalize public/private partnership guidelines covering access to essential services (water, wastewater treatment, transportation and energy) and excluding all forms of discrimination and calling for specific measures in favor of the poorest members of society.

At the International Water Exhibition in Saragossa (Spain), Veolia Environnement shared its expertise during a symposium organized by the Prince Albert II of Monaco Foundation and the United Nations Institute for Training and Research (UNITAR). Best practice were shared on integrated water management in Tangiers (Morocco) and Toulon (France) and Proactiva Medio Ambiente, a joint venture with the Spanish Group FCC, made a presentation on Quito.

In addition, Veolia Environnement continued to participate in the UNITAR program for strengthening local governance, which brought together over 450 public authority managers in 2008 from Asia, Africa, South America and Central Europe. The Steering Committee, including Veolia Environnement, was received by the United Nations General Secretary, Ban Ki Moon, in Atlanta (United States) in May 2008.

Finally, aware of the need to mutualize resources to a maximum in order to achieve the "Millennium Objectives", Veolia Environnement joined forces with international financial backers: the International Finance Corporation (IFC), a World Bank institution, and the *Agence Française de Développement* (French Development Agency) acquired equity stakes in Veolia Water Africa, Middle East and India. Dalkia also entered into a partnership with the Asian Development Bank (ADB) to finance heating and cooling networks in China, and stepped-up its cooperation with the European Bank for Reconstruction and Development (EBRD) for future urban infrastructures in Russia and Ukraine

Since May 2004, Veolia Environnement has pursued a charity program through a corporate foundation called *Fondation d'Entreprise Veolia Environnement*. This initiative is part of a long-standing tradition of corporate charity work, while enabling improved coordination of actions and a greater involvement of employees in the areas of solidarity, professional reinsertion, and environmental protection. Created for an initial period of 5 years, the founding members decided at the end of 2008 to extend the Foundation until December 31, 2013. Between 2004 and 2008, the Veolia Environnement Foundation supported over 700 projects, each sponsored by a Group employee.

In 2008, the Foundation integrated the Group's humanitarian assistance and international cooperation departments, Veolia Waterforce and Veolia Waterdev, within a single structure, Veoliaforce. The Foundation calls on the expertise of the four Group Divisions for the purpose of its charity work and benefits from the support of all Group employees.

Among the projects selected in 2008, certain major projects will require the support of the Foundation over several years. In Moldavia, for example, at the request of UNICEF, the Foundation will provide financial support and expertise in the water and energy sectors to the Child-Friendly Schools project, which seeks to improve the educational system and renovate basic school infrastructures (water, wastewater treatment, heating and thermal insulation). In Mauritania, the Foundation supports a project for the collection and recycling of plastic waste in Nouakchott, involving female cooperatives in the collection and initial sorting of waste. After being ground in a dedicated processing centre, the plastic is sold in granule form to local companies. Technical support provided by Veolia Propreté volunteers completes the financial support provided to the project. Another major project in the United States, sponsored by the Sky Island Alliance association, seeks to protect and rehabilitate the Madrean archipelago in Arizona, an exception ecosystem which is under threat. The Foundation is acting in partnership with American and Mexican NGOs, the University of Arizona, the Environmental Protection Agency and volunteer American employees of the Group. Finally, in the Democratic Republic of Congo, the Foundation participates, alongside the Congolese Health Ministry, the French ambassador, AFD, UNICEF, various NGOs and a network of scientific institutions, in a program to eliminate cholera. This program is active in seven towns in the Eastern region of the country, located in lacustrine areas identified as the source of epidemics and their spread, in order to improve drinking water production and distribution capacity, strengthen treatment of the illness and promote hygiene and health education. The Foundation contributes financial support to this project, together with the skills of Veoliaforce experts.

In 2008, the Veoliaforce unit took part in five emergency humanitarian operations involving volunteers from France and abroad, in China following the earthquake in the Sichuan region, in Cameroon in a camp of refugees fleeing armed conflict in N'Djamena, in Burma and in Haiti, devastated by cyclones and hurricanes and finally in Zimbabwe, following the outbreak of a cholera epidemic. Volunteers also contributed their technical expertise to development projects in over ten different countries, primarily in the water and wastewater treatment sector but also in the processing of plastic waste in Mauritania and with respect to heating and energy problems in Moldavia. These different missions represented over 1,400 days spent by volunteers on-site in 2008.

Finally, the Foundation created the Environmental Book Prize (*Prix du Livre sur l'Environnement*) in 2006. In its third year, this prize was awarded to "A Perfect Red" by Amy Butler Greenfield.

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

Human management of the environment represents a major challenge that requires the mobilization of a large number of resources, the support of the public at large and close cooperation among international, national and local participants. To address this challenge, Veolia Environnement created the Veolia Environnement Institute (VEI) in 2001 to encourage forward-looking analysis of a number of issues relating to sustainable development. This is achieved through exchanges with the academic world and civil society in order to develop autonomous scientific expertise to support Veolia Environnement's long-term vision and improve its ability to forward-plan. Through its work, the VEI sheds light on the principal trends that will influence the provision of environmental services over the next ten years.

Through its Foresight Committee, composed entirely of individuals of international reputation and standing, VEI benefits from the contribution of leading outside expertise on different key subjects (including climate science, public health, the economy and human sciences) while remaining firmly anchored in the daily realities of Veolia Environnement's different businesses. This dual capability represents both the originality and the strength of VEI, which intends to be a leading figure in the main environmental debates and issues of the 21st century. For this purpose, the Institute calls on a network of multidisciplinary experts thereby collecting the most relevant ideas on global trends. The VEI strengthens its network of academic partners, notably in emerging countries and develops its program of forward-looking studies. It continued its collaboration with The Energy and Resources Institute (Delhi, India), the Energy Research Institute (Beijing, China) and Tsinghua University (Beijing, China) on a study of the carbon footprint concept in Asian cities and its measurement in two cities, Jaipur in the State of Rajasthan in India and Shijiazhuang in Hebei Province in China. It worked in partnership with the Poverty Action Lab at MIT (Massachusetts Institute of Technology) on a study of air pollution in a poor State of India.

At the same time, VEI is developing a high-level scientific policy and officially launched two new reviews in 2008. S.A.P.I.EN.S (Surveys and Perspectives Integrating Environment and Society), is a multidisciplinary review publishing articles from top specialists in order to set forth recent advances in the field of sustainable development. At another level, FACTS Reports seeks to collect, broadcast and capitalize on the knowledge and good practices of people in the field (NGOs, international organizations, etc.).

VEI also organizes international conferences in France and abroad. In October 2009, the fifth conference on "Trade, Urbanization and the Environment" will be held in Beijing. This event is organized by the Center for Human and Economic Development Studies of the School of Economics of Beijing University, a pioneer in research into human development in China. It will bring together representatives of the academic world, public authorities, industry and civil society to discuss the issues facing China as a result of its accelerated economic growth, increasing urbanization and environmental resource base, which is both fragile and unequally distributed. The conference will analyze these challenges from both an economic and socio-political standpoint and their implications for individual towns and cities.

Together, the work undertaken by the VEI forms a discussion platform for exchanges on major environmental, economic and social issues that will be called on to satisfy the demands of civil society.

6.3.3 Environmental information (article 116 of the NRE Law)

As a specialist in environmental management services, Veolia Environnement is naturally concerned about the environmental consequences of each of its businesses, both in France and worldwide. In this respect, Veolia Environnement consistently endeavors to comply with applicable regulations, to meet the needs and demands of its customers and to optimize the techniques it implements.

Pursuant to the provisions of the NRE Law and in addition to the description of the Company's businesses (see Section 6.1 above) and the financial statements (see Chapter 9 below), Veolia Environnement therefore considered it appropriate to highlight below some of the more significant environmental actions that it has undertaken without any regulatory or contractual obligation to do so.

The information below should be read together with Veolia Environnement's 2008 Sustainable Development Report for further information on the Company's sustainable development policy and actions.

Use of water resources, raw materials and energy, measures implemented to improve energy efficiency and the use of renewable energies, conditions of use of ground soil, air, water and soil pollution, noise and olfactory pollution and waste

Water

Use of Water Resources

Veolia Environnement preserves water resources by working to prevent wasteful usage in its own installations and in those of its customers. In this respect, the progressive roll-out of Veolia Environnement's environmental management system provides, in particular, for the monitoring of water consumption and quality in all of Veolia Environnement's activities. Action plans reflect two primary concerns: increased monitoring of the health quality of water intended for human consumption and the control of leaks in cold water distribution networks (raw or treated) and leaks in domestic hot water production networks. During 2004, Veolia Environnement installed an indicator to monitor the quality and compliance with regulatory standards of its drinking water. Veolia Environnement's industrial water consumption amounted to 530.3 million cubic meters in 2008. Climate changes in certain regions of the world heighten strains on water resources. Veolia Environnement studies and promotes techniques through which alternative resources are used, such as the production of drinking water by desalination of seawater and the production of water for industry or farm irrigation by recycling wastewater. These developments are conducted in close association with local authorities, regulatory bodies and the scientific community.

Water pollution

98.5% of Veolia Propreté' landfill sites are equipped with treatment stations for leachate (water that percolates through stored waste).

Waste water

Veolia Environnement's wastewater treatment efficiency, measured at biological treatment stations with a capacity greater than 50,000 EH, reached 90.7% in 2008.

Energy efficiency and the use of renewable energies

Veolia Environnement contributes to the reduction of primary energy consumption. Dalkia optimizes energy management for more than 110,000, energy installations worldwide, from urban heating networks to housing, commercial or industrial building boilers. Optimizing the energy efficiency of such thermal installations focuses on operating and maintenance quality and their modernization.

Heating networks that offer optimized energy performances by concentrating production on a single site and involving co–generation (the simultaneous production of thermal energy and electricity) represent strong growth areas for Dalkia. Efforts in the renewable energy field affect all of the Group's businesses. Veolia Environnement is not only developing biomass, geothermal and solar energy offerings, but is also capturing energy from incineration plants and biogas from landfill sites.

Veolia Transport continues to provide environmental performance training to its drivers, with as a result not only enhancement passenger comfort and reduced polluting emissions, but also significant fuel savings.

Veolia Environnement's total energy consumption amounted to 169.6 million MWh in 2008, as a result of the development of the Group's activities.

Use of soils

In 2003, Veolia Environnement integrated all activities relating to the treatment and recovery of sludge within a single entity, SEDE Environment. As a result, Veolia Environnement has a precise, global and integrated overview of sludge management options, allowing it to optimize its agricultural recovery in particular.

Veolia Environnement continues its efforts to manage the quality of waste in the sewage networks and acts upstream to enhance the quality of sludge produced by implementing pollutant controls in Veolia Environnement's wastewater treatment networks (through its Actipol method). Veolia Eau has finalized certification guidelines defining requirements applicable to wastewater treatment systems for the production of quality sludge to be used in agriculture. Upstream, Veolia Environnement promotes the agricultural recovery of sludge through composting and engages an independent certifying body to audit its composting and agricultural recovery networks.

This recovery is conducted in conjunction with the agricultural recovery of the fermentable fraction of household waste. The Group produced 1,231.5 tons of compost in 2008. 51.8% of sludge produced was used in agricultural activities, due to the development of other processing and recovery outlets. The Group has initiated a quality enhancement program for organic material produced from organic waste and a program to evaluate its agricultural impact (the Quali-Agro program led by CRPE – Veolia Environnement's center for research for environmental and energy services - in coordination with INRA). The Group is also active in the rehabilitation of polluted soils. Using several processes, including thermal absorption, Veolia Propreté processes almost all the pollutants present in the soil at industrial sites.

Air pollution

Limiting Greenhouse Gas Emissions

Certain of Dalkia's activities (in particular its combustion installations with thermal output greater than 20 MW) are subject to the provisions of European Directive 2003/87/EC of October 13, 2003, which establishes an allowance trading scheme for greenhouse gas emissions in the European Union, enacted in Member State legislation at the beginning of 2005. Direct emissions (including biogas generated at landfill sites) and indirect emissions (linked to energy use and heating purchases) at sites managed by the Group in 2008 amounted to 47.2 million tons of CO_2 (carbon dioxide) equivalent, due to the development of the Group's businesses.

Given the differing national and international methods for measuring the production and emission of methane at waste landfill sites, the Group is unable to provide a reliable measure at this time. Within this context, the Group decided to further its knowledge of measuring methods, notably through participating in working groups organized by international authorities (WBCSD and WRI). Work on elaborating and attempting to reconcile the different methods should lead to the identification of a single method, which can serve as a benchmark for all Veolia Propreté sites and enable uniform and comparable reporting.

The Group also contributed to a reduction in greenhouse gas emissions, firstly by reducing its direct emissions and secondly by avoiding emissions which would have occurred without the intervention of Veolia Environnement's businesses. Among the Group's actions to reduce greenhouse gas emissions, Veolia Propreté continues to implement and optimize biogas collection systems at its landfill sites. 94 waste landfill sites for which the Group controls investment are equipped with biogas collection and processing systems. In 2008, Group efforts contributed to a total decrease in emissions of 26.8 million tons of CO_2.

Furthermore, the Group actively participates in the flexibility mechanisms outlined in the Kyoto protocol, which came into force on February 16, 2005. Veolia Propreté participates in the reduction of greenhouse gas emissions with Clean Development Mechanism (CDP) projects in Brazil, Mexico and Egypt for biogas collection and recovery systems.

Other Emissions

Installations operated by Veolia Environnement mainly emit sulfur and nitrogen oxides (SO_x and NO_X), carbon monoxide (CO), volatile organic compounds and dust. Emissions of SOx from waste incineration units (hazardous and non-hazardous waste) amounted to approximately 83 grams per ton of incinerated waste in 2008. In particular, Veolia Transport is pursuing research, in partnership with ADEME, into identifying and assessing the market systems best able to reduce NO_x emissions by its bus and coach fleet.

The Group is committed to reducing its emissions below regulatory requirements by (i) improving the treatment of air emissions and developing better technologies (treatment of incineration smoke by Veolia Propreté, reduction in vehicle emissions by Veolia Transport, low NO_x -emission combustion technologies in Dalkia) and (ii) reducing consumption and encouraging the use of cleaner fuels (low-sulfur fuel oil and coal, natural gas, LNG for combustion installations and vehicles and electric or hybrid vehicles).

Furthermore, Veolia Transport continues its efforts to reduce polluting emissions (CO, HC, particles) from its fleet of passenger vehicles. A new benchmark was defined, corresponding to 80% of the 2008 bus and coach fleet. Emission reduction targets were set for the end of 2011: 8% for carbon monoxide unit emissions (CO), 24% for hydrocarbons (HC) and 27% for particles. Veolia Transport remains committed to providing drivers with environmental performance training, which notably enables a reduction in polluting emissions. In 2008, the number of employees having received training increased to 61.8%. With regards to NO_x emissions, over the last few years Dalkia has carried out an evaluation program covering available technologies (fuel oil low emissions, recycling of fumes, air terracing, combustion modeling, etc.).

Veolia Propreté developed a semi-permanent dioxin emission control method during waste incineration, allowing for a control of the flow of pollutants emitted throughout the year. Veolia Environnement offers this reliable and efficient measurement technique to all its customers.

Noise and olfactory pollution

Veolia Environnement has also developed new processing and storage techniques for odors, particularly in wastewater treatment plants and landfill sites for household waste. Veolia Environnement also uses new and more silent technologies in some of its installations, including special wall coatings, sound traps and exhaust gas exit silencers for cogeneration installations and transport vehicles.

Preserving biological balance, natural environments and protected animal and plant species

Veolia Environment integrated the protection of biodiversity into the first undertaking of its Sustainable Development Charter and since 2004 has developed an approach based on the nature of business impacts and the implementation of integrated management into the Environmental Management System.

To identify its impact, the Group calls on an internal expert who is primarily responsible for analyzing biological tools used to evaluate the ecological state of marine and land life. Moreover, the Group works with a number of universities and institutions in order to further its knowledge through innovative research programs covering the interaction of its activities and the functioning of ecosystems.

Veolia Environment also carries out a management measures aimed at raising employee awareness and best practices. Such measures include the Geographical Biodiversity Information System, which enables the location of the Company's main facilities to be precisely identified in relation to ecological hotspots (identified by the International Conservation Organization).

In order to improve the structure of its policies, the Group is currently working on defining a methodology enabling sites to carry out their own biodiversity appraisals and to implement an appropriate action plan.

In 2008, the Company entered into a partnership with the French Committee of the International Union for Conservation of Nature (IUCN). The primary aim of this partnership will be to assist the Group integrate biodiversity into its corporate strategy, strengthen its R&D strategic cap thanks to a network of recognized experts and participate in raising awareness among Company employees through training measures. IUCN France comprises 44 members (government ministries, public institutions and NGOs) and a network of approximately 250 experts. At international level, IUCN has been a United Nations observer since 1999.

In France, numerous activities fall under the control of either the ICPE regime (facilities classified for environmental protection) or its equivalent. Therefore, all business development is conducted in tandem with the preparation of environmental impact studies comprising a highly detailed section on animal and plant life. The management of these impacts is, accordingly, a constant concern for the operating staff of Veolia Environnement's different businesses (waste treatment, decontamination stations, combustion facilities, rolling stock depots, etc.).

Environmental evaluation or certification

Veolia Environnement's activities have been subject to environmental certification, both external (ISO) and internal, for a long time. In 2008, based on a wider application scope encompassing Veolia Propreté' waste collection and cleaning businesses, Veolia Environnement undertook to implement an environmental management system in 60% of relevant activities by the end of 2011. Subject to the circumstances of each of the entities concerned, this voluntary approach leads to the general application of ISO 14001 certification standards. Some 26,247 Veolia Environnement sites are currently ISO 14001 certified.

Compliance of Company businesses with applicable legislation and regulations

Veolia Environnement's environmental management system includes, among other things, an environmental audit program that allows it to monitor the regulatory compliance of sites, as well as their compliance with contractual obligations and Group standards. Veolia Environnement has defined a general framework to ensure the consistency of the audit systems developed by its Divisions, each of which remains responsible for the definition and implementation of its own system. Based on this definition, the Company set an objective of remaining above the threshold of 90% of priority installations audited in the preceding 5 years. As of December 31, 2008, 91.5% of priority installations had been the subject of a regulatory compliance audit.

Priority sites are drinking water production sites and urban wastewater treatment plants, waste processing sites, Dalkia classified installations and certain Veolia Transport centers. These facilities are the most sensitive to environmental impacts.

Expenses incurred to preserve the environment from the impact of the Company's businesses

Given the nature of its services, a large majority of Veolia Environnement's expenditures and investments have a direct impact on the environment. Veolia Environnement industrial investment amounted to €2,893 million in 2008 (see Chapter 9, Section 9.3.3, below) and includes not only investments of a contractual nature, but also expenditure incurred for Research and Development, employee training, Veolia Environnement's certification program and the implementation of the environmental management system.

Internal environmental management services, training and information for employees on the environment, methods for reducing environmental risks and the structure implemented to handle accidents with an impact beyond the confines of the Company

In addition to the measures described above for the reduction of environmental risks, such as research and development or employee training, Veolia Environnement has set up an Environmental Performance Department. This department's principal role is the roll-out and management of the Environmental Management System, thereby encouraging consistent objectives and actions among the Divisions as well as information sharing and best practices. It heads an Environmental Management Committee, comprised of representatives of all Veolia Environnement Divisions and representatives from the Sustainable Development Department. A Steering Committee, headed by executive management and comprising an Executive Committee member from each Division and representatives from various departments (particularly the sustainable development, legal and R&D departments) will also be formed to approve the strategic cap adopted for environmental management and to report to Veolia Environment's Executive Committee on an annual basis. In addition, Veolia Environnement's risk department is in charge of identifying, assessing and managing risks. It relies on the work of the Group Risk Committee (see Section 4.2.2 above).

Veolia Environnement has also set up crisis management procedures that cover environmental crisis management, including, in particular, on-call and alert systems at national and international levels, enabling any necessary measures to be taken on a timely basis.

Provisions and guarantees for environmental risks

As of December 31, 2008, provisions for site closure and post-closure costs (encompassing provisions for site restoration, the dismantling of installations and environmental risks) totaled €589.1 million.

Compensation paid in 2008 in execution of legal decisions concerning the environment and actions taken to repair environmental damage

Provisions for litigation used in 2008 totaled €95.4 million, including all types of litigation (tax, employment and other litigation).

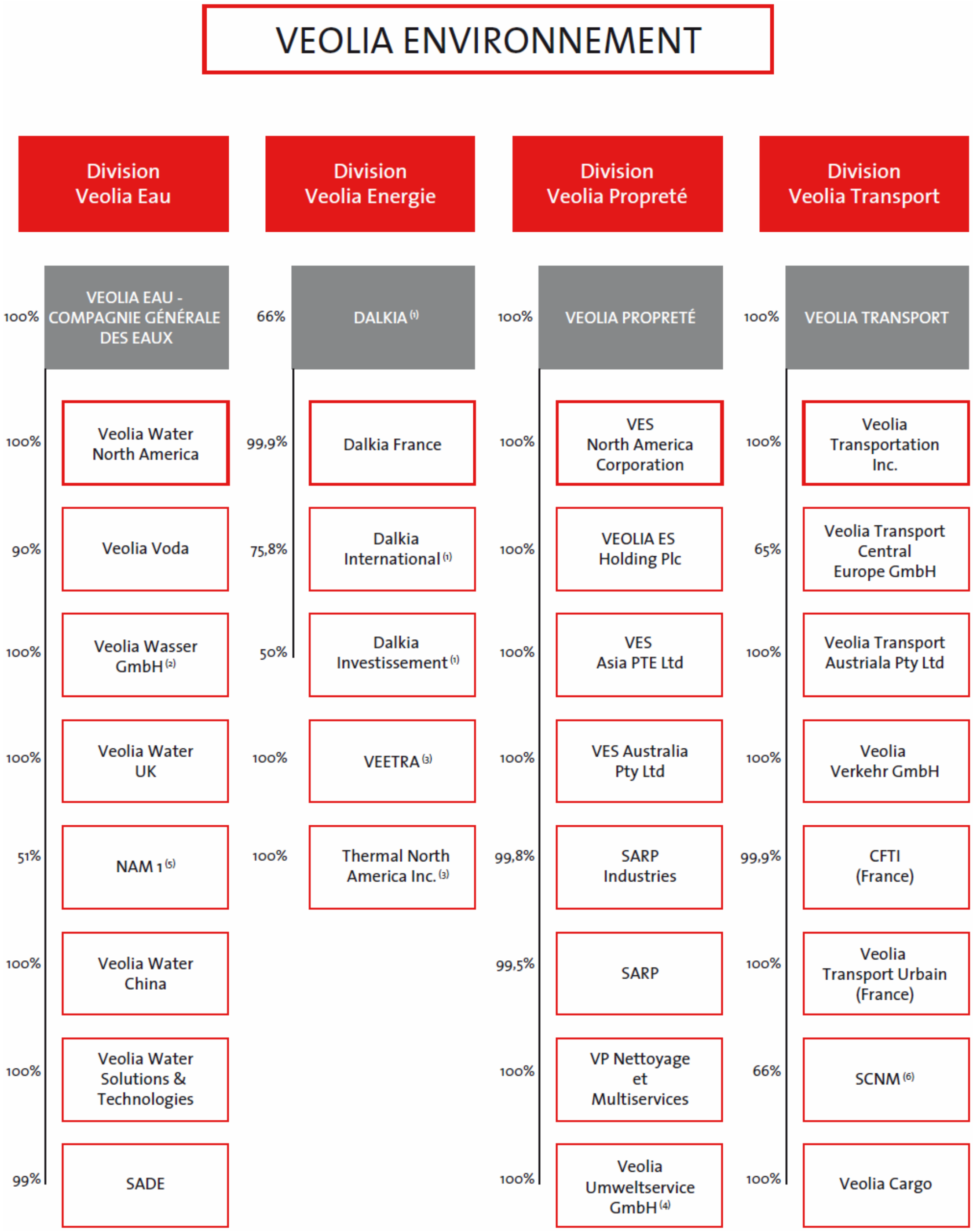
International environmental targets

The roll-out of the Environmental Management System described above continued in 2008 and now covers 77% of sites.

7 ORGANIZATIONAL CHART

The following simplified organizational chart sets forth the principal operating companies by division held directly or indirectly by Veolia Environnement as of December 31, 2008. Unless otherwise indicated, the ownership percentages below reflect both the percentage of voting rights and of share capital held by Veolia Environnement or by the divisions.

The list of the principal companies integrated into the consolidated financial statements in 2008 figure in Chapter 20, paragraph 20.1, note 45 to the consolidated financial statements.



(1) The remaining capital of these companies is held by EDF.
(2) The Group's stake in Berlin Water (*Berlinwasser*) is held through this entity..
(3) Companies wholly owned by Veolia Environnement (directly or indirectly).
(4) Formerly known as Sulo GmbH.
(5) Joint venture held by Veolia Eau-Compagnie Générale des Eaux (51%) and Mubadala Development Company (49%).
(6) The remaining capital of this company is held by the French State (25%) and the employees of the company (9%).

MAIN FINANCIAL FLOWS BETWEEN VEOLIA ENVIRONNEMENT AND ITS DIVISIONS

The main financial flows between Veolia Environnement and its Divisions are described in the notes to the statutory financial statements set forth in Chapter 20, paragraph 20.2, note 7.

Veolia Environnement primarily finances its divisions through loans and current accounts (net position of €7.3 billion as of December 31, 2008) and through equity; as a result it received €370.9 million in interest and €612.9 million in dividends in 2008. The Company has set up a system to centralize its treasury in the main countries in which it operates and uses derivative instruments to hedge its exposure, mainly at the Group level, in accordance with its risk management policy (see Chapter 20, paragraph 20.1, note 30 of the consolidated financial statements).

Veolia Environnement charged the Divisions management fees as well as royalties in connection with the use of the Veolia Environnement trademark pursuant to agreements for a total amount of €149.1 million in 2008. In addition, in connection with contractual commitments relating to the management of expenses for the renovation of facilities made available by delegating authorities, the Company received from its Water and Energy subsidiaries €220.9 million in renewal indemnities and paid to the Water and Energy subsidiaries €225.3 million in 2008.

In connection with operating activities, Veolia Environnement granted financial and operational guarantees for €2,393 million as of December 31, 2008.

The EDF group holds 34% of Dalkia's capital and 24.2% of Dalkia International. Veolia Environnement has exclusive control over Dalkia and joint control with EDF over Dalkia International.

The table below details the consolidated amounts as of December 31, 2008, broken down among Veolia Environnement and its four divisions, of certain line items of the balance sheet (current assets, liabilities, net cash), of net cash flows from operating activities and of the amount of dividends paid in 2008 and recovered by the Company.

(in € million)

Information as of December 31, 2008	**Veolia Eau**	**Veolia Propreté**	**Dalkia (1)**	**Veolia Transport**	**Other subsidiaires**	**Veolia Environnement**	**Total consolidated amount**
Non-current assets	12,919.8	8,392.5	4,414.5	2,709.8	774.9	830.3	**30,041.8**
Non-group financial debt (2)	-3,898.7	-1,315.0	-1,113.8	-231.7	-64.8	-13,288.1	**-19,912.2**
Cash and cash equivalents less bank overdrafts (3)	342.0	132.1	275.3	137.6	226.3	2,270.6	**3,383.9**
Net cash flow from operating activities	1,726.3	1,215.6	473.3	215.3	24.7	94.7	**3,749.9**
Dividends paid during the period and attributable to Veolia Environnement	319,.	165.0	84.1	-	21.9	-	**-**

(1) Including TNAI.

(2) Corresponds to long-term borrowings + short-term borrowings +/- readjustment of cash instruments.

(3) Corresponds to cash and cash equivalents less bank overdrafts and other cash position items.

8 PROPERTY, PLANT AND EQUIPMENT

Veolia Environnement uses various assets and equipment for the conduct of its activities, over which it exercises extremely diverse rights.

The total gross value of Veolia Environnement non-current assets (excluding other intangible assets) as of December 31, 2008 was €30,239.4 million (net value of €18,816 million as of December 31, 2008, representing 38% of total consolidated assets), compared to €28,711 million as of December 31, 2007 (net value of €17,820 million).

Under concession arrangements, Veolia Environnement provides public interest services (distribution of drinking water and heat, public transportation networks, household waste collection, etc.) to communities, in consideration for the payment of services rendered. These collective services (also referred to as general interest services, general economic interest services and public services) are usually managed by Veolia Environnement pursuant to contracts entered into at the request of public entities that maintain the control of assets used to perform such collective services. Concession arrangements are characterized by the transfer of operating rights for a fixed term, under the control of a public authority, which are performed using special-purpose installations built by Veolia Environment or placed at its disposal either free of charge or for consideration. Installations normally consist of pipelines, water treatment and purification plants, pumps, etc. in the Water Division, incineration plants in the Environmental Services Division, and urban heating networks and heating and co-generation plants in the Energy Services Division.

Veolia Environment is usually contractually bound to maintain and repair installation assets managed under public service contracts. When necessary, related repair and maintenance costs are provided via provisions for contractual commitments in the event of delays in the performance of work. The nature and extent of the Group's rights and obligations under these different contracts vary according to the public services rendered by the different Group businesses.

Under outsourcing contracts with industrial clients, BOT (Build, Operate, Transfer) contracts or incineration or co-generation contracts, the Group may grant customers the right to use a group of assets in return for rent included in the total contract remuneration. Pursuant to IFRIC 4, the Group thus becomes a lessor with respect to its customers. The corresponding assets are therefore recorded in the consolidated balance sheet as operating financial assets.

The Group is also the outright owner of industrial installations, in particular for activities undertaken outside comprehensive contracts in the Environmental Services Division (landfill sites and special waste processing plants), the Energy Services Division (co-generation plants) and the Transportation Division (buses, boats and trains). These assets are classified in the consolidated balance sheet as property, plant and equipment. Veolia Environnement property, plant and equipment are subject to certain charges, such as maintenance and repair costs and closure or post-closure costs.

There are relatively few real estate assets legally owned by the Group without any retrocession obligations. When possible, the Group does not own its office buildings.

Finally, assets purchased under finance lease fall into all three asset categories detailed above and represented a net amount of €900 million as of December 31, 2008 (see Chapter 20, Section 20.1, Note 18 to the consolidated financial statements).

The main insurance policies subscribed by the Company are described in Chapter 4, Section 4.5 of this reference document.

Environmental issues may also influence the Company's use of property, plant and equipment, as detailed in Section 6.3 of this reference document.

9 OPERATING AND FINANCIAL REVIEW

9.1 RESULTS OF OPERATIONS IN 2008

9.1.1 General context

The Group continued its strategy of developing its environmental businesses, whilst adapting to the consequences of the financial crisis and the economic downturn felt from the second half of the year. This development of its activities was reflected by a 13.4% growth in revenue (15.8% at constant exchange rates), despite a slowdown in business and notably in the fourth quarter in the Environmental Services Division.

Revenue growth is attributable to acquisitions performed in 2007 and at the beginning of 2008 and progress across all businesses and notably a strong increase in engineering and construction activities in the Water Division (seawater desalination) leading to an organic growth of 9.6%.

In this context, with organic growth at 9.6% operating cash flow increased by 2% at constant exchange rates (0.6% decrease at current exchange rates), despite occasional operating difficulties (notably delays in passing on price increases in a context of rising costs in the Water Division) and a difficult economic environment (primarily impacting the Environmental Services Division and to a lesser extent the Energy Services and Transportation Divisions). Operating performance was notably affected by the appreciation of the euro against certain currencies of countries where the Group has a strong presence (the United States, the United Kingdom and the Asia-Pacific region), the price of petroleum products during the first six months and of recycled products at the end of the year and a downward trend in volumes in the Environmental Services Division. Finally, the contribution of certain acquisitions and recent developments (notably in Germany in the Environmental Services Division) was less than expected.

As a result of the downturn in the credit and liquidity market, access to financial resources for economic players was both more difficult and costly. However, thanks to the structure and maturity of its debt, the Group will not face any major refinancing deadlines before 2012 and enjoys significant liquidity.

In response to this difficult context, the Group has implemented a new cost reduction plan ("2010 Efficiency Plan") a new plan to adapt to the current business climate in the Environmental Services Division, and a non-strategic asset divestiture program. The latter gave rise to the divestiture of Clemessy and Crystal in 2008, for a net amount of €226.3 million.

9.1.2 New commercial successes within growth markets

The Group won several major contracts in 2008:

- In February 2008, Veolia Eau, as part of a consortium, won a contract to upgrade and extend a wastewater treatment plant in Warsaw. This contract represents cumulative revenue estimated at €500 million, including €150 million for Veolia Eau.
- On February 13, 2008, Veolia Propreté won a new 25-year PFI contract (Private Finance Initiative) to provide waste recycling in Southwark (London) in the United Kingdom, representing estimated revenue of €700 million.
- In March 2008, Veolia Transport signed a contract to manage the airport of Beauvais-Billé in France. This 15 year contract represents cumulative revenues estimated at €238 million.
- On March 17, 2008, Veolia Propreté won a new 25-year PFI contract to provide waste recycling in West Berkshire, United Kingdom, representing cumulative revenue of €533 million.
- In April 2008, Veolia Environnement signed a contract with Artenius, a subsidiary of the chemical group La Seda de Barcelona for its Sines plant in Portugal. Veolia Environnement will build and manage the plant for the production of all utilities (steam, electricity, demineralized water, industrial gas, waste water treatment). This 15 year contract represents cumulative revenue of €730 million.
- On April 29, 2008, Veolia Eau, through its subsidiary Veolia Water AMI, won Saudi Arabia's first ever delegated management contract in the water sector. This 6-year contract represents total cumulated revenue estimated at €43 million.
- In May 2008, Veolia Eau, through OTV, a subsidiary of Veolia Eau Solutions & Technologies, signed two major contracts with SIAAP, the wastewater authority for Paris. These two contracts (Achères and Les Gresillons 2) represent total cumulated revenue over the contract term of €224 million for Veolia Eau.
- In May 2008, Veolia Eau won a new design-build-operate contract in India for a drinking water production plant in Nagpur, representing cumulated revenue estimated at €20 million over 15 years.
- In June 2008, Veolia Eau signed a contract to built 10 water desalination plants in Ras Laffan (Qatar). This contract represents revenue estimated at €305 million.

- In June 2008, Dalkia signed a contract to built and operate an electricity plant based on biomass at the Solvay site in Tavaux (France). This 20 years contract represents cumulative revenue estimated at €500 million.
- On June 12, 2008, Veolia Transport won a contract to manage the Bilbao urban bus transport system (population of 400,000). The contract is for 8 years with an additional option for two years and represents cumulated revenue estimated at €305 million for the first eight years.
- On July 8, 2008, Veolia Environnement announced the creation of a joint venture for the construction of the largest solar power rooftop station in the world. Annual output from the solar power station, located near Zaragossa and operational since the end of September 2008, will be 15.1 million KWh.
- On July 30, 2008, Veolia Eau won a contract for the financing, design, construction and operation of two new wastewater treatment plants in Abu Dhabi and Al Ain. This 25-year contract represents cumulated revenue estimated at €461 million.
- In August 2008, Dalkia signed a contract with Smurfit, a company providing paper, to build and operate an electricity plant based on biomass. This 20 year contract represents cumulated revenue estimated at € 1 billion.
- On September 2, 2008, Veolia Transport, through its German subsidiary NordWestBahn, won the contract to manage, from December 2010, the entire regional express system (S-Bahn) linking the states of Bremen and Lower Saxony in Germany. This 11-year contract represents cumulated revenue estimated at €500 million.
- On September 25, 2008, Veolia Eau, as a consortium member, won a contract for the first private scheme for recycled water to supply a network of multiple industrial users in Australia. This contract represents cumulated revenue estimated at €99 million over a 20-year period.
- On November 6, 2008, Veolia Eau won two Design, Build & Operate contracts for major wastewater treatment plants in Mullingar and Castlebar in Ireland. These contracts represent cumulated revenue estimated at approximately €74 million over 22 years.
- On December 8, 2008, Veolia China Limited, the Chinese subsidiary of Veolia Transport, signed a partnership agreement with Nanjing Zhongbei. This agreement covers the creation of a joint venture to operate the transportation systems of six Chinese cities over a period of 30 years. The resulting joint venture will generate revenue in 2009 of over CNY 400 million, or €40 million (including approximately €20 million for Veolia Transport).
- On December 17, 2008, Veolia Environnement, through a consortium formed by its subsidiaries Soval and Dalkia, was awarded the delegated public service contract for the operation of the thermal complex of Hauts de Garonne in France. This 12-year contract represents cumulated revenue of approximately €127 million for Veolia Environnement.
- On December 18, 2008, Veolia Transport, as a consortium member, won a contract for the operation of the future Line 1 of the Mumbai subway. Veolia Transport India will be in charge of all operating activities as well as system maintenance via a joint venture with the Indian company Reliance Infrastructure (70%–30% respectively). The consortium, comprising Reliance Energy (69%), Veolia Transport (5%) and Mumbai Metropolitan Region Development Authority (26%), has responsibility for the financing, construction and operation of Line 1. This 8 years contract represents cumulative revenue estimated at €70 million.
- In December 2008, Veolia Eau signed a contract to manage the drinking water service in Changle In China. This 30 year contract represents cumulative revenue estimated at €294 million.
- In December 2008, Veolia Transport signed a contract to manage the “Département de l’Oise” bus transport system in France. This 12 years contract represents cumulative revenue estimated at €334 million.

2008 was marked as was 2007 by the renewal of a significant number of contracts such as the contracts for the town of Toulon or the Cergy-Pontoise region in France in the Water Division, the contracts of London Borough of Croydon in the United Kingdom, Montbeliard in France or Pinellas County in the United States in the Environmental Services Division, the contracts for the Town of Saint-Dié in France, Sao Luis in Brazil in the Energy Division, the contracts for Baltimore and Seattle in the United States in Transportation Division.

The city of Paris has announced its intention to takeover responsibility for the management of water distribution activities, when the existing delegation contracts expire in 2009.

Legal action has been taken and is currently in progress concerning the legality of the tender process which led to the renewal of contracts in Bordeaux (bus network) and Stockholm (subway management), not being awarded to the Group at the end of 2008.

9.1.3 Acquisitions and divestitures

The Group carried out a number of acquisitions as part of its development strategy:

- On November 19, 2007, Veolia Environmental Services announced the signature of an agreement for the acquisition of the entire share capital of Bartin Aero Recycling Group, a company specializing in the collection and recovery of industrial waste and in particular the recycling of ferrous and non-ferrous metals. This transaction represents an investment for Veolia Propreté of €189 million (enterprise value). The acquisition was finalized on February 13, 2008 and contributed €246.6 million to Group revenue in 2008.
- In February 2008, following a takeover bid launched on December 17, 2007, Dalkia became the majority shareholder with a stake of 100% in Praterm, a heat production and distribution company in Poland. This transaction enabled Dalkia to strengthen its position in this country, where it already owns two of the largest heating networks in Poznan and Lodz. This transaction represents an investment with an enterprise value of €128 million for Dalkia (group share). The contribution of Praterm to Group revenue for the year ended December 31, 2008 is €37.0 million (Group share).
- In May 2008, Veolia Eau Solutions & Technologies acquired the Biothane Group, specializing in the biological treatment of wastewater, for U.S.$80.5 million (€53.3 million).
- On October 1, 2008, Veolia Environnement purchased Ridgeline Energy in the United States, a specialist in the development of wind energy projects, for an amount of €49.6 million for 100% of the share capital and potentially an additional sum for 1,500 MW of capacity that is ready to be built.
- In December 2008 (following receipt of European competition authority approval), Veolia Transport bought out the 37.71% interest held by BCP (Butler Capital Partner) in SNCM for a consideration of €73 million, thereby increasing the Group's stake in SNCM to 66%.
- The divestiture program was stepped up in the second half of 2008 and amounted to €761 million for the year (including net borrowings). This amount includes industrial divestitures of €330 million and financial divestitures of €431 million.

The main divestitures in 2008 were as follows:

- The Group sold the Jean Nicoli boat used by SNCM under a public service delegation contract for €105 million in the first half of 2008.
- On December 16, 2008, the Group sold the Clemessy and Crystal businesses in the Energy Services Division for an enterprise value of €226.3 million. These businesses contributed €696 million to Group revenue in 2007.
- Veolia Environnement and (MDC – V Holding Sarl – Mubadala) formed a joint venture with a view to developing a strategic partnership. This joint venture, owned 51% by Veolia Eau and 49% by Mubadala, will focus on water production and wastewater collection and treatment in the Middle East and North African regions. The transaction was finalized on December 30, 2008.

9.2 ACCOUNTING AND FINANCIAL INFORMATION

9.2.1 Definitions and accounting context

The term "organic growth" includes growth resulting from:

- the expansion of an existing contract, notably resulting from an increase in prices and/or volumes distributed or processed;

- new contracts;

- the acquisition of assets attributed to a particular contract or project.

The term "external growth" includes growth through acquisitions (performed in the period or which had only partial effect in the prior period), net of divestitures, of entities and/or assets deployed in different markets and/or containing a portfolio of more than one contract.

Net financial debt represents gross financial debt (non-current borrowings, current borrowings, bank overdrafts and other cash position items), net of cash and cash equivalents and excluding fair value adjustments to derivatives hedging debt.

Net finance costs represent the cost of gross debt, including related gains and losses on interest rate and foreign exchange hedges, less income on cash and cash equivalents.

Net income (expense) from discontinued operations is the total of income and expenses, net of tax, related to businesses sold or in the process of being sold, in accordance with IFRS 5.

Recurring net income attributable to equity holders of the parent is defined as follows: recurring portion of operating income + recurring portion of financial items + recurring portion of net income of associates +recurring portion of net income attributable to minority interests + recurring portion of the income tax expense. An accounting item is non-recurring if it is unlikely to recur during each period and if it substantially changes the economics of one or more cash-generating units. By their nature, all amendments to goodwill (impairments or badwill) are non-recurring.

Free Cash Flow represents cash generated (sum of the cash flow from operations before changes in working capital and income taxes paid and of principal repayments on operating financial assets) net of the cash part of the following items: (i) Changes in Working Capital Requirement for operations, (ii) operations on equity (capital movement, dividends paid and received), (iii) investments net of disposals (including the variation of receivables and other financial assets), (iv) net financial interest paid and (v) tax paid.

Accounting context

The accounting policies adopted for the preparation of the 2008 financial statements are unchanged from the 2007 financial statements.

Pursuant to IFRS 5:

- the 2007 and 2006 income statements have been adjusted to take account of the divestiture of Clemessy and Crystal in the Energy Services Division in December 2008, which are presented in Net income from discontinued operations;

- in accordance with the reciprocal purchase and sale agreement signed on December 19, 2008 between Suez Environnement and Veolia Environnement, completion of which is expected in 2009, certain assets jointly held with Suez were also reclassified in the balance sheet in “Assets classified as held for sale” and “Liabilities directly associated with assets classified as held for sale”.

9.2.2 Revenue

9.2.2.1 Overview

Year ended Dec. 31, 2008 (€ million)	Year ended Dec. 31 2007 [1] (€ million)	% Change 2008/2007	Internal growth	External growth	Foreign exchange impact
36,205.5	31,932.2	+ 13.4%	+9.6%	+6.2%	-2.4%

(1) Published figures for the year ended December 31, 2007 have been adjusted, for comparative purposes, for the Clemessy and Crystal businesses in the Energy Services Division, accounted from the third quarter 2008 in accordance with IFRS 5 and presented in “Net income from discontinued operations”.

Group consolidated revenue increased by 13.4% (15.8% at constant exchange rates) to €36,205.5 million compared with €31,932.2 million in 2007. Internal growth amounted to 9.6%, boosted by dynamic commercial development within all the Group’s businesses and accentuated by work on new engineering and construction contracts in the Water Division. The increase in energy prices within the Energy Services Division contributed €473 million of additional revenue.

External growth was 6.2%, particularly due to acquisitions by Veolia Propreté in Germany, Italy and France (total contribution of €828.6 million), by Veolia Energie in the United States (€303.5 million) and by Veolia Eau, primarily in the United Kingdom and Japan (total contribution of approximately €268.4 million).

Revenue from outside France amounted to €21,682.6 million, i.e. 59.9% of total revenue compared with 57.5%[1] in 2007.

The net negative impact of foreign exchange rates of €778.3 million, essentially reflects the depreciation of the US dollar (-€191.4 million) and the pound sterling (-€437.3 million), partially offset by the appreciation of the Czech crown (+€109.0 million).

9.2.2.2 Revenue by business

(€ million)	**Year ended December 31, 2008**	Year ended December 31, 2007 [1]	% Change 2008/2007
Water	12,557.9	10,927.4	**+ 14.9 %**
Environmental Services	10,144.1	9,214.3	**+10.1 %**
Energy Services	7,449.4	6,200.4	**+ 20.1 %**
Transportation	6,054.1	5,590.1	**+ 8.3 %**
Revenue	36,205.5	31,932.2	**+ 13.4 %**
Revenue at 2007 exchange rates	**36,983.8**	**31,932.2**	**+ 15.8 %**

(1) Excluding foreign construction subsidiaries and entities.

Water

Year ended Dec. 31, 2008 (€ million)	Year ended Dec. 31 2007 (€ million)	% Change 2008/2007	Internal growth	External growth	Foreign exchange impact
12,557.9	10,927.4	+14.9 %	+ 13.4 %	+3.3 %	- 1.8 %

- In **France** internal growth amounted to 3.4%[12], supported by price indexing, a wider service offering and growth in engineering work, which offset the approximately 1.9% drop in the volume of water distributed as compared to 2007.
- **Outside France** and excluding Veolia Eau Solutions & Technologies, revenue increased by 16.5% (+12.3% at constant consolidation scope and exchange rates). In Europe, growth of 13.2% (+8.5% at constant consolidation scope and exchange rates) reflected the acquisition of new non-regulated water operations in the UK, completion of the Brussels plant and strong activity in Germany. Sustained activity was also experienced in the Africa/Middle East region with growth of almost 14.1% at constant consolidation scope and exchange rates (+15.2% at current rates) thanks in particular to the Oman Sur and Mauritanian contracts. In Asia/Pacific, the strong growth of 23.4% at constant consolidation scope and exchange rates (+32.9% at current rates) was largely fueled by the start up of new municipal and industrial contracts in China (Lanzhou, Haikou and Tianjin), by increased volumes and the extension of the Shenzhen concession and by engineering activities in Australia (Sydney desalination contract). In the USA, growth of 8.8% at constant consolidation scope and exchange rates (+4.5% at current rates) mainly reflected the start up of the Milwaukee contract and good engineering activity levels in Indianapolis.
- Veolia Eau Solutions & Technologies reported revenue of €2,524.9 million, up 36.3% at constant consolidation scope and exchange rates (+34.2% at current rates), supported by municipal and industrial design and build projects in particular in the Middle East.

Environmental services

Year ended Dec. 31, 2008 (€ million)	Year ended Dec. 31 2007 (€ million)	% Change 2008/2007	Internal growth	External growth	Foreign exchange impact
10,144.1	9,214.3	+10.1 %	+4.5 %	+10.1 %	-4.5 %

- In **France,** revenue grew by 11.2% (+3.8% with a constant consolidation scope). External growth was attributable to the acquisition of Bartin Aero Recycling Group, finalized in February 2008. Internal growth was bolstered by the sustained level of non-hazardous household and industrial waste processing activities (both landfill and incineration). However the economic slowdown, first observed in the third quarter and which accelerated in the fourth quarter, brought an abrupt end to trends observed during the first half of the year. This slowdown particularly impacted sorting, recycling and trading businesses, due to the sharp decrease in the price of recyclable paper and metals, as well as activities with industrial customers (fall in volumes of both hazardous and non-hazardous waste).

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12 Excluding foreign construction subsidiaries and entities.

- **Outside France,** internal growth of 4.7% (+9.4% at current rates) was contributed to by all the division's regions but was considerably slowed during the fourth quarter by economic trends in North America, UK and above all in Germany, where volumes fell significantly. For the year as a whole, the growth in North America (+8.7% at constant consolidation scope and exchange rates and +2.4% at current rates) was helped by price increases in the solid waste sector, which offset the fall in volumes, and by the strong market for hazardous waste management and industrial services. In the UK, growth amounted to 8.6% at constant consolidation scope and exchange rates (-6.7% at current rates), reflecting in particular the new contracts won. In Germany, revenue was down on 2007 from the third quarter (-18.9% at constant consolidation scope and exchange rates) following the loss of several contracts in the used packaging business (DSD) as well as losses in industrial waste management. The recycling business was also strongly affected by the decrease in prices for recycled materials. In Asia, the development of recently won contracts was a strong factor in the internal growth observed of 22.0% (+25% at current rates). Finally, growth of 14.4% at constant consolidation scope and exchange rates (+11.3% at current rates) in the Pacific region was attributable to growth in the waste collection and processing sector and industrial services.

- External growth of 10.1% essentially reflected the acquisition of Veolia Environmental Services Germany (formerly SULO) which contributed revenue of €522.3 million (consolidated with effect from July 2, 2007), of VSA Tecnitalia (formerly TMT) in Italy which contributed revenue of €59.7 million and of Bartin Aero Recycling Group in France (consolidated with effect from February 2008) which contributed revenue of €246.6 million.

Energy Services

Year ended Dec. 31, 2008 (€ million)	Year ended Dec. 31 2007 adjusted (€ million)	% Change 2008/2007	Internal growth	External growth	Foreign exchange impact
7,449.4	6,200.4	+20.1 %	+12.0 %	+ 8.7 %	-0.6 %

- Total revenue increased by 20.1% as a result in particular of the increase in energy prices (impact of €473 million) and the acquisition of Thermal North America Inc. (TNAI) in the United States at the end of 2007.

- In France, revenue increased 12.7% with a constant consolidation scope (+13.2% at current consolidation scope) given the increased price of energy, more favorable climatic conditions than in 2007 (notably in the fourth quarter of 2008) and the good commercial development of dedicated subsidiaries.

- Outside France, revenue grew by 28.2% overall and by 11.1% at constant consolidation scope and exchange rates, equally as a result of the increase in energy prices and commercial development in Europe as a whole, against the backdrop of stable climatic conditions throughout Central Europe in comparison with 2007.

- The external growth of 8.7% mainly reflects the €303 million contribution of the TNAI acquisition in the United States at the end of 2007, as well as to a lesser extent, the acquisition of Praterm in Poland and of smaller companies in Central and Southern Europe.

Transportation

Year ended Dec. 31, 2008 (€ million)	Year ended Dec. 31 2007 (€ million)	% Change 2008/2007	Internal growth	External growth	Foreign exchange impact
6,054.1	5,590.1	+8.3 %	+7.9 %	+2.7 %	-2.3 %

- Revenue increased by 7.3% in **France** with a constant consolidation scope (+8.1% at current consolidation scope), underpinned by the division's continuing development in urban and intercity transport.

- Outside France, revenue increased by 8.5% (with a constant consolidation scope and at current and constant exchange rates), due to the full effect of the new contracts signed in North America and Germany and of strong growth in Australia.

- External growth of 2.7% principally reflects the acquisition of People Travel Group in Sweden in 2007 and of Rail4Chem in Germany in 2008.

9.2.2.3 Revenue by geographical area

(€ million)	**Year ended December 31, 2008**	Year ended December 31, 2007 (adjusted)	% Change 2008/2007 (year-end exchange rates)	% Change 2008/2007 (constant exchange rates)
France	**14,522.9**	13,587.0	+6.9	+6.9
United Kingdom	**2,955.3**	2,945.7	+0.3	+15.1
Germany	**3,165.2**	2,678.9	+18.2	+18.2
Other European countries	**7,054.4**	6,033.3	+16.9	+15.6
United States	**3,045.0**	2,580.4	+18.0	+25.7
Oceania	**1,437.7**	1,308.2	+9.9	+18.2
Asia	**1,269.9**	961.0	+32.1	+37.1
Rest of the world (including the Middle East)	**2,755.1**	1,837.7	+49.9	+53.7
Revenue	**36,205.5**	**31,932.2**	**+13.4**	**+15.8**

France

Revenue growth in France reached 6.9% thanks to the impact of energy prices in the Energy Services Division, continued vigorous growth in engineering and construction work in the Water Division and sustained growth in inter-city activities (notably in the Greater Paris region) in the Transportation Division. Growth reported by Veolia Propreté was primarily tied to the acquisition of Bartin in February 2008.

United Kingdom

Revenue growth in the United Kingdom, excluding exchange rate impacts, was 15.1%, benefiting from new integrated contracts in the Environmental Services Division, commercial development and focused acquisitions in Veolia Energie Services and the acquisition of Thames Water non-regulated water operations by Veolia Eau.

Germany

German growth of 18.2% is mainly attributable to the acquisition of Veolia Propreté Germany, an increase in Braunschweig contract sales (Veolia Eau) and organic growth in rail operations (Veolia Transport).

Other European countries

Revenue growth of 15.6% at constant exchange rates is primarily due to the acquisition of Praterm, the development of Veolia Energie activities in Southern and Northern Europe, the acquisition of VES Tecnitalia by Veolia Propreté in Italy, the growth of activities in Central Europe and the completion of work at the Brussels plant by Veolia Eau.

United States

Revenue growth of 25.7% at constant exchange rates was due to marked growth across all Veolia Propreté businesses, the full-year effect of recent developments within Veolia Transport, the impact of the acquisition of Thermal North America Inc. by Veolia Energie at the end of 2007, the start-up of the Milwaukee contract and sustained engineering activities in Indianapolis in the Water Division.

Oceania

Growth of 18.2% at constant exchange rates in Oceania was boosted by Veolia Eau contracts in Australia (desalination plant in Sydney), all Veolia Propreté activities and notably the Woodlawn contract and increased revenue from the Veolia Transport Melbourne contract.

Asia

Revenue growth of 37.1% at constant exchange rates was notably achieved by Veolia Eau as a result of recent developments (contracts in China and acquisitions in Japan) and to a lesser extent by Veolia Propreté and Veolia Energie with the start-up of new contracts.

Rest of the world (including the Middle East)

Revenue growth of 53.7% at constant exchange rates was marked by sustained growth recorded by Veolia Eau in Africa and the Middle East (contract in Mauritania and Oman Sur BOT contract).

9.2.3 Other income statement items

9.2.3.1 Operating income and cash flow

At Group level, operating cash flow benefited from the development of new business activities, the Group's recent acquisitions, the strong performance of the Energy Services Division and the favorable impact of the productivity plan. These benefits were offset, however, by the following negative impacts:

- foreign exchange movements (-€107 million), reflecting in particular the appreciation of the euro against the other principal currencies where the Group operates;

- the deterioration in operating performance of the Environmental Services Division, with a particularly unfavorable business climate beginning in the third quarter (prices and volume), despite the restructuring actions taken during the second half of the year (new management team, shutdown of two regional offices, restructuring plan) in Germany,

- the increase in development costs and other overheads in particular in Asia;

- cost increases, particularly for fuel, not passed on to customers.

In addition to these effects, operating income reflects impairment losses recognized by Veolia Environmental Services Germany for - €405,6 million (-€343 million on goodwill) and by the Transportation Division in Northern Europe (-€55 million), as well as the increase in the depreciation and amortization charge as a result of new contracts and recent acquisitions.

Overall the operating cash flow margin was 11.4% in 2008 compared to 13.0% in 2007 and the recurring operating income margin fell from 7.7% in 2007 to 6.3% in 2008.

Movements in operating cash flow were as follows:

	Operating cash flow			
	Year ended December 31, 2008	Year ended December 31, 2007 adjusted	% Change	
			Current exchange rates	Constant exchange rates
Water	1,821.3	1,851.3	-1.6 %	+ 0.6 %
Environmental Services	1,362.2	1,460.9	-6.8 %	-1.6 %
Energy Services	755.4	641.8	+17.7 %	+15.5%
Transportation	292.0	279.3	+ 4.5 %	+ 5.7 %
Holding companies	(93.6)	(69.6)		
Total	**4,137.3**	**4,163.7**	**- 0.6 %**	**+ 2.0 %**
Total at 2007 exchange rates	**4,244.2**			

Movements in operating income and recurring operating income break down as follows:

	Operating income				Recurring operating income			
	Year ended Dec. 31, 2008	Year ended Dec. 31, 2007 adjusted	Change	Change at constant exchange rates	**Year ended Dec. 31, 2008**	Year ended Dec. 31, 2007 adjusted	Change	Change at constant exchange rates
Water	1,198.5	1,267.7	- 5.5%	-2.9%	1,196.2	1,265.7	-5.5%	- 2.9%
Environmental Services	285.5	803.5	- 64.5%	-58.0%	640.5	803.5	-20.3%	- 13.9%
Energy Services	429.7	384.3	+ 11.8%	+ 10.7%	424.7	373.7	+13.7%	+ 11.3%
Transportation	145.4	130.3	+ 11.6%	+ 10.1%	129.6	115.1	+ 12.6%	+ 10.9%
Holding companies	(107.8)	(103.3)			(107.8)	(103.1)		
Total	1,951.3	2,482.5	- 21.4%	- 18.4%	2,283.2	2,454.9	-7.0%	- 4.0%
Total at 2007 exchange rates	2,025.0				2,356.9			

The total negative foreign exchange impact of €73.7 million is mainly due to the devaluation against the euro of the pound sterling (-€57.2 million) primarily in the Water and Environmental Services Divisions and of the U.S. dollar (-€11.4 million) primarily in the Environmental Services Division, partially offset by the appreciation of the Czech crown against the euro (+€16.8 million) notably in the Energy Services Division.

Operating income for the years ended December 31, 2008 and 2007 breaks down as follows:

December 31, 2008	Recurring items	Non-recurring items		Total
(€ million)		Impairment losses	Other	
Water	1,196.2		2.3	1,198.5
Environmental Services	640.5	(343.0)	(12.0)	285.5
Energy Services	424.7		5.0	429.7
Transportation	129.6	(55.4)	71.2	145.4
Holding companies	(107.8)			(107.8)
Total	**2,283.2**	**(398.4)**	**66.5**	**1,951.3**

December 31, 2007 restated	Recurring items	Recurring items		Total
(€ million)		Impairment losses	Other	
Water	1,265.7		2.0	1,267.7
Environmental Services	803.5			803.5
Energy Services	373.7		10.6	384.3
Transportation	115.1	(6.9)	22.1	130.3
Holding companies	(103.1)		(0.2)	(103.3)
Total	**2,454.9**	**(6.9)**	**34.5**	**2,482.5**

Water Division

The Water Division reported operating cash flow of €1,821.3 million for 2008, compared with €1,851.3 million for 2007, representing growth of 0.6% at constant exchange rates.

Operating income amounted to €1,198.5 million compared with €1,267.7 million for 2007, a decrease of 2.9% at constant exchange rates. Recurring operating income for 2008 amounted to €1,196.2 million, compared with €1,265.7 million for 2007.

In France, the increase in operating cash flow was underpinned by productivity initiatives, the development of new services and sustained engineering activities and was achieved despite a fall in volumes delivered.

Outside France, the acquisition of non-regulated water operations in the UK and the provisional acceptance of the Brussels plant were positive factors. In 2007 Veolia Eau benefited from the satisfactory resolution of a dispute with the Berlin Lander concerning drainage activities.

The improvement in the division's Gabon operation also contributed to the improvement in operating cash flow. However, delays in price increases and increased development costs weighed heavily on the division's performance in Asia, and its American operations also showed a decline.

Finally, Veolia Eau Solutions & Technologies also improved its operating cash flow as its new contracts reached maturity.

Other than the above factors, the division's operating income was mainly affected by the increase in depreciation and amortization linked to new contracts won, notably in Asia, and recent acquisitions.

The operating margin (operating cash flow / revenue) dropped from 16.9% in 2007 to 14.5% in 2008.

The engineering, solutions and technologies activities of the Water Division could be affected by the downturn in economic activity. Despite this, Veolia Eau Solutions & Technologies' order book contains approximately 18 months of construction business as of December 31, 2008. Operating business volumes successfully resisted the economic downturn. However, should this downturn prove long term, it could reduce the ability, in a limited number of countries, of certain public customers to meet contractual deadlines (payments, price increases) or finance certain infrastructure projects.

Environmental Services Division

Operating cash flow amounted to €1,362.2 million for 2008 compared with €1,460.9 million for 2007, a decrease of 1.6% at constant exchange rates.

Operating income amounted to €285.5 million in 2008 compared with €803.5 million in 2007, with recurring operating income decreasing from €803.5 million in 2007 to €640.5 million in 2008.

The main non-recurring item in 2008 was a €343 million charge for impairment on goodwill given the deterioration in business performance in Germany in 2008.

Recurring operating income was also affected by a €62.6 million charge for impairment on other intangible assets in Germany recognized in the opening balance sheet.

Foreign exchange impacts negatively affected the division's operating income and operating cash flow by €51.9 million and €76.5 million, respectively, including €34.7 million and €50.6 million in respect of the pound sterling and lesser amounts for the US dollar.

The division's overall performance has been considerably affected by the economic crisis since September, with a drop in volumes processed for industrial customers in particular and a significant decrease in prices for recyclable materials.

Despite this drop in volumes, performance in the US and the UK nevertheless remained satisfactory due to a reduction in fixed costs combined with price increases in the US.

Acquisitions during the last 12 months contributed €50.6 million to operating cash flow in 2008, primarily due to the acquisition of Veolia Environmental Services Germany (formerly Sulo) (effective first half-year).

The operating margin (operating cash flow / revenue) fell from 15.9% in 2007 to 13.4% in 2008. This decrease was mainly due to the dilutive effect of recent acquisitions and the economic crisis since September 2008.

Within the Group, the Environmental Services Division is the most sensitive to the current economic crisis. Its exposure to industrial activities is significant in both the non-hazardous (price and volume) and hazardous waste sectors. Recycling activities are particularly sensitive to the reuse of raw materials (paper and ferrous and non-ferrous metals).

Energy services Division

Operating cash flow amounted to €755.4 million for 2008 compared with €641.8 million for 2007, an increase of 15.5% at constant exchange rates.

Recurring operating income of the Energy Services Division amounted to €429.7 million in 2008 compared with €384.3 million in 2007, an increase of 11.8% at current and 10.7% at constant exchange rates.

In France, operating performance was positively affected by the rising price of energy sources and by improved productivity. Outside France, the increase in operating cash flow and operating income also reflected the positive impact of energy prices, particularly in Central Europe, as well as the acquisition of Thermal North America Inc. in the US, of Praterm in Poland and of other entities in Central Europe, all of which helped attenuate the increase in payroll costs, in particular in Central Europe, and the increased price of gas in the Baltic States.

CO2 transactions contributed less to operating income and operating cash flow in 2008 than in 2007.

The operating margin (operating cash flow / revenue) remained stable, changing from 10.3% in 2007 to 10.1% in 2008.

The economic crisis in the fourth quarter had little impact on Energy Services activities. However, the protraction of the economic crisis could reduce energy needs (steam) at certain industrial sites and impact the settlement conditions of certain private customers.

Transportation Division

Operating cash flow amounted to €292.0 million for 2008 compared with €279.3 million for 2007, representing growth of 5.7% at constant exchange rates.

Transportation Division operating income amounted to €145.4 million for 2008 compared with €130.3 million for 2007. Recurring operating income amounted to €129.6 million in 2008 compared with €115.1 million in 2007, an increase of 10.9% at constant exchange rates.

Improved productivity, organic growth in the US and in Eastern Europe and the greater profitability of certain contracts, mainly in the Netherlands, offset the rise in the price of fuel not yet passed on to customers which had a negative impact of €28 million (including the effect of hedging derivatives) on the division’s operating cash flow and operating income and the negative impact of the ending of the French social security contributions rebate.

The operating margin (operating cash flow / revenue) remained relatively stable, from 5.0% in 2007 to 4.8% in 2008.

With the exception of rail freight activities, the Transportation business is relatively immune to the economic crisis.

Holding Companies

The increase in costs for the year is mainly attributable to measures accompanying business growth and the increased importance of mutualization projects.

9.2.3.2 Net finance costs

(€ million)	**Year ended December 31, 2008**	Year ended December 31, 2007 adjusted
Income	203.4	152.2
Costs	(1,128.1)	(971.0)
Net finance costs	**(924.7)**	**(818.8)**

The increase in net finance costs reflects:

- the increase in average net financial debt from €14,609 million in 2007 to €16,142 million in 2008;
- the increase in the financing rate linked to the increased cost of liquidity, due to available funds being invested in short-term financial assets of limited risk while debt is refinanced based on long-term maturities and in a context of strong interest rate volatility.

The financing rate (defined as the ratio of net finance costs, excluding fair value adjustments to instruments not qualifying for hedge accounting, to average monthly net financial debt for the period) increased from 5.49% in 2007 to 5.61% in 2008. This rate takes into account early settlements of derivative transactions. Adjusted for these transactions, the financing rate is 5.78%, compared to 5.53% in 2007.

9.2.3.3 Other financial income and expenses

(€ million)	**Year ended December 31, 2008**	Year ended December 31, 2007 adjusted
Net gains and losses on loans and receivables	30.6	57.4
Net gains and losses on available-for-sale assets (including dividends)	9.3	10.3
Assets and liabilities at fair value through the Income Statement	35.1	5.4
Unwinding of the discount on provisions	(74.0)	(59.5)
Foreign exchange gains and losses	(42.7)	(2.1)
Other	(9.5)	(7.4)
Other financial income and expenses	**(51.2)**	**4.1**

Other financial income and expenses decreased from a net financial income of €4.1 million in 2007 to a net financial expense of €51.2 million in 2008.

This decrease mainly reflects:

- a decrease of €26.8 million in net gains on loans and receivables, including the absence in 2008 of €26.5 million of interest income on drainage receivables recognized in 2007 following the resolution of a litigation with the Berlin Lander;
- an increase of €14.5 million in the unwinding of the discount on provisions, primarily attributable to site restoration provisions in the Environmental Services Division, provisions for pension obligations recognized in accordance with IAS 19 and provisions for onerous contracts;
- the appreciation of the euro against certain currencies;
- recognition of risks relating to minority interests in equity associates.

9.2.3.4 Income tax expense

The consolidated income tax expense of the Group for 2008 is €468.8 million, compared with €417.9 million for 2007.

As a percentage of restated net income from continuing operations, the effective tax rate is 48.1% for 2008 compared to 25.1% for 2007.

The increase in the income tax expense in 2008 was due to:

- the review of the Veolia Environmental Services Germany business plan, which led to the loss of €42 million of deferred tax assets;
- the absence of deferred tax assets in certain loss-making subsidiaries, due to insufficient taxable profit forecasts for the coming five years;
- a change in tax law governing the deductibility of depreciation and amortization expenses in the United Kingdom (-€36 million);
- the favorable impact, in 2007, of tax rate cuts in Germany and the United Kingdom (income of €54.6 million).

9.2.3.5 Share of net income of associates

The share of net income from associates increased from €16.7 million in 2007 (after adjustment) to €18.4 million in 2008.

9.2.3.6 Net income (loss) from discontinued operations

Net income (loss) from discontinued operations changed from a net loss of €11.8 million in 2007 (after adjustment) to a net income of €184.2 million in 2008. The main factor underlying the net income for 2008 is the €176.5 million net gain on the divestiture of Clemessy and Crystal in the Energy Services division.

9.2.3.7 Net income for the year attributable to minority interests

Net income for the year attributable to minority interests was €304.1 million in 2008, compared to €326.9 million in 2007. It concerns notably the minority interests in subsidiaries in the Water division (€118.9 million), the Environmental Services division (€18.3 million), the Energy Services Division (€144.8 million) and the Transportation Division (€19.4 million).

In 2007, net income for the year attributable to minority interests amounted to €326.9 million and mainly concerned minority interests in subsidiaries in the Water division (€178.9 million), the Environmental Services division (€21.8 million), the Energy Services Division (€96.4 million) and the Transportation Division (€28.9 million).

The increase in the share of minority interests in the Energy Services Division is due to the capital gain realized on the divestiture of Clemessy and Crystal of €60 million (capital gain recorded in net income from discontinued operations)

9.2.3.8 Net income for the year attributable to equity holders of the parent

Net income for the year attributable to equity holders of the parent was €405.1 million in 2008, compared to €927.9 million in 2007. Recurring net income attributable to equity holders of the parent was €658.6 million, compared to €925.8 million in 2007.

Given the weighted average number of shares outstanding of 457.4 million in 2008 and 430.0 million in 2007, earnings per share attributable to equity holders of the parent is €0.89 in 2008, compared to €2.16 in 2007 (adjusted for the share capital increase in 2007). Basic recurring net income attributable to equity holders of the parent per share is €1.44 in 2008, compared to €2.15 in 2007 (adjusted for the share capital increase in July 2007).

Recurring net income for the year ended December 31, 2008 breaks down as follows:

Year ended December 31, 2008 (€ million)	Recurring	Non-recurring	Total
Operating income	2,283.2	(331.9)	1,951.3
Net finance costs	(924.7)		(924.7)
Other financial income and expenses	(51.2)		(51.2)
Income tax expense	(426.9)	(41.9)	(468.8)
Share of net income of associates	18.4		18.4
Net income from discontinued operations		184.2	184.2
Minority interests	(240.2)	(63.9)	(304.1)
Net income attributable to equity holders of the parent	**658.6**	**(253.5)**	**405.1**

Recurring net income for the year ended December 31, 2007 breaks down as follows:

Year ended December 31, 2007 adjusted (€ million)	Recurring	Non-recurring	Total
Operating income	2,454.9	27.6	2,482.5
Net finance costs	(818.8)	-	(818.8)
Other financial income and expenses	8.7	(4.6)	4.1
Income tax expense	(428.9)	11.0	(417.9)
Share of net income of associates	16.7	-	16.7
Net loss from discontinued operations	-	(11.8)	(11.8)
Minority interests	(306.8)	(20.1)	(326.9)
Net income attributable to equity holders of the parent	**925.8**	**2.1**	**927.9**
Published Net income attributable to equity holders of the parent	**933.2**	**(5.3)**	**927.9**

9.3 FINANCING

The increase in net financial debt breaks down as follows:

	As of December 31, 2008	As of December, 2007
Opening net financial debt	**(15,125)**	**(14,675)**
Cash flow from operations before changes in working capital and income taxes paid	**4 178**	**4,219**
Income taxes paid	(347)	(417)
Changes in working capital	(81)	(167)
Net cash from operating activities	**3,750**	**3,635**
Gross investments	(4,701)	(6,936)
Principal payments on operating financial assets	358	395
Divestitures (including changes in consolidation scope)	761	453
Increase in receivables and other financial assets	(312)	(30)
Net cash used in investing activities	**(3,894)**	**(6,118)**
Dividends paid	(753)	(564)
Net interest paid	(849)	(775)
Share capital increase/ **reduction**	(77)	3 058
Free cash flow	(1 823)	(775)
Effect of foreign exchange rate changes and other	420	325
Increase in net financial debt	**(1,403)**	**(450)**
Closing net financial debt	**(16,528)**	**(15,125)**

Net cash from operating activities increased from €3,635 million in 2007 to €3,750 million in 2008.

Net cash used in investing activities amounted to €3,894 million, compared to €6,118 million in 2007. This decrease was due to:

- a decrease in financial investments of approximately €2.1 billion on 2007, linked to the slowdown in external growth in 2008 (notably acquisition of Veolia Environmental Services Germany (formerly Sulo), VSA Tecnitalia, Thermal North America Inc. and Tianjin Shibei in 2007);
- an increase in industrial and financial disposals.

9.3.1 Operating cash flow before changes in working capital

Cash flow from operations before changes in working capital and income taxes paid amounted to €4,178 million in 2008, including €4,137.3 million in respect of operating cash flow (€4,163.7 million in 2007), €26 million in respect of financial cash flow activities (€43 million in 2007) and €15 million in respect of operating cash flow of discontinued operations (€13 million in 2007).

9.3.2 Working capital

Change in working capital amounted to €81 million in 2008 compared to €167 million in 2007.

This change in working capital requirements reflects the positive impact of the settlement of drainage receivables in the Water Division (Berlin contract) in the amount of €157 million.

9.3.3 Investments / Divestitures

9.3.3.1 Investments

(€ million)	Capital expenditure (1)		Financial investments (2)		New operating financial assets	
	2008	2007	**2008**	2007	**2008**	2007
Water	945	866	152	794	315	280
Environmental Services	974	846	333	482	55	32
Energy Services	541	429	233	547	111	73
Transportation	342	459	175	101	11	36
Other	91	42	61	42	37	0
TOTAL	**2,893**	**2,642**	**954**	**1,966**	**529**	**421**

(1) including assets purchased under finance leases

(2) excluding cash and cash equivalents of acquired companies

Capital expenditure

Capital expenditure (excluding assets purchased under finance leases) amounted to €2,781 million in 2008, up 10.4% on 2007 capital expenditure of €2,519 million.

Including assets purchased under finance leases, capital expenditure amounted to €2,893 million and breaks down as follows:

- €945 million in the Water Division (up 9.1% on 2007), including growth investments of €409 million and maintenance-related investments of €536 million (€531 million in 2007). Growth investments in 2008 mainly concerned concession assets in France, China and Morocco, and regulated activities in the United Kingdom.
- €974 million in the Environmental Services Division (up 15.1% on 2007), including growth investments of €243 million and maintenance-related investments of €731 million. The increase in capital expenditure is mainly due to the expansion of the Environmental Services Division. 2008 growth investments notably concerned integrated contracts in the United Kingdom.
- €541 million in the Energy Services Division (up 26.1% on 2007), including growth investments of €263 million and maintenance-related investments of €278 million.
- €342 million in the Transportation Division (down 25.5% on 2007), including growth investments of €48 million and maintenance-related investments of €294 million. 2007 capital expenditure included the purchase of the Jean Nicoli boat. The decrease in this heading was mainly due to greater recourse to operating leases.

Maintenance-related investments amounted to €1,860 million (5.1% of revenue), compared to €1,590 million in 2007.

Financial investments

Financial investments, including the net debt of companies acquired of €325 million as of December 31, 2008, amounted to €1,279 million in 2008, compared to €3,873 million in 2007, a sharp decrease mainly due to the decline of acquisitions especially during the second semester.

2008 financial investments of €1,279 million (including the net debt of companies acquired) break down as following:

- €330 million in the Water Division (€924 million in 2007). The main financial investments concerned the acquisition of Biothane (Solutions & Technologies) for €44 million and an additional interest in Askhelon in Israel for €83 million;
- €388 million in the Environmental Services Division (€1,880 million in 2007). The main financial investments concerned the acquisition of Bartin Recycling Group for €189 million and various other investments in Europe;
- €284 million in the Energy Services Division (€865 million in 2007). The main financial investments concerned the acquisition of Praterm for €126 million;
- €218 million in the Transportation Division (€122 million in 2007). The main financial investments concerned the buy-out of a minority interest in SNCM for €73 million and the acquisition of Rail4Chem for €34 million.

New operating financial assets (IFRIC 12 and IFRIC 4 receivables)

New operating financial assets amounted to €529 million in 2008, compared to €421 million in 2007 and break down as follows:

- €315 million in the Water Division, an increase of €35 million on 2007 and mainly comprising new operating financial assets under the Berlin contract and BOT contracts in Northern Europe;
- €55 million in the Environmental Services Division, an increase of €23 million on 2007;
- €111 million in the Energy Services Division, an increase of €38 million on 2007;
- €11 million in the Transportation Division, a decrease of €25 million on 2007;
- €37 million for Other businesses, primarily concerning a multi-division industrial project.

9.3.3.2 Divestitures

Divestitures (including net financial debt) amounted to €761 million and break down as follows:

- industrial divestitures of €330 million, including €202 million in the Transportation Division (sale of Jean Nicoli boat for €105 million);
- financial divestitures of €431 million, notably comprising the sale of Clemessy and Crystal in the Energy Services Division for a net amount of €226 million and various financial divestitures in the Water Division for a total amount of €144 million.

Principal payments on operating financial assets amounted to €358 million in 2008, compared to €395 million in 2007.

9.3.3.3 Increase in receivables and other financial assets

This increase is mainly attributable to the increase in the minority interest share in loans granted to Dalkia International and its subsidiaries by the Group in 2008, in the amount of €215 million.

9.3.4 External financing

9.3.4.1 Ratings awarded by rating agencies

As of December 31, 2008, Moody's and Standard & Poor's rated VE SA as follows:

	Short-term	Long-term	Outlook	Recent events
Moody's	P-2	A3	Stable	On December 23, 2008, Moody's confirmed the rating awarded to Veolia Environnement on June 27, 2005.
Standard and Poor's	A-2	BBB+	Stable	On November 12, 2008, Standard and Poor's confirmed the rating awarded to Veolia Environnement on October 3, 2005.

9.3.4.2 Refinancing policy

During 2008, Veolia Environnement implemented an active refinancing policy aimed at strengthening its financial base and maintaining the maturity of its debt.

The main debt lines maturing in 2008 and either repaid or refinanced were as follows:

- repayment of the Berlin acquisition debt of €600 million, maturing January 15, 2008,
- redemption of the EMTN series 20 bond issue of €300 million, maturing February 15, 2008,
- redemption of the residual balance on the EMTN series 1 bond issue of €700 million, maturing June 27, 2008,
- redemption in August 2008 of the €200 million bond issue, issued in January 2001.

In addition, Veolia Environnement performed new bond issues for a total amount of €572 million in 2008, as follows:

- On January 7, 2008, Veolia Environnement reopened the GBP-denominated series 24 bond issue maturing in 2037 in the amount of GBP 150 million (euro equivalent of €157 million as of December 31, 2008), bringing the total bond amount to GBP 650 million;
- On March 14, 2008, Veolia Environnement reopened the EUR-denominated series 21 bond issue maturing in 2017 in the amount of €140 million, bringing the total bond amount to €1,140 million;
- On April 1, 2008, Veolia Environnement reopened for the first time the series 15 corporate bond issue indexed to European inflation and maturing in 2015, in the amount of €275 million, bringing the total bond amount to €875 million (before indexing).

In addition, due notably to the strengthening of the Group's long-term presence in the United States, notably with the acquisition in 2007 of TNAI (Energy Services Division), Veolia Environnement performed on May 21, 2008 a €1.8 billion fixed-rate bond issue in three tranches (USD 700 million 5-year tranche, USD 700 million 10-year tranche and USD 400 million 30-year tranche). This first bond issue by the Group in the US market enables a better match between long-term cash flows and the local USD long-term debt.

9.3.4.3 Group liquidity position

Veolia Environnement financing does not contain any events of default tied to compliance with a debt ratio, an interest coverage ratio or a minimum credit rating, except for the private placement performed in the United States in 2003 (see Chapter 20, Section 20.1 Note 18 to the consolidated financial statements), which is subject to two coverage ratios (debt and finance costs).

Financial ratios may also be encountered in certain project financing, most generally carried by dedicated companies (non-recourse or limited recourse financing, involving amounts which are not individually material at Group level) or financing granted by multilateral development banks to certain Group subsidiaries.

At the end of 2008, Veolia Environnement complied with the covenants of all its material financing.

Liquid assets of the Group as of December 31, 2008 break down as follows:

(€ million)	**As of December 31, 2008**	As of December 31, 2007	As of December 31, 2006
Veolia Environnement:			
Undrawn MT syndicated loans *	2,890.3	4,000.0	4,000.0
Undrawn MT credit lines	575.0	850.0	925.0
Undrawn ST credit lines	350.0	175.0	150.0
Other financial assets (marketable securities)	-	-	17.6
Cash & cash equivalents	2,283.6	1,550.8	1,140.5
Subsidiaries:			
Other financial assets (marketable securities)	-	-	48.9
Cash & cash equivalents	1,566.0	1,564.8	1,517.5
Total liquid assets	**7,664.9**	**8,140.6**	**7,799.5**
Current debts and bank overdrafts and other cash position items			
Current debts	**3,219.7**	**3,805.0**	**2,904.1**
Bank overdrafts and other cash position items	**465.7**	**459.4**	**456.0**
Total current debts and bank overdrafts and other cash position items	**3,685.4**	**4,264.4**	**3,360.1**
Total liquid assets net of current debts and bank overdrafts and cash position items	**3,979.5**	**3,876.2**	**4,439.4**

* maturing April 20, 2012.

9.3.4.4 Net financial debt structure

The net financial debt structure as of December 31, 2008 is as follows:

(€ million)	**As of December 31, 2008**	As of December 31, 2007
Non-current borrowings	17,063.9	13,948.0
Current borrowings	3,219.7	3,805.0
Bank overdrafts and other cash position items	465.7	459.4
Sub-total borrowings	**20,749.3**	18,212.4
Cash and cash equivalents	(3,849.6)	(3,115.6)
Fair value gains/losses on hedge derivatives	(371.5)	27.7
Net financial debt	**16,528.2**	15,124.5

The ratio of Net Financial Debt/Cash flow from operations plus cash generated from principal payments on operating financial assets) stand at 3.6 x at December 31, 2008 compared with 3.3 x at December 31st, 2007.

9.3.4.5 Maturity of non-current borrowings

Group non-current borrowings fall due as follows as of December 31, 2008:

(€ million)	Amount	Maturing in		
		2 to 3 years	4 to 5 years	More than 5 years
Bond issues	**11,097.6**	61.9	2,726.5	8,309.2
Bank borrowings	**5,966.3**	1,434.3	1,941.5	2,590.5
Non-current borrowings	**17,063.9**	**1,496.2**	**4,668.0**	**10,899.7**

9.3.5 Market risk

Please refer to Note 30 to the consolidated financial statements

9.4 RETURN ON CAPITAL EMPLOYED (ROCE)

Veolia Environnement has adopted the performance indicator ROCE (return on capital employed) to track the Group's profitability. This indicator measures Veolia Environnement's ability to provide a return on the funds provided by shareholders and lenders

The return on capital employed is defined as the ratio of:

- net income from operations after tax, plus the share of net income of associates, less net income from operations after tax from operating financial assets (return on operating financial assets net of tax allocated to this activity),
- average capital employed during the year.
- Capital employed excludes operating financial assets and net income from operations excludes the related income.

Net income from operations is calculated as follows:

(€ million)	Year ended December 31, **2008**	Year ended December 31, 2007 restated
Recurring operating income	2,283.2	2,454.8
+ Share of net income of associates	18.4	16.8
- Income tax expense (1) (2)	(418.2)	(404.7)
- Revenue from operating financial assets	(400.4)	(345.1)
+ Income tax expense allocated to operating financial assets	75.4	62.5
Net income from operations	**1,558.4**	**1,784.3**

(1) In 2004, the financial restructuring operations that following the divestiture of the U.S. activities of the Water Division generated tax losses which were recognized in the consolidated balance sheet. Given its exceptional nature, the resulting credit of €138.4 million recognized in net income was eliminated from the calculation of ROCE. The utilization of these tax losses in 2008 and 2007 generated charges of €8.7 million and €24.2 million respectively, which were similarly eliminated from the calculation of ROCE.

(2) In 2007, a tax credit of €11 million was considered non-recurring. In 2008, the review of tax forecasts for Veolia Environmental Services deferred tax assets in Germany, led to the recognition of a non-recurring impairment of €41.9 million.

Average capital employed during the year is defined as the average of opening and closing capital employed.

Capital employed is equal to the sum of net intangible assets and property, plant and equipment, goodwill net of impairment, investments in associates, net operating and non-operating working capital requirements and net derivative instruments less provisions and other non-current debts.

2008 capital employed includes the assets of mixed French companies (Water Division) classified as assets held for sale of €82.9 million. Capital employed is adjusted for the Clemessy and Crystal entities in the amount of €35.1 million in 2007 and €50.4 million in 2006.

Capital employed is calculated as follows:

(€ million)	**As of December 31, 2008**	As of December 31, 2007 adjusted	As of December 31, 2006 adjusted
Intangible assets and property, plant and equipment, net (1)	14,655.6	14,092.5	11,625.6
Goodwill, net of impairment	6,782.1	6,836.1	5,628.0
Investments in associates	311.6	291.5	240.3
Operating and non-operating working capital requirements, net (2)	104.2	(8.0)	200.5
Net derivative instruments and other (3)	12.6	79.4	26.9
Provisions	(2,954.1)	(2,922.0)	(2,979.4)
Other non-current debt		-	(207.3)
Capital employed	**18,912.0**	**18,369.5**	**14,534.6**
Clemessy & Crystal		**35.1**	**50.4**
Capital employed published in 2007		**18,404.6**	**14,585.0**
Average capital employed	**18,640.7**	**16,452.0**	

(1) including the investment in Tianjin Shibei (Water Division) of €219 million in 2007

(2) including net deferred tax but excluding deferred tax relating to U.S. divestitures and related restructurings (€52.0 million in 2008, €60.7 million in 2007, €84.9 million in 2006).

(3) excluding derivatives hedging the fair value of debt for €371.5 million in 2008, -€27.7 million in 2007, -€28.8 million in 2006.

The return on capital employed (ROCE) of the Group is as follows:

(€ million)	Net income from operations	Average capital employed during the year	ROCE
2008	**1,558.4**	**18,640.7**	**8.4%**
2007	1,784.3	16,452.0	**10.8%**

The decrease in ROCE in 2008 is primarily attributable to the dilutive contribution of recent acquisitions (entries into the scope of consolidation in 2008 and principal acquisitions in 2007) in the amount of -1.8 %. ROCE was also impacted by trends in operating performance and the economic environment.

9.5 STATUTORY AUDITORS' FEES

In 2008 and 2007, Veolia Environnement and its fully consolidated subsidiaries paid the following fees to its statutory auditors for services rendered in connection with all consolidated companies:

	KPMG network				**Ernst & Young network**			
	Before tax		**Percentage**		**Before tax**		**Percentage**	
(€ million)	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Audit								
Statutory audit, certification, audit of company and consolidated accounts(1)								
• Veolia Environnement	1.2	1.2	6.6 %	6.0 %	1.0	1.1	4.9 %	5.5 %
• Fully consolidated companies	13.0	12.7	71.4 %	63.8 %	15.1	13.3	71.4 %	66.2 %
Other diligences and services directly related to the statutory audit engagement (2)								
• Veolia Environnement	0.9	1.0	4.9 %	5.0 %	1.0	1.2	4.8 %	6.0%
• Fully consolidated subsidiaries	3.1	5.0	17.1 %	25.2 %	4.0	4.5	18.9 %	22.4 %
Sub-total 1	**18.2**	**19.9**	**100 %**	**100 %**	**21.1**	**20.1**	**100 %**	**100 %**
Other services rendered by the network to fully consolidated subsidiaries (3)								
• Legal, tax, employee-related	0	0	0.0 %	0.0 %	0	0	0.0 %	0.0 %
• Other	0	0	0.0 %	0.0 %	0	0	0.0 %	0.0 %
Sub-total 2	**0**	**0**	**0.0 %**	**0.0 %**	**0**	**0**	**0.0 %**	**0.0 %**
Total (1+2)	**18.2**	**19.9**	**100 %**	**100 %**	**21.1**	**20.1**	**100 %**	**100 %**

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

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

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

9.6 FORWARD-LOOKING INFORMATION AND OBJECTIVES

See Chapter 13, hereafter.

10 CASH FLOW AND CAPITAL

Information on cash flows, working capital requirements and investments is set forth in the reference document, in Chapter 9, Sections 9.3.1, 9.3.2 and 9.3.3 and in Chapter 20, Section 20.1, Notes 13, 15, 20 and 33 to the consolidated financial statements.

Information on borrowing terms and conditions and Veolia Environnement's financing structure is set forth in the reference document in Chapter 9, Section 9.3.4 and Chapter 20, Section 20.1, Notes 18, 19, 20, 23 and 24 to the consolidated financial statements.

As required by the terms and conditions of most bank borrowings and bond issues, Veolia Environnement's financing contain covenants and standard undertakings that require certain standard performance conditions (such as the provision of annual and six-month financial statements) and restrictions (such as commitments not to grant collateral to secure financial debt, subject to certain exceptions).

Veolia Environnement financing does not contain any default events specifically tied to compliance with a debt ratio, an interest coverage ratio or a minimum credit rating, other than with respect to the private placement performed in the United States in 2003 (see Chapter 20, Section 20.1, Note 18 to the consolidated financial statements) which comprises two coverage ratios (debt and interest).

However, the debt ratio, defined as the ratio of Veolia Environnement net financial debt to operating working capital adjusted for certain items, is used to increase or decrease (pricing scale) the margin applied to certain major Company financings, such as the syndicated letters of credit of €1.25 billion, negotiated in December 2004.

Financial ratios may also be used for certain project financing, generally carried by special purpose entities (non-recourse or limited recourse financing, involving amounts which are not individually material at Group level) or financing granted by multilateral development banks to certain Group subsidiaries.

To ensure optimization, the Group centralizes the majority of its financing. In certain financing granted to the Company, this centralization is subject to structural subordination commitments intended to assure lenders that the majority of Group financing remains at Company level.

As of December 31, 2008, Veolia Environnement complied with the covenants of all its material financing.

11 RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

11.1 RESEARCH AND DEVELOPMENT

11.1.1 Research and Development: a priority for Veolia Environnement

Veolia Environnement's activities are at the crossroads of the main challenges facing the modern world: urbanization, access to water, fighting climatic change. The solution to these challenges requires a global industrial and technological approach. This global approach lies at the core of Veolia Environnement's Research and Development (R&D) strategy.

The four-pronged approach of the R&D department comprises: (i) managing and preserving resources, (ii) limiting the impact on the environment, (iii) improving the quality of life of populations and (iv) developing renewable energies sources. Fighting against climate change is also a top priority. Research efforts concentrate on optimizing energy consumption at Group installations, the collection and storage of carbon dioxide, the development of bioenergies and clean transportation means.

In each of these areas, the know-how and technologies of the Group are complementary. This is the case, for example, in the areas of sludge, biomass, biofuels, prevention of legionellas and the treatment of industrial effluents.

In addition, by mobilizing a network of international experts and implementing research programs at test sites around the world, Veolia Environnement benefits from solutions to specific local problems and contexts that may be applied to other regions of the world.

Veolia Environnement's R&D teams are committed, in all their work, to responding to environmental challenges, while ensuring the Group's competitiveness. R&D is a priority area for the Company, as demonstrated by the 45% increase in resources allocated to these efforts since 2003.

11.1.2 Research and Development Resources

Veolia Environnement's research activities are overseen by Veolia Environnement Recherche et Innovation (VERI). In 2008, these R&D activities comprised nearly 800 experts worldwide (including 400 researchers and 400 on-site developers), with a total budget of approximately € 153.5 million [13].

The Veolia Environnement Research Department works on behalf of all Group Divisions, as their needs are similar. In particular, all seek to solve environmental and health problems with the support of numerous tools, such as modeling and chemical and bacteriological analysis. By working on behalf of all Divisions, the Research Department helps ensure better consistency of R&D activities with the Group's strategy.

Veolia Environnement has four main research centers that operate in a network. Located in the Greater Paris region and specializing in water, waste, energy and transportation, the centers have related units and correspondents in France and abroad (United Kingdom, Australia, Germany, United States and Australia).

In 2003, Veolia Environnement set up an international network of Research and Development officers, to identify innovation needs in each region of the world and communicate local technical developments. Certain research centers abroad have acquired specialized expertise and have partnered with centers in France. These research units have become showcases for Veolia Environnement's technological expertise. In the water sector, the Berlin Water Center (*Kompetenzzentrum Wasser Berlin*) is a center of excellence for the protection of water resources and Australia has become a benchmark for the reuse of waste water.

Research teams include experts in the fields of health, environment and analysis that help foresee future requirements and provide support to operators:

- The Environment Department runs research programs focused on the management and protection of water resources, environmental model building and the appraisal of risks and environmental impacts (Life Cycle Assessment);
- The Health Department assesses the risks and health benefits associated with Veolia Environnement's activities, in concert with doctors and environmental health specialists. This department's role is to preventively identify emerging health dangers and ensure the safety of the Group's activities with regards to human health;

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13 Research and development expenditure totaled €92.1 million for the fiscal year ended December 31, 2008 (see Chapter 20, Section 20.1, Note 22 below) and represents, together with other operational development costs, a total budget estimated at €153.5 million.

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

11.1.3 Innovation: a rationalized approach

The research teams seek to provide innovative practical solutions within their areas of expertise, which are crucial for the competitiveness of the Veolia Environnement Group. R&D is driven by a rationalized approach enabling technological risks to be controlled and enabling rapid progress and the creation of successful commercial applications that are both reliable and effective. The main steps in the innovation process are:

- Strict monitoring of regulations and, technology as well as the competition enables the Group to foresee future needs and launch new research programs as quickly as possible. Laboratory or field tests are then carried out to verify the feasibility of the research. At this stage, analytical modeling[(14)] may be carried out, depending on the circumstances (i.e., exploring functionality while containing costs).
- If the tests are successful, a prototype is built in the laboratory or on site in order to evaluate and refine the technology.
- The next phase is the development of a pre-industrial unit to be installed at an appropriate site and operated by personnel.

At each step in the innovation process, the collaboration of various parties (research teams, university or private laboratories) is necessary and determines the successful outcome of the research project.

Veolia Environnement's R&D teams are part of an international network of researchers. They forge links with fundamental research teams, each drawing benefit from the expertise of colleagues. While this collaboration enriches the knowledge of the Group R&D department and keeps it informed of recent developments, it also provides effective outlets for scientific progress and feedback to our partners. Researchers also work with several top universities and participate in research programs led by national and international institutions. They also share their technological knowledge with industrial players.

11.1.4 Main Research & Development Areas for Veolia Environnement

The four areas at the core of Veolia Environnement's current R&D are:

Managing and preserving natural resources

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

Limiting environmental impacts

The improvement of treatment techniques for industrial effluents and hazardous waste makes it possible to limit the dispersion of pollutants in the environment and better respect biodiversity and public health. As a leader in environmental services, the Veolia Environnement Group must set the example with regards to reducing the impact of its activities. Efforts are therefore focused on reducing discharges from Veolia Environnement facilities, decreasing noise and olfactory pollution and developing even cleaner means of transportation.

Improving quality of life worldwide

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

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[14] At each step of the innovation process, researchers implement sophisticated tools, such as digital fluid mechanics. This technology enables researchers to simulate the operation of installations and test a larger number of scenarios to improve efficiency. Over a shorter period, such software enables researchers to optimize test protocols for process development.

Developing alternative energy sources

As carbon dioxide emissions continue to exceed the absorption capacity of the biosphere, the production of substitute fuels and biofuels, the recovery of biomass as energy, the development of industrial applications for fuel cells and the optimization of the performance of Group waste incineration plants help limit greenhouse gas emissions. These measures also help respond to the increasing global demand for energy, address the depletion of fossil fuel reserves, and pave the way towards a hydrogen economy.

Over 70% of Veolia Environnement's research programs seek to reduce greenhouse gas emissions. Based on an approach aimed initially at achieving zero greenhouse gas emissions and, where this is not possible, at reducing such emissions, the Company aims to control needs, improve processes and energetic efficiency and exploit more renewable energy sources. The Group also strives to implement processes to capture, store and recover greenhouse gases and foresee future constraints relating to climate change.

11.1.5 Progress in 2008

Inauguration of the Toulouse laboratory and presentation of its activities

A new laboratory was inaugurated at the Environmental Analysis Center (EAC) on April 10, 2008 in Toulouse. This laboratory forms part of a network of seven regional laboratories overseen by the Saint-Maurice central laboratory in Val-de-Marne. The central laboratory directs Veolia Environnement's analytical research and coordinates this network, which has focused on the environmental quality of the Group's businesses since 2003. It comprises nearly 200 individuals, working on the development of increasingly high-performance analytical techniques and on perfecting existing models. The EAC laboratories are accredited for nearly 80 parameters. The Toulouse laboratory is accredited in the areas of physicochemical measurement, water micro-biology and the analysis of incineration clinker and treatment reagents.

In 2008, the Toulouse laboratory analyzed approximately 212,000 samples and issued over 1.5 million analyses. In five years, the analysis period has been reduced from fifteen to six days. In June, the laboratory was authorized by the Ministry for Ecology, Energy, Development and Sustainable Infrastructures to perform fresh and residual water analyses. The laboratory is now qualified to respond to public authority requests concerning the policing of water, the monitoring of aquatic environments and the verification of wastewater treatment yields. This authorization is the first step in a program covering all EAC laboratories.

Launch of the French operating phase of a research program focused on the capture, transportation, recovery and storage of carbon dioxide

In March 2008, as part of the research project into the capture, transportation, recovery and storage of carbon dioxide, Veolia Environnement announced the selected industrial sites in the Paris region where Veolia Propreté operates waste-to-energy recovery installations and non-hazardous waste landfill sites. This selection enables the start-up of the operational phase of the research program and the launch of preliminary geological studies, in partnership with Geogreen. These studies will commence at the Claye-Souilly site in Seine et Marne, which presents favorable geological characteristics for this operation. This solution, the subject of a research program launched in 2005, should contribute to a 20 to 30% reduction in greenhouse gas emissions worldwide by 2050. The goal of this program is to create a new means of reducing the Group's greenhouses gas emissions, increase its expertise and explore new markets, as well as to be able to offer a comprehensive range of services relating to the reduction of greenhouse gas emissions.

Commissioning of the automated sorting system

Sorting is a strategic stage in the waste management, notably for recycling. Recycling reduces the quantity of final waste and any potential pollution. In addition to reduced use of new raw materials, recycling generally enables energy and water savings in industrial processes and a reduction in greenhouse gas emissions. Using increasingly complex technologies, R&D activities focus on automating sorting centers, whether for waste pre-sorted by households or bulk non-hazardous industrial waste. By improving the quality of sorting activities, automation increases material recycling opportunities.

The Self-Adapting Sequential Sorting process was patented by Veolia Propreté in 2007. This process enables several categories of object to be sorted by a single sorting machine, by re-circulating flows not ejected. As the feasibility of this system has been demonstrated, industrial pilot studies were launched in April 2008. After validation, the system will be industrialized, enabling more detailed sorting and the recovery of more used materials. The aim is to optimize recycling costs, as this is fundamental to developing new recovery outlets which are competitive with processes producing these materials.

Employee and human aspects are also fully integrated into the research approach. The automation of sorting activities is a major research area for improving the work, health and safety conditions of sorting employees. Furthermore, the optimization of sorting activities will, in the long-term, open up new job opportunities in the recycling sector, with the appearance of new recovery markets.

High Performance Drinking Water Production Processes

In 2008, in Annet-sur-Marne (Seine et Marne), Veolia Environnement opened a new test platform with pilot processes for testing and optimizing membrane-based drinking water production procedures. This marks a step-up in Group efforts to develop high-performance drinking water treatment processes. This platform enables the comparison of three different membrane processes using a common resource and the assessment of the impact of the quality of water produced on changes in supply networks all the way to the customer's tap.

The main objectives of this new facility are to reduce levels of natural organic matter, eliminate micro-pollutants such as pesticides and medical residues, reduce the disadvantages of chlorination, notably with regard to taste and detrimental by-products and also to control emerging health risks.

The results obtained, in respect of which several patents have been filed, will be used by the Group to configure high-performing processes minimizing construction and operating costs. Therefore, as environmental round tables, known as "Grenelle" in France, are held to discuss the environment and solutions for sustainable development, the search for high-performing technologies is combined with energy and environmental assessments to select the most viable solutions.

Industrial wastewater - Zero Nuisance Piggeries

Veolia Environnement and its partners, the Rennes National School of Chemistry (*Ecole Nationale Supérieure de Chimie de Rennes*) and the Finistere Chamber of Agriculture, supported by European Union joint financing, have developed a Zero Nuisance Piggery (ZNP) prototype, which improves pig slurry treatment so as to better protect the environment. The results of the process developed, which enables the recycling of fresh manure flushing water using a membrane bioreactor and the centrifugal treatment of slurry, is of considerable interest to the profession. This process has been patented and is currently being industrialized, with the first examples expected in 2009. Development possibilities are planned in other areas, such as bovine farms.

Launch of a comparative test platform for photovoltaic solar technologies (Narbonne)

The Group's Energy Research Center is building experimental photovoltaic solar farms at a number of sites. These test farms, one of which has already been installed at an operating site with a second farm scheduled at the research center, will enable a technical and economic assessment of commercialized photovoltaic solutions under real-life conditions, connected to an electricity grid. They will also enable the development of decision-making tools to help size comprehensive solutions adapted to different levels of sunshine. The commercial technologies tested are representative of the leading categories available on the market. This research will also enable the identification of emerging solutions and opportunities to be seized to set the Group apart in this market.

Measuring uncontained methane emissions at landfill sites

R&D work undertaken by the Group on measuring uncontained methane emissions at landfill sites was presented to the Global Waste Management Symposium (GWMS), held between September 7 and 10, 2008 in Colorado (United States). The questions raised by this project generate significant interest in the United States, where there is growing awareness of the challenges associated with reducing greenhouse gas emissions and, in particular, emissions from landfill sites. Veolia Environnement intends to play a key role in this area through an uncontained emissions measurement program. Three measurement campaigns performed at French and US sites have already enabled several techniques to be tested and the identification of techniques which could benefit from specific industrial developments. This program is supported by ADEME, the U.S. Environmental Protection Agency (EPA) and the American Foundation EREF.

Protecting drinking water pumped from rivers: development of a crisis management tool for operators based on the modeling of river-based pollution (RIPOST)

Drinking water production plants using surface water are regularly the victim of accidental pollution. In a crisis situation, faced with accidental pollution, operators must adopt installation management strategies which reflect the level of resource contamination, such as increasing the treatment rate or momentarily stopping pumping activities. In order to implement tailored solutions, the operator must assess as quickly as possible the impact of the pollution. However the propagation of pollutants in a river depends on a number of complex physicochemical and hydraulic factors. In 2004, the Veolia Environnement R&D Department began developing tailored decision-making tools using recent advances in digital modeling techniques and computing. RIPOST (RIver POllution Simulation Tool) is adapted to the specific needs of Group operators of drinking water production plants and models the transfer of pollutants in the watercourse using a bi-dimensional approach. Based on the time and place of pollution, the tool can assess its current position at any time and the period during which it will remain in the area water is pumped. An initial version of RIPOST was developed in 2008 for conservative and dissolved pollution. Other versions, integrating the transfer of complex pollutants such as hydrocarbons or microbiological pollution, will be developed in the coming years.

Veolia Environnement and the Ruppin Institute launch a research partnership in Israel

Veolia Environnement has invested in its first research program with the Ruppin Academic Center School of Marine Science and the Environment in Israel. The aim of this program is to develop a new method of monitoring bacterial contamination of seawater using molecular biology techniques. Using detailed knowledge of genetic components, this method should enable the detection and quantification of fecal germs present and the determination of their activity level, in order to assess their time of presence in seawater and therefore the likely date of contamination. This 3-year program should produce a tool which can be used in the field. This development should be of interest to numerous organizations around the world involved in the management of bathing water. It represents an advance on the Coliplage system, currently implemented by the Group at over 70 coastal sites in France. Veolia and Ruppin are already partners for the development of the Veolia Environnement Campuses.

11.2 PATENTS AND LICENSES

See Chapter 6, Section 6.2.5 (Intellectual property – Company Dependence).

12 INFORMATION ON TRENDS

12.1 TRENDS

The main trends relating to or affecting the Company's business are described in Chapters 6 and 9 above.

There has been no material adverse change in Veolia Environnement's outlook since the end of the 2008 fiscal year. The events or circumstances that could reasonably have a material effect on the Company's outlook for the current fiscal year were communicated by the Company during the presentation of 2008 annual results on March 6, 2009 (see Section 12.2 below).

12.2 RECENT DEVELOPMENTS

Veolia Environnement

The Company published a press release regarding its annual results for 2008 on March 6, 2009.

Veolia Propreté

In January 2009, the Châteauroux-Déols site of Bartin Aéro Recycling, a subsidiary of Veolia Propreté, obtained ISO 14001 certification. This site is the first European site able to provide comprehensive aircraft dismantling services in compliance with the commitments of the Environment and Sustainable Development Charter recently signed by the Chairman of GIFAS, the French Aerospace Industrial Grouping.

The new Waste-to-Energy plant in Antibes was officially inaugurated on March 23, 2009. Entirely renovated and modernized under a public-private partnership (PPP) between SIDOM (Household waste processing authority) and Veolia Propreté, this site offers a sustainable and environmentally-friendly solution to the processing of household waste of some 260,000 inhabitants in 20 communes in the Alpes-Maritimes region. The operation of the new plant was awarded for a period of 20 years to a subsidiary of Veolia Propreté. The installations will generate low NOx emissions of only 80 mg/Nm3, compared to a regulatory maximum of 200 mg/Nm3 and reduce dioxin emission levels to 50% of current regulatory requirements. The energy recovery process will convert the heat produced by waste incineration into electricity which will be used to operate the installations, with any surplus sold to EDF.

Dalkia

Dalkia, representing the Dalkia/Engelvin TP réseaux joint venture, won a call for bids at the end of 2008 for the public service delegation contract for a heating network in Mende (Lozère). This contract, which represents total estimated revenue of approximately €41 million, should be signed in April 2009. Dalkia will build the sub-stations (60 in the long-term) and will operate the network during 24 years. The heating network will be fed by a local biomass source.

Veolia Transport

In January 2009, Veolia Transport, in a consortium with two Moroccan partners, was named as the successful bidder for the delegated public service concession for the operation of a bus network in the surrounding regions of Rabat, Salé and Temara in Morocco, representing some 14 communes. This contract will take operating effect in August 2009 and will involve the renewal of the current vehicle pool and the integration of over 3,000 employees, certain of whom were employed by the former public authority operator. It represents a major presence for Veolia Transport in North Africa.

CFTI, a wholly-owned subsidiary of Veolia Transport, finalized the acquisition of the Savoie Tourisme Group on January 6, 2009. This Group has 132 employees and manages a pool of 75 vehicles. It operates regular bus and coach routes in the Rhône-Alpes region and regular international routes and provides school bus services.

In January 2009, Veolia Transport and RATP Développement announced the creation of a 50-50 joint venture in Asia, for an initial term of 20 years. The joint venture will seek to boost the growth potential in Asia of Veolia Transport and RATP Développement, and its initial targets will be China, South Korea and India. The goal of the two partners is for the joint venture to become a leader in urban transportation in Asia, with revenue of €500 million in 2013.

13 OBJECTIVES AND OUTLOOK

In the current economic climate, Veolia Environnement's priority for 2009 is to generate positive free cash flow (see Chapter 9, Section 9.2.1 above) after payment of the dividend.

In order to achieve this objective, the Group plans to reduce net investment by at least €1.6 billion compared to 2008, representing a maximum envelope of €2 billion in 2009. In order to generate internally the resources necessary for its growth, Veolia Environnement has also stepped up its asset disposal plan and the disposal of assets with a value of some €3 billion is now scheduled for the period 2009-2011, with an objective of €1 billion for 2009 (compared to nearly €0.8 billion in 2008). In addition, cost-cutting measures, effective in 2009, should generate savings up to some €280 million, including €180 million under the 2010 Efficiency Plan and €100 million under the adjustment plan launched by the Environmental Services Division.

The Group's priority of generating positive free cash flow in 2009 led it to set an operating cash flow objective, after deduction of net investment, of approximately €2 billion, at constant exchange rates.

The forward-looking information presented in this section is uncertain and is likely to change or be modified. It should not be used to prepare profit forecasts.

14 BOARD OF DIRECTORS, MANAGEMENT AND SUPERVISORY BODIES AND EXECUTIVE MANAGEMENT

The Company has been a *société anonyme* (a French incorporated company) with a Board of Directors since the general shareholders' meeting of April 30, 2003. The Company's shares are listed on the Euronext Paris stock market and on the New York Stock Exchange (NYSE). The Company is subject to French laws and regulations, in particular relating to corporate governance, and to regulations applicable to foreign companies listed in the United States.

14.1 BOARD OF DIRECTORS OF THE COMPANY

Composition of the Board of Directors and Positions Held by Directors Outside the Company

The table below shows the names and ages of the members of the Board of Directors as of the date the reference document was filed, as well as the date of such persons' first appointment and reappointment, if applicable, and the expiration date of their terms of office. In addition, the table shows the principal position they hold outside the Company and corporate offices they have held with all companies during the last five years.

As of the date the reference document was filed, the Company's Board of Directors had 14 members.

The corporate offices held by directors, as shown in the list below, are current as of January 31, 2009.

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past 5 Years
Henri Proglio Age: 59 Date of first appointment: 4/30/2003 Term of office expires: 2009 GM ***Principal position held within the Company:*** Chairman and Chief Executive Officer of Veolia Environnement	***In France:*** Member of the supervisory board of Natixis; Director of EDF; Member of the supervisory board of Lagardère; Director of CNP Assurances; Board observer (*censeur*) on the supervisory board of the Caisse Nationale des Caisses d'Épargne; Director of Dassault Aviation; Managing director (*gérant*) of Veolia Eau – Compagnie Générale des Eaux; Chairman of the Board of Directors of Veolia Propreté; Chairman of the Board of Directors of Veolia Transport; Member of the A and B supervisory boards of Dalkia; Chairman of the Board of Directors of Veolia Water; Chairman of the supervisory board of Dalkia France; Director of SARP Industries; Director of Dalkia International; Director of Société des Eaux de Marseille; Chairman of Campus Veolia Environnement. ***Outside France:*** Director of Veolia Environnement North America Operations; Director of Veolia Environmental Services Australia; Director of Veolia Transport Australasia; Director of Veolia Transport Northern Europe; Director of Veolia Environmental Services UK; Director of Siram; Director of Veolia Environnement UK (United Kingdom); Director of Veolia Environmental Services North America.	Chairman of the management board of Vivendi Environnement; Director of Thales; Director of EDF International; Director of Vinci; Member of the supervisory board of CEO; Member of the supervisory board of CFSP; Director of Comgen Australia; Director of Connex Leasing (United Kingdom); Director of Connex Transport AB (Sweden); Director of Connex Transport UK (United Kingdom); Member of the supervisory board of Société des Eaux de Melun; Director of Esterra; Director of SARP; Director of B 1998 SL and FCC (Spain); Director of GRUCYCSA (Spain); Director of Onyx UK Holdings (United Kingdom); Director of SAFISE; Director of WASCO (formerly US Filter, United States); Director of Veolia ES Asia; Member of the supervisory board of Elior; Director of Casino, Guichard-Perrachon; Member of the supervisory board of CNP Assurances.

Jean Azéma Age: 56 Date of first appointment: 4/30/2003 Term of office expires: 2009 GM ***Principal position held within the Company:*** Member of the Board of Directors of Veolia Environnement	***Principal position held outside the Company:*** Chief Executive Officer of Groupama SA. ***Other offices and positions held with any company:*** ***In France:*** Chief Executive Officer of Fédération Nationale Groupama; Chief Executive Officer of Groupama Holding and Groupama Holding 2; Director of Société Générale; Permanent representative of Groupama SA to the Board of Directors of Bolloré; Chairman of the Fédération Française des Sociétés d'Assurance Mutuelle (FFSAM); Vice-Chairman of the Fédération Française des Sociétés d'Assurance. ***Outside France:*** Director of Mediobanca.	Chairman of the Board of Directors of Groupama International; Permanent representative of CCAMA to Gimar Finance SCA; Permanent representative of Groupama Investissement to Gimar Finance SCA; Permanent representative of CCAMA to SCI Groupama les Massues; Permanent representative of Groupama Assurances et Services to Bolloré Investissement; Member of the supervisory board of Mediobianca.
Daniel Bouton Age: 58 Date of first appointment: 4/30/2003 Reappointed: 5/11/2006 Term of office expires: 2012 GM* ***Principal position held within the Company:*** Member of the Board of Directors of Veolia Environnement Member of the nominations and compensation committee since April 1, 2005	***Principal position held outside the Company:*** Chairman of the Board of Directors of Société Générale. ***Other offices and positions held with any company:*** Director of Total SA.	Member of the supervisory board of Vivendi Environnement; Director of Arcelor; Director of Schneider Electric SA.
Jean-François Dehecq Age: 69 Date of first appointment: 5/11/2006 Term of office expires: 2012 GM* ***Principal position held within the Company:*** Member of the Board of Directors of Veolia Environnement	***Principal position held outside the Company:*** Chairman of the Board of Directors of Sanofi-Aventis. ***Other offices and positions held with any company:*** ***In France:*** Chairman of the Orientation Committee of the Strategic Investment Fund; Director of Air France; Director of the Agence Nationale de la Recherche; Chairman of the Association Nationale de la Recherche; Member of the French Epilepsy Research Foundation; Chairman of the Board of ENSAM/ParisTech (Ecole Nationale Supérieure des Arts et Métiers). ***Outside France:*** Vice-Chairman of the EFPIA (European Federation of Pharmaceutical Industries and Associations); Member of the Board of IFPMA (International Federation of Pharmaceutical Manufacturers Associations).	Director of Pechiney; Chairman of Conservatoire National des Arts et Métiers; Chairman of EFPIA (European Federation of Pharmaceutical Industries and Associations); Chairman and Chief Executive Officer of Sanofi-Aventis; Director of Finance and Management; Director of Société Financière des Laboratoires de Cosmétologie Yves Rocher; Member of the supervisory board of the Agence de l'Innovation Industrielle.

Augustin de Romanet de Beaune Age: 47 Date of first appointment: 3/29/2007 Term of office expires: 2009 GM ***Principal position held within the Company:*** Member of the Board of Directors of Veolia Environnement	***Principal position held outside the Company:*** Chief Executive Officer of Caisse des Dépôts et Consignations. ***Other offices and positions held with any company:*** ***In France:*** Chairman of the Board of Directors of the Strategic Investment Fund; Chairman of the supervisory board of SNI; Director of Dexia, CNP Assurances and Icade.	Member of the executive committee and deputy finance and strategy manager for Crédit Agricole; Deputy secretary general of the Presidency of the Republic under Jacques Chirac; Deputy chief of staff for Prime Minister Jean-Pierre Raffarin; Member of the supervisory board of CNP Assurances; Director of Accor.
Jean-Marc Espalioux Age: 57 Date of first appointment: 4/30/2003 Reappointed: 5/11/2006 Term of office expires: 2012 GM* ***Principal position held within the Company:*** Member of the Board of Directors of Veolia Environnement Member of the accounts and audit committee since April 30, 2003 Member of the strategic, research, innovation and sustainable development committee since September 14, 2006	***Principal position held outside the Company:*** Chairman and Chief Executive Officer of Financière Agache Private Equity. ***Other offices and positions held with any company:*** Director of Air France – KLM; Board observer (*censeur*) on the supervisory board of the Caisse Nationale des Caisses d'Épargne; Member of the supervisory board of Homair Vacances; Chairman of the supervisory committee of Lyparis (Go Voyages); Member of the supervisory board of Groupe Flo; Member of the supervisory board of PAPREC.	Chairman of the management board of Accor.
Paul-Louis Girardot Age: 75 Date of first appointment: 4/30/2003 Reappointed: 5/11/2006 Term of office expires: 2012 GM* ***Principal position held within the Company:*** Member of the Board of Directors of Veolia Environnement Member of the accounts and audit committee since April 1, 2005 Member of the strategic, research, innovation and sustainable development committee since September 14, 2006	***Principal position held outside the Company:*** Chairman of the supervisory board of Veolia Eau – Compagnie Générale des Eaux. ***Other offices and positions held with any company:*** ***In France:*** Chairman of the supervisory board of Compagnie des Eaux de Paris; Member of the supervisory board of Dalkia France; Member of the A and B supervisory boards of Dalkia; Director of Veolia Transport; Director of Veolia Propreté; Director of Veolia Water; Director of la Société des Eaux de Marseille; Member of the supervisory board of Compagnie des Eaux et de l'Ozone; Vice-chairman of the Basse-Seine – Normandie committee.	Director of Eiffage; Director of GG TS; Member of the supervisory board of Vivendi Environnement; Director of FCC (Spain).
Philippe Kourilsky Age: 66 Date of first appointment: 4/30/2003 Term of office expires: 2009 GM ***Principal position held within the Company:*** Member of the Board of Directors of Veolia Environnement Chairman of the strategic, research, innovation and sustainable development committee since September 14, 2006	***Principal position held outside the Company:*** Professor at Collège de France. ***Other offices and positions held with any company:*** Member of the Board of Directors of Collège International de Philosophie.	Chief Executive Officer of Institut Pasteur; Director of Institut Curie; Director of Institut Pasteur of Lille; Director of Institut Pasteur of Montevideo (Uruguay), Institut Pasteur of Hong Kong (China), Institut Pasteur of Shanghai (China) and Institut Pasteur of Seoul (South Korea); Member of the Board of Directors of École Polytechnique; Member of the Board of Directors of LEEM Recherche.

Serge Michel Age: 82 Date of first appointment: 4/30/2003 Reappointed: 5/11/2006 Term of office expires: 2012 GM* ***Principal position held within the Company:*** Member of the Board of Directors of Veolia Environnement Chairman of the nominations and compensation committee since April 30, 2003	***Principal position held outside the Company:*** Chairman of Soficot SAS. ***Other offices and positions held with any company:*** ***In France:*** Chairman of CIAM Domaine de Pin Fourcat; Chairman of SAS Carré des Champs-Élysées; Chairman of Société Gastronomique de l'Étoile SAS; Chairman of Groupe Epicure SAS; Member of the supervisory board of Eolfi; Member of the supervisory board of Compagnie des Eaux de Paris; Director of SARP Industries; Permanent representative of EDRIF to the supervisory board of Veolia Eau-Compagnie Générale des Eaux; Member of the supervisory board of Société des Eaux de Trouville Deauville et Normandie; Permanent representative of CEPH to the Board of Directors of SEDIBEX; Director of Orsay Finance, Eiffage, LCC and Infonet Services.	Director of VINCI; Director of SOGEA; Director of Fomento de Construcciones y Contratas (FCC) Holding (Spain); Director of FCC Construccion (Spain); Director of Cementos Portland (Spain); Director of Vinci Construction; Director of DB Logistique; Director of STBB; Member of the supervisory board of G+H Montage (Germany); Chairman of the supervisory board of SEGEX.
Baudoin Prot Age 57 Date of first appointment: 4/30/2003 Term of office expires: 2009 GM ***Principal position held within the Company:*** Member of the Board of Directors of Veolia Environnement	***Principal position held outside the Company:*** Director and Chief Executive Officer of BNP Paribas. ***Other offices and positions held with any company:*** ***In France:*** Director of Pinault-Printemps-Redoute.. ***Outside France:*** Director of Pargesa Holding SA (Switzerland); Director of ERBE (Belgium).	Director of Pechiney; Director of BNP Intercontinentale; Permanent representative of BNP Paribas to the supervisory board of Fonds de Garantie des Dépôts; Chairman of the Board of Directors of BNP Paribas E3, then Chairman of BNP Paris E3 SAS; Permanent representative of BNP Paribas to the supervisory board of Accor; Member of the supervisory board of Cetelem; Member of the supervisory board of Eurosecurities Partners; Director of Accor.
Georges Ralli Age 60 Date of first appointment: 4/30/2003 Reappointed: 5/11/2006 Term of office expires: 2012 GM* ***Principal position held within the Company:*** Member of the Board of Directors of Veolia Environnement	***Principal position held outside the Company:*** Chief Executive of European Investment Banking Business of Lazard Group LLC (United States); Executive Vice-President and managing partner of Lazard Frères SAS. ***Other offices and positions held with any company:*** ***In France:*** Executive Vice-President and managing partner of Compagnie Financière Lazard Frères SAS; Chairman of Maison Lazard SAS; Chairman and Chief Executive Officer and director of Lazard Frères Banque; Chairman and managing partner of Lazard Frères Gestion SAS; Director of Fonds Partenaires Gestion; Director of VLGI; Director of Chargeurs; Director of Silic; Board observer (*censeur*) of Eurazeo. ***Outside France:*** Deputy Chairman and member of Lazard Group LLC (United States); Co-chairman of the European Investment Banking Committee of Lazard Group LLC (United States);	Deputy CEO of Lazard Frères Banque SA; Director of Eurazeo; Member of the supervisory board of Vivendi Environnement; Member of the supervisory board of Eurazeo; Director (*directeur*) of Crédit Agricole Lazard Financial Products (United Kingdom); Managing partner of Maison Lazard SAS; Managing general partner (*associé commandité gérant*) of Partena (SCS).

	Member of the European advisory board of Lazard Group LLC (United States); Member of the executive committee of Lazard Strategic Coordination Company LLC (United States); Member of the Board of Directors of Lazard & Co. Srl (Italy); Director of Lazard Investments Srl (Italy).	
Paolo Scaroni Age 62 Date of first appointment: 12/12/2006 Term of office expires: 2009 GM ***Principal position held within the Company:*** Member of the Board of Directors of Veolia Environnement	***Principal position held outside the Company:*** Chief Executive Officer of ENI (Italy). ***Other offices and positions held with any company:*** ***Outside France:*** Member of the Board of Directors of Assicurazioni Generali (Italy); Member of the Board of Directors of London Stock Exchange plc (England); Member of the Board of Directors of Fondazione Teatro alla Scala (Italy); Member of the Board of Directors of Columbia Business School (USA).	Member of the supervisory board of ABN Amro Bank NV (Netherlands); Chairman of Alliance Unichem plc (England); Chief Executive Officer of Pilkington plc (England); Chief Executive Officer of Enel (Italy); Member of the Board of Directors of Il Sole 24 Ore (Italy).
Louis Schweitzer Age: 66 Date of first appointment: 4/30/2003 Term of office expires: 2009 GM ***Principal position held within the Company:*** Member of the Board of Directors of Veolia Environnement Member of the nominations and compensation committee since April 30, 2003	***Principal position held outside the Company:*** Chairman of the Board of Directors of Renault. ***Other offices and positions held with any company:*** ***In France:*** Chairman of the Haute Autorité de Lutte contre les Discriminations et pour l'Egalité; Director of BNP Paribas; Director of L'Oréal; Member of the advisory board of the Banque de France; Chairman of the supervisory board of the "Le Monde" group; Member of the boards of the following institutions or public interest associations: The Louvre Museum; The Quai Branly Museum and the National Political Science Foundation. ***Outside France:*** Director of AB Volvo (Sweden); Chairman of the Board of Directors of Astra Zeneca (United Kingdom); Member of the advisory board of Allianz (Germany).	Chairman of Medef International; Chairman and Chief Executive Officer of Renault; Chairman of the management Board of Renault-Nissan BV; Director of Renault Crédit International Banque; Director of Électricité de France; Deputy Chairman of the supervisory board of Philips (Netherlands).
Murray Stuart Age: 75 Date of first appointment: 4/30/2003 Reappointed: 5/11/2006 Term of office expires: 2012 GM* ***Principal position held within the Company:*** Member of the Board of Directors of Veolia Environnement Chairman of the accounts and audit committee since April 30, 2003	As of this date, Mr. Stuart does not hold any other offices or positions with other companies.	Director of National Westminster Bank and Intermediate Capital Group plc; Director of Old Mutual plc; Director of Hammersmith Hospitals NHS Trust.

GM = General shareholders' meeting.

* Except if the general shareholders' meeting of May 7, 2009 adopts the resolution to reduce directors' terms of office to four years (cf. chapter 16, §16.1.1 infra).

The members of the Board of Directors may be contacted at the Company's head office, 36/38 Avenue Kléber, Paris, France.

Biographical Information about Directors

Henri Proglio is a graduate of the École des Hautes Etudes Commerciales (HEC). He joined Compagnie Générale des Eaux in 1973 and was appointed Chairman and Chief Executive Officer of CGEA in 1990. He was appointed Executive Vice-President of Vivendi Universal and Chairman and Chief Executive Officer of Vivendi Water in 1999. He became Chairman of Veolia Environnement's Management Board in 2000 and Chairman of the Board of Directors and Chief Executive Officer in April 2003.

Jean Azéma 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 Union Départementale de la Mutualité Agricole des Pyrénées Orientales in 1975, moved to the Centre National d'Etudes Supérieures de la Sécurité Sociale from 1978 to 1979, and to the Union Départementale de la Mutualité Agricole of Allier from 1979 to 1987. From 1987 to 1995, Mr. Azéma served as financial director of Groupama Vie, investments director for Groupama, account management and consolidation director at Caisse Centrale des Assurances Mutuelles Agricoles (CCAMA) and insurance director at CCAMA. In 1996, he was appointed Chief Executive Officer of Groupama Sud-Ouest, in 1998, Chief Executive Officer of Groupama Sud and in June 2000, Chief Executive Officer of Groupama. Jean Azéma is currently Chief Executive Officer of Groupama SA and of Fédération Nationale Groupama, Chairman of the Fédération Française des Sociétés d'Assurance Mutuelles and deputy Chairman of Fédération Françaises des Sociétés d'Assurance.

Daniel Bouton holds a degree in political science, is a graduate of the Ecole Nationale d'Administration (ENA) and is a former financial controller in the Treasury department. He has held a number of positions in the French Ministry of Economy, Finance and Industry, including that of budget director, between 1988 and 1991. In 1991, he began working at Société Générale, serving as Chief Executive Officer starting in 1993, and as Chairman and Chief Executive Officer starting in 1997. Since May 2008, he has held the position of Chairman of the Board of Directors of Société Générale.

Jean-François Dehecq is a graduate of the Ecole Nationale des Arts et Métiers. After having been a mathematics teacher from 1964 to 1965 at the Saint-Vincent de Senlis Catholic high school, he became a scientific research intern in the army's nuclear propulsion department. In 1965, he joined the Company Nationale des Pétroles d'Aquitaine (SNPA, which later became Elf Aquitaine). After four years in the economics department (1965 to 1969), he became executive assistant (1969 to 1970), and then operations engineer (1970 to 1971) at the Lacq plant, a major gas production site in France. In 1973, he became Chief Executive Officer of Sanofi, a major division of Elf Aquitaine. From 1982 to 1988, he was deputy Chairman and Chief Executive Officer of Sanofi before assuming full management authority in February 1988. In 1999, he became Chairman and Chief Executive Officer of Sanofi Synthelabo and, in 2004, Chairman and Chief Executive Officer of Sanofi-Aventis. Since 2007, Jean-François Dehecq has been Chairman of the Board of Directors of Sanofi-Aventis.

Augustin de Romanet de Beaune is a graduate of the Institut d'Etudes Politiques (IEP) in Paris and of the École Nationale d'Administration (ENA). He began his career in the budget department of the French Ministry of Economy and Finance. In 1990, he was a finance attaché with France's permanent mission to the European Community in Brussels, before returning to the budget department in 1993 as head of the budgetary analysis and policy office. In 1995, he became a technical advisor in the office of the Minister of Economy and Finance, and then technical advisor and chief of staff to the junior Budget Minister. After having been a budgetary advisor to the deputy Budget Minister, government press secretary and project leader with the French Ministry of Economy and Finance from 1995 to 1997, Augustin de Romanet de Beaune became deputy director and project leader with the office of the budget director, then deputy director charged with the transportation sector in the budget department. In 1999 and 2000, he was successively appointed manager of Oddo et Compagnie and managing partner of Oddo Pinatton Corporate. In 2002, Augustin de Romanet de Beaune was appointed to the position of chief of staff of the deputy Budget and Budgetary Reform Minister and deputy chief of staff of the Minister of the Economy, Finance and Industry. From 2004 to 2005, he held the positions of chief of staff of the Minister of Employment, Labor and Social Cohesion, deputy chief of staff of the Prime Minister and deputy Secretary General to the Presidency of the Republic. After having been finance and strategy vice-president and a member of the executive committee of the Crédit Agricole Group since October 2006, Augustin de Romanet de Beaune was appointed Chief Executive Officer of Caisse des Dépôts et Consignations in March 2007.

Jean-Marc Espalioux holds degrees in political science, law and economics and is an alumnus of the École Nationale d'Administration (ENA). He was a financial controller in the Treasury department from 1978 to 1983. He joined Compagnie Générale des Eaux in 1984, becoming Chief Financial Officer in 1987 and Executive Vice-President in 1996. Jean-Marc Espalioux was a director of the Accor group from 1987 to 1996 and chairman of the management board from 1997 to 2006. Jean-Marc Espalioux has been Chairman and Chief Executive Officer of Financière Agache Private Equity since July 2006.

Paul-Louis Girardot was a director and Chief Executive Officer of Vivendi until 1998. He focused principally on developing the Veolia Environnement Group's utilities concessions, particularly in the water sector. In addition, he contributed significantly to Vivendi's activities in the telephone sector, in particular mobile telephones. He also worked to expand the Veolia Environnement Group's business in the energy services sector and in the decentralized production of electric power (cogeneration), through the Dalkia subsidiary. Paul-Louis Girardot has been Chairman of the supervisory board of Veolia Eau-Compagnie Générale des Eaux since 2001.

Philippe Kourilsky is a graduate of the École Polytechnique, and a doctor in sciences of the University of Paris. He dedicated his professional life to the research in life sciences. He exercised numerous responsibilities in the public and private research sector and was in particular director of research at the CNRS (National Center for Scientific Research) and the chief executive officer of the Institute Pasteur from 2000 until 2005. Philippe Kourilsky is currently a professor at the Collège de France and doctor *honoris causa* of various foreign universities.

Serge Michel has spent his entire career in the construction and public works sector. After having held the position of Executive Vice-President with the Compagnie de Saint-Gobain group and been Chairman of Socea, he chaired the SGE group until 1991 and the CISE group until 1997. He was Executive Vice-President of the Compagnie Générale des Eaux until 1992. He is currently Chairman of Soficot, a business management and investment consulting company he founded in 1997.

Baudoin Prot is a graduate of the École des Hautes Etudes Commerciales (HEC) and of the École Nationale d'Administration (ENA). From 1974 to 1983, he was successively the Deputy Prefect of the Franche-Comté region, financial controller in the Treasury department and deputy to the Deputy Director of Energy and Raw materials of the Ministry of Industry. He joined Banque Nationale de Paris in 1983, where he held various positions before being appointed Executive Vice-President in 1992 and Chief Executive Officer in 1996. After having been appointed director and Executive Vice-President of BNP Paribas in March 2000, he has been a director and Chief Executive Officer of BNP Paribas since June 2003.

Georges Ralli holds a graduate degree (DESS) in banking and finance from the University of Paris-V and is a graduate of the Institut d'Etudes Politiques (IEP) in Paris and of the Institut Commercial in Nancy. In 1970, he joined Crédit Lyonnais, where he held various management positions until 1981. In 1982, he served as secretary of the Savings Development and Protection Commission. From 1982 to 1985, he headed the financial negotiations department of Crédit du Nord. He joined Lazard in 1986, and became managing partner in 1993 and jointly headed the mergers and acquisitions department of Lazard LLC starting in 1999. Since 2000, Georges Ralli has been deputy Chairman and a member of the executive committee of Lazard LLC (United States) and deputy Chairman and Executive Vice-President of Lazard Frères (Paris). Since 2006, he has been Chief Executive of the European Investment Banking Committee of the Lazard Group LLC (United States).

Paolo Scaroni holds a degree in economics from Bocconi University in Milan and an MBA from Columbia Business School in New York. After having spent a year with McKinsey & Company following his MBA, between 1973 and 1985, he held various positions with Saint Gobain, ultimately heading the "flat glass" division. In 1985, Paolo Scaroni became Chief Executive Officer of Techint, while at the same time holding the positions of deputy Chairman of Falck and Executive Vice-President of SIV, a joint venture between Techint and Pilkington plc. He became Chief Executive Officer of Pilkington plc in 1996, a position he held until May 2002. He was Chief Executive Officer of Enel from 2002 to 2005 and in June 2005 became Chief Executive Officer of Eni, a position he still holds.

Louis Schweitzer is a graduate of the Institut d'Etudes Politiques (IEP) in Paris and of the École Nationale d'Administration (ENA) and was a financial controller in the Treasury department. From 1981 to 1986, he was chief of staff for Laurent Fabius (who was successively junior Budget Minister, Minister for Industry and Research and Prime Minister). In 1986, he joined Renault's senior management and then successively held the positions of Director of planning and management control, Chief Financial Officer and Executive Vice-President. He was appointed Chief Executive Officer of Renault in December 1990, then Chairman and Chief Executive Officer in May 1992 until April 29, 2005, when he was appointed Chairman of the Board of Directors of Renault.

Murray Stuart holds degrees in literature, law and accounting from the University of Glasgow and was awarded an honorary doctorate by the University of Glasgow. He pursued a career in industry, commerce and financial services. He has held the positions of chief financial officer and Executive Vice-President of International Computers plc, UK, and Chief Executive Officer, then Chairman, of Metal Box plc (which became Carnaud Metalbox), a company that manufactures packaging. He was Chairman of Scottish Power plc from 1992 to 2000. He has also been deputy Chairman of the United Kingdom Public Services Audit Commission, Chairman of the Trust Hammersmith Hospitals NHS, a major teaching and research hospital in London, and a director of Royal Bank of Scotland Group plc until May 2002.

14.2 CONVICTIONS, BANKRUPTCIES, CONFLICTS OF INTEREST AND OTHER INFORMATION

On the basis of the representations made by the members of the Board of Directors to Veolia Environnement, to the Company's knowledge there are no family ties among the members of the Company's Board of Directors and, during the last five years: (i) no member of the Board of Directors of Veolia Environnement has been convicted of fraud; (ii) no member of the Board of Directors has been involved in any bankruptcy, receivership or liquidation proceedings; (iii) no statutory or regulatory authority (including designated professional organizations) has made any official public accusation and/or imposed a sanction on these persons; and (iv) no director has been forbidden by a court from holding a position as a member of a Board of Directors or management or supervisory body of a publicly held company or from participating in the management or business operations of a publicly held company.

To the Company's knowledge, there is no conflict of interests at the level of the Board of Directors or executive management of Veolia Environnement. In addition to the provisions of the French Commercial Code (*Code de Commerce*) relating to regulated agreements (*conventions réglementées*), the Board of Directors' internal rules and regulations provide that directors must inform the Board of Directors of any existing or even potential conflict of interests and abstain from voting in any situation where such a conflict of interest exists.

No arrangement or agreement has been concluded with the Company's principal shareholders, or with its customers or suppliers, pursuant to which a member of the board of directors thereof has been selected to act as a director or to hold an executive management position with the Company.

Lastly, to the Company's knowledge, the members of the Board of Directors have not agreed to any restrictions on their ability to transfer any interest they may hold in the capital of Veolia Environnement with the exception of the provision in the articles of incorporation and bylaws requiring each director to own at least 750 registered shares in the Company.

15 COMPENSATION AND BENEFITS OF CORPORATE OFFICERS AND DIRECTORS

15.1 COMPENSATION OF CORPORATE OFFICERS (CHAIRMAN AND CHIEF EXECUTIVE OFFICER AND DIRECTORS)

Total compensation paid in the 2008 fiscal year to corporate officers, whether or not they hold executive management positions, by the Company and by controlled companies, within the meaning of Article L. 233-16 of the French Commercial Code, is detailed hereinafter.

The tables in section 15.1 hereinafter and in Chapter 17, §§ 17.3 and 17.4 *infra* (stock subscription or purchase options and free shares) have been prepared in accordance with the format recommended by the AFEP-MEDEF consolidated code of December 2008 and the AMF's recommendation of December 22, 2008.

15.1.1 Total Compensation Paid to the Chairman and Chief Executive Officer

The table below summarizes compensation of all types. This compensation is detailed in the tables hereinafter and, in the case of information concerning stock subscription or purchase options and performance shares, in Chapter 17, §§ 17.3.1 and 17.4 *infra*.

Table Summarizing the Compensation and Options and Shares Granted to the Chairman and Chief Executive Officer (executive director)

	2007 Fiscal Year *(in euros)*	**2008 Fiscal Year** *(in euros)*
Compensation owed for the fiscal year	2 522 053	1 617 207
Value of options granted during the fiscal year*	1 411 316**	0
Value of performance shares granted during the fiscal year	0	0
TOTAL	3 933 369	1 617 207

* The value of the options at the time they were granted was calculated applying IFRS 2, taking into account inter alia a possible decrease in value due to the performance criteria and the likelihood of the recipient being with the Company at the end of the vesting period, but before the value is expensed over the vesting period in accordance with IFRS 2.

** Due to the fact that the performance criteria were not met, the value of these options was zero on December 31, 2008 (see Chapter 17, § 17.3.3 infra).

Detail of the Chairman and Chief Executive Officer's Compensation

The compensation paid to the Chairman and Chief Executive Officer in 2008 was determined in accordance with the terms proposed by the nominations and compensation committee and approved by the Board of Directors.

During the 2008 fiscal year, Mr. Henri Proglio received the fixed portion of his compensation for 2008, as well as the variable portion of his compensation for the 2007 fiscal year, which was paid in 2008 after the amount thereof was definitively approved by the Board of Directors meeting held on March 25, 2008. In addition, he received in-kind benefits and the directors' fees (*jetons de présence*) to which he was entitled as a director of the Company and of other companies of the Group.

Table Summarizing Compensation Paid to the Chairman and Chief Executive Officer				
	2007 Fiscal Year		**2008 Fiscal Year**	
	Amounts owed for the fiscal year	Amounts paid during the fiscal year	Amounts owed for the fiscal year	Amounts paid during the fiscal year
Fixed compensation	992 000	992 000	992 000	992 000
Variable compensation	1 423 020(1)	1 275 000(2)	519 188(3)	1 423 020(1)
Extraordinary compensation	0	0	0	0
Directors' fees				
• *Paid by Veolia Environnement*(4)	40 000	40 000	40 000	40 000
• *Paid by controlled companies*(5)	64 079	64 079	62 969	62 969
In-kind benefits(6)	2 954	2 954	3 050	3 050
TOTAL	**2 522 053**	**2 374 033**	**1 617 207**	**2 521 039**

(1) Variable portion for 2007, paid in 2008.

(2) Variable portion for 2006, paid in 2007.

(3) Variable portion for 2008, to be paid in 2009.

(4) Directors' fees for the fourth quarter of the 2007 fiscal year and the first three quarters of the 2008 fiscal year. Fees for the fourth quarter of the 2008 fiscal year were paid in January 2009.

(5) Directors' fees received for director's positions held with other companies of the Veolia Environnement Group, in France and outside France.

(6) Company car provided.

Fixed compensation in 2008

In accordance with the recommendation of the nominations and compensation committee, at its meeting held on March 25, 2008, the Board of Directors decided to keep the fixed portion of Mr. Henri Proglio's compensation for the 2008 fiscal year at the same level as for 2007, i.e., €992,000.

Criteria used to calculate variable compensation

In accordance with the proposals of the nominations and compensation committee, the variable compensation of the Chairman and Chief Executive Officer's for 2007 and 2008 is divided into a quantitative portion of 70%, based on the satisfaction of various performance criteria previously set by the Board of Directors, and a qualitative portion of 30% determined by the Board.

- ***Variable compensation for 2007:*** In accordance with the proposals of the nominations and compensation committee, at its meeting held on March 29, 2007, the Board of Directors chose the following performance indicators to determine the quantitative portion of the Chairman and Chief Executive Officer's variable compensation for 2007, using the 2007 budget and 2007 performances, compared with those for 2006, as the bases for measuring the objectives: the Group's recurring operating income and recurring net income, each one weighted at 50%. Due to the capital increase completed in July 2007, which automatically increased recurring net income, at its meeting of March 25, 2008, the Board of Directors decided to replace recurring net income with (recurring) net earnings per share, as proposed by the nominations and compensation committee. Applying these formulas and in light of results for 2007, the Board of Directors awarded Mr. Henri Proglio €1,423,020 as the variable portion of his compensation for 2007.
- ***Variable compensation for 2008:*** In accordance with the proposals of the nominations and compensation committee, at its meeting held on March 25, 2008, the Board of Directors chose the following performance indicators to determine the quantitative portion of the Chairman and Chief Executive Officer's variable compensation for 2008, using the 2008 budget and 2008 performances, compared with those for 2007, as the bases for measuring the objectives: operating cash flows, (recurring) net earnings per share and the Group's pre-tax ROCE. The 70% quantitative portion of variable compensation is weighted as follows: 30% is based on the Group's operating cash flows and 40% on net earnings per share and pre-tax ROCE. Applying these formulas and in light of results for 2008, at its meeting of March 24, 2009, the Board of Directors awarded Mr. Henri Proglio € 519 188 as the variable portion of his compensation for 2008.

Compensation and 2009 objectives

In accordance with the recommendation of the nominations and compensation committee, at its meeting held on March 24, 2009, the Board of Directors decided to keep the fixed portion of Mr. Henri Proglio's compensation for the 2009 fiscal year at the same level as for 2008, i.e., €992,000.

The Board of Directors also decided to maintain a variable compensation divided into a quantitative portion of 70% and a qualitative portion of 30%, but changed the performance criteria used to determine the quantitative portion of this variable compensation to take account of the Group's objectives and the economical context. In line with the announced objectives, the sole criteria shall be the level of operating cash flow after deduction of net investments.

The details concerning the stock subscription or purchase options granted to the Chairman and Chief Executive Officer, and which he exercised during the 2008 fiscal year, as well as of concerning the Chairman and Chief Executive Officer's obligation to keep shares obtained by exercising the stock subscription or purchase options, are described in Chapter 17, paragraph 17.3 *infra*.

15.1.2 Total Compensation Paid to Directors [15]

The table below shows the amount of directors' fees paid in 2007 and 2008 to the members of Veolia Environnement's Board of Directors by the Company and controlled companies.

With the exception of the Chairman and Chief Executive Officer, the members of the Board of Directors receive no compensation other than directors' fees from the Company and, if applicable, from controlled companies.

Table Showing Directors' Fees Received by Directors (non-executive directors)				
	Amounts paid during the 2007 fiscal year		Amounts paid during the 2008 fiscal year	
Director	**Paid by the Company**	**Paid by controlled companies**	**Paid by the Company**	**Paid by controlled companies**
Jean Azema	25 800 *	0	36 660 *	0
Daniel Bouton	50 000	0	50 000	0
Jean-François Dehecq	40 000	0	40 000	0
Augustin de Romanet de Beaune	20 000	0	40 000	0
Jean-Marc Espalioux	57 500	0	60 000	0
Paul-Louis Girardot	57 500	48 155	60 000	48 337
Philippe Kourilsky	55 000	0	60 000	0
Serge Michel	80 000	11 555	80 000	6 955
Baudoin Prot	40 000	0	40 000	0
Georges Ralli	40 000	0	40 000	0
Paolo Scaroni **	24 000	0	30 500	0
Louis Schweitzer	50 000	0	50 000	0
Murray Stuart **	94 500	0	91 500	0

* Net of amounts withheld pursuant to the attendance rules adopted by the Board of Directors (see below).

** Net amounts paid after tax withholding.

15 Directors who do not hold executive management positions.

Total Amount and Distribution of Directors' Fees

The total amount of directors' fees, which the combined general shareholders' meeting of April 30, 2003 set at €600,000, was not modified until 2006.

Pursuant to a proposal of the Board of Directors, the general shareholders' meeting of May 11, 2006 increased the total amount of directors' fees to €770,000 as of the 2006 fiscal year. The increase was intended to take into account the specific duties incumbent upon the Board's committees (in particular, the accounts and audit committee) and to align the amount of directors' fees with those of other companies included in the CAC 40 that are also listed in the United States. This amount remained unchanged in 2007 and 2008.

At its meeting of March 28, 2006, the Board of Directors decided to distribute the total amount as follows for the 2006 fiscal year: €40,000 to Board members, €50,000 to Board members who are also members of a committee, €80,000 to the chairman of the nominations and compensation committee and €120,000 to the chairman of the accounts and audit committee.

At its meeting of March 29, 2007, the Board of Directors decided on a new distribution of directors' fees among directors to take into account the creation of the strategic, research, innovation and sustainable development committee (see § 16.2.1.3 *infra*). The Board thus decided to distribute the total amount as follows: €60,000 to the chairman of the strategic, research, innovation and sustainable development committee and €60,000 to the other two members of the strategic committee who are also members of the accounts and audit committee for their duties on these two committees. Otherwise, the distribution remained unchanged. At its meeting of March 25, 2008, the Board of Directors decided to maintain this distribution. Therefore, the directors' fees for the 2008 fiscal year will be distributed as follows:

- Board member: €40,000;
- Member of the Board and of one committee: €50,000;
- Members of the accounts and audit committee and of the research and innovation committee: €60,000;
- Chairman of the nominations and compensation committee: €80,000;
- Chairman of the accounts and audit committee: €120,000;
- Chairman of the research and innovation committee: €60,000.

At its meeting of March 24, 2009, the Board of Directors decided to maintain the distribution rules described above.

Furthermore, since the 2006 fiscal year, the Board has conditioned payment of a part of the directors' fees to which each director is entitled (whether or not they are committee members) on their attendance at Board of Directors' meetings. Thus, since 2006, the payment of one-half of each director's annual fees (i.e., €20,000) has been conditioned on each director's actual attendance at a minimum of six Board meetings per year. If applicable, this one-half of each director's fees is reduced in proportion to the number of absences. Pursuant to these attendance rules, amounts were withheld in 2007 and 2008 from the fees paid to certain directors on the basis of their attendance at Board meetings during the preceding year.

15.2 COMPENSATION OF EXECUTIVE MANAGERS WHO ARE NOT DIRECTORS (EXECUTIVE COMMITTEE MEMBERS)

All members of the executive committee in office in 2008 [16] (see Chapter 16, paragraph 16.1.2 *infra*), with the exception of the Chairman and Chief Executive Officer, received aggregate gross compensation of €5,664,246 in 2008.

The table below shows the aggregate gross compensation paid to the members of the Company's executive committee in 2006, 2007 and 2008, with the exception of the Chairman and Chief Executive Officer. This amount includes fixed and variable compensation paid by Veolia Environnement, in-kind benefits and directors' fees received by executive committee members in consideration for the directors' positions they hold with companies of the Veolia Environnement Group in France and outside France.

16 Including Jérôme Contamine, who has not been a member of the Company's executive committee since January 19, 2009.

(in euros)	Total fixed compensation	Total Variable compensation	Directors' fees paid by Group companies	In-kind benefits	Total compensation
Compensation paid in 2006	2 431 494	1 950 000 (1)	201 065	16 433	4 598 992
Compensation paid in 2007	2 160 041	2 109 478 (2)	203 308	13 910	4 486 737
Compensation paid in 2008	2 860 052	2 576 131(3)	208 545	19 518	5 664 246

(1) Variable portion for the 2005 fiscal year, paid in 2006.

(2) Variable portion for the 2006 fiscal year, paid in 2007.

(3) Variable portion for the 2007 fiscal year, paid in 2008.

In addition to the compensation detailed above, profit sharing for the 2007 fiscal year, in the total amount of €38,416, was paid in June 2008.

15.3 RETIREMENT AND OTHER BENEFITS

There is no contract between the members of the Board of Directors and the Company or its subsidiaries that provides for the payment of benefits or compensation owed or that may be owed in the event such member ceases or changes his employment with the Company or its subsidiaries, other than the supplementary defined benefits group pension plan described below.

In accordance with the recommendations of the AFEP-MEDEF corporate governance code of December 2008, the Board of Directors at its meeting of March 24, 2009 took note that Mr Proglio's employment agreement, which was suspended on April 30, 2003 when he was appointed Chairman and Chief Executive Officer of Veolia Environnement, shall be terminated in the event that his term of office as a director is renewed (cf. chapitre 16, § 16.1.2 infra).

The Chairman and Chief Executive Officer does not benefit from a "golden parachute" or similar arrangement, and there is no provision calling for the payment of compensation to the Chairman and Chief Executive Officer in consideration for a non-competition clause.

Furthermore, neither the Company nor its subsidiaries books or recognizes any amount for the payment of pensions, retirement benefits or other benefits to the Board of Directors members named in paragraph 14.1, other than the Chairman and Chief Executive Officer.

• Supplementary defined premiums group pension plan

The Chairman and Chief Executive Officer is a beneficiary of the supplementary defined premiums group pension plan that covers all of the Group's executive managers.

In 2008, Veolia Environnement paid a premium of €5,990 (included in employer's social contributions) under this supplementary defined premiums group pension plan on behalf of the chairman and executive officer.

• **Supplementary defined benefits group pension plan**

Description of the plan in place

At its meeting of September 15, 2005, the Board of Directors decided to establish a supplementary defined benefits group pension plan, starting in the 2006 fiscal year, for the Chairman and Chief Executive Officer and other members of the executive committee, in line with the practices of other groups included in the CAC 40.

This supplementary pension plan is a regulated agreement subject to the provisions of Article L. 225-42-1 of the French Commercial Code. Accordingly, it was presented for authorization and approved at the annual general shareholders' meeting of May 11, 2006.

The supplementary pension plan, whose financing is outsourced to an insurance company, has the following characteristics:

- A specific plan that takes into account the cancellation of the supplementary pension plan for the benefit of the Group's executive managers after the split-up of the Vivendi and Veolia Environnement groups and the seniority they had acquired through December 31, 2002 as employees of the former principal shareholder (Compagnie Générale des Eaux, which became Vivendi Universal and was thereafter renamed Vivendi);
- An additional plan that is separate from other pensions, that is based on seniority (minimum of five years' seniority and two years' seniority as a member of the executive committee) and that is capped at 25% of covered compensation (for 25 years' seniority);

- A limit on total retirement benefits received set at a maximum of 50% of covered compensation (the average of the last three periods of compensation).

As of December 31, 2008, based on current assumptions, the total estimated cost of this group plan (the current value of future benefits) is €30.2 million for all members of the executive committee who are beneficiaries, of which the Chairman and Chief Executive Officer's benefits total €13.1 million, provided all beneficiaries of this plan are still employed by the Company at the time they are eligible for retirement benefits, in accordance with the requirements of the Fillon law.

In accordance with the recommendations of the AFEP-MEDEF corporate governance code of December 2008, this benefit is taken into account when setting the Chairman and Chief Executive Officer's total compensation. Furthermore, the group of potential beneficiaries is not limited only to the sole chairman and chief executive officer, but also includes executive managers who are members of the Company's executive committee. Each year, the increase in potential rights is equal to only a limited percentage of the beneficiaries' compensation, and the reference period used to calculate benefits is several years long and excludes compensation paid at the time of employment termination or retirement, as well as any other type of extraordinary compensation. Lastly, Henri Proglio has 36 years of seniority with the Group.

Proposed Changes to the Plan

Based on the recommendation of the nominations and appointments committee, at its meeting held on March 24, 2009, the Board of Directors approved the proposed amendments to the rules and regulations governing this supplementary defined benefits group pension plan.

The changes proposed would take account of the decision to conform with the provisions of the AFEP-MEDEF corporate governance consolidated code of December 2008, which provides *inter alia* for the termination of the employment contract of directors who hold executive management positions. In order that Mr. Henri Proglio, the Chairman and Chief Executive Officer, may continue to benefit from this retirement plan after his employment contract ends (see Chapter 16, § 16.1.2 *infra*), it is necessary to amend the rules and regulations governing this pension plan in order to clarify the eligibility requirements for the plan applicable to the Company's executive director, regardless of whether he is a party to an employment contract. The other requirements under this pension plan (age, seniority, etc.) will remain unchanged and, as a result of these changes, the Company will not incur any additional expense.

Pursuant to the provisions of Articles L. 225-38 and L. 225-40 of the French Commercial Code, the general shareholders' meeting of May 7, 2009 will be asked to approve the special report prepared by the statutory auditors regarding these changes.

16 OPERATION OF MANAGEMENT AND SUPERVISORY BODIES

16.1 OPERATION OF MANAGEMENT AND SUPERVISORY BODIES

16.1.1 The Board of Directors

At its meeting of April 30, 2003, the Board of Directors adopted internal rules and regulations for the Board, as well as internal rules and regulations for the accounts and audit and nominations and compensation committees, which the Board had created. The purpose of these rules and regulations was to apply the recommendations contained in a report prepared by the working group on the improvement of corporate governance practices chaired by Mr. Daniel Bouton.

The internal rules and regulations of the accounts and audit committee were amended by the Board of Directors at its meeting on March 24, 2009 to take into account the Order (*ordonnance*) of December 8, 2008 that transposed the eighth directive on statutory audits of corporate financial statements into French law (see § 16.2.1.1 hereinafter).

At its meeting of January 7, 2009, the Board of Directors of Veolia Environnement reviewed the consolidated version of the AFEP-MEDEF code of December 2008 and confirmed that that code was consistent with the Company's corporate governance practices. In a press release issued on that same date, the Company confirmed that Veolia Environnement uses that corporate governance code as a reference, in particular for the purpose of preparing the report required by Article L. 225-37 of the French Commercial Code.

The Company believes that its practices conform to the recommendations of the corporate governance code that it uses as a reference and complies with the provisions of that code.

Composition and Appointment

The Company's Board of Directors must have at least three and no more than 18 members, unless otherwise provided by applicable statutes. Each director must own at least 750 registered shares of the Company. From among the Board members who are individuals, the Board elects a chairman and, if required, one or two vice-chairmen, for a term of office not to exceed their terms of office as directors.

The members of the Board of Directors are appointed by an ordinary general shareholders' meeting pursuant to a proposal made by the Board of Directors, which itself receives proposals from the nominations and compensation committee. Directors may be removed from office at any time by a decision of a general shareholders' meeting.

As of the date this reference document was filed, the Board of Directors has 14 members (see Chapter 14, § 14.1 *supra*). The Company's Board of Directors does not include any members elected by the employees or Board observers (*censeurs*). However, a representative of the Company's works council (*comité d'entreprise*) is entitled to attend Board of Directors' meetings in a non-voting, advisory capacity.

Directors' Terms of Office

The members of the Board of Directors are appointed for terms of six years. In accordance with the provisions of the Company's articles of incorporation and bylaws, the Board of Directors is renewed on a rolling basis every three years in such a manner that one-half of the Board's members are up for reelection if the Board has an even number of directors and one-half of the Board's members, rounded up to the next whole number, are up for reelection if the Board has an odd number of directors.

Pursuant to these provisions, the combined general shareholders' meeting held on May 11, 2006 renewed the terms of office of six members of the Board of Directors. In addition, a new director was appointed at that meeting. Therefore, the terms of office of seven directors will expire at the end of the general shareholders' meeting to be held on May 7, 2009, and the terms of office of the remaining seven directors will expire at the end of the general shareholders' meeting convened to approve the financial statements for the 2011 fiscal year.

It will be proposed that the general shareholders' meeting to be held on May 7, 2009 amend the Company's articles of incorporation and bylaws to reduce directors' terms of office to four years, in accordance with the recommendations of the AFEP-MEDEF corporate governance code of December 2008, and to revise the current system for periodically renewing the Board of Directors on a rolling basis in such a manner that a quarter of the Board's members are up for reelection annually. For the implementation of this rotation, the withdrawal order of the directors will be determined by the unanimous vote of the members of the Board of Directors present or represented or by drawing lots during the meeting. Once the rotation has been established, it shall be implemented on a seniority basis.

Evaluation of the Independence of Directors

As defined by the Board of Directors' internal rules and regulations, an independent director is a director who does not have any relationship with the Company, its Group or its management that could compromise his ability to exercise his judgment objectively. The criteria in the internal rules and regulations for determining directors' independence are consistent with the recommendations of the AFEP-MEDEF corporate governance code.

These criteria are evaluated and weighted by the Board of Directors, which can determine that despite the fact that a director does not meet the criteria set forth in the internal rules and regulations, a director can nevertheless be considered to be independent in light of his specific situation or that of the Company, taking into account its shareholders or any other reason. Conversely, the Board of Directors can determine that a director is not independent despite the fact that he meets the criteria set forth in the internal rules and regulations.

The internal rules and regulations also require that, each year, before the publication of the reference document, the Board of Directors evaluates the independence of each of its members on the basis of the criteria contained in said rules and regulations, specific circumstances, the positions of the relevant director, the Company and the Group and the opinion of the nominations and compensation committee.

After reviewing the opinion of the nominations and compensation committee, at its meting of March 25, 2008, the Board of Directors conducted its annual evaluation of the directors' independence. Based on this evaluation, the Board considered Messrs. Azéma, Bouton, Dehecq, de Romanet de Beaune, Espalioux, Girardot, Prot, Ralli, Scaroni, Schweitzer and Stuart to be independent directors.

With regard to the banking relationships between Veolia Environnement and Société Générale and BNP Paribas, of which Messrs. Daniel Bouton and Baudouin Prot are respectively Chairman of the Board of Directors and Chief Executive Officer, the Board of Directors considered that Veolia Environnement's solid financial position, the fact that it does not rely on bank financing and the Company's limited stake in those banks' business activities enabled it to consider that they are independent directors on the Company's Board. Mr. Ralli was deemed to be independent due to the fact that in 2007 the Company had not appointed Lazard bank to perform any significant missions. Mr. de Romanet de Beaune was deemed to be independent due to the fact that Caisse des Dépôts et Consignations has been charged with making investments that are of public benefit, in particular in the environmental services sector. Lastly, Mr. Girardot was deemed to be independent due to the time that has elapsed since he left his position as Chief Executive Officer of the former lead company of the water division. The other directors deemed to be independent do not have any business relations with the Company, or do not have significant business relations that are likely to compromise their ability to exercise their judgment objectively.

At its meeting of March 24, 2009, the Board of Directors conducted a new evaluation of the independence of the directors, based on the recommendations of the nominations and compensation committee. As a result of such evaluation, the Board decided to maintain its conclusion that the directors listed above are independent, for the same reasons.

Therefore, as of the date this reference document was filed, the Company's Board of Directors had 11 independent members.

Compensation

Directors may be compensated in one of two ways: directors' fees (*jetons de présence*), the annual amount of which is set by a general shareholders' meeting and the distribution of which is decided by the Board of Directors based on a recommendation of the nominations and compensation committee, and extraordinary compensation, which may be awarded by the Board of Directors under the circumstances and in accordance with the requirements prescribed by law.

The €770,000 amount budgeted for directors' fees, which was approved by the combined general shareholders' meeting held on May 11, 2006, has not been changed since then (see the rules applied for the distribution of these directors' fees, § 15.1.2 *supra*).

In 2008, no extraordinary compensation was paid to members of the Board of Directors.

Operation and Activity in 2008

The Chairman of the Board of Directors organizes and manages the work of the Board of Directors and reports thereon to the general shareholders' meetings. He ensures the proper operation of the Company's governing bodies and ensures that the directors are capable of performing their duties.

Directors may participate in Board deliberations by videoconference or other means of telecommunications [17]. In such case, they are deemed present for the purpose of calculating the quorum and majority, except with regard to the vote on certain major decisions as provided by law (preparation of the annual financial statements, the management report and the consolidated financial statements). This option was used at four Board meetings in 2008.

Under its internal rules and regulations, the Company's Board of Directors is required to meet at least four times per year. During the past fiscal year, the Board met seven times.

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17 In accordance with the requirements of Articles L. 225-37 and R. 225-21 of the French Commercial Code. This right is provided by the internal rules and regulations of the Board of Directors, which state that directors may participate in the Board's deliberations by videoconference or any other means allowed by the laws in force.

On average, Board meetings last approximately two hours, which allows for a thorough examination and discussion of the matters of business on the agenda. The average attendance level at Board meetings in 2008 was 80.6%.

In 2008, in addition to granting financial and legal authorizations, the Board of Directors' activities focused principally on the following matters: corporate governance (evaluation of the independence of directors, compensation of the Chairman and Chief Executive Officer, distribution of directors' fees to directors), the annual and semi-annual financial statements, obtaining information on the financial statements for the first and third quarters, approving significant divestitures, evaluating internal controls and the Chairman's report, setting the Company's policy with regard to incentive plans for the Group's managers and corporate officers (stock options, free shares), a capital increase reserved to employees (the completion of which was suspended in 2008), the budget, the Company's financial communication policy and the 2008-2010 action plan.

Self-evaluation of the Board

Once a year, the Board is required to include a matter of business on its agenda providing for an evaluation and discussion of its operations for the purpose of improving its efficiency, ensuring that important issues are adequately prepared and discussed during Board meetings and assessing the actual contributions of each member to the Board's work.

In addition, the Board's internal rules and regulations provide that a formal evaluation of its operations must take place every three years for the purpose of ensuring that the Board complies with the principles governing its operations and studying proposals intended to improve its operations and efficiency. This evaluation can be conducted under the direction of an independent director and, if deemed necessary, with the assistance of an outside consultant.

The first formal evaluation of the Board of Directors was carried out during the first quarter of 2004 under the direction of the chairman of the nominations and compensation committee. The committee chairman conducted this evaluation by sending out a detailed questionnaire, which was completed by personal interviews with the directors. The responses were analyzed and then presented in detail to the Board of Directors at its meeting of June 22, 2004. At that meeting, on the basis of the report presented by the nominations and compensation committee, the Board of Directors also studied the performance of executive management. Based on that evaluation, the operations of the Board of Directors and its committees, as well as the performance of executive management, were found to be satisfactory overall. Nevertheless, a certain number of improvements were recommended. These included increasing presentations and exchanges concerning the Group's operating activities, providing additional information regarding competition, labor policies and research and development, and increasing the frequency of information regarding the Company's cash position, off-balance sheet commitments and risk management. The Board had considered the possibility of strengthening the accounts and audit committee, a measure that it implemented as of April 1, 2005, by appointing an additional member to the accounts and audit committee.

At its meeting of March 29, 2005, the Board of Directors reviewed the improvements made to its operations, in particular, the response to requests that directors be provided with more complete and frequent information.

At the Board of Directors meeting of December 12, 2006, one of the matters of business on the agenda was a review and discussion of its operations. The members of the Board concluded that, in general, there had been a clear improvement in the Board's operations since the first formal evaluation in 2004. Nevertheless, the directors expressed the desire to have more time to consider specific subjects (strategy, major acquisitions) in order to be more fully informed regarding the matters to be considered at Board meetings and to have the opportunity to prepare any questions they might wish to ask. They also recommended that a more in-depth discussion of the Company's strategy take place at least once a year, if possible with the participation of the heads of the Group's divisions, and that more time be devoted to this subject. Lastly, the directors requested presentations concerning the competition one or two times a year and an improved presentation of the Company's principal financial criteria compared with the same financial criteria or aggregates used by similar groups.

In accordance with the provisions of the Board's internal rules and regulations, in 2007, another formal evaluation of the Board of Directors was conducted, as well as an evaluation of the performances of the Chairman and the actions of executive management. This evaluation was conducted under the direction of the chairman of the nominations and compensation committee by sending out a detailed questionnaire to directors. The responses were analyzed and then presented to the Board of Directors at its meeting of December 19, 2007. In general, the responses of the directors again confirmed that a clear improvement in the Board's operations had been observed, in particular due to the implementation of the measures decided by its members after the formal evaluation carried out in 2004. The directors recommended that the composition of the Board be reconsidered with the goal of attaining a better distribution of seats among financial, industrial, business and female directors. The directors also requested more complete information regarding the implementation of certain Board decisions and regarding the progress of projects that had been presented to the Board. The Board suggested that it should spend more time on medium- and long- term plans, as well as on strategy. It also recommended that the jurisdiction of the Board's committees be reconsidered from time to time and that the committees themselves evaluate their own operations. The directors considered that the creation of the strategic, research, innovation and sustainable development committee was essential. Lastly, the directors requested more frequent contact with the executive managers and asked for more frequent reports on the cash position and indebtedness, as well as information on significant changes in the composition of the Company's shareholders.

In 2008, the Board considered the possibility of changing the procedures for evaluating the work of the Board's committees, in particular the accounts and audit committee.

Information Provided to Directors

The Chairman provides directors, in a timely manner, with the information necessary for them to fully perform their duties. In addition, the Chairman constantly provides the members of the Board with all significant information concerning the Company. Each director receives and has the right to request that he be provided with all information necessary to perform his duties, and can request additional instruction concerning the specificities of the Company and the Group.

In accordance with the requests of the members of the Board of Directors, executive management has given particular attention to increasing the speed with which directors are provided with documents relevant to Board meetings and all significant information concerning the Group's activities, as well as to providing directors with information between Board meetings.

In 2008, the Board of Directors, in particular through the reports of the accounts and audit committee, was informed from time to time of the Group's financial situation and cash position, as well as the Company's off-balance sheet commitments. Every six months, executive management provides directors with in-depth documentation regarding the activities, market trends, context and actions undertaken by the Group in accordance with the request expressed by the Directors following the evaluation conducted in 2005.

In order to perform their duties, the directors may meet with the principal officers of the Company and of the Group, provided the Chairman of the Board is given prior notice. As a result, the Executive Vice-President and the General Secretary attended Board meetings in 2008. From time to time, operating managers are invited to Board meetings to give presentations regarding their business sectors. One Board meeting in 2007 was specifically devoted to a presentation and discussion of the major components of Veolia Environnement's strategic plan, and the heads of each of the Group's divisions made presentations regarding the issues, priorities, forecasts and strategic development approaches of their respective divisions. In 2008, the heads of the water and environmental services divisions presented to the Board issues and action plans of their respective Divisions.

Obligations and Duties of Directors

The internal rules and regulations of the Board of Directors provide that the Board's members are subject to certain obligations, such as the duty to act in the Company's corporate interest, to inform the Board of conflicts of interest, including potential conflicts of interest, to refrain from participating in the vote on any decision in which they may have a conflict of interest, to comply with their obligation of professional confidentiality, and to comply with the Company's code of conduct regarding securities transactions. More specifically, the members of the Board of Directors are required to promptly inform the Chairman of all agreements made by the Company in which they have a direct or indirect interest or that is concluded by an intermediary.

In this regard, each director receives a "Director's Guidebook", which includes the following principal documents: the Company's articles of incorporation and bylaws, a summary of the powers of the Chairman and Chief Executive Officer, the Board of Directors' internal rules and regulations, the internal rules and regulations of the accounts and audit committee and of the nominations and compensation committee, the Company's code of conduct regarding securities transactions which contains the rules regarding directors' obligations to report transactions in the Company's securities, and the "Ethics, Belief and Responsibility" charter. As requested by the directors, this guidebook is updated periodically.

With respect to securities transactions, the directors are required to report to the AMF and to Veolia Environnement any transactions involving the Company's securities and to comply with the provisions of Article L. 621-18-2 of the French Monetary and Financial Code (*Code Monétaire et Financier*) (see § 17.6 *infra*).

Powers of the Board of Directors

In accordance with the law, the Board of Directors establishes the policies concerning the Company's business and supervises the implementation thereof. Subject to the powers expressly granted by law to shareholders' meetings and within the limits of the corporate purposes, the Board of Directors has the authority to consider all issues concerning the proper operation of the Company and, by its deliberations, resolves matters which concern the Board.

In addition to the powers conferred on the Board of Directors by the law, its internal rules and regulations imposes an internal requirement that certain major decisions of the Chief Executive Officer be submitted for the Board of Directors' prior approval. These internal limitations of authority are described hereinafter in the paragraph concerning the manner in which the Company's executive management is organized.

16.1.2 Organization of Executive Management

Termination of the Chairman and Chief Executive Officer's Employment Contract

The AFEP-MEDEF corporate governance code recommends that if an executive manager becomes a director of the company, his/her employment contract with the company or with a company of the same group should be terminated, either by applying the contract's termination provisions or by resignation. This recommendation applies to appointments as director made after October 6, 2008 and to renewals of appointments made before such date, subject to the Board of Directors' appraisal.

Currently, the Chairman and Chief Executive Officer is a party to an employment contract entered into in 1973 with Compagnie Générale des Eaux. This contract was transferred to Veolia Environnement on February 1, 2003 when Henri Proglio was chairman of the Company's management board and was suspended on April 30, 2003 when he was appointed Chairman and Chief Executive Officer of Veolia Environnement.

In accordance with these recommendations, the Board of Directors at its meeting of March 24, 2009 took note that Mr Proglio's employment contract shall be terminated in the event the general shareholders' meeting to be held May 7, 2009 renewed his term of office as director.

Consolidation of the Positions of Chairman of the Board of Directors and Chief Executive Officer

French law offers companies with a Board of Directors the possibility of separating the positions of Chairman and Chief Executive Officer or of allowing the same person to hold both positions.

As stated in the AFEP-MEDEF corporate governance code, the law does not favor either possibility, and it is the Board of Directors' prerogative to choose between these two methods of executive management, depending on the specific requirements of each company.

In accordance with the option chosen by the Board of Directors at its first meeting on April 30, 2003, the position of Chief Executive Officer of the Company is held by the Chairman of the Board of Directors.

The Board of Directors meeting that will be held at the end of the general shareholders' meeting of May 7, 2009 will be required to appoint the Chairman of the Board of Directors and the Chief Executive Officer and to vote on whether these positions should continue to be held by the same person or should be separated.

Limits on the Powers of the Chairman and Chief Executive Officer

The Chief Executive Officer has the broadest possible powers to act in the name of the Company in all circumstances. He is required to act within the limits of the corporate purposes, subject to those powers that the law expressly confers on shareholders' meetings and the Board of Directors. He represents the Company in its relations with third parties.

As an internal rule, the Chief Executive Officer is required to exercise his powers within the limits prescribed by the internal rules and regulations of the Board of Directors. Therefore, according to the Board decision of April 30, 2003 that appointed the Chief Executive Officer and defined his powers and the Board's internal rules and regulations, as amended by the Board of Directors meeting of July 17, 2007, the following actions of the Chief Executive Officer require prior Board approval:

- Establishing the Group's strategic policies;
- Group transactions involving amounts in excess of €300 million per transaction, with the exception of financing transactions;
- Financing transactions, regardless of the terms and conditions thereof, involving amounts in excess of €1.5 billion per transaction;
- Transactions in the Company shares involving more than 1% of the total number of the Company's shares.

Thus, in 2008, pursuant to these internal rules and regulations, in addition to the Group's strategic policies and the transactions requiring Board approval under the law and the articles of incorporation and bylaws, the sale of Clemessy and Crystal to Eiffage was also submitted for the Board's prior approval.

The Executive Committee

After the Company was converted into a *société anonyme* with a Board of Directors on April 30, 2003, and in accordance with corporate governance principles, the Chairman and Chief Executive Officer set up an executive committee, which includes *inter alia* representatives of each of the Company's four operating divisions. As of the date this reference document was filed, the Company's executive committee had eight members [18] :

- Henri Proglio (Chairman and Chief Executive Officer);
- Olivier Barbaroux (Executive Vice-President, Chairman of Dalkia);
- Antoine Frérot (Executive Vice-President, Chief Executive Officer of Veolia Eau – Compagnie Générale des Eaux);
- Denis Gasquet (Executive Vice-President, Chief Executive Officer of Veolia Propreté);
- Cyrille du Peloux (Executive Vice-President, Chief Executive Officer of Veolia Transport);
- Thomas Piquemal (Executive Vice-President in charge of finance)[19];
- Véronique Rouzaud (Chief Human Resources Officer);
- Alain Tchernonog (General Secretary).

The executive committee is chaired by Mr. Henri Proglio. This committee is a reflection, consultation and decision making body that deliberates on the establishment of the Group's major policies. In addition, it authorizes major Group projects, such as sales contracts and proposed investments, divestments or sales for amounts above certain thresholds.

In order to further enhance the Company's assessment and overseeing of projects, the Chairman and Chief Executive Officer created in 2008 an undertakings subcommittee of the Veolia Environnement executive committee, which he chairs, and which conducts an in-depth review of major Group projects that are afterwards submitted to the executive committee for final decision and to the Board of Directors, when applicable, depending on amounts at stake. The subcommittee includes the head of the Group division concerned by the project, the Executive Vice-President in charge of finance and the Company's General Secretary.

The executive committee meets approximately every two weeks.

16.2 OPERATION OF CORPORATE GOVERNANCE BODIES OF VEOLIA ENVIRONNEMENT

16.2.1 Committees Created by the Board of Directors

After the Company was converted into a *société anonyme* with a Board of Directors on April 30, 2003, the accounts, audit and undertakings committee and the nominations and compensation committee, and their respective internal rules and regulations, were retained and adapted to meet the requirements of the Company's new Board of Directors.

In addition, at its meeting of September 14, 2006, the Company's Board of Directors created the strategic, research, innovation and sustainable development committee.

16.2.1.1 The Accounts and Audit Committee

The duties of the accounts and audit committee, as described in its internal rules and regulations, were updated at the Board of Directors' meeting of May 11, 2006 to take into account changes in U.S. laws and regulations concerning the assessment of internal controls of financial and accounting information.

The duties of the committee were changed once again by the Board of Directors at its meeting of March 24, 2009 to take into account the Order (*ordonnance*) of December 8, 2008 that transposed the eighth directive on statutory audits of corporate financial statements into French law (Directive 2006/43/EC). That Order requires companies whose securities are admitted to trade on a regulated market to set up an audit committee and to comply with the rules now applicable to such committees, in particular, regarding their duties. Veolia Environnement acted in advance of the entry into force of these rules, which will be binding on the Company as of September 1, 2010.

The accounts and audit committee has three to five members appointed by the Board of Directors pursuant to a recommendation made by the nominations and compensation committee, chosen amongst non-executive directors. The Board appoints the committee chairman.

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[18] Jérôme Contamine has not been a member of the Company's executive committee since January 19, 2009.

[19] Thomas Piquemal joined the Company on January 19, 2009 as Executive Vice-President in charge of finance and has been a member of the executive committee since that date.

As of the date this reference document was filed, this committee has three members, (all of whom are independent under the criteria in the Board's internal rules and regulations [20]: Messrs. Murray Stuart (chairman), Jean-Marc Espalioux and Paul-Louis Girardot.

According to the internal rules and regulations of the accounts and audit committee, its members are required to be chosen on the basis of their financial or accounting expertise and one at least of its members simultaneously has to present a financial or accounting expertise and be independent under the criteria in the Board's internal rules and regulations. At its meetings held on March 5, 2004 and March 29, 2005, the Board of Directors deemed Messrs. Espalioux, Girardot and Stuart to be financial experts within the meaning of the U.S. Sarbanes-Oxley Act, on the grounds that they possessed the expertise and experience required by that law.

The accounts and audit committee meets at the initiative of its chairman or at the request of the Chairman of the Board of Directors, and at least five times a year, to review the periodic and annual financial statements before they are submitted to the Board of Directors. In 2008, the accounts and audit committee met seven times. In 2008, its members' average attendance rate was 85.7%.

Duties

The main duties of the accounts and audit committee are:

With respect to accounting matters, the committee, (i) together with the statutory auditors, reviews the relevance and consistency of the accounting methods used to prepare the consolidated and corporate financial statements and examines whether major transactions are adequately reported on a Group-wide level and the procedures applicable to the gathering of financial and accounting information; (ii) gives an opinion on the draft semi-annual and annual consolidated and corporate financial statements; and (iii) if necessary, interviews the statutory auditors, executive management and the financial officers; if the committee wishes, these interviews may be held without the presence of the Company's executive management.

With respect to internal audit, internal control and risk management, the committee (i) reviews the Group's annual internal audit plan and, from time to time, receives a summary of the Group's internal audit reports; and (ii) with respect to the evaluation of internal control procedures (Section 404 of the Sarbanes-Oxley Act), from time to time, the committee receives information from the Company concerning its internal control organization and procedures regarding financial and accounting information as well as concerning its risk management organization and procedures relating to financial and accounting information; if necessary, it meets with the internal control and internal audit managers and it gives its opinion on the manner in which their activities are organized; (v) receives from the ethics committee an annual report of the functioning of the whistleblowing procedure in connection with financial and accounting issues and ensures that significant cases are followed-up in coordination with the ethics committee.

Lastly, with respect to the statutory auditors, the committee (i) reviews the statutory auditors' annual planned work; (ii) interviews the statutory auditors and the managers in charge of finances, accounting and the cash position, in certain cases, without the presence of the Company's executive management; (iii) supervises the statutory auditors selection procedure and gives recommendations; it gives its opinion regarding the amount of fees requested by the statutory auditors; (iv) gives its prior approval to activities of the statutory auditors that are strictly ancillary or directly complementary to their audit of the financial statements; (v) is informed of the fees that the Company and the Group pays to the statutory auditor firm and network, and ensures that the amount of these payments or the portion they represent in proportion to the global revenues of the statutory auditors' firm or network does not call into question their independence and examines, when applicable, the measures taken to lower the risks that may affect the statutory auditors' independance.

Activities in 2008

In 2008, the work of the accounts and audit committee was organized on the basis of an annual program. Minutes of its meetings are prepared and the committee chairman reports thereon to the Board of Directors. In addition to reviewing the semi-annual and annual financial statements and the quarterly business reports, the committee periodically reviewed the action plans regarding internal control and the progress of the work undertaken by the Company in 2008 to evaluate its internal control procedures, in accordance with the provisions of section 404 of the Sarbanes-Oxley Act. The committee reviewed the summaries of the internal audits conducted in 2008 and approved the internal audit program for 2009. In addition, the committee reviewed with the Company's managers the key processes relevant to its duties: cash position and financing, off-balance sheet commitments, taxes, lawyers' reports concerning major litigations, IT, etc. The committee approved the duties of the statutory auditors for the 2008 fiscal year and the amount budgeted for their fees. The committee performed a financial review of the water, energy services and transportation divisions, examined the fraud reports as of December 31, 2007 and June 30, 2008 and the report on the work of the ethics committee, and executive management made a presentation regarding the procedures followed to plan for and control the Group's investments. Lastly, the committee undertook a study concerning improvements to the self-evaluation of its work.

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[20] All members of the committee are considered to be independent under the criteria set forth in the New York Stock Exchange Manual.

The committee may interview persons outside the Company if it deems such interviews of use to the performance of its duties. In addition, the committee may consult outside experts if necessary. It may also interview the Company's financial officers or the statutory auditors without the presence of the Chairman and Chief Executive Officer. Accordingly, during the past fiscal year, the chairman of the accounts and audit committee and/or the committee members interviewed and met with the Executive Vice-President, the manager of the finance department, the financial control manager, the Group's risks and internal audit managers, the General Secretary, the risks and markets manager and the statutory auditors. The committee did not use outside consultants in 2008.

16.2.1.2 The Nominations and Compensation Committee

In accordance with its internal rules and regulations, the nominations and compensation committee has between three and five members, who are appointed by the Board of Directors pursuant to a proposition of the nominations and compensation committee. The chairman of the committee is appointed by the Board.

As of the date this reference document was filed, this committee has three members, two of whom are independent (*) on the basis of the criteria in the Board's internal rules and regulations: Messrs. Serge Michel (chairman), Daniel Bouton (*) and Louis Schweitzer (*).

The nominations and compensation committee meets at the initiative of its chairman or at the request of the Chairman of the Board of Directors, and at least twice a year. In 2008, the nominations and compensation committee met two times. Its members' average attendance rate was 100 %.

Duties

The main duties of the nominations and compensation committee are:

With respect to compensation, the committee (i) studies and makes annual recommendations regarding the compensation of executive directors, the award of in-kind benefits, pension plans and other benefits, and gives its opinion regarding the compensation paid to the Company's principal officers and employees who are not also directors; (ii) proposes to the Board of Directors a total amount of directors' fees to be paid, as well as the rules for the distribution thereof; (iii) gives the Board of Directors its opinion regarding stock option plans and the granting of purchase or subscription options; (iv) is informed of the policies implemented by the other companies of the Group with regard to the compensation of their principal officers; and (v) examines all proposed capital increases reserved for employees.

With respect to nominations, the committee is charged with making recommendations regarding the future composition of the Company's management bodies and, most importantly, is responsible for proposing corporate officers and a succession plan. It recommends the appointment of directors, as well as the members and chairman of each committee, striving to ensure diversity in experience and points of view, while making certain that the Board of Directors retains the necessary objectivity and independence vis-à-vis any specific shareholder or group of shareholders.

The nominations and compensation committee strives to ensure that at least (i) one-half of the Board of Directors, (ii) two-thirds of the members of the accounts and audit committee and (iii) one-half of the members of the nominations and compensation committee are independent directors.

Each year, the nominations and compensation committee conducts a case-by-case evaluation of each of the directors with regard to the independence criteria as set forth in the Board of Directors' internal rules and regulations and makes recommendations on this subject to the Board of Directors (see § 16.1.1 *supra*). It organizes and coordinates the evaluation of the Board of Directors' operations and work and gives its opinion regarding executive management's actions and performance.

To carry out its duties, the committee may interview the Company's and the Group's executive management.

Activities in 2008

In 2008, the work of the nominations and compensation committee was devoted to making proposals and recommendations to the Board regarding the compensation of the Chairman and Chief Executive Officer (setting the variable portion of compensation for 2007, the fixed portion of compensation for 2008 and the performance criteria applicable to the variable portion of the 2008 compensation), the distribution of directors' fees to directors, and reviewing proposals concerning the compensation of the members of the Company's executive committee. The committee also submitted to the Board of Directors its opinion regarding the Company's policy on the granting of stock options and free shares and regarding the requests for authorizations submitted to the general shareholders' meeting of May 7, 2008 with regard to the Company's employee savings plan and the granting of stock options. Lastly, in 2008, the committee studied the Company's implementation of the AFEP-MEDEF's recommendations of October 6, 2008 regarding the compensation of corporate officers of listed companies and presented its first conclusions to the Board of Directors at its meeting of January 7, 2009.

16.2.1.3 The Strategic, Research, Innovation and Sustainable Development Committee

At its meeting on September 14, 2006, the Company's Board of Directors created a strategic, research, innovation and sustainable development committee and adopted its internal rules and regulations.

This committee has three to five members, who are appointed by the Board of Directors pursuant to recommendations made by the nominations and compensation committee. The chairman of the committee is appointed by the Board of Directors on the basis of a proposal made by the Chairman of the Board.

As of the date this reference document was filed, this committee had three members, who were appointed by the Board of Directors on September 14, 2006, two of whom are independent [(*)]: Messrs. Philippe Kourilsky (chairman), Paul-Louis Girardot (*) and Jean-Marc Espalioux (*).

In accordance with the committee's internal rules and regulations, this committee meets at the initiative of its chairman or at the request of the Chairman of the Board of Directors. It is required to hold at least three meetings per year. During the 2008 fiscal year, the committee met eight times. Its members' average attendance rate was 91.7%.

Duties

The duties of the committee are to assess the "research and development" and "sustainable development" strategies and policies proposed by the departments of the Company and Group responsible therefor and to provide its opinion thereon to the Board of Directors.

The committee must be informed of programs and priority actions undertaken and it evaluates the results thereof. In particular, it keeps abreast of budgets and staff levels and gives its opinion regarding the allocation of means and resources and whether they are appropriate in light of the strategic choices made.

The committee's main contacts are the Company's Chairman of the Board of Directors, executive management and executive committee, the Group's "research and development" and "sustainable development" departments, as well as any other manager within the Company who has information or opinions that may be of use to the committee.

The committee may also interview persons outside the Company if it deems such interviews of use to the performance of its duties. In addition, the committee may consult outside experts if necessary.

Activities in 2008

In 2008, the committee focused on reviewing the levels of innovation in the Group's business activities and the manner in which innovation strategy is elaborated within each division. The committee interviewed the heads of each division and the managers charged with cross-disciplinary support roles, such as Veolia Environnement's research and development. The committee presented a report on its work, which made several suggestions for improvements, to the Board of Directors at its meeting of January 7, 2009.

16.2.2 Bodies Created by Executive Management

16.2.2.1 The Disclosure Committee

The disclosure committee was created by the chairman of the management board and the Company's chief financial officer on December 11, 2002, the date on which the proposal to create such committee and its functioning were submitted to the Company's management board. The meetings of the committee are chaired by the Chairman and Chief Executive Officer.

In addition to the Chairman and Chief Executive Officer, the members of the disclosure committee are the members of the Company's executive committee, the Company's chief financial officer, the finance managers of each division and the managers of the Company's major departments.

According to its internal rules and regulations, the principal duties of the disclosure committee are to oversee the implementation of internal procedures for collecting and verifying information to be made public by the Company, to define the procedures for preparing and drafting reports and communications, to review information communicated and to approve the final version of draft reports and communications, in particular Form 20-F, that are to be filed with the French and U.S. stock exchange authorities, as well as to review the manner in which they are published, filed or registered.

The disclosure committee meets as often as is necessary to perform its duties and, in any event, at least twice a year. It meets before the end of each year to organize and initiate the process of drafting the reference document and Form 20-F for the past fiscal year, and it meets again before Form 20-F is filed with the U.S. Securities and Exchange Commission (SEC) in order to approve said report. If necessary, the committee may meet before the announcement of any significant events.

The disclosure committee met twice in 2008. At its meeting of April 30, it reviewed the procedures followed in preparing and approving Form 20-F before it was filed with the SEC on May 7, 2008, as well as the certificates required to be provided by the Chairman and Chief Executive Officer and the Executive Vice-President in accordance with U.S. stock exchange regulations. At its meeting of November 25, 2008, the disclosure committee principally reviewed recent regulatory developments that could have an impact on the communication and publication of information intended for the market, in particular through the reference document and Form 20-F, and initiated the process of collecting information and preparing the annual reports for the 2008 fiscal year.

16.2.2.2 The Ethics Committee

The ethics committee was created by Veolia Environnement's executive committee in March 2004 (see also Chapter 4, paragraph 4.4 *supra*). It has three to five members who are chosen by the Company's executive committee. The committee elects a chairman from among its members. The chairman has no more powers than the other members, except the power to break a tie in the event of a tie vote.

As of the date this reference document was filed, the committee has three permanent members and one alternate. The committee's members are present at the Company on a daily basis.

Membership on the committee is open to employees, former employees or persons outside the Company. Members are chosen from among applicants who are familiar with the Group's businesses and who have a professional position that guarantees the independent judgment and perspective necessary for the position.

The committee's decisions are made by a majority vote. Its members are subject to a strict confidentiality obligation and are not authorized to disclose the position they hold. To guarantee their ability to exercise their judgment objectively, they receive no instructions from the Company's executive management and they cannot be dismissed during their term of office (which is four years and which can be renewed).

The committee may seek assistance from designated contact persons within each division. This local presence will be particularly important in 2009 in the context of the appointment by the Company of managers with geographical responsibilities.

In accordance with its internal rules and regulations, the duties of the ethics committee are to make recommendations regarding the fundamental values of Veolia Environnement concerning subjects it has chosen itself or in response to questions presented to it.

Accordingly, in 2008, the committee launched a major review of labor standards within the Group, which will lead *inter alia* to visits to countries where labor is less well protected than elsewhere.

In order to stay closely informed of the Group's operations, the committee seeks to increase its contacts with all groups of persons that may benefit from its services. These contacts range from attendance at certain seminars in France or outside France that gather certain targeted groups to individual interviews.

In 2008, on an experimental basis, the committee also set up meetings with each member of the Company's executive management. The committee now plans to hold these meetings every year.

The ethics committee may carry out "ethics audits" with regard to any of the Group's operations, in France and outside France. The principal purpose of such audits is to assess, through individual interviews with a sample that is as representative as possible of the site visited, the level of employees' understanding of ethics issues, their familiarity with the Group's values, the ethical problems they may encounter, and the training they receive from their supervisors or provide to their employees on the subject.

Furthermore, the ethics committee is the body that receives and investigates alerts by Group employees regarding breaches of the code of conduct, in particular those in the Group's "Ethics, Belief and Responsibility" program. This is known as the "whistleblowing" procedure. The committee has all necessary authority to perform these duties. It can interview all employees of the Group, the statutory auditors and any third party. It can also request the assistance of Veolia Environnement's internal audit department or use the services of outside experts. It has access to all sites or companies of the Group.

In 2008, as in previous years, the committee received few major alerts concerning ethical issues. The committee has noted that there is a significant difference between Anglo-American countries, where this system operates without difficulty, and the rest of the world, where this procedure is not a part of their culture. Therefore, the committee has initiated an internal communication program to make its role better known and to inform all Group employees of their right to bring a matter before the committee if all natural problem resolution ways have already been tried unsuccessfully.

As it does every year, in 2008, the committee reported on its work to the accounts and audit committee and to the executive committee, describing matters on which it was satisfied and areas in which future action was desirable.

17 EMPLOYEES – HUMAN RESOURCES

17.1 HUMAN RESOURCES POLICY

At the end of 2008, Veolia Environnement had 336,013 employees, an increase of 5.2% compared to 2007. This increase reflects the international development of the Group, the activities of which are firmly established abroad. Veolia Environnement is a leading provider of environmental services and intends to continue the deployment of its corporate model in the countries in which it is based.

Ensuring that new employees are integrated and retained is therefore a key strategic aspect of the Group's human resources policy. As an extension of the principles that were adopted several years ago, Veolia Environnement is continuing its efforts to offer all new employees sound training that is specific to each occupation, which makes it possible for them to become professionals in their field of business and to create opportunities for themselves to progress throughout their career. This training is also intended to develop their sense of service and to enhance the contribution they make, at their level, to the provision of essential needs, the preservation of the environment and the well-being of the public.

One of the means of developing this sense of service is through work-study programs. This type of training has become a standard method of recruitment in the various Group entities. In France, the "Veolia Skills" program, which started in 2005, illustrates the Group's commitment to put this approach into practice through apprenticeship or work-and-training contracts.

With the support of Campus Veolia Environnement and the development of its network in France and abroad, this ambitious commitment to skills development is at the heart of Veolia Environnement's training policy. In order to continue the expansion of this policy and to extend the capacity of courses, steps have already been taken to open new regional Campuses in France and in other countries. This new stage in training development will make it possible to continue spreading the corporate model that Veolia Environnement wishes to develop, while making every effort to take into account the cultural and political realities of each country.

Over and above this pro-active approach to developing professional skills, the Group's human resources policy is built around strong themes that aim to combine job preservation, personal growth and economic performance, despite the uncertainties generated by the economic crisis.

Safety remains a major concern and the Group is tirelessly pursuing its efforts in this area, while also helping its employees to stay in good health. Moreover, increasing diversity and promoting equal opportunities are key issues for maintaining growth and upholding Veolia Environnement's commitment to cohesion and teamwork.

Developing career paths and mobility, encouraging labor-management dialog at all levels and using social engineering know-how are all positive measures that convey the Group's values in all the countries where it does business.

Finally, employee well-being is addressed through suitable living conditions and an equitable compensation policy that rewards employees' individual efforts and takes into account the company's performance.

17.1.1 Understanding the social reality of the Group as a whole

Only sound knowledge of social reality and operational practices makes it possible to manage human resources consistently. The Group uses a worldwide network of more than 600 correspondents who collect, process and consolidate 160 social indicators.

A dedicated software package is used to ensure that this process is reliable and to validate the data, which is then analyzed by geographical zone, by country and by type of activity. The objective, accurate evaluation of the human resources performance of each entity over time is guaranteed by the stability of the chosen indicators.
Veolia Environnement is incidentally ranked as one of the leading CAC 40 companies in terms of the thoroughness and quality of its human resources data.

Specific attention is paid to five parameters:

- employee loyalty;
- reducing absenteeism;
- safety of working conditions;
- reducing temporary labor (fixed-term contracts and temporary workers);
- the development of vocational training and of skills.

These are the key tenets of the human resources policy that is driven by Veolia Environnement general management, to which it has asked Veolia entities to devote their efforts in terms of steering.

Analysis and internal surveys are also conducted in order to improve the steering of the human resources policy in the years to come:

- identify recurring trends through analyzing changes in the indicators over the last three years;
- compare data from Veolia Environnement and its subsidiaries with public statistics from the corresponding business sectors (initially in France);
- analyze the results by profession and by country;
- highlight the specificities of each activity or the specific contexts of certain countries;
- define paths for progress in the coming years, by adapting, where applicable, the objectives by profession and by country.

This method of evaluation and performance steering is based on a common framework of performance objectives, which is personalized in light of the specificities of local occupations and contexts (e.g. practices, legislation, regulations and social security). The analyses and surveys will be continued in order to refine the method over time.

In order to anticipate changes in skills and professions, the Group is enhancing its system for the description and management of human resources, through mapping of jobs and skills across the board, and through a unified system for classifying its managers.

17.1.2 Encouraging employee integration and career development

In a context where available talent on the market is becoming increasingly scarce, Veolia Environnement strives to attract and train the best employees in all the socio-professional categories of its professions and in all countries where the Group is present. The ultimate goal is to offer candidates career paths that will add to their vocational skills, regardless of their age and initial training. This also means giving each employee the possibility of developing theirs skills throughout his or her career.

Continuance of the “Veolia Skills” approach

Veolia Skills is a recruitment program that was launched in France in 2005 in order to anticipate business growth and changing qualifications. The program is open to internal and external candidates, of all ages and qualifications.

External candidates benefit from apprenticeship or training contracts in order to receive work-study training over 9 to 24 months. If the training is completed successfully, the candidates are awarded a diploma (ranging from a CAP (vocational skills certificate) to a Master’s degree) and the offer of an indefinite-term employment contract.

Since it was launched, this operation has made it possible to hire around 14,000 persons.

The program has also benefited internal candidates, who have been offered Skills Development Contracts or work-study periods in order to progress within the Group. These types of mobility show how the framework agreement is being implemented to develop skills.

As an extension of this approach to recruiting, and using the information obtained from the buses that went out to present environmental professions and meet candidates, Veolia Environnement has adopted a new strategy that aims to strengthen liaison and links with employment and training partners: the ANPE, training organizations (e.g. GRETA and AFPA), local initiatives, recruitment agencies, information points for young people, chambers of commerce and industry and local elected representatives. The meetings and workshops organized in the last quarter of 2008 highlighted the incomplete view certain people have of professions in the environment sector: the recruitment partners do not have all the concrete information (salaries, tasks, hours, workplaces, etc.) that make it possible to guide the public more efficiently and to overcome the negative image that is often linked to certain professions, even if they are aware of some of the positive aspects such as convenient locations, contribution to society and job security.

In 2009, to change this perception and raise public awareness, field communication operations will be organized to help the public and regional authorities learn more about professions in the environment sector by mobilizing Group employees, who will give a concrete presentation of their occupations.

Career paths diversified by mobility

In order to enrich its employees’ professional paths throughout their careers, for a number of years Veolia Environnement has invested in internal mobility for its staff categories. These internal paths are encouraged by the publication of position offers on the mobility intranet.

Internationally, the mobility policy is built on three principles: common expatriation rules for all the subsidiaries, “expert” partners (tax, labor law, social security, repatriation and assistance for families) and decentralized mobility management, in accordance with the corporate culture.

Making these types of expertise available has resulted in an increasing number of mobile managers. Indeed, at the end of 2008, the Group had 845 internationally mobile managers in 82 countries, which represents an increase of 19% in one year.

The international mobility system is completed by 163 *Volontariat International en Entreprise* (International Corporate Volunteer or "VIE" contracts) signed by young graduates.

17.1.3 Develop employee skills and professional progress

In order to maintain its position as a world leader in its sector of environmental services and reinforce the quality and technical excellence of its services, Veolia Environnement depends on its prime resources: skilled employees. To develop employee skills in the constantly changing environment of its business sectors, the Group has entrusted Campus Veolia Environnement with the organization of an ambitious training policy that is based on the following guiding principles:

- ensure that Group employees are as professional as possible in their profession and working environment, by emphasizing the experience they have acquired to clients;
- organize the transfer of know-how within companies;
- support the policies of professional mobility and career development;
- strengthen the corporate culture that surrounds the environmental services profession by promoting potential synergies (high value-added for Group clients) and team work.

Campus Veolia Environnement: a benchmark for training

Campus Veolia Environnement is the expression of Veolia's desire to be a reference in the field of vocational training. The Campus is responsible for implementing and organizing the training policy, and regroups in a single location the various Group training departments and trains employees and apprentices in skills that are specific to its four business segments. Campus Veolia Environnement can simultaneously host hundreds of apprentices, and award seventeen diplomas, from the CAP (vocational skills certificate) to a Master's degree, via its Apprentice Training Center (CFA). The Campus is a genuine benchmark in the field of ongoing, vocational training and its platforms and simulators reproduce employee tools, processes and working conditions.

In response to worldwide growth that involves human, commercial and financial issues, making sure that the know-how of the Group's employees is aligned with changes in its business segments and the diversity of local contexts has become a necessity. This is why the training offered by Campus Veolia Environnement is being constantly adapted.

Tasks and governing principles

Training is open to all employees, throughout their careers. Campus Veolia Environnement offers initial training through work-study programs, as well as ongoing training. The Campus makes it possible to obtain a recognized diploma or qualification. Its training courses are taught using real-life situations to encourage understanding of the profession, the demand for quality service and employee autonomy.

With 450 Group professionals, internal skills are mobilized, which encourages teaching through a combination of work and study. The concept of joint investment by the employee and the company is particularly emphasized.

An international network built on a tested model

Campus Veolia Environnement coordinates the international training network, which is structured over the five continents. This network already federates 18 campuses in 11 countries. This network makes it possible to implement and adapt training programs and take appropriate action that is aligned with the specificities of the region, countries and divisions concerned. To ensure the consistency and homogeneity of this deployment, local trainers benefit from the guidance of Campus Veolia Environnement quality training standards. Moreover, efficient relations are maintained with universities, top graduate schools and research centers.

As a complement to the Jouy-le-Moutier site and as part of a logical move to bring employees closer together while maintaining a strong regional presence, five regional Campuses (North West in Lille, Central Eastern in Lyon, South East Marseille, West in Nantes and South West in Tarbes) opened in 2008.

The year was also marked by the strengthening of international Campuses (Czech Republic, Morocco, United Kingdom, United States, Germany, Israel and the Middle East).

17.1.4 A permanent requirement: employee health and safety

The health and safety of Veolia Environnement employees are closely linked to several factors:

- working on public roads;
- being faced with antisocial behavior in vehicles;

- working conditions that are sometimes risky on certain sites or the facilities of some corporate clients;
- tasks that require a certain amount of physical labor.

Each Veolia Environnement Division and each subsidiary are vigilant in terms of monitoring the frequency and severity of accidents in the operational management of their business activities.

In addition to constant work to improve safety materials and individual equipment, several priority safety measures have been implemented:

- one-quarter of each employee's information and training is devoted to health and safety, in order to prevent occupational accidents;
- preventing risks well upstream involves identifying and evaluating these risks; for example, particular attention is paid to the risks linked to the use of chemicals, for example, within the context of the European REACH regulation;
- as part of the 3,068 structures that are dedicated to health and safety, the network of safety officers has been reinforced in order to develop labor-management dialog on these issues;
- supporting employees who have suffered occupational accidents, both during their absence and when they return to work.

The Veolia Environnement executive committee declared that year 2008 would be "World Safety Year for Veolia Environnement". This initiative is centered on the prevention of occupational risks, health and safety as the logical continuance of an approach to extend health and safety measures internationally and to capitalize on existing practices.

Four priority actions were started in 2008, backed up by a communication plan:

- the implementation of manager road maps (quantitative data, current situation review, performance targets and plans for future actions),
- the deployment of Group standards, which define the mandatory absolute minimum of Group requirements for occupational health and safety, self-evaluation and audit,
- the deployment of a common information system to record and consolidate information on accidents (Acciline software) in order to obtain improved analysis of the causes and evaluate the risks;
- the development of employee skills on safety issues (tutoring and safety orientation following recruitment, use of a common core health and safety syllabus for training programs).

On December 9, 2008, the Veolia Environnement CEO and all the Group Committee unions in France signed a framework agreement on the prevention of occupational risks, and on occupational health and safety. This agreement, which is the result of joint work carried out within the France Group Committee for around 12 months, aims to strengthen Veolia Environnement's occupational risk prevention policy. Six priorities are highlighted in this agreement:

- encourage liaison and collective prevention initiatives in the area of occupational health and safety by associating the structures that are concerned with these matters by law, such as the Committee on Health, Safety and Working Conditions;
- identify occupational risks more accurately, measure these risks more accurately and manage them in order to reinforce prevention;
- include occupational health and safety in the professional training of all employees, in particular through training programs and professional meetings;
- facilitate access to healthcare and increase responsibility among all staff with regard to their health and their safety;
- encourage career paths that prevent future unemployability, in order to make health part of skills management;
- encourage better health-safety balance between professional and private lives.

Veolia Environnement has set up a "Prevention, Occupational Health and Safety" department that is responsible for steering the various networks and coordinating the analysis and projection work. A monitoring commission has also been created within the Group Committee. In particular, its assignment will be to monitor the implementation and compliance with the principles laid down in this agreement, as well as the promotion of best practices. It is intended for this agreement's principles to be deployed in Veolia Environnement companies both in France and abroad.

17.1.5 Build and maintain relationships of trust with employees

Labor-management dialog that starts when employees arrive and are integrated

In France and throughout the world, Veolia Environnement is continuing its external growth through several types of transaction, including mergers and acquisitions, the creation of joint subsidiaries with other industrial partners, and PPP contracts signed with local and regional government authorities.

In all cases, the employees, who are the players in service professions, are one of the key success factors.

The challenge is to transfer and integrate the existing personnel into an approach that aims to achieve progress at every level of the business and at all stages of employment. This concerns the employee position characteristics, as well as training, the capitalization of know-how, the transfer of skills, as much as compensation and employee benefits. This amounts to building a new corporate project based on Veolia Environnement's values, while taking into account the existing project.

Veolia Environnement's human resources policy for these types of business combination is based on the conviction that the identification and valorization of talents and skills is a pre-requisite for motivating managers and improving performance.

Systematically taking into account the local context, mentalities and teams in place is at the heart of the Company's strategy. The Company's social engineering expertise and the management of human resources in this area are success factors for all these growth and integration operations.

Group committees to structure and strengthen labor-management dialog

For the Group's local services, which are fundamental to Veolia Environnement's business, labor-management dialog is initiated in business units that are as close to the employees and the working environment as possible. It is within this framework that labor and management representatives are best able to provide appropriate solutions in the areas of organization and working conditions, skills development and rewarding each employee's individual efforts.

The Veolia Environnement labor-management dialog venue has three levels:

- the first level, that of the Company, remains the natural negotiating venue;
- the second level, that of the country, regroups joint commissions for information and dialog that cover all the national themes;
- the third level, on a European scale, informs and consults employees throughout Europe.

Two Group Committees were set up: one in France in 2003, then one at European level in 2005. These Committees met regularly in 2008, with each holding a plenary session and meetings at the level of their respective offices.

As part of an approach to continually improve labor-management dialog, a self-evaluation was performed in 2008 by the European labor and management representatives on the quality of labor-management dialog in each of the 22 countries represented, covering more than 220,000 employees, i.e. 2/3 of the Group headcount.

Employee representatives from each of the countries presented this self-evaluation during a full session.

This approach gave rise to discussion and debate and was used as a basis by the European Office and the Group Labor-Management Dialog Division to sort the countries into three groups: countries with best practices, countries where the structures are in place but require various improvements and countries that encounter difficulties.

Beyond this initial analysis, the European partners have defined shared action plans while involving the management of each country that is responsible for dialog venues and the human resources structure of the Divisions.

Promote diversity and fight against discriminations

The Group has a duty to take into account three essential groups of data:

- cultural diversity, which is linked to the diversity of its employees, with over a hundred nationalities;
- economic diversity, which is associated with having several business segments;
- social diversity, which is a result of doing business in many different countries.

These three dimensions are a source of riches that requires careful attention, as well as coordinated reflection on the guiding principles of the Veolia Environnement diversity policy.

In 2007, an extensive program of internal work was undertaken with two aims:

- produce a diagnostic review of behavior and practices in the Group and its subsidiaries;
- generate a base of common values that preserve the Group's identity and respect the diversity of its environments.

This program, which involves numerous stakeholders (executives, human resources directors, operators, labor and management representatives, ethics committee, experts, clients, users, etc.), has strived to produce an in-depth diagnostic review, which is both quantitative (statistics taken from reporting and specific surveys) and qualitative (evaluation of Group behavior and practices). Several ways forward have been identified: keeping disabled workers in jobs and hiring more disabled workers, access to certain professions and management positions for women and making management teams more international.

This approach was put into practice through the launch of a "2008-2011 Diversity and Equal Opportunities Plan" that emphasizes equal opportunities, sound diversity management practices and minimum social standards.

In France, to support the most vulnerable employees in an inhospitable economic context, an Active Solidarity Plan was launched in liaison with the France Group Committee. A series of joint provisions that aim to deal with the most difficult personal situations was adopted to:

- Facilitate access to proper housing for all employees;
- Respond to individual difficulties linked to the increase in transportation costs;
- Improve the social security of the employees who are most exposed and most in need;
- Set up an emergency social unit for employees in order to respond to individual urgent situations.

This plan must be implemented on an international scale, on the basis of the same solidarity principles, while ensuring that the ways in which the plan and the actions are implemented take into account each local context.

17.1.6 A consistent, competitive compensation policy

Veolia Environnement applies a global compensation policy, which is consistent with the company's results and includes the following components: salaries, social security and employee savings. This policy is based on the following principles:

- guarantee competitive compensation that is in line with local market practices;
- offer equitable compensation, which takes into account and rewards individual efforts;
- increase social security (health, disability and life insurance);
- minimize the risk associated with the existing systems for paying entitlements or pensions in the various countries where we do business;
- open access to employee savings.

The increase in life expectancy, the rise in healthcare costs and the retirement of the "baby boom" generation will have a lasting effect on the balance of social security systems. In certain countries, following the abandonment of public social security systems, economic stakeholders have a duty to provide health, benefit and pension cover for their employees.

As a result of its international dimension, the Company must take these factors into account and ensure that it:

- complies with local legislation and implements complementary social security systems in order to guarantee high quality coverage for all its employees;
- guarantees the competitiveness of the company by limiting benefit obligations that fall within the scope of IAS 19;
- finances benefit systems by employer and employee contributions, so that each party assumes responsibility.

At December 31, 2008, Veolia Environnement's benefit obligations represented €1.7 billion, a decrease of 11% compared to the end of 2007, which is essentially due to currency exchange effects (fall in sterling pounds) and changes in actuarial assumptions, in part offset by the increase in the obligation linked to the impact of the French Labor Modernization Act on career-end indemnity obligations in France, mainly on Dalkia. Pension schemes with defined benefits account for a little over 60% of this amount. Other obligations are mainly career-end indemnities, medical coverage for retirees, length of service reward payments and contract termination indemnities. These obligations exist in around 45 countries.

For Veolia Environnement, the development of employee shareholding is a strategic objective. Since 2002, the Group has offered several capital increases to its employees in order to associate them more closely with the company's performance and to retain them (cf. §17.5.2 *infra*). In 2008, in a context of uncertainty and lack of visibility regarding stock market developments, Veolia Environnement decided to defer the launch of the capital increase reserved for employees that was scheduled for the end of 2008. The process will be resumed as soon as the Company sees a return to stability on the markets.

17.2 HUMAN RESOURCES INFORMATION ("NRE" LAW) [21]

The human resources information given below has been taken from the international database that Veolia Environnement has been developing since 2001. This database includes, for all Group companies that are fully or proportionally consolidated, and located in all the countries where the Group has employees, around 165 human resources indicators, i.e. more than 200,000 pieces of data per year sorted by company, country and geographical area, throughout the world.

The main indicators are presented below under different subheadings. Some figures should be interpreted with caution, in particular averages, since the figures below comprise worldwide data that requires more detailed analysis at the level of the geographical areas, countries or divisions concerned.

Total headcount

At December 31, 2008, the total headcount was 336,013 employees, compared to 319,502 at December 31, 2007, an increase of 16,511 (+5.17 %). The table below shows the breakdown of the headcounts managed by Veolia Environnement, by Division and by geographical area.

Area	**Water ***	**Waste Management ***	**Energy Services**	**Transportation**	**Total**	**%**
Europe	58,579	71,461	40,500	61,745	233,142 **	69.38%
of which France	*30,255*	*38,194*	*14,908*	*31,693*	*115,907 ***	*34.49%*
North America	3,785	10,918	624	14,653	29,980	8.92%
South America	4,855	7,759	7,034	1,914	21,562	6.42%
Africa/Middle East	7,994	8,946	1,416	516	18,872	5.62%
Asia/Pacific	18,220	6,183	3,228	4,826	32,457	9.66%
TOTAL	**93,433**	**105,267**	**52,802**	**83,654**	**336,013 ****	**100%**
%	28%	31%	16%	25%	100%	

* Proactiva's employees (11,039 persons) have been divided according to the activities of the companies concerned, between Water (3,795 persons), and Waste Management (7,244 persons).

** This number includes, for France, 857 persons who work at the Company headquarters (VE SA, VERI and VEIT), at the Centre d'Analyses Environnementales and on Campus Veolia Environnement.

At December 31, 2008, 34.49% of the Veolia Environnement total headcount was located in France, 34.89% in the rest of Europe, 9.66% in the Asia/Pacific region and 20.96% in the rest of the world.

Headcount breakdown by type of contract and by category

Among the 336,013 employees managed by the Company at December 31, 2008, 312,388 (93%) held indefinite-term contracts and 23,625 held fixed-term contracts. During 2008, 7,506 fixed-term contracts were converted into indefinite-term contracts (31.8% of fixed-term contracts). Among the employees managed by Veolia Environnement at December 31, 2008, 27,974 (8.3%) were managers (*cadres*), and 308,039 were non-managers. The headcount comprised 72,072 women, representing 21.4% of the total number of employees.

In France, among the 116,198 employees managed at December 31, 2008, 109,375 (94.4%) held indefinite-term contracts and 6,823 held fixed-term contracts. During 2008, 2,847 fixed-term contracts were converted into indefinite-term contracts (41.7% of fixed-term contracts). Among the employees managed by Veolia

[21] French Law no. 2001-420 of May 15, 2001 on new economic regulations ("NRE" Law).

Environnement, 13,024 (11.2%) were managers, and 103,174 were non-managers. The headcount comprised 27,635 women (23.8%).

Weighted average annual headcount

This headcount corresponds to the equivalent number of employees Veolia Environnement would have if these employees had all worked full time throughout the year. It is calculated by weighting the total headcount against both the employment rate and the amount of time worked by each employee. In 2008, this headcount was 309,917.42 employees, of whom 291,210.4 (93.9%) held indefinite-term contracts.

In France, the weighted average annual headcount in 2008 was 108,255.87 employees, of whom 102,194.18 (94.4%) held indefinite-term contracts.

Consolidated, weighted average annual headcount

This figure is calculated by weighting the average annual headcount of the consolidated companies against their level of financial consolidation. In 2008, the consolidated, weighted average annual headcount was 297,965 employees.

Hires

In 2008, 53,764 employees were hired under indefinite-term contracts and 25,580 [22] under fixed-term contracts.

The percentage of the headcount employed under fixed-term contracts, expressed as an average headcount on an equivalent full-time basis, represented 6% of the average headcount on an equivalent full-time basis of the entire personnel.

In France, in 2008, 14,065 employees were hired under indefinite-term contracts, including 1,628 managers, and 14,852 under fixed-term contracts [23], i.e. 51.4% of the total hires. The equivalent full-time headcount of all the employees who hold fixed-term contracts corresponds to 6% of the total.

Departures

In 2008, the total number of departures reached 75,657, including 10,355 individual dismissals and 923 as part of layoffs.

In France, the total number of departures in 2008 reached 28,325, including 2,910 individual dismissals and 306 as part of layoffs.

Overtime

The total number of overtime hours worked in 2008 was 27,754,015.85 (an increase of 16.8% compared to 2007), or an average per employee of 82.6 hours of overtime per year. However, the definition of overtime varies from country to country, which sometimes makes it difficult to evaluate such an indicator. Moreover, in a services business, a large number of overtime hours are due to emergency work performed by on-call or on-site personnel, for example to restore water supplies or heating within a reasonable period of time.

In France, the total number of overtime hours reached 3,975,716.88, which corresponds to an average of 34.22 overtime hours per employee, per year.

Labor from outside the Company

The headcount of temporary workers (full-time equivalent) was 13,892.82, which represents 4.5% of the total full-time equivalent headcount.

In France, the headcount of temporary workers (full-time equivalent) was 6,778.66 (6.3% of the total full-time equivalent headcount).

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[22] Not including hires converted into indefinite-term contracts (7,506 throughout the world).

[23] Not including hires converted into indefinite-term contracts (2,847 in France).

Information on planned employments reductions and employments protection schemes, redeployment efforts, rehires and support measures

Variations in Veolia Environnement's perimeter result in employees being transferred, without their contracts being terminated. The limited number of restructurings that were implemented in 2008 most often corresponded to a loss of markets or to a reorganization that was vital for certain business units. These operations were always carried out not only in compliance with the legislation and in consultation with labor and management representatives, but also and for the most part by giving priority to internal redeployments within the Group.

Organization and duration of working time, absenteeism

The ways in which working time is organized depend on the companies concerned, the nature of their business, where they are located and are defined in order to best meet the requirements of the department to which the employees are assigned and the employees' preferences. Although working time is most often based on equivalent daily working time, work schedules may vary considerably (for example, the work may be spread over 4, 5 or 6 days a week, punch-in and punch-out times may be shifted, flextime may be used, as well as alternate short and long workweeks, and working time may be calculated over the year).

The average workweek is 38.6 hours (compared to 40 hours in 2007).

The headcount of part-time employees (full-time equivalent) was 17,217.57 in 2008, or 5.5% of the full-time equivalent headcount.

Employees with indefinite-term contracts were absent on a total of 3,743,205.15 working days in 2008, of which 2,495,776.62 days of absence were due to sickness (66.7% of the total) and 351,159.55 days were due to occupational accidents not involving commutes (9.4% of the total). The remainder were due to absences for family events, maternity, etc. This corresponds to an absenteeism rate of 5.7%, which is stable compared to 2007.

In France, the average workweek is 35.5 hours. The headcount of part-time employees (full-time equivalent) was 8,353.11 in 2008 (7.7% of the total full-time equivalent headcount). The total number of working days on which employees were absent reached 1,747,712.25 in 2008, including 1,165,434.12 days of absence for sickness (66.7% of the total) and 221,225 days (12.6% of the total) were for occupational accidents not involving commutes.

Compensation, social security charges and gender equality

The average annual gross compensation for all employees, throughout the world, was €26,106.67 in 2008.

These averages are only indicative and should be interpreted with caution, inasmuch as they correspond to a wide diversity of situations, due to the nature of the business conducted and work performed, as well as the geographical location of the employees.

Social security charges represented 30.1% of the total cost of employment (this rate was 30.4% in 2007). Gross average compensation paid to male employees was €26,995.81 (€26,785.88 in 2007) and that paid to female employees was €22,337.03 (€22,823.06 in 2007), i.e. a difference of €4,658.78 (17.3 %). This difference is mainly due to the nature of the work performed and the demands of this work, as well as the differences in age, seniority and qualifications that are often observed between populations. Veolia Environnement's policy is to respect equality between men and women who have the same employment conditions and qualifications.

In France, the annual average gross compensation paid to all employees reached €29,783.53 in 2008. The average gross compensation paid to male employees was €30,607.83 and that paid to female employees was €26,627.22, a difference of €3,980.61 (13%). The rate of social security charges was 45.2% of total employment costs.

Ratio between average compensation and average minimum wages

This indicator makes it possible to perform an improved comparative evaluation of the levels of compensation compared to the minimum wages that are guaranteed or practiced in each country and, as a result, compared to the minimum level of resources of the employees in these countries. Last year this ratio was 2.2, and is stable in 2008 in the 19 countries studied where there is a statutory minimum wage and where two-thirds of Veolia Environnement employees work (their average weighted salary of €28,340 is equal to 2.2 times the average statutory minimum wage in these countries, i.e. €12,414).

Optional and mandatory profit-sharing

In France, in 2008, the total amount paid in respect of optional profit-sharing was €62,361,750.60 (€59,386,297 in 2007) and the amount paid in respect of mandatory profit-sharing was €68,139,126.99 (€61,263,468 in 2007). The total amount of optional and mandatory profit-sharing represented €130,500,877.59, or 4.0% of the total cost of employment (€120,649,765 in 2007).

Labor relations and overview of labor-management agreements

- Number of labor-management agreements: 1,606 labor-management agreements were signed, including 846 agreements on compensation, 184 agreements on health, safety or working conditions, 287 agreements on labor-management dialog and 289 agreements on other subjects or that regrouped several subjects.
- Number of employee representatives: 16,471.
- Number of labor-management agreements signed in France: 554 labor-management agreements were signed, including 363 agreements on compensation, 43 agreements on health, safety or working conditions, 76 agreements on labor-management dialog and 72 agreements on other subjects or that regrouped other subjects.
- Number of employee representatives in France: 10,080.

Health and safety conditions

The definition of an occupational accident varies from country to country. Indeed, while in some countries only accidents that cause more than 2 or 3 days of absence from work, or even more in some cases, are deemed to be occupational accidents, the Group has chosen a common definition for all countries and all of its subsidiaries, namely all occupational accidents, not involving commutes, that caused at least one day of absence from work. In 2008, the number of occupational accidents, not involving commutes, resulting in at least one day of absence from work was 11,471 (down 3.2 % compared to 2007) and the number of working days lost due to occupational accidents was 351,159.55 (down 0.3% compared to 2007).

The number of occupational accidents per million hours worked (or “frequency rate”) in one year decreased from 23.93 to 21.77 and the number of working days lost due to occupational accidents per million hours worked (or the “rate of severity”) continued to decrease, to 0.67 (compared to 0.71 in 2007).

In 2008, 186,787 employees attended safety training sessions (18.5% more than in 2007). As evidence of the importance of these issues, 3,068 entities throughout the world are dedicated to dealing with occupational health and safety issues.

In France, the frequency and severity of accidents are often greater than the worldwide average, however they are tracked much more closely than in certain countries where the regulations are not as strict. In 2008, the number of occupational accidents that caused at least one day of absence from work reached 5,225 and the number of days lost due to occupational accidents was 221,225. The number of occupational accidents per million hours worked (or “frequency rate”) was 28.39 and the number of working days lost due to occupational accidents per million hours worked (or the “rate of severity”) was 1.20. In 2008, 54,842 employees attended safety training and 656 entities dedicated to occupational health and safety issues were identified. Reducing the frequency and severity of occupational accidents, which has already started, is a primary objective for Veolia Environnement.

Training

Veolia Environnement also attaches a great deal of importance to the development of its employees’ skills, maintaining their employability and assisting them through training, mobility and building motivational career paths.

A particular effort has been made to develop training abroad:

- total number of training hours provided: 6,526,100 hours;
- percentage of training expenses in the total cost of employment: 2.40 %;
- total number of persons taking part in training programs: 527,979 (19.05% more than in 2007), including 50,708 management participants and 477,271 non-management participants; 90.4% of the persons who benefited from a training program were non-management. 374,026 participants were men and 153,953 were women, i.e. 29.2% of the persons who received training;
- average duration of training programs: 12.4 hours.

In France, in 2008:

- total number of training hours provided: 2,015,456 hours;
- percentage of training expenses in the total cost of employment: 3.21%;
- total number of persons taking part in training programs: 119,112 including 16,313 management participants and 102,799 non-management participants, divided into 102,235 men and 16,877 women;
- average duration of training programs: 16.92 hours.

Employment and integration of disabled workers

At December 31, 2008, there were 5,366 disabled employees. However, it is difficult to obtain information for this indicator in certain countries, due to the lack of a precise definition.

In France, there were 3,304 disabled employees at December 31, 2008.

Social work

A total of €72,266,877.77 was provided as subsidies for social work in 2008, the total could not be obtained in numerous countries that do not record this amount. These subsidies do not include all the social or community work undertaken by Group companies.

In France, the total amount of subsidies for social work was €48,412,592.06.

Outsourcing and procurement

Veolia Environnement sometimes chooses to outsource certain activities that are not part of its core business. It uses companies, which, in the same way as Veolia Environnement, comply with the fundamental principles of the International Labor Organization.

The financial indicators that are currently available do not make it possible to have figures for the extent of outsourcing, which is incidentally difficult to measure at world level. With respect to matters specifically relating to procurement, some of which are similar to outsourcing, the charter signed by the Group concerns all procurement network players in all countries and sets forth all the principles and rules that must be adhered to, including ethical principles, such as all those adopted by the International Labor Organization relating to forced labor, child labor, equal opportunities and freedom of association. The undertakings made by suppliers in this regard must be laid down in a contractual clause that binds the supplier to Veolia Environnement.

Influence of business activities on regional development and local populations

This issue is discussed in Veolia Environnement's 2008 Annual and Sustainable Development Report.

17.3 SHARE SUBSCRIPTION AND PURCHASE OPTIONS

17.3.1 Share subscription or purchase options awarded to the chairman and chief executive officer and exercised during the 2008 fiscal year and retention obligation

• Details of the options awarded to the executive corporate officer and exercised by him during the 2008 fiscal year

Share subscription or purchase options awarded during the fiscal year to the executive officer by Veolia Environnement and by any Group company						
Name of the executive officer	**Plan number and date**	**Nature of the options**	**Number of options awarded during the fiscal year**	**Valuation of the options***	**Exercise price** (in euros)	**Exercise period**
Henri Proglio (chairman and chief executive officer)	NA	NA	none	NA	NA	NA

* Value of the options when awarded, as recognized within the scope of application of IFRS 2, after taking into account, in particular, a discount linked to performance criteria and the probability of the beneficiary still being in the company at the end of the vesting period, but before the deferment of the expense over the vesting period under IFRS 2.

Share subscription or purchase options exercised during the fiscal year by the executive officer				
Name of the executive officer	**Plan number and date**	**Number of options exercised during the fiscal year**	**Nature of the options**	**Exercise price** (in euros)
Henri Proglio (chairman and chief executive officer)	Plan no. 4 03/24/2003	180,617	Share subscription options	22.14

• Obligation for the chairman and chief executive officer to retain shares that result from the exercise of share subscription or purchase options (Article L. 225-185 of the French Commercial Code)

The Law of December 30, 2006 on the development of employee profit-sharing and shareholding introduced new provisions, which are now included in Article L. 225-185 of the French Commercial Code, concerning share subscription or purchase options awarded to corporate officers, according to which the board of directors must either decide that the options cannot be exercised by the persons concerned until they have left office, or determine the quantity of shares that result from exercising the options, which they are required to retain in registered form until they leave office. The same obligations apply to free shares that can be awarded to the chairman and chief executive officer pursuant to Article L. 225-197-1 of the French Commercial Code (cf. § 17.4 *infra*). These provisions are applicable to plans that are drawn up and implemented subsequent to the law entering into force.

As soon as this law was published, the nominations and compensation committee decided to reflect on the rules that could be applied when future share subscription or purchase options are awarded to the chairman and chief executive officer. The committee presented its findings to the board of directors on March 29, 2007 (cf. § 17.3.3 *infra*).

In accordance with these recommendations, the board decided to apply a rule that obliges Henri Proglio to set up a portfolio of Veolia Environnement shares in proportion to the capital gain, net of tax and financing costs, generated on the options exercised. Pursuant to these rules, the chairman and chief executive officer will be required to set up a portfolio of Company shares equal to 50% of the balance of shares that result from exercising options, after the payment of the tax (taxation of the capital gain and mandatory social security withholdings) and the financing cost (number of options it is necessary to exercise through combined exercise and sale in order to finance the exercise price of the portfolio to be set up and tax).

17.3.2 Share subscription or purchase options granted to the top ten employees who are not corporate officers during the 2008 fiscal year and options exercised during the fiscal year

Share subscription or purchase options granted to the top ten employees who are not corporate officers during the 2008 fiscal year and options exercised by them	Total number of options awarded / shares subscribed for or purchased	Average weighted price**	Plan number
Options awarded during the 2008 fiscal year by Veolia Environnement and any company within the options award perimeter, to the ten employees of Veolia Environnement and of any other company included within this perimeter, who were awarded the highest number of shares	none	NA	NA
Options held on Veolia Environnement and the companies referred to above, which were exercised during the 2008 fiscal year, by the ten employees of Veolia Environnement and of said companies, for whom the number of options thus exercised is the highest*	46,384	31.41	No. 1
	65,036	40.59	No. 2
	8,193	36.65	No. 3
	39,570	22.14	No. 4
	48,659	24.32	No. 5

* This does not include options exercised by employees who have left the Group.

** Exercise price after legal adjustments (cf. 17.3.3 infra).

17.3.3 Company share subscription and share purchase options plans

During its meeting of March 29, 2007, in accordance with the recommendations made by the nominations and compensation committee, the board of directors defined the Company's policy on incentive programs for Group managers and executives and decided that for certain categories of beneficiary, this system could combine the award of stock options and free shares (cf. § 17.4 *infra*).

During its meeting of July 17, 2007, the board of directors finally decided that stock options would be reserved for executives and that free shares would be awarded to a large group of "outstanding" managers and employees, without combining these two systems.

On March 25, 2008 the board of directors decided to continue the 2007 Company policy described above on stock options awards through 2008.

The board of directors meeting held on March 24, 2009 confirmed this policy and decided that, should stock options be awarded in 2009, the final vesting of these options for members of the Company's executive committee and the Group senior managers shall be subject to performance conditions in line with the 2009 objectives as announced by the Company. Such conditions would depend on the generation of a positive free cash flow after payment of the 2009 dividend and the evolution of the Company's listed share price. The exercise price would be fixed at a minimum of €22.50.

In accordance with the AFEP-MEDEF recommendations of December 2008, the board of directors also decided that any stock options award to the chairman and chief executive officer shall be limited to a maximum of 50% of its global compensation and 5% of the authorization given by the shareholders' meeting for the issuance of stock options.

Moreover, pursuant to the provisions of the French Commercial Code that result from the Law of December 30, 2006 on the development of employee profit-sharing and shareholding, on March 29, 2007 the Company board of directors decided on the rules applicable to the chairman and chief executive officer's obligation to retain all or part of his shares that are held as a result of the exercise of options, in registered form, until the end of his term of office (cf. § 17.3.1 *supra*).

• 2007 fiscal year: Stock Option Plan no. 7

The authorization given by the general shareholders' meeting of May 11, 2006 on the issuance of undiscounted share subscription and purchase options representing up to 1% of the capital was not used during the 2006 fiscal year. The Company board of directors used this authorization during the 2007 fiscal year and on July 17, 2007 implemented a share subscription plan (plan no. 7, cf. table outlining share subscription and purchase plans below) and stock appreciation rights.

• Share subscription options

Pursuant to this authorization, the board of directors awarded 2,490,400 share subscription options, which represented 0.60% of the capital on the date of its decision, at a exercise price of €57.05. These options will be eligible for exercise as from July 18, 2011. Pursuant to the board's decision, the options were awarded to 557 beneficiaries, including 330,000 options awarded to the members of the executive committee and 2,160,400 to the Group's senior managers.

• Stock appreciation rights

The board of directors also decided that the plan would include an award to US residents of 205,200 stock appreciation rights (SAR), which are the financial equivalents of those subscription options and duplicate the exercise and performance conditions for these options. These SAR are valid for six years (compared to eight years for the options) and are eligible for exercise after four years. The exercise price of the SAR was set at €57.20. The vesting period is identical to that of the options, i.e. four years following the award decision. Pursuant to the board of directors' decision, these SAR were awarded to 181 beneficiaries, including 113,800 SAR that were awarded to the Group's senior managers and 91,400 to outstanding managers and non-managers.

• Performance conditions

The acquisition of options and SAR awarded to the executive committee, as well as to the senior managers, was subject to a minimum growth of the net earnings per share (NEPS) between December 31, 2006 and December 31, 2008 according to the following scale:

	NEPS < 10%	**NEPS >10 and < 25%**	**NEPS > 25 %**
Executive committee and senior managers Percentage of award	0%	between 1% and 99% in proportion to the growth of net earnings	100%
Other managers Percentage of award	50%	between 51% and 99% in proportion to the growth of net earnings	100%

As the performance criteria were not reached, the members of the executive committee and the senior managers lost 100% of their rights, i.e. 1,082,500 options and 29,500 SAR. The other managers lost 50% of their rights, which represent 660,150 options and 42,150 SAR.

In the same way as the performance conditions that are applied to free shares (cf. § 17.4 *infra*), the SAR awarded to the category of outstanding managers and non-managers were definitively vested in the event that the growth of the net earnings per share at December 31, 2008, compared to December 31, 2006, was equal to or higher than 10%. As the performance criteria were not met, the outstanding managers and non-managers lost all of their rights, which represented 91,400 SAR.

• 2008 fiscal year and 2009 general meeting

The combined ordinary and extraordinary shareholders' meeting of May 7, 2008 granted the board of directors authorization for 26 months, to award employees and corporate officers of the Company and of the companies that are affiliated to it, undiscounted share subscription or purchase options, within the limit of 1% of the share capital on the date of the award decision.

The board of directors' meeting of March 25, 2008 decided that, in the event of an award in 2008, the definitive vesting of the options would be contingent on a minimum growth in the Group net earnings of 20% over two years (2008-2009). This performance condition would have been applicable to beneficiaries for the sole portion of the options awarded that exceeded the threshold of 10,000.

The authorization granted by the general shareholders' meeting of May 7, 2008, which is valid until July 7, 2010, was not used during the 2008 fiscal year. Therefore, a proposal will not be made to the general meeting of May 7, 2009 to vote on a new resolution to authorize the board of directors to award share subscription or purchase options.

• Table outlining share subscription or purchase options at December 31, 2008

As a result of the increase in capital, the completion of which was recorded on July 10, 2007 (cf. chapter 21, § 21.1.6 *infra*), and in order to preserve the rights of the holders of share subscription or purchase options, the exercise parity of the options was adjusted pursuant to Article L. 225-181 of the French Commercial Code. These adjustments entered into force on July 11, 2007.

	Subscription options	**Subscription options**	**Subscription options**	**Subscription options**	**Subscription options**	**Subscription options**
	2007 Plan No. 7	**2006 Plan No. 6**	**2004 Plan No. 5**	**2003 Plan No. 4**	**2002 Plan No. 3**	**2001 Plan No. 2**
Date of shareholders' meeting	5/11/2006	5/12/2005	5/12/2004	4/25/2002	6/21/2000	6/21/2000
Date of management board meeting or board of directors' meeting	7/17/2007	3/28/2006	12/24/2004	3/24/2003	1/28/2002	2/08/2001
Total number of options originally awarded	2,490,400	4,044,900	3,341,600	5,192,635	4,413,000	3,462,000
Total number of shares that could originally be subscribed for or purchased	2,490,400	4,044,900	3,341,600	5,192,635	4,413,000	3,462,000
• Of which total number of shares that could be subscribed for or purchased by executive corporate officers	110,000	150,000	110,000	605,000	465,000	416,000
Total number of shares that could be subscribed for or purchased after adjustments	2,490,400	4,110,406*	3,392,012*	5,164,390,*	4,657,903*	3,578,039*
Number of executive corporate officers concerned****	1	1	1	6	6	6
Number of employees concerned****	557	1 378	1 087	1 740	1 400	1 500
Exercise start date	7/18/2011	3/29/2010	12/25/2007	3/25/2006	1/29/2005	2/09/2004
Expiration date	7/17/2015	3/28/2014	12/24/2012	3/24/2011	1/28/2010	2/08/2009
Exercise price	€57.05	€44.03***	€24.32 ***	€22.14***	€36.65***	€40.59***
Number of options exercised at December 31, 2008	0	1,300	227,819	3,143,326	2,346,336	1,989,853
Number of options remaining to be exercised at December 31, 2008	660,150 **	3,832,565 **	3,085,972 **	1,591,712 **	1,935,603 **	1,382,525 **

* Number of shares after subtraction, where applicable, of options cancelled due to beneficiaries leaving the Company, adjusted to take into account transactions affecting the Company's share capital (issuance of stock warrants on December 17, 2001 and capital increases with maintenance of preferential subscription rights recorded on August 2, 2002 and July 10, 2007).

** Number of options after subtraction of exercised options and adjustments resulting from changes in the situations of the beneficiaries.

*** Adjusted exercise prices taking into account transactions affecting the Company's share capital (issuance of stock warrants on December 17, 2001 and capital increase with maintenance of preferential subscription rights recorded on August 2, 2002 and July 10, 2007).

**** As of the date of the award.

A share purchase option plan (plan no. 1) awarded to Veolia Environnement Group officers and employees was implemented pursuant to a management board decision of June 23, 2000. The management board was itself acting pursuant to the authorization granted by the Company general shareholders' meeting of June 23, 2000. The options were eligible for exercise between June 24, 2003 and June 23, 2008 at an exercise price, after adjustments to take into account transactions affecting the Company's share capital, of €31.41. On the plan expiration date, a total number of 457,962 shares had been acquired by Group executives and employees following the exercise of purchase options.

Plan no. 2 above was implemented in 2001 and expired on February 8, 2009. On this date, a total number of 1,989,853 shares had been acquired by Group officers and employees following the exercise of purchase options.

With respect to the potential dilution relating to the share subscription options and free shares, see chapter 21, § 21.1.5 *infra*.

17.4 AWARDS OF FREE SHARES

During its meeting held on March 29, 2007, following the recommendations made by the nominations and compensation committee, the board of directors defined the Company's policy concerning incentive plans for Group managers and executives. The board decided that, for certain categories of beneficiaries, performance criteria could determine the vesting of free shares. During its meeting of July 17, 2007, the board of directors also decided that free shares would be awarded to a large group of "outstanding" managers and employees, excluding the chief executive officer, members of the Company executive committee and the Group's senior executives.

This policy was continued through 2008 by the meeting of the board of directors of March 25, 2008.

The board of directors meeting held on March 24, 2009 decided at this stage to give priority to stock option awards in 2009.

• 2007 fiscal year: Free Share Award Plan no. 1

Pursuant to the authorization given by the general shareholders' meeting of May 10, 2007 (awards of free existing or future shares within the limit of 0.5% of the capital), the board of directors' meeting of July 17, 2007 implemented a plan to award free shares and awarded a total of 333,700 shares to be issued, which represented 0.07% of the Company capital on the date of its decision.

These shares were awarded to 2,232 beneficiaries, namely managers and non-managers who performed outstandingly as individuals or a group, in 18 countries, including France.

The vesting period varies according to the local tax system. In general, it is set at two years for French residents (July 18, 2009), followed by a two-year retention period (July 18, 2011), whereas foreign residents are subject to a four-year vesting period (July 18, 2011) that is not followed by a retention period.

These free shares were subject to performance conditions: they would have definitively vested in the event of growth in the net earnings per share at December 31, 2008 compared to December 31, 2006, of 10% or more. As these performance conditions were not met, the awardees of free shares lost all their rights.

With respect to the potential dilution relating to the share subscription options and free shares, see chapter 21, § 21.1.5 *infra*.

• 2008 fiscal year and 2009 general meeting

The authorization granted by the general shareholders' meeting of May 10, 2007 (limited to 0.5% of the capital), which is in force until July 10, 2009, gave rise to the award in 2007 of a total representing 0.07% of the share capital on the date of the board's decision. This authorization was not used during the 2008 fiscal year.

Consequently, a new resolution will not be put to the vote of the general meeting of May 7, 2009.

• Retention obligation applicable to free shares awarded to corporate officers (Article L. 225-197-1 of the French Commercial Code)

As the policy of awarding free Company shares drawn up by the board of directors during its meeting of March 29, 2007 that was renewed in 2008 (cf. § 17.3.3 *supra*) does not provide for the award of free shares to the chairman and chief executive officer, the board has not defined retention obligations for the chief executive officer that are similar to those applicable to the shares the result from share subscription or purchase options being exercised.

17.5 EMPLOYEE PROFIT-SHARING

17.5.1 Optional and mandatory profit-sharing contracts

Given the nature of its business, the Company is unable to allocate funds to the mandatory profit-sharing reserve provided for by law, and therefore has not entered into any related profit-sharing contracts. However, an optional profit-sharing plan applies to all Company employees, which aims at aligning employees' interests with the results of the Group in terms of achieving specific growth objectives over a three-year period.

In general, the Group favors expanding optional profit-sharing plans in order for employees to have a vested interest in the progress made by the specific division to which they are assigned, on the basis of criteria that are specifically adapted to the business concerned.

17.5.2 Company savings plans and employee share ownership policy

Since 2002, Veolia Environnement employees have had the possibility of investing in various instruments of the "Sequoia" Group's savings plan (GSP), including diversified funds and funds invested in Veolia Environnement shares.

After a first capital increase reserved exclusively for French employees, Veolia Environnement decided in 2004 to offer its foreign employees the possibility of acquiring shares in the company through reserved capital increases. The plan was progressively extended at international level (it now covers 27 countries, including France, and 29 countries, all mechanisms combined), the ultimate goal being for employees to hold 5% of the Company capital.

Two employee shareholder formulas are proposed: a "classic" formula, in which the employee is exposed to changes in listed share prices, and a "secured" formula, which protects employees from a fall in the price of shares while giving them the possibility of benefiting from a portion of the increase, if the price rises.

Depending on the local particularities, the shares in these two plans were subscribed either directly or through FCPEs (corporate mutual fund). Additionally, specific plans were put in place in the United Kingdom (Share Incentive Plan) and in China (synthetic formula that replicates the economic conditions of the secured plan) in order to circumvent certain constraints, such as tax and exchange rate regulations

The most recent operation, in 2007, resulted in the issue of 3,061,675 new shares representing a 0.65% share capital increase. In addition, 188,771 new shares (representing 0.04% of the capital) were issued following a capital increase reserved for Sequoia Souscription International – SAR, a subsidiary of Calyon, as part of the establishment of a structured offer to employees in countries where traditional employee shareholder plans cannot be implemented. These two capital increases were recorded on December 12, 2007.

In 2008, in a context of uncertainty and lack of visibility with regard to future stock market trends, Veolia Environnement decided to defer the launch of the capital increased reserved for employees that was due to take place before the end of 2008. The process will resume as soon as the Company has seen that the markets are stable again.

As a result of the capital increases of 2002, 2004, 2005, 2006 and 2007, approximately 57,000 employees of the Veolia Environnement Group now hold shares in Veolia Environnement and, as of the filing date of this reference document, hold 1.6% of the Company's capital.

In total, approximately 76,000 employees have opened an account in the Veolia Environnement Group Savings Plan, i.e. more than one employee in three in countries where this plan is available.

17.6 SHARES HELD BY DIRECTORS AND CORPORATE OFFICERS AND TRANSACTIONS INVOLVING COMPANY SECURITIES

Pursuant to Article L. 621-18-2 of the French Monetary and Financial Code and Article 223-22 of the AMF General Regulations, members of the board of directors and Company officers or “senior managers”[(24)], or the persons who are closely linked to them, are required to notify the AMF of any acquisitions, sales, subscriptions or exchanges of Company securities or financial instruments, within five days of completing the transaction.

In addition, directors and officers are subject to French and US regulations on misfeasance (*manquement d’initié*) and insider trading and the use or disclosure of privileged information[(25)].

Finally, directors and officers are required to comply with the Company’s code of conduct governing trading in its securities (cf. § 4.2.2.2 and 16.1.1 *supra*). Under the provisions of this code, the Company considers members of the board of directors and executive committee to be permanent insiders, who can only purchase or sell Company securities, directly or through an intermediary, under certain conditions and during specific, limited time periods, in particular after publication of the Company’s annual and half-yearly results.

17.6.1 Shares held by directors and transactions involving Veolia Environnement securities

At December 31, 2008, the members of the Company’s board of directors held a total of 251,157 Veolia Environnement shares, representing approximately 0.053% of the Company’s capital on this date. The table below details the numbers of Veolia Environnement shares held individually by each of the Company’s directors:

	Number of shares held at 31/12/2008	Number of shares held at 31/12/2007
Jean Azema	750	750
Daniel Bouton	900	900
Jean-Francois Dehecq	840	840
Augustin de Romanet de Beaune	750	750
Jean-Marc Espalioux	3,952	3,952
Paul-Louis Girardot	985	985
Philippe Kourilsky	750	750
Serge Michel	3,094	3,094
Henri Proglio	232,714	52,097
Baudoin Prot	1,687	1,687
Georges Ralli	985	985
Paolo Scaroni	750	750
Louis Schweitzer	2,250	2,250
Murray Stuart	750	750
TOTAL	**251,157**	**70,540**

24 Article L. 621-18-2 of the French Monetary and Financial Code refers to any person who “on the one hand, within the issuer, has the power to make managerial decisions concerning the issuer’s development and strategy, and, on the other hand, who has regular access to privileged information that directly or indirectly concerns the issuer.”

Veolia Environnement considers members of the Company executive committee to be “senior managers” who have regular access to privileged information and who participate directly in the Group’s management and strategy decisions (cf. § 16.1.1 supra). The list of these persons was provided to the AMF in accordance with Article 223-24 of AMF General Regulations.

25 Pursuant to Article L. 621-18-4 of the French Monetary and Financial Code, a list of permanent insiders has been prepared, which includes, in particular, the members of the Veolia Environnement board of directors and executive committee. This list has been made available to the AMF.

The table below details transactions involving Veolia Environnement securities executed during the 2008 fiscal year by Company directors[26]. To the best of the Company's knowledge, no other declaration of transactions involving the purchase or sale of Veolia Environnement securities by directors or any person who has close personal links therewith were made during the 2008 fiscal year:

Name of officer	**Financial instrument**	**Nature of the transaction**	**Date of the transaction**	**Unit price** *(in euros)*	**Total amount of the transaction** *(in euros)*
Henri Proglio	Share subscription options	Exercise of share subscription options	April 21, 2008	22.14	3,998,860.38

17.6.2 Shares held by officers and transactions involving Veolia Environnement securities

At December 31, 2008, the members of the Company's executive committee, not including the chairman and chief executive officer, held a total of 68,619 Veolia Environnement shares, representing 0.01% of the Company's capital on this date [27].

The table below details transactions involving Veolia Environnement securities executed during the 2008 fiscal year by members of the Company's executive committee, not including the chairman and chief executive officer [28]. To the best of the Company's knowledge, no other declaration of transactions involving the purchase or sale of Veolia Environnement securities by officers or any person who has close personal links therewith were made during the 2008 fiscal year:

Name of officer	**Financial instrument**	**Nature of the transaction**	**Date of the transaction**	**Unit price** *(in euros)*	**Total amount of the transaction** *(in euros)*
Olivier Barbaroux	Share subscription options	Exercise of share subscription options	April 29, 2008	31.41	728,460.72
Jérôme Contamine	Shares	Sale	December 16, 2008	19.50	195,000.00

26 This table, which was prepared in accordance with the provisions of Article 223-26 of the AMF General Regulations, details the transactions declared to the AMF during the 2008 fiscal year by the Company's directors.

27 Direct shareholding therefore not including holding of units in company mutual funds invested in Veolia Environnement shares.

28 This table, which was prepared in accordance with the provisions of Article 223-26 of the AMF General Regulations, details the transactions declared to the AMF during the 2007 fiscal year by the Company's "senior managers" referred to in Article L. 621-18-2 of the French Monetary and Financial Code.

18 PRINCIPAL SHAREHOLDERS

18.1 SHAREHOLDERS OF VEOLIA ENVIRONNEMENT AS OF DECEMBER 31, 2008

The table below shows the ownership of Veolia Environnement's shares and voting rights as of December 31, 2008. To the best of the Company's knowledge, no person other than those listed below directly or indirectly held 4% or more of the Company's shares or voting rights as of such date and the Company has not received any declarations of threshold crossings from the shareholders below other than as set forth below.

Shareholder at December 31, 2008	Number of shares	Percentage of share capital	Number of voting rights	Percentage of voting rights
Caisse des Dépôts et Consignations (1)	47,273,114	10.00	47,273,114	10.33
Groupe Groupama (2)	26,221,588	5.55	26,221,588	5.73
Capital Research and Management Company (3)	23,811,838	5.04	23,811,838	5.20
EDF (4)	18,287,428	3.87	18,287,428	4.00
Veolia Environnement (5)	14,980,034	3.17	0	0
Public et autres investisseurs	341,962,446	72.37	341,962,446	74.74
TOTAL	**472,536,448**	**100,00**	**457,556,414**	**100.00**

(1) According to the Company's shareholder analysis of December 31, 2008. To the best of the Company's knowledge, the Caisse des Dépôts et Consignations' most recent filing with the AMF occurred on December 19, 2006 (Décision et Information AMF no. 206C2344 dated December 22, 2006). The Caisse des Dépôts et Consignations declared that it was acting alone and that it may purchase additional shares based on market conditions, but that it did not intend to take control over the Company.

(2) According to Company's shareholder analysis of December 31, 2008. To the best of the Company's knowledge, Groupama's most recent filing with the AMF occurred on December 30, 2004 (Décision et Information AMF n°205C0030 dated January 7, 2005).

(3) Management company acting on behalf of its clients. According to Capital Research and Management Company's most recent filing with the AMF dated February 12, 2009 (Décision et Information AMF no. 209C0263 dated February 13, 2009). The Company's shareholder analysis of December 31, 2008 shows that companies affiliated with Capital Research and Management Company together hold a total of 43,690,699 shares representing 9.25% of Veolia Environnement's share capital and 9.55% of the Company's voting rights.

(4) According to the Company's shareholder register (actionnaires nominatifs) as of December 31, 2008, which is maintained by Société Générale. To the best of the Company's knowledge, EDF's most recent filing with the AMF occurred on December 22, 2002 (Euronext avis n°2002-4424 dated December 31, 2002). EDF declared that it held 16,155,492 Veolia Environnement shares as of that date. EDF further declared that it would hold the shares as a financial investment and that it did not seek to influence the Company's management, and that it would exercise its voting rights with the sole aim of enhancing the value of its investment.

(5) As set forth in the Company's monthly filing with the AMF of transactions it has effected with respect to its own shares, filed with the AMF on January 7, 2009.

Voting rights attached to shares are proportional to the percentage of share capital that such shares represent, and each share carries the right to cast one vote. There are no double voting rights.

To the Company's knowledge, there are no shareholders' or other agreements existing between one or more shareholders, and there are no shareholders' or other agreements to which the Company or any significant non-listed subsidiary is a party that could have a material effect on the Company's share price, other than the agreement with EDF, described in this reference document in Chapter 20, § 20.1, note 38 and 40.3 to the consolidated financial statements and in Chapter 22.

No third party controls Veolia Environnement, and to the Company's knowledge, no agreement currently exists that could, when implemented, result in a change of control or takeover of the Company.

18.2 EVOLUTION IN THE OWNERSHIP OF SHARE CAPITAL

- SNEGE, a wholly-owned subsidiary of Vivendi Universal, owned 99.99% of the Company's share capital from its formation until March 31, 1999. Between April 1 and April 9, 1999, Vivendi Universal acquired 100% of the Company's share capital at its nominal value.
- In July 2000, the Company's shares began trading on the First Market of Euronext Paris, as a result of which Vivendi Universal's equity participation in the Company was reduced from 100% to 72.3%.
- In December 2001, Vivendi Universal made an over-the-counter block sale of 32.4 million of the Company's shares representing 9.3% of the Company's total share capital, further reducing its ownership in the Company to 63%.
- In July 2002, the Company conducted a share capital increase with preferential subscription rights. This capital increase was recorded on August 2, 2002. Pursuant to the terms of an agreement dated June 24, 2002, several financial investors, including Caisse des Dépôts et Consignations, Groupama, BNP Paribas, AGF, Société Générale, Dexia, Caisses d'Epargne, Crédit Lyonnais and Natexis Banques Populaires (the "Group of Declared Investors" or "GID (1)"), acquired and exercised the preferential subscription rights which had been granted to Vivendi Universal and subscribed for the remainder of shares which had not been subscribed to by the public. Following the transaction, the GID (1) held 9.4% of the Company's share capital as of such date.
- On November 24, 2002, Vivendi Universal, the Company, the GID (1) and a group of new investors including 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 (collectively, the "New Investors"), signed an addendum to the June 24, 2002 agreement[29] pursuant to which, on December 24, 2002 Vivendi Universal sold to the New Investors and to Veolia Environnement a total of 82,486,072 of the Company's shares (of which 3,624,844 were sold to the Company, representing approximately 0.9% of its share capital at the time of sale). The 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 to purchase the Company's shares at a price of €26.50 per share. As of the expiration date of these call options, i.e. December 23, 2004, none had been exercised.
- On December 31, 2002, the Company recorded the completion of a share capital increase reserved for employees of the Company and the Group, which had been initiated on June 27, 2002. The shares were subscribed for by the FCPE SEQUOIA acting on behalf of its beneficiaries. Following this transaction, 1,183,158 new shares (nominal value €13.5 per share) were subscribed to at a price of €26.50 per share, thus increasing the share capital by €15,972,633, representing approximately 1.28% of the Company's existing share capital as of such date.
- On December 6, 2004, the Company recorded the completion of a share capital increase reserved for employees of the Company and the Group, which had been approved by the board of directors on September 16, 2004. The shares were subscribed to by several employee investment funds acting on behalf of their beneficiaries. Following this transaction, 1,351,468 new shares (nominal value €5 per share) were subscribed to at a price of €18.71 per share, thus increasing the share capital by €6,757,340, representing approximately 0.33% of the Company's existing share capital as of such date.
- On December 8 and December 9, 2004, Vivendi Universal disposed of 15% over the 20.36% it held in the share-capital of Veolia Environnement, through (i) a private placement for investors involving 10% of share capital, (ii) a sale to Société Générale involving 3% of the share capital, and (iii) a sale to Veolia Environnement involving 2% of the share capital, which was completed on December 29, 2004.
- On December 6, 2005, the Company recorded the completion of a share capital increase reserved for employees of the Company and the Group, which had been approved by the board of directors on September 15, 2005. The shares were subscribed for by several employee investment funds acting on behalf of their beneficiaries. Following this transaction, 1,281,928 new shares (nominal value €5 per share) were subscribed to at a price of €28.11 per share, thus increasing the share capital by €6,409,640, representing approximately 0.3% of the Company's existing share capital as of such date.
- On July 6, 2006, Vivendi (formerly Vivendi Universal) announced the completion of the sale of 5.3% of Veolia Environnement's capital, representing a total of 21,523,527 shares, under an accelerated book building procedure. As a result of this transaction, Vivendi no longer holds any shares in the Company[30].

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29 Clauses published by the Conseil des marchés financiers on January 27, 2003 under n° 203C0104.

30 Following the transfer, Vivendi declared, on July 11, 2006, that it held less than 5% of capital and voting rights of Veolia Environnement and that it no longer held any securities in the Company (Décision et Information AMF n°206C1511 of July 24, 2006).

- On December 15, 2006, the Company recorded the completion of a share capital increase reserved for employees of the Company and the Group, which had been approved by the board of directors on September 14, 2006. The shares were subscribed to by several employee investment funds acting on behalf of their beneficiaries. Following the transaction, 1,931,340 new shares (nominal value €5) were subscribed to at a price of €37.52 each, thus increasing the share capital by €9,656,700, representing approximately 0.47% of the existing share capital as of such date.
- On July 10, 2007, the Company completed a capital increase in cash with maintenance of preferential subscription rights, which had been approved by the board of directors on June 10, 2007. Following the transaction, 51,941,040 new shares with a nominal value of €5 were issued, thus increasing the share capital by €259,705,200. The total amount of the capital increase, including the issuance premium, amounted to €2,581,469,688.
- On December 12, 2007, the Company recorded an increase of a share capital attributable to (i) a capital increase reserved for current and retired employees of the Company and the Group, in France and abroad, the subscription of which was achieved both directly and through several company investment funds, and (ii) a capital increase reserved for Sequoia Souscription International – SAR, a subsidiary of Calyon, in the context of the implementation of a structured share offer for employees from countries unable to participate in traditional employee shareholder plans. Following the transaction, 3,250,446 new shares with a nominal value of €5 were subscribed at the price of €48.18 and €60.23 (depending on the plan) were issued, thus increasing the share capital by €16,252,230, representing approximately 0.7% of the Company's share capital on the date it was recorded.

19 RELATED-PARTY TRANSACTIONS

Information concerning transactions with related parties in 2008 is included in the statutory auditors' special report concerning regulated agreements and commitments concluded in 2008 (Schedule 1 to this reference document[(31)], and in chapter 20, paragraph 20.1, note 40 to the consolidated financial statements.

See also the statutory auditors' reports concerning regulated agreements for the 2006 and 2007 fiscal years, which are included as Schedules to Veolia Environnement's 2006 and 2007 reference documents.

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31 Available in the French version of the reference document.

20.1 CONSOLIDATED FINANCIAL STATEMENTS OF VEOLIA ENVIRONNEMENT

CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET - ASSETS	Notes	As of December 31,		
(€ million)		2008	2007	2006
Goodwill	4	6,723.3	6,913.2	5,705.0
Concession intangible assets	5	3,637.7	2,989.2	2,345.6
Other intangible assets	6	1,535.2	1,706.4	1,379.8
Property, plant and equipment	7	9,427.1	9,203.2	7,918.7
Investments in associates	8	311.6	292.1	241.0
Non-consolidated investments	9	202.8	256.1	181.7
Non-current operating financial assets	10	5,298.9	5,272.4	5,133.4
Non-current derivative instruments - Assets	30	508.4	123.7	201.6
Other non-current financial assets	11	817.3	746.0	637.5
Deferred tax assets	12	1,579.5	1,468.1	1,355.7
Non-current assets		**30,041.8**	**28,970.4**	**25,100.0**
Inventories and work-in-progress	13	1,022.0	839.4	731.8
Operating receivables	13	13,093.2	12,459.4	10,968.7
Current operating financial assets	10	452.3	355.2	326.2
Other current financial assets	14	{ 321.4	{ 330.0	{ 205.3
Marketable securities		-	-	66.4
Current derivative instruments - Assets	30	142.8	114.4	-
Cash & cash equivalents	15	3,849.6	3,115.6	2,658.0
Assets classified as held for sale (1)		203.0	122.5	67.3
Current assets		**19,084.3**	17,336.5	15,023.7
Total assets		**49,126.1**	**46,306.9**	**40,123.7**

(1) Assets and liabilities classified as held for sale primarily correspond in 2008 to certain jointly-controlled French subsidiaries in the Water Division, in 2007 to the “Jean Nicoli” boat and in 2006 to transportation activities in Denmark.

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

CONSOLIDATED BALANCE SHEET - EQUITY AND LIABILITIES (€ million)	Notes	As of December 31, 2008	2007	2006
Share capital		2,362.9	2,358.8	2,063.1
Additional paid-in capital		9,197.5	9,179.5	6,641.2
Reserves and retained earnings attributable to equity holders of the parent		(4,559.2)	(3,925.4)	(4,343.5)
Total equity attributable to equity holders of the parent	**16**	7,001.2	7,612.9	4,360.8
Minority interests		2,530.5	2,577.8	2,192.6
Equity	**16**	**9,531.7**	**10,190.7**	**6,553.4**
Non-current provisions and other debt	17	2,160.2	2,138.9	2,196.6
Other non-current liabilities	17	-	-	207.3
Non-current borrowings	18	17,063.9	13,948.0	14,001.6
Non-current derivative instruments – Liabilities	30	159.9	163.8	145.9
Deferred tax liabilities	12	1,936.0	1,794.7	1,504.9
Non-current liabilities		**21,320.0**	**18,045.4**	**18,056.3**
Operating payables	13	13,591.8	12,944.8	11,268.6
Current provisions	17	773.1	825.7	825.9
Current borrowings	19	3,219.7	3,805.0	2,904.1
Current derivative instruments – Liabilities	30	125.9	34.0	-
Bank overdrafts and other cash position items	20	465.7	459.4	456.0
Liabilities directly associated with assets classified as held for sale [1]		98.2	1.9	59.4
Current liabilities		**18,274.4**	**18,070.8**	**15,514.0**
Total equity and liabilities		**49,126.1**	**46,306.9**	**40,123.7**

(1) Assets and liabilities classified as held for sale primarily correspond in 2008 to certain jointly-controlled French subsidiaries in the Water Division, in 2007 to the "Jean Nicoli" boat and in 2006 to transportation activities in Denmark.

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

CONSOLIDATED INCOME STATEMENT

(€ million)	Notes	Year ended December 31,		
		2008	2007[(2)]	2006[(2)]
Revenue	**21**	**36,205.5**	**31,932.2**	**27,941.0**
o/w Revenue from operating financial assets		*400.4*	*345.1*	*351.0*
Cost of sales		(30,418.4)	(26,020.4)[(1)]	(22,581.6)[(1)]
Selling costs		(622.5)	(560.7)[(1)]	(521.5)[(1)]
General and administrative expenses		(3,262.7)	(2,932.2)[(1)]	(2,754.0)[(1)]
Other operating revenue and expenses		49.4	63.6	40.3
Operating income	**22**	**1,951.3**	**2,482.5**	**2,124.2**
Finance costs	23	(1,128.1)	(971.0)	(784.7)
Finance income	23	203.4	152.2	82.8
Other financial income and expenses	24	(51.2)	4.1	(31.8)
Income tax expense	25	(468.8)	(417.9)	(409.0)
Share of net income of associates	8 & 26	18.4	16.7	5.8
Net income from continuing operations		**525.0**	**1,266.6**	**987.3**
Net income from discontinued operations	27	184.2	(11.8)	7.6
Net income for the year		**709.2**	**1,254.8**	**994.9**
Minority interests	28	304.1	326.9	236.2
Attributable to equity holders of the parent		**405.1**	**927.9**	**758.7**

(in euros)				
Net income attributable to equity holders of the parent per share	29			
Diluted		0.88	2.13	1.89
Basic		0.89	2.16	1.90
Net income from continuing operations attributable to equity holders of the parent per share	29			
Diluted		0.62	2.17	1.87
Basic		0.62	2.19	1.89

(1) In 2008, as part of ongoing efficiency measures, the Group reclassified certain expenses from cost of sales to selling costs and general and administration expenses. These reclassifications had no impact on operating income (see Note 22 Operating income).

(2) In accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*, the Income Statements of the Clemessy and Crystal entities in the Energy Services Division, divested in December 2008, are grouped together in a separate line, "Net income from discontinued operations", in 2008 and in fiscal years 2007 and 2006 presented for comparative purposes.

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

CONSOLIDATED CASH FLOW STATEMENT

(€ million)	Notes	Year ended December 31,		
		2008	2007	2006
Net income for the year attributable to equity holders of the parent		405.1	927.9	758.7
Minority interests	28	304.1	326.9	236.2
Operating depreciation, amortization, provisions and impairment losses	22	2,301.6	1,816.7	1,831.0
Financial amortization and impairment losses		19.5	8.0	9.4
Gains (losses) on disposal and dilution	22	(288.2)	(173.5)	(73.3)
Share of net income of associates	8 & 26	(18.5)	(16.9)	(6.0)
Dividends received	24	(8.4)	(8.8)	(9.7)
Finance costs and finance income	23	922.8	817.1	701.0
Income tax expense	25	470.9	420.1	357.1
Other items (including IFRS2)		69.5	101.9	40.0
Operating cash flow before changes in working capital		**4,178.4**	**4,219.4**	**3,844.4**
Changes in working capital		(80.9)	(167.1)	(111.8)
Income taxes paid		(347.5)	(417.7)	(343.0)
Net cash from operating activities		**3,750.0**	**3,634.6**	**3,389.6**
Capital expenditure	43	(2,780.6)	(2,518.7)	(2,017.6)
Proceeds on disposal of intangible assets and property, plant and equipment		329.8	212.9	141.3
Purchases of investments		(800.7)	(1,835.4)	(1,291.5)
Proceeds on disposal of financial assets		361.1	181.7	206.7
Operating financial assets:		-		
New operating financial assets		(507.0)	(404.1)	(360.6)
Principal payments on operating financial assets		358.2	360.7	438.1
Dividends received	8 & 24	15.8	15.3	13.8
New non-current loans granted		(252.7)	(65.0)	(69.4)
Principal payments on non-current loans		30.0	61.6	29.2
Net decrease (increase) in current loans		(89.0)	(27.4)	2.6
Sales and purchases of marketable securities		-	-	3.4
Net cash used in investing activities		**(3,335.1)**	**(4,018.4)**	**(2,904.0)**
Net increase/(decrease) in current borrowings	19	(1,437.0)	(1,534.5)	(239.2)
New non current borrowings and other debt	18	3,590.2	2,060.4	1,997.2
Principal payments on non current borrowings and other debt	18	(184.8)	(1,362.9)	(1,000.8)
Proceeds on issue of shares		51.0	3,039.2	246.5
Share capital reduction		(131.0)	-	-
(Purchase)/Proceeds of treasury shares		3.2	18.9	0.4
Dividends paid		(754.4)	(564.3)	(479.2)
Interest paid		(847.6)	(716.0)	(596.4)
Net cash from (used in) financing activities		**289.6**	**940.8**	**(71.5)**
Net cash at the beginning of the year		**2,656.2**	**2,202.0**	**1,829.3**

(€ million)	Notes	Year ended December 31,		
		2008	2007	2006
Effect of foreign exchange rate changes and other		23.2	(102.8)	(41.4)
Net cash at the end of the year		**3,383.9**	**2,656.2**	**2,202.0**
Cash & cash equivalents	15	3,849.6	3,115.6	2,658.0
Bank overdrafts and other cash position items	20	465.7	459.4	456.0
Net cash at the end of the year		**3,383.9**	**2,656.2**	**2,202.0**

Net cash flows attributable to discontinued operations as defined in IFRS 5 contributed +€14.8 million, +€35.7 million and +€2.6 million to net cash from operating activities, +€138.4 million, -€27.0 million and +€10.0 million to net cash from investing activities and -€4.5 million, -€1.9 million and +€6.2 million to net cash from financing activities in 2008, 2007 and 2006 respectively.

Discontinued operations are presented in Note 27.

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

STATEMENT OF RECOGNIZED INCOME AND EXPENSE

(€ million)	**Year ended December 31, 2008**	Year ended December 31, 2007	Year ended December 31, 2006
Net income for the year	**709.2**	**1,254.8**	**994.9**
Actuarial gains or losses on pension obligations *	(104.0)	88.0	25.6
Fair value adjustments on available-for-sale assets *	(18.4)	33.7	(2.3)
Fair value adjustments on cash flow hedge derivative instruments *	(88.6)	8.8	37.0
Foreign exchange gains and losses:*			
- on the translation of the financial statements of subsidiaries drawn up in a foreign currency	(279.8)	(251.5)	(92.3)
- on the net financing of foreign investments	(15.9)	(5.5)	(7.8)
Income and expenses recognized directly in equity	**(506.7)**	**(126.5)**	**(39.8)**
Total income and expenses recognized	**202.5**	**1,128.3**	**955.1**
Attributable to equity holders of the parent	(84.4)	778.5	712.2
Attributable to minority interests	286.9	349.8	242.9
Impact of changes in accounting method on retained earnings as of January 1 (IAS1.96 (d))	-	-	(15.3)

* Amounts net of tax. The impact of deferred tax on equity is presented in Note 12, Deferred tax assets and liabilities.

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

NOTE 1. <u>Accounting principles and methods</u>

1.1. Accounting standards framework

1.1.1 Basis underlying the preparation of the financial information

Pursuant to Regulation n°1606/2002 of July 19, 2002, the consolidated financial statements for the year ended December 31, 2008 are presented in accordance with IFRS (International Financial Reporting Standard) as adopted by the European Union and IFRS as published by the International Accounting Standards Board (IASB). These financial statements are accompanied, for comparative purposes, by financial statements for fiscal years 2007 and 2006 drawn up in accordance with the same standards framework.

Since fiscal year 2006, the Group has accounted for its concession business in accordance with IFRIC 12, *Service Concession Arrangements*, published by the IASB on November 30, 2006 and adopted by the European Union on March 26, 2009.

In the absence of IFRS standards or interpretations and in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Veolia Environnement uses other standard references and in particular U.S. standards.

1.1.2 Standards, standard amendments and interpretations applicable from fiscal year 2008

The accounting principles and valuation rules applied by the Group in preparing the consolidated financial statements for the year ended December 31, 2008 are identical to those applied by the Group as of December 31, 2007, with the exception of the following standards, standard amendments and interpretations which came into mandatory effect as of January 1, 2008 or July 1, 2008:

- IFRIC 11, IFRS 2 – *Group and Treasury Share Transactions*;
- IFRIC 14, IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction*;
- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*, on financial instrument reclassifications.

Implementation of these standards and interpretations did not have a material impact.

1.1.3 Texts which enter into mandatory effect after December 31, 2008 and which have not been adopted early

Veolia Environnement has not elected for early adoption of the following standards, standard amendments and interpretations published as of December 31, 2008 (adopted or in the course of being adopted by the European Union):

- IFRS 8, *Operating Segments*;
- IFRIC 13, *Customer Loyalty Programmes*;
- IFRIC 15, *Agreements for the Construction of Real Estate*;
- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*;
- IFRIC 17, *Distributions of Non-Cash Assets to Owners*;
- IAS 1 revised, *Presentation of Financial Statements*;
- IAS 23 revised, *Borrowing Costs*;
- Amendments to IAS 32 and IAS 1, *Financial Instruments: Presentation* - on puttable financial instruments and obligations arising on liquidation;
- Amendments to IFRS 1 and IAS 27 on determining the cost of an investment on first-time adoption of IAS/IFRS;
- Amendment to IFRS 2, *Share–Based Payment – Vesting Conditions and Cancellations*;
- Amendments resulting from the 2006-2008 annual improvement process.

Subject to their definitive adoption by the European Union, these standards, standard amendments and interpretations are of mandatory application from January 1, 2009 (except for certain annual amendments applicable from July 1, 2009). The Group does not currently expect the first-time application of these new texts to have a material impact on the financial statements.

- IFRS 3 revised, *Business Combinations*;
- Amendments to IAS 28 and IAS 31 following the publication of IFRS 3;
- Amendment to IAS 27, *Consolidated and Separate Financial Statements*;
- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*.

These standards and standard amendments are of mandatory effect from July 1, 2009, that is from January 1, 2010 for Veolia Environnement. The Group is currently assessing the potential impact of their application.

1.2. General principles underlying the preparation of the financial statements

The accounting methods presented below have been applied consistently for all periods presented in the consolidated financial statements.

In 2008, as part of ongoing efficiency measures, the Group reclassified certain expenses from cost of sales to selling costs and general and administration expenses. These reclassifications had no impact on operating income (see Note 22 Operating income).

The consolidated financial statements are presented on the basis of historical cost, with the exception of assets and liabilities recognized at fair value: derivatives, financial instruments held for trading, financial instruments designated at fair value and available-for-sale financial instruments (in accordance with IAS 32, *Financial Instruments: Presentation* and IAS 39).

The Veolia Environnement consolidated financial statements for the year ended December 31, 2008 were closed by the Board of Directors on March 5, 2009 and will be presented for approval to the Annual General Meeting of Shareholders on May 7, 2009.

1.3. Basis of presentation as of December 31, 2008

The consolidated financial statements are presented in millions of euro, unless stated otherwise.

The consolidated financial statements comprise the financial statements of Veolia Environnement SA and its subsidiaries. The financial statements of subsidiaries are drawn up for the same reference period as those of the parent company, from January 1, to December 31, 2008, in accordance with uniform accounting policies and methods.

All inter-company balances and transactions, together with all income and expense items and unrealized gains and losses included in the net carrying amount of assets, resulting from internal transactions, are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, which is the date on which the Group obtains control, up to the date on which it ceases to exercise control.

Minority interests represent the part of net income or loss and of net assets not held by the Group. They are presented in the Income Statement and separately from equity attributable to equity holders of the parent in Equity in the Consolidated Balance Sheet.

1.4. Principles of Consolidation

Veolia Environnement fully consolidates all entities over which it exercises control. Control is defined as the ability to govern, directly or indirectly, the financial and operating policies of an entity in order to obtain the benefit of its activities.

Companies in which Veolia Environnement exercises significant influence over financial and operating policies are accounted for using the equity method. Significant influence is presumed to exist where the Group holds at least 20% of share capital or voting rights.

Companies over which Veolia Environnement exercises joint control as a result of a contractual agreement between partners are consolidated using the proportionate method in accordance with IAS 31, *Interests in Joint Ventures*.

Pursuant to SIC 12, *Consolidation - Special Purpose Entities*, special-purpose entities (SPEs) are consolidated when the substance of the relationship between the SPE and Veolia Environnement or its subsidiaries indicates that the SPE is controlled by Veolia Environnement. Control may arise through the predetermination of the activities of the SPE or through the fact that, in substance, the financial and operating policies are defined by Veolia Environnement or Veolia Environnement benefits from most of the economic advantages and/or assumes most of the economic risks related to the activity of the SPE.

Pursuant to IAS 27, *Consolidated and Separate Financial Statements,* potential voting rights available for exercise attached to financial instruments which, if exercised, would confer voting rights on Veolia Environnement and its subsidiaries, are taken into account where necessary in assessing the level of control or significant influence exercised.

1.5. Translation of foreign subsidiaries' financial statements

Balance sheets, income statements and cash flow statements of subsidiaries whose functional currency is different from that of the Group are translated into the reporting currency at the applicable rate of exchange (i.e. the year-end rate for balance sheet items and the average annual rate for income statement and cash flow items). Foreign exchange translation gains and losses are recorded in equity. The exchange rates of the major currencies of non-euro countries used in the preparation of the consolidated financial statements were as follows:

Year-end exchange rate (one foreign currency unit = €xx)	**As of December 31, 2008**	**As of December 31, 2007**	**As of December 31, 2006**
U.S. Dollar	0.7185	0.6793	0.7593
Pound Sterling	1.0499	1.3636	1.4892
Czech Crown	0.0372	0.0376	0.0364

Average annual exchange rate (one foreign currency unit = €xx)	**Average annual rate 2008**	**Average annual rate 2007**	**Average annual rate 2006**
U.S. Dollar	0.6782	0.7248	0.7918
Pound Sterling	1.2433	1.4550	1.4665
Czech Crown	0.0399	0.0361	0.0354

1.6. Foreign currency transactions

Foreign currency transactions are translated into euro at the exchange rate prevailing at the transaction date. At the year end, foreign currency-denominated monetary assets and liabilities are remeasured in euro at year-end exchange rates. The resulting foreign exchange gains and losses are recorded in net income for the period.

Loans to a subsidiary the settlement of which is neither planned nor probable in the foreseeable future represent, in substance, a portion of the Group's net investment in this foreign operation. Foreign exchange gains and losses on monetary items forming part of a net investment are recognized directly in equity as foreign exchange translation adjustments and are released to income on the disposal of the net investment.

Exchange gains and losses on foreign currency-denominated borrowings or on foreign currency derivatives that qualify as hedges of net investments in foreign subsidiaries, are recognized directly in equity as foreign exchange translation adjustments. Amounts recognized in equity are released to income on the disposal of the relevant investment.

Foreign currency-denominated non-monetary assets and liabilities recognized at historical cost are translated using the exchange rate prevailing as of the transaction date. Foreign currency-denominated non-monetary assets and liabilities recognized at fair value are translated using the exchange rate prevailing as of the date the fair value is determined.

In the case of a net investment in a foreign operation, foreign exchange gains or losses on loans denominated in a currency that is not the functional currency of the lending or borrowing company must be recognized in foreign exchange translation reserves. The impact on the Veolia Environnement consolidated financial statements is not material.

1.7. Property, plant and equipment

Property, plant and equipment are recorded at historical acquisition cost to the Group, less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are recorded by component, with each component depreciated over its useful life.

Useful lives are as follows:

	Range of useful lives in number of years *
Buildings	20 to 50
Technical systems	7 to 24
Vehicles	3 to 25
Other plant and equipment	3 to 12

* The range of useful lives is due to the diversity of property, plant and equipment concerned

Borrowing costs attributable to the acquisition or construction of identified installations, incurred during the construction period, are included in the cost of those assets in accordance with IAS 23, Borrowing costs.

A finance lease contract is a contract that transfers to the Group substantially all the risks and rewards related to the ownership of an asset.

Pursuant to IAS 17, Leases, assets financed by finance lease are recorded in property, plant and equipment at the present value of minimum lease payments less accumulated depreciation and any accumulated impairment losses or, if lower, fair value and depreciated over the shorter of the lease term and the expected useful life of the assets, unless it is reasonably certain that the asset will become the property of the lessee at the end of the contract.

Given the nature of the Group's businesses, the subsidiaries do not own investment property in the normal course of their operations.

1.8. Government grants

1.8.1 Investment grants for property, plant and equipment

In accordance with the option offered by IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, investment grants are deducted from the gross carrying amount of property, plant and equipment to which they relate.

They are recognized as a reduction in the depreciation charge over the useful life of the depreciable asset.

When the construction of an asset covers more than one period, the portion of the grant not yet used is recorded in Other liabilities in the Balance Sheet.

1.8.2 Grants relating to concession arrangements

Grants received in respect of concession arrangements (see Note 1.21 for further details) are generally definitively earned and, therefore, are not repayable.

In accordance with the option offered by IAS 20, these grants are presented as a deduction from intangible assets or financial assets depending on the model adopted on the interpretation of the concession contract (IFRIC 12).

Under the intangible asset model, the grant reduces the amortization charge in respect of the concession intangible asset over the residual term of the concession contract.

Under the financial asset model, investment grants are equated to a means of repaying the operating financial asset.

1.8.3 Operating grants

Operating grants concern, by definition, operating items.

Where operating grants are intended to offset costs incurred, they are recognized as a deduction from the cost of goods sold over the period that matches them with related costs.

Where operating grants represent additional contractual remuneration of a recurring nature, such as contributions or compensation for inadequate revenue provided under certain public service delegation contracts, they are recognized in revenue.

1.9. Intangible assets excluding goodwill

Intangible assets are identifiable non-monetary assets without physical substance. They are recorded at acquisition cost less accumulated amortization and any accumulated impairment losses.

Intangible assets mainly consist of certain assets recognized in respect of concession arrangements (IFRIC 12), entry fees paid to local authorities for public service contracts, the value of contracts acquired through business combinations, patents, licenses, software and operating rights.

1.10. Business combinations and goodwill

Business combinations are recorded in accordance with the purchase accounting method as set out in IFRS 3. Under this method, assets acquired and liabilities and contingent liabilities assumed are recorded at fair value. The excess of the purchase price over the fair value of assets acquired and liabilities and contingent liabilities assumed, if any, is capitalized as goodwill.

Pursuant to IFRS, goodwill is not amortized.

1.11. Impairment of intangible assets, property, plant and equipment and non-financial assets

The net carrying amount of non-financial assets, other than inventory and deferred tax assets, is reviewed at each balance sheet date in order to assess the existence of any indication of loss in value. Where such indication exists, the recoverable amount of the asset (equal to the higher of fair value less costs to sell and value in use) is estimated.

Veolia Environnement performs systematic annual impairment tests in respect of goodwill and other intangible assets with an indefinite useful life following the preparation of a long-term plan, or more frequently where there is an indication of loss in value. In such cases, the long-term prospects of an activity are reviewed, a valuation is performed and an impairment is recorded in priority against goodwill allocated to the cash-generating unit (CGU) and then, where applicable, pro rata to the net carrying amounts of the other assets of the CGU.

The net carrying amount of an asset or group of assets is reduced to its recoverable amount (higher of the fair value less costs to sell and the value in use), where this is lower.

The value in use is determined by discounting the future cash flows expected to be derived from the asset, CGU or group of CGUs considered, taking into account, where appropriate, the residual value, discounted using the discount rate determined for each asset, CGU or group of CGUs and corresponding to the risk-free rate plus a risk premium weighted for business-specific or country-specific risks. Given the activities of the Group, cash-generating units generally correspond to a country in each Division.

Impairment losses can be reversed, with the exception of goodwill.

Note 4, Goodwill, provides details of the performance of impairment tests.

1.12. Inventories

In accordance with IAS 2, *Inventories*, inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1.13. Assets classified as held for sale and Liabilities directly associated with assets classified as held for sale, Discontinued operations

Assets classified as held for sale and liabilities directly associated with assets classified as held for sale are stated at the lower of their net carrying amount and fair value less costs to sell.

The net income or loss realized by discontinued operations is reported on a separate line of the Income Statement.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and:

- represents a separate major line of business or geographical area of operations, or
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, sets out the accounting treatment applicable to assets held for sale and presentation and disclosure requirements for discontinued operations. The standard notably requires the separate presentation of assets held for sale in the balance sheet and the separate presentation in the income statement of the net results of discontinued operations.

The standard requires the separate presentation in the income statement of the results of discontinued operations for all comparative periods. Therefore, as of December 31, 2008, the results of operations sold or in the course of being sold in 2008 must also be adjusted in the comparative financial statements as of December 31, 2006 and 2007. The 2007 and 2006 comparative income statements therefore differ from those published previously.

The impact of these operations on cash flows from operating, investing and financing activities is presented at the foot of the cash flow statement for the year ended December 31, 2008 and comparative periods.

The 2007 and 2006 balance sheets are unchanged.

1.14. Provisions

Pursuant to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* a provision is recorded when, at the year end, the Group has a current legal or implicit obligation to a third party as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated.

As part of its obligations under public services contracts, the Group generally assumes responsibility for the maintenance and repair of installations of the publicly-owned utility networks it manages. The resulting maintenance and repair costs are analyzed in accordance with IAS 37 on provisions and, where necessary, a provision for contractual commitments is recorded where there is outstanding work to be performed.

In the event of a restructuring, an obligation exists if, prior to the period end, the restructuring has been announced and a detailed plan produced or implementation has commenced. Future operating costs are not provided.

In the case of provisions for restoration of waste storage facilities, Veolia Environnement accounts for the obligation to restore a site as waste is deposited, recording a non-current asset component and taking into account inflation and the date on which expenses will be incurred (discounting). The asset is amortized based on its depletion.

Provisions giving rise to an outflow after more than one year are discounted if the impact is material. Discount rates reflect current assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recorded in the Income Statement in "Other financial income and expenses".

1.15. Financial instruments

1.15.1 Financial assets and liabilities

Financial assets include assets classified as available-for-sale and held-to-maturity, assets at fair value through the Income Statement, asset derivative instruments, loans and receivables and cash and cash equivalents.

Financial liabilities include borrowings, other financing and bank overdrafts, liability derivative instruments and operating payables.

The recognition and measurement of financial assets and liabilities is governed by IAS 39.

1.15.2 Recognition and measurement of financial assets

Financial assets are initially recognized at fair value, net of transaction costs. In the case of assets measured at fair value through the Income Statement, transaction costs are expensed directly to net income.

The Group classifies financial assets in one of the four categories identified by IAS 39 on the acquisition date:

Held-to-maturity assets

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturities, other than loans and receivables, that the Group acquires with the positive intention and ability to hold to maturity. After initial recognition at fair value, held-to-maturity assets are recognized and measured at amortized cost using the effective interest method.

Held-to-maturity assets are reviewed for objective evidence of impairment. An impairment loss is recognized if the carrying amount of the financial asset exceeds its recoverable amount, as estimated during impairment testing. The impairment loss is recognized in the Income Statement.

Net gains and losses on held-to-maturity assets consist of interest income and impairment losses.

Available-for-sale assets

Available-for-sale assets mainly consist of non-consolidated investments and marketable securities that do not qualify for inclusion in other financial asset categories. They are measured at fair value, with fair value movements recognized directly in equity, unless an impairment test leads to the recognition of an unrealized capital loss compared with the historical acquisition cost due to a material or long-term downturn in expected cash flows from the assets concerned. Where this is the case, the impairment loss is recognized in the Income Statement. Impairment reversals are recognized in the Income Statement for debt securities only (receivables and interest rate bonds).

Amounts recognized in equity are released to income on the sale of the relevant investment. Fair value is equal to market value in the case of quoted securities and an estimate of the fair value in the case of unquoted securities, determined based on financial criteria most appropriate to the specific situation of each security. Non-consolidated investments which are not quoted in an active market and for which the fair value cannot be measured reliably, are recorded as a last resort by the Group at historical cost less any accumulated impairment losses.

Net gains and losses on available-for-sale assets consist of interest income, dividends, impairment losses and capital gains and losses on disposal.

Loans and receivables

This category includes loans to non-consolidated investments, operating financial assets, other loans and receivables and trade receivables. After initial recognition at fair value, these instruments are recognized and measured at amortized cost using the effective interest method.

An impairment loss is recognized if the carrying amount of these assets exceeds the recoverable amount, as estimated during impairment tests, where there exists an indication of impairment. The impairment loss is recognized in the Income Statement.

The impairment of trade receivables is calculated using two methods:

- a statistical method : this method is based on past losses and involves the application of a provision rate by category of aged receivables. The analysis is performed for a group of similar receivables, presenting similar credit characteristics as a result of belonging to a client category and country.
- an individual method: the probability and amount of the loss is assessed on an individual case basis in particular for non-State public debtors (past due period, other balance sheet positions with the counterparty, rating issued by an external rating agency, geographical location).

Net gains and losses on loans and receivables consist of interest income and impairment losses.

Assets and liabilities at fair value through the Income Statement

This category includes:

- trading assets and liabilities acquired by the Group for the purpose of selling them in the near term in order to realize a capital gain, which form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives not qualifying for hedge accounting are also considered trading assets and liabilities.
- assets designated at fair value and primarily the portfolio of cash UCITS whose performance and management is based on fair value.

Changes in the value of these assets are recognized in the Income Statement.

Net gains and losses on assets at fair value through the Income Statement consist of interest income, dividends, fair value adjustments and capital gains and losses on disposal.

Net gains and losses on derivatives entered into for trading purposes consist of flows exchanged and the change in the value of the instrument.

1.15.3 Cash and cash equivalents

Cash equivalents are held to meet short-term cash commitments. Cash and cash equivalents include all cash balances, deposits with a maturity of less than three months when initially recorded in the Balance Sheet, monetary UCITS and negotiable debt instruments. These investments can be converted into cash or sold in the very short term and do not present any material risk of loss in value. Cash equivalents are designated as assets at fair value through the Income Statement.

Bank overdrafts repayable on demand which form an integral part of the Group's cash management policy represent a component of cash and cash equivalents for the purposes of the cash flow statement.

1.15.4 Recognition and measurement of financial liabilities

With the exception of trading liabilities and liability derivative instruments which are measured at fair value, borrowings and other financial liabilities are recognized initially at fair value less transaction costs and subsequently measured at amortized cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the estimated term of the financial instrument or, where applicable, over a shorter period, to the net carrying amount of the financial asset or liability.

When the financial liability issued includes an embedded derivative which must be recognized separately, the amortized cost is calculated on the debt component only. The amortized cost at the acquisition date is equal to the proceeds from the issue less the fair value of the embedded derivative.

1.15.5 Minority interest put options

Pursuant to IAS 27, minority interests in fully consolidated subsidiaries are considered a component of equity.

Furthermore, in accordance with IAS 32, minority interest put options are considered as liabilities.

Pending an IFRIC interpretation or a specific IFRS, the Group has adopted the following treatment:

- the present value of purchase commitments is recorded in borrowings in the Balance Sheet, through minority interests and where necessary goodwill for the residual balance;
- gains or losses resulting from the unwinding of the discount on the liability are recorded in finance costs and, when the put exercise price varies, changes in the value of the instrument resulting from changes in valuation assumptions concerning the commitment are recorded in borrowings through goodwill.

If the minority interests have not been purchased on the expiry of the commitment, minority interests in equity are reconstituted through goodwill and the liability recognized in respect of the commitment (no longer necessary).

1.15.6 Recognition and measurement of derivative instruments

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

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

Net gains and losses on instruments at fair value through the Income statement (trading instruments) consist of flows exchanged and the change in the value of the instrument.

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

- a fair value hedge is a hedge of exposure to changes in fair value of a recognized asset or liability, or an identified portion of such an asset or liability, that is attributable to a particular risk (notably interest rate or foreign exchange risk), and could affect net income for the period;
- a cash flow hedge is a hedge of exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (such as a planned purchase or sale) and could affect net income for the period;
- a hedge of a net investment in a foreign operation hedges the exposure to foreign exchange risk of the net assets of a foreign operation including loans considered part of the investment (IAS 21, *The Effects of Changes in Foreign Exchange Rates*).

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

- the hedging relationship is precisely defined and documented at the inception date;
- the effectiveness of the hedge is demonstrated at inception and by regular verification of the offsetting nature of movements in the market value of the hedging instrument and the hedged item. The ineffective portion of the hedge is systematically recognized in the Income Statement.

The use of hedge accounting has the following consequences:

- in the case of fair value hedges of existing assets and liabilities, the hedged portion of these items is measured at fair value in the Balance Sheet. The gain or loss on remeasurement is recognized in the Income Statement, where it is offset against matching gains or losses arising on the fair value remeasurement of the hedging financial instrument, to the extent it is effective;
- in the case of cash flow hedges, the portion of the gain or loss on the fair value remeasurement of the hedging instrument that is determined to be an effective hedge is recognized directly in equity, while the gain or loss on the fair value remeasurement of the underlying item is not recognized in the balance sheet. The ineffective portion of the gain or loss on the hedging instrument is recognized in the Income Statement. Gains or losses recognized in equity are released to the Income Statement in the same period or periods in which the asset acquired or liability issued impacts the Income Statement;
- in the case of net investment hedges, the effective portion of the gain or loss on the hedging instrument is recognized in translation reserves in equity, while the ineffective portion is recognized in the Income Statement. Gains and losses recognized in foreign exchange translation reserves are released to the Income Statement when the foreign investment is sold.

1.15.7 Embedded derivatives

An embedded derivative is a component of a host contract that satisfies the definition of a derivative and whose economic characteristics are not closely related to that of the host contract. An embedded derivative must be separated from its host contract and accounted for as a derivative if, and only if, the following three conditions are satisfied:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- the embedded derivative satisfies the definition of a derivative laid down in IAS 39; and
- the hybrid instrument is not measured at fair value with changes in fair value recognized in the Income Statement.

1.15.8 Treasury shares

Treasury shares are deducted from equity.

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

1.16. Pension plans and other post-employment benefits

Veolia Environnement and its subsidiaries have several pension plans.

Defined contribution plans: plans under which the Group (or a Group entity) pays an agreed contribution to a separate entity, relieving it of any liability for future payments.

These obligations are expensed in the income statement when due.

Defined benefit plans: all plans which do not meet the definition of a defined contribution plan. The net obligations of each Group entity are calculated for each plan based on an estimate of the amount employees will receive in exchange for services rendered during the current and past periods. This amount is then discounted to present value and unamortized past service costs and the fair value of plan assets are deducted.

Where the calculation shows a plan surplus, the asset recognized represents the difference between the discounted present value of profits, in the form of future repayments or reductions in plan contributions, less the amount of unamortized past service costs.

Employee obligations of the Group are calculated using the projected unit credit method. This method is based on the probability of personnel remaining with companies in the Group until retirement, the foreseeable changes in future compensation, and the appropriate discount rate. Specific discount rates are adopted for each monetary zone. This results in the recognition of pension-related assets or provisions, and the recognition of the related net expenses.

Pursuant to IAS 19 revised, *Employee Benefits*, actuarial gains and losses are offset against equity and are not amortized in the Income Statement.

1.17. Share-based payments

Pursuant to IFRS 2, *Share-based Payment*, an expense is recorded in respect of share purchase or subscription plans and other share-based compensation granted by the Group to its employees. The fair value of these plans on the grant date is expensed in the Income Statement and recognized directly in equity in the period in which the benefit is vested and the service is rendered.

The fair value of purchase and subscription options is calculated using the Black and Scholes model, taking into account the expected life of the options, the risk-free interest rate, observed volatility in the past and dividends expected on the shares.

The compensation expense in respect of employee savings plans is equal to the difference between the subscription price and the average share price at each subscription date, less a discount for non-transferability.

1.18. Revenue

Revenue represents sales of goods and services measured at the fair value of the counterparty received or receivable.

Revenue from the sale of goods or services is recognized when the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- the significant risks and rewards of ownership of the goods have been transferred to the buyer;
- the recovery of the counterparty is considered probable;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.18.1 Sales of goods

Sales of goods mainly concern the sale of technological procedures and solutions relating to the treatment of water (drinking water and wastewater treatment) in the Water Division and sales of products related to recycling activities in the Environmental Services Division.

Revenue relating to these sales is recognized on physical delivery of the goods, which represents the transfer of the inherent risks of ownership of these goods.

1.18.2 Sales of services

The provision of services represents the majority of Group businesses such as the processing of waste, water distribution and related services, network operation and passenger transport and energy services (heat distribution, thermal services and public lighting).

Revenue from these activities is recognized when the service is rendered and it is probable that the economic benefits will flow to Group entities.

These activities involve the performance of a service agreed contractually (nature, price) with a public sector or industrial customer, within a set period. Billing is therefore based on the waste tonnage processed/ incinerated, the volume of water distributed, the thermal power delivered or the number of passengers transported, multiplied by the contractually agreed price.

It should be noted that fees and taxes collected on behalf of local authorities are excluded from Revenue when the Group does not bear the risk of payment default by third parties.

1.18.3 Construction contracts (excluding service concession arrangements)

Construction contracts primarily concern the design and construction of the infrastructures necessary for water treatment/distribution and wastewater treatment activities.

The related revenue is recognized in accordance with IAS 11, *Construction Contracts* (see Note 1.23).

1.18.4 IFRIC 4 Contracts

Contracts falling within the scope of IFRIC 4, *Determining Whether an Arrangement Contains a Lease* (see Note 1.21), involve services generally rendered to industrial/private customers. All service components to which the parties have agreed are detailed in contracts such as BOT (Build Operate Transfer) contracts.

Services include the financing of the construction of a specific asset/installation on behalf of the customer and the operation of the asset concerned.

Revenue relating to the construction of the asset is recognized in accordance with the provisions of IAS 11 and the asset is recorded in operating financial assets. Revenue is recognized on a completion basis at each period end, based on actual and expected costs.

The financing of construction work involves finance costs that are invoiced to the customer and recognized in

Revenue, under Revenues from operating financial assets. This interest is recognized in Revenue from the start of construction work and represents remuneration received by the builder/lender.

Revenue relating to the operation of the asset is recognized on delivery of the goods or performance of the service depending on the operating activity.

1.18.5 Service Concession arrangements (IFRIC 12)

See Note 1.21 on Service concession arrangements.

1.19. Financial items in the Income Statement

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

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

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

Interest income is recognized in the income statement when earned, using the effective interest method.

Other financial income and expenses notably include income on financial receivables calculated using the effective interest method, dividends, foreign exchange gains and losses, impairment losses on financial assets and the unwinding of discounts on provisions.

1.20. Income taxes

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

Deferred tax assets are recognized on deductible timing differences, tax loss carry forward and/or tax credit carry forward. Deferred tax liabilities are recognized on taxable timing differences.

Deferred tax assets and liabilities are adjusted for the effects of changes in prevailing tax laws and rates at the year end. Deferred tax balances are not discounted.

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

1.21. Description of Group concession activities

In the course of its business, Veolia Environnement provides collective services (distribution of drinking water and heating, passenger transport network, household waste collection, etc.) to local authorities in return for a remuneration based on services rendered.

These collective services (also known as services of general interest or general economic interest or public services) are generally managed by Veolia Environnement under contracts entered into at the request of public bodies which retain control thereof.

Concession arrangements involve the transfer of operating rights for a limited period, under the control of the local authority, using dedicated installations built by Veolia Environnement, or made available to it for a fee or nil consideration:

- These contracts define "public service obligations" in return for remuneration. The remuneration is based on operating conditions, continuity of service, price rules and obligations with respect to the maintenance/replacement of installations. The contract determines the conditions for the transfer of installations to the local authority or a successor at its term.
- Veolia Environnement can, in certain cases, be responsible for a given service as it holds the service support network (water/heat distribution network, water treatment network). Such situations are the result of full or partial privatizations. Provisions impose public service obligations and the means by which the local authority may recover control of the concession holder.

These contracts generally include price review clauses. These clauses are mainly based on cost trends, inflation, changes in tax and/or other legislation and occasionally on changes in volumes and/or the occurrence of specific events changing the profitability of the contract.

In addition, the Group generally assumes a contractual obligation to maintain and repair facilities managed under public service contracts. The resulting maintenance and repair costs are analyzed in accordance with IAS 37 on provisions and, where necessary, a provision for contractual commitments is recorded where there is outstanding work to be performed.

The nature and extent of the Group's rights and obligations under these different contracts differ according to the public services rendered by the different Group Dvisions.

The accounting treatment is disclosed in Notes 5 and 10.

Water:

Veolia Environnement manages municipal drinking water and/or waste water services. These services encompass all or part of the water cycle (extraction from natural sources, treatment, storage and distribution followed by collection and treatment of waste water and release into the environment).

In France, these services are primarily rendered under public service delegation "affermage" contracts with a term of 8 to 20 years. They concern the distribution of drinking water and/or the collection and treatment of waste water. They use specific assets, such as distribution or wastewater treatment networks and drinking water or wastewater treatment plants, which are generally provided by the concession grantor and returned to it at the end of the contract.

Abroad, Veolia Environnement renders its services under contracts which reflect local legislation, the economic situation of the country and the investment needs of each partner.

These contracts are generally concession arrangements, service contracts or O&M (Operate & Manage) and BOT contracts with an average term of between 7 and 40 years, and sometimes longer.

Contracts can also be entered into with public entities in which Veolia Environnement purchased an interest on their partial privatization. The profitability of these contracts is not fundamentally different from other contracts, but operations are based on a partnership agreement with the local authority.

Environmental Services:

Both in France and abroad, the main concession arrangements entered into by Veolia Environnement concern the treatment and recovery of waste in sorting units, storage and incineration. These contracts have an average term of 18 to 30 years.

Energy Services:

Veolia Environnement has developed a range of energy management activities: heating and cooling networks, thermal and multi-technical services, industrial utilities, installation and maintenance of production equipment, integration services for the comprehensive management of buildings and electrical services on public roadways.

The main contracts concern the management of heating and air-conditioning networks either under urban concessions or on behalf of local authorities.

In Eastern Europe, Veolia Environnement's Energy Services Division provides services under mixed partial privatizations or through public-private partnerships with local authorities responsible for the production and distribution of thermal energy.

Transportation:

Veolia Environnement's Transportation Division provides passenger transport services on behalf of local, regional and national public authorities.

Veolia Environnement primarily provides these services in France and abroad under service contracts comprising public service obligations (as per EU terminology), with terms of 7 to 15 years.

Accounting for service concession agreements:

Concession agreements are recognized since fiscal year 2006 in accordance with IFRIC 12, *Service Concession Agreement*, published in November 2006, as Veolia Environnement elected for the early adoption of this interpretation as the preferred method. IFRIC 12 was approved at European level on March 26, 2009.

A substantial portion of the Group's assets is used within the framework of concession or affermage contracts granted by public sector customers ("grantors") and/or by concession companies purchased by the Group on full or partial privatization. The characteristics of these contracts vary significantly depending on the country and activity concerned.

Nonetheless, they generally provide, directly or indirectly, for customer involvement in the determination of the service and its remuneration, and the return of the assets necessary to the performance of the service at the end of the contract.

IFRIC 12 is applicable to concession arrangements comprising a public service obligation and satisfying all of the following criteria:

- the concession grantor controls or regulates the services to be provided by the operator using the asset, the infrastructure, the beneficiaries of the services and prices applied;
- the grantor controls the significant residual interest in the infrastructure at the end of the term of the arrangement.

Pursuant to IFRIC 12, such infrastructures are not recognized in assets of the operator as property, plant and equipment but in financial assets (“financial asset model”) and/or intangible assets ("intangible asset model") depending on the remuneration commitments given by the grantor.

1.21.1 “Financial asset model”

The financial asset model applies when the operator has an unconditional right to receive cash or another financial asset from the grantor.

In the case of concession services, the operator has such an unconditional right if the grantor contractually guarantees the payment of:

- amounts specified or determined in the contract, or
- the shortfall, if any, between amounts received from users of the public service and amounts specified or determined in the contract.

Financial assets resulting from the application of IFRIC 12 are recorded in the Balance Sheet under the heading "Operating financial assets" and recognized at amortized cost.

Unless otherwise indicated in the contract, the effective interest rate is equal to the weighted average cost of capital of the entities carrying the assets concerned.

Pursuant to IAS 39, an impairment loss is recognized if the carrying amount of these assets exceeds their fair value, as estimated during impairment tests. Fair value is estimated based on the recoverable amount, calculated by discounting future cash flows (value in use method).

The portion falling due within less than one year is presented in "Current operating financial assets", while the portion falling due within more than one year is presented in the non-current heading.

Revenue associated with this financial model includes:

- revenue recorded on a completion basis, in the case of construction operating financial assets (in accordance with IAS 11);
- the remuneration of the operating financial asset recorded in Revenue from operating financial assets (excluding principal payments);
- service remuneration.

1.21.2 “Intangible asset model”

The intangible asset model applies where the operator is paid by the users or where the concession grantor has not provided a contractual guarantee in respect of the recoverable amount. The intangible asset corresponds to the right granted by the concession grantor to the operator to charge users of the public service.

Intangible assets resulting from the application of IFRIC 12 are recorded in the Balance Sheet under the heading "Concession intangible assets" and are amortized, generally on a straight-line basis, over the contract term. However, fees paid to local authorities that are an integral part of the cost of the intangible asset are disclosed under the heading "Other intangible assets".

Under the intangible asset model, Revenue includes:

- revenue recorded on a completion basis, in the case of construction operating financial assets (in accordance with IAS 11);
- service remuneration.

1.21.3 “Mixed or bifurcation model”

The choice of the financial asset or intangible asset model depends on the existence of payment guarantees granted by the concession grantor.

However, certain contracts may include a payment commitment on the part of the concession grantor covering only part of the investment, with the balance covered by royalties charged to users.

Where this is the case, the investment amount guaranteed by the concession grantor is recognized under the financial asset model and the residual balance is recognized under the intangible asset model.

1.22. Finance leases

IFRIC 4 seeks to identify the contractual terms and conditions of agreements which, without taking the legal form of a lease, convey a right to use a group of assets in return for payments included in the overall contract remuneration. It identifies in such agreements a lease contract which is then analyzed and accounted for in accordance with the criteria laid down in IAS 17, based on the allocation of the risks and rewards of ownership.

The contract operator therefore becomes the lessor vis-à-vis its customers. Where the lease transfers the risks and rewards of ownership of the asset in accordance with IAS 17 criteria, the operator recognizes a financial asset to reflect the corresponding financing, rather than an item of property, plant and equipment.

These financial assets are recorded in the Balance Sheet under the heading "Operating financial assets". They are initially recorded at the lower of fair value and total future flows and subsequently at amortized cost using the effective interest rate of the contract.

The portion falling due within less than one year is presented in "Current operating financial assets", while the portion falling due within more than one year is presented in the non-current heading.

Contracts falling within the scope of IFRIC 4 are either outsourcing contracts with industrial customers, BOT (Build Operate Transfer) contracts, or incineration or cogeneration contracts under which, notably, demand or volume risk is, in substance, transferred to the prime contractor.

During the construction phase, a financial receivable is recognized in the balance sheet and revenue in the Income Statement, in accordance with the percentage completion method laid down in IAS 11 for construction contracts.

The financial receivables resulting from this analysis are initially measured at the fair value of lease payments and then amortized using the effective interest method.

After a review of the contract and its financing, the implied interest rate on the financial receivable is based on either the Group financing rate and /or the borrowing rate associated with the contract.

1.23. Construction contracts

Veolia Environnement recognizes income and expenses associated with construction contracts in accordance with the percentage of completion method defined in IAS 11.

These contracts are entered into with local authorities or private partners for the construction of infrastructures. They are generally fixed-price contracts as defined by IAS 11.

Revenue generated by construction services rendered by the Group is measured at the fair value of the consideration received or receivable, where total income and expenses associated with the construction contract and the stage of completion can be determined reliably.

The percentage of completion is determined by comparing costs incurred as of the balance sheet date with total estimated costs under the contract. Costs incurred are recognized as production cost and do not include either administrative or selling costs.

Where total contract costs exceed total contract revenue, the expected loss is recognized as an expense immediately via a provision for losses to completion, irrespective of the stage of completion and based on a best estimate of forecast results including, where appropriate, rights to additional income or compensation, where they are probable and can be determined reliably. Provisions for losses to completion are recorded as liabilities in the Balance Sheet.

Partial payments received under construction contracts before the corresponding work has been performed, are recognized in liabilities in the Balance Sheet under advances and down-payments received.

The amount of costs incurred, plus profits and less losses recognized (notably in provisions for losses to completion) and intermediary billings is determined on an individual contract basis. Where positive, this amount is recognized in assets in "amounts due from customers for construction contract work". Where negative, it is recognized in liabilities in "amounts due to customers for construction contract work".

1.24. Electricity purchase and sale contracts

Incidentally to their operations, certain Veolia Environnement subsidiaries are required to purchase or sell electricity on the market, in order to manage supplies and optimize costs.

Revenue

After analysis of contractual terms and conditions, income from trading activity transactions is recognized in "Revenue", for the related margin.

Financial instruments

Certain subsidiaries enter into electricity transactions (forward contracts, options) which are recognized as derivative instruments in accordance with IAS 39.

Application scope of IAS 39

Options and forward purchase and sale contracts with physical delivery are excluded from the application scope of IAS 39 if entered into for own use (exception for own-use).

This exception is applicable when the following conditions are satisfied:

- The volumes purchased or sold under the contracts reflect the operating requirements of the subsidiary;
- The contracts are not subject to net settlement as defined by IAS 39 and, in particular, physical delivery is systematic;
- The contracts are not equivalent to sales of options, as defined by IAS 39.

Recognition and measurement of instruments falling within the application scope of IAS 39

Instruments falling within the application scope of IAS 39 are derivative instruments and are measured at fair value, calculated using models generally based on observable data. Fair value movements are recorded in operating income. The net impact of the unwinding of these transactions is recorded in revenue (see Note 30).

1.25. Greenhouse gas emission rights

Faced with increased greenhouse gas emissions into the atmosphere, the International Community introduced a regulatory system within the framework of the Kyoto protocol, aimed at reducing such emissions. This system was finalized in 1997 and came into effect in February 2005 and seeks to achieve a reduction in emission levels of at least 5% compared to 1990, over the commitment period 2008-2012 for industrialized countries. Emissions are capped through the allocation of emission rights (AAU: Assigned Amount Units) to each country, which must be surrendered in 2014 based on actual emissions during the period 2008-2012. Developing countries have no reduction objectives under the Kyoto protocol, but emission credits (CER: Certified Emission Reduction) may be presented to companies or States that contribute to investments enabling a reduction in greenhouse gas emissions in these countries.

At a European level, the European Union decided to implement, via Directive 2003/87/EC of October 13, 2003, an internal trading system for emission rights (EUA: EU Allowance). This system has been in effect since the beginning of 2005. Draft Directive 2004/101/EC established a link between the Kyoto system and the European system, enabling the operators concerned to use CER, up to an agreed maximum, to satisfy their surrender obligations in the place of EUA.

In this context, the Group (primarily the Energy Services Division) was allocated free of charge by the different States of the European Union, a certain number of emission rights (EUA) for the initial so-called pre-Kyoto period 2005-2007 (EUA I) and then for a second period (EUA II) 2008-2012. The actual emissions position is determined each year and the corresponding rights surrendered. Based on this position compared to allocations, the Group purchases or sells emission rights.

In the absence of specific IFRS provisions, the Group has adopted the “net liability approach”, which involves the recognition of a liability at the balance sheet date if actual emissions exceed allowances held, in accordance with IAS 37.

Allowances are managed as a production cost and, in this respect, are recognized in inventories:

- at nil value, when they are received free of charge,
- at acquisition cost, if purchased for valuable consideration on the market.

Consumption of this inventory is recognized on a weighted-average unit cost basis.

Transactions in these allowances performed on the forward market are recorded at market value at the balance sheet date. Fair value gains and losses on financial instruments relating to these forward transactions are recognized in equity or profit or loss depending on whether they qualify as cash flow hedges in accordance with IAS 39.

1.26. Segment reporting

Pursuant to IAS 14, *Segment Reporting,* Veolia Environnement provides primary information by business segment and secondary information by geographical area. The business segments are Water, Environmental Services, Energy Services and Transportation.

1.27. Fair value determination principles

The fair value of all financial assets and liabilities is determined at the balance sheet date, either for recognition in the accounts or disclosure in the notes to the financial statements (see Note 31).

Fair value is determined:

- i based on quoted prices in an active market, or
- ii using internal valuation techniques involving standard mathematical calculation methods integrating observable market data (forward rates, interest rate curves, etc.). Valuations produced by these models are adjusted to take account of a reasonable change in the credit risk of Veolia Group or the counterparty, or
- iii using internal valuation techniques integrating parameters estimated by the Group in the absence of observable market data.

Quoted prices in an active market

When quoted prices in an active market are available they are adopted in priority for the determination of the market value. Marketable securities and certain quoted bond issues are valued in this way.

Fair values determined using models integrating observable market data

The majority of derivative instruments (swaps, caps, floors, etc.) are traded over the counter and, as such, there are no quoted prices. Valuations are therefore determined using models commonly used by market participants to value such financial instruments.

Valuations calculated internally in respect of derivative instruments are tested every six months for consistency with valuations issued by our counterparties.

The fair value of unquoted borrowings is calculated by discounting contractual flows at the market rate of interest.

The net carrying amount of receivables and payables falling due within less than one year and certain floating-rate receivables and payables is considered a reasonable estimate of their fair value, due to the short payment and settlement periods applied by the Veolia Group.

The fair value of fixed-rate loans and receivables depends on movements in interest rates and the credit risk of the counterparty.

Valuations produced by these models are adjusted to take account of changes in Veolia Group credit risk.

Fair values determined using models integrating certain non-observable data

Derivative instruments valued using internal models integrating certain non-observable data include certain electricity derivative instruments for which there are no quoted prices in an active market (notably for electricity purchase options with extremely long maturity) or observable market data (forward prices for component materials, interest-rate curves, etc.), in particular for distant maturities.

NOTE 2. <u>Use of management estimates in the application of Group accounting standards</u>

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

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

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

Notes 1.10 and 4 on goodwill and business combinations present the method adopted for the allocation of the purchase price on business combinations. This allocation is based on future cash flow assumptions and discount rates.

Notes 1.11, 4 and 6 concern goodwill and non-current asset impairment tests. Group management performed tests based on best forecasts of discounted future cash flows of the activities of the cash-generating units concerned. Sensitivity analyses were also performed on invested capital values and are presented in the aforementioned notes.

Note 1.15 describes the principles adopted for the determination of financial instrument fair values.

Note 30 on derivative instruments describes the accounting treatment of derivative instruments. Veolia Environnement valued these derivative instruments, allocated them and tested their effectiveness where necessary.

Notes 17 and 32 on provisions and employee commitments detail the provisions recognized by Veolia Environnement. Veolia Environnement determined these provisions based on best estimates of these obligations.

Note 25 on the income tax expense presents the tax position of the Group and is notably based in France and in the United States on best estimates available to the Group of trends in future tax results.

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

The calculation methodology for discount rates adopted in the estimates presented above was analyzed with respect to the financial crisis.

The following discount rates were adopted:

- Application of IAS 36, *Impairment of assets*: in accordance with Group practice, the discount rates used correspond to the weighted-average cost of capital, calculated annually in June. A review of these rates as of December 31, 2008 did not call into question this practice.
- Application of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*: the discount rates applied to these liabilities take into account the decrease in risk-free interest rates and a theoretical risk factor recalculated to adjust the volatility witnessed after September 15, 2008. These calculations produce rates close to those determined as of June 30, 2008.
- Application of IAS 19, *Employee Benefits*: discount rates relating to these liabilities were, in prior years, generally based on the iBoxx index, which has since become highly volatile due to the financial crisis. In this context, the Group has temporarily suspended the direct use of the iBoxx index as of December 31, 2008 and, in conjunction with its actuaries, has determined discount rates to be used based on a financial market benchmark. The rates used are therefore based on actuarial recommendations and are close to the adjusted iBoxx index published on January 2, 2009.

NOTE 3. Significant events

- 2008 was marked by the consequences of the financial crisis and its initial repercussions on economic activity:
  - the extent of exchange rates fluctuations, which modified significantly the contribution of businesses from outside the euro-zone;
  - the increased volatility of commodity prices and in particular energy prices, which temporarily rendered standard regulation mechanisms ineffective (indexation, price adjustments, etc.) and impacted inventory values (recycled materials, energy, etc.);
  - the deterioration in the credit market and liquidity, which rendered access to financial resources more difficult and costly;
  - the business slowdown, which affected volumes in the environmental services sector and which, in certain business segments, may exert downward pressure on selling prices;
  - the downturn in the financial position of economic players, which weighs on price negotiations with certain public customers and on settlement terms and conditions.
- On November 19, 2007, the Environmental Services Division announced the signature of an agreement for the acquisition of the entire share capital of Bartin Aero Recycling Group, a company specializing in the collection and recovery of industrial waste and in particular the recycling of ferrous and non-ferrous metals. This transaction represents an investment of €149.3 million for the Environmental Services Division. It was finalized on February 13, 2008. The contribution of Bartin to Group revenue for the year ended December 31, 2008 is €246.6 million (see Note 33, Main acquisitions).
- In February 2008, following a takeover bid launched on December 17, 2007, Dalkia became the majority shareholder with a stake of 100% in Praterm, a heat production and distribution company in Poland. This transaction enabled Dalkia to strengthen its position in this country, where it already owns two of the largest heating networks in Poznan and Lodz. This transaction represents an investment of €146.1 million for Dalkia. The contribution of Praterm to Group revenue for the year ended December 31, 2008 is €37.0 million (see Note 33, Main acquisitions).

- On October 7, 2008, Mubadala Development Company (Mubadala) and the Water Division announced the creation of a joint venture to focus on water production and wastewater collection and treatment in the Middle East and North African regions. This business may subsequently operate in other Veolia Environnement business sectors. The joint venture shall be held 51% by Veolia Eau and 49% by Mubadala. This joint-venture is strategically important for the development of the Water Division in this region where water resource needs are considerable. The agreement was signed on December 30, 2008.
- On December 16, 2008, the Group sold Clemessy and Crystal in the Energy Services Division for an enterprise value of €226.3 million, including cash of €73.3 million. These activities contributed €696.0 million and €679.4 million to Group revenue in 2007 and 2006 respectively (see Note 27, Net income from discontinued operations).
- Due notably to the strengthening of the Group's long-term presence in the United States with the acquisition in 2007 of Thermal North America Inc. (Energy Services Division), Veolia Environnement performed on May 21, 2008 a fixed-rate bond issue listed in the United States in the amount of USD 1.8 billion comprised of three tranches (USD 700 million 5-year tranche, USD 700 million 10-year tranche and USD 400 million 30-year tranche). This first bond issue by the Group in the US market enables a better match between long-term cash flows and the local USD long-term debt.
- Given the performance downturn noted throughout the year in Environmental Services activities in Germany, a new business plan was prepared and led the Group to revise the value of goodwill and intangible assets recognized on the acquisition of the Sulo Group. Goodwill was therefore impaired in the amount of €343 million, intangible assets in the amount of €62.6 million (€44 million, net of tax) and deferred tax assets in the amount of €42 million.
- Pursuant to a reciprocal purchase and sale agreement signed on December 19, 2008 between Suez Environnement and Veolia Environnement, completion of which is expected in 2009, the assets and liabilities of certain French subsidiaries jointly held with the Suez Environnement Group were reclassified in the balance sheet in "Assets classified as held for sale" and "Liabilities directly associated with assets classified as held for sale".

NOTE 4. Goodwill

Goodwill breaks down as follows:

(€ million)	**As of December 31, 2008**	As of December 31, 2007	As of December 31, 2006
Gross	**7,211.2**	7,013.3	5,799.6
Impairment losses	**(487.9)**	(100.1)	(94.6)
Net	**6,723.3**	**6,913.2**	**5,705.0**

The main goodwill balances in net carrying amount by cash-generating unit (amounts in excess of €100 million as of December 31, 2008) are as follows:

(€ million)	**As of December 31, 2008**	As of December 31, **2007**	As of December 31, **2006**
Water - Distribution France	743.2	760.5	729.1
Environmental Services - United Kingdom	644.3	824.2	894.0
Environmental Services North America Solid Waste	610.8	567.8	610.3
Environmental Services - Germany	397.5	748.2	43.6
Dalkia France	338.5	342.8	330.2
Environmental Services France Solid Waste	304.9	179.8	173.1
Water - Central Europe	265.6	266.9	255.9
Water - China	247.5	145.5	145.7
Water Solutions and Technologies	245.8	206.1	189.2
Water - United Kingdom	197.4	245.3	228.2
Dalkia Italy	184.9	139.9	130.7
Transportation - North America	182.5	145.5	154.8
Energy Services - United States	152.6	139.6	-
Water - Germany (excl. Berlin)	137.7	138.8	138.1
Transportation - Passenger services France	136.2	117.7	115.4
Water - Berlin	134.4	134.4	134.4
Environmental Services - Italy	125.9	114.6	7.7
Energy Services - Poland	111.5	71.7	70.5
Transportation - Sweden, Norway, Finland	104.8	124.5	106.0
Environmental Services - Marius Pedersen	100.9	90.0	84.4
Goodwill balances > €100 million as of December 31, 2008	**5,367.2**	**5,503.8**	**4,541.4**
Goodwill balances < €100 million	1,356.1	1,409.4	1,163.6
Goodwill	**6,723.3**	**6,913.2**	**5,705.0**

As of December 31, 2008, accumulated impairment losses amounted to €487.9 million and mainly concerned the Environmental Services Division in Germany (€343 million recognized in 2008) and the Transportation Division in the Netherlands, the United Kingdom and Belgium (€55.3 million recognized in 2008) and in Scandinavia (€70 million recognized in 2004).

As of December 31, 2007, an impairment loss of €6.9 million was recognized in respect of the “Eurolines" cash generating unit.

As of December 31, 2006, an impairment loss of €7.3 million was recognized in respect of the Germany Transportation CGU, representing the entire goodwill balance.

Movements in 2008 in the net carrying amount of goodwill, by division are as follows:

(€ million)	As of December 31, 2007	Changes in consolidation scope	Foreign exchange translation	Impairment losses and badwill	Other	**As of December 31, 2008**
Water	2,208.2	140.9	(42.6)	-	(58.8)	**2,247.7**
Environmental Services	3,049.5	211.3	(182.4)	(343.0)	1.3	**2,736.7**
Energy Services	1,098.1	58.4	(25.4)	-	-	**1,131.1**
Transportation	556.7	67.2	(17.5)	(55.3)	0.2	**551.3**
Other	0.7	53.2	2.6	-	-	**56.5**
Goodwill	**6,913.2**	**531.0**	**(265.3)**	(398.3)	(57.3)	**6,723.3**

Changes in consolidation scope primarily concerned the following acquisitions and disposals:

- Water: Acquisition of Biothane Group (Netherlands and USA) for €42.7 million, acquisition of a joint investment in Tianjin Shibei WCO (China) for €37.7 million.
- Environmental Services: Acquisition of Bartin Recycling Group (France) for €121.6 million.
- Energy Services:
  - Acquisition of Praterm Group (Poland) for €51.3 million and GEFI and Emicom within Siram Spa (Italy) for €44.9 million,
  - Disposal of Clemessy and Crystal activities for €76.6 million.
- Transportation: Acquisition of Rail4Chem (Germany) for €15.6 million and various companies in the United States for €23.5 million.
- Other: Acquisition of Ridgeline (United States) for €45.0 million.

The main acquisitions of the year are presented in Note 33, Main acquisitions, and the disposals are presented in Note 27, Net income from discontinued operations.

The opening balance sheets of 2008 acquisitions are provisional, including those of Tianjin Shibei WCO, Bartin Recycling and Praterm.

The opening balance sheets of 2007 acquisitions not yet definitive as of December 31, 2007 (SULO in the Environmental Services division in Germany, non-regulated Thames activities in the Water division in the United Kingdom, Thermal North America Inc. in the Energy Services division in the United States and VES Tecnitalia in the Environmental Services division in Italy) were not materially changed.

Foreign exchange translation losses are primarily due to the depreciation of the pound sterling and the appreciation of the U.S. dollar in the amount of -€272.2 million and €62.2 million respectively.

Impairment losses recognized in the year total €398.3 million and include €343.0 million in respect of impairment of the goodwill of the Environmental Services Germany cash-generating unit and €55.3 million in respect of impairment of the goodwill of the Transportation division "Other European" cash-generating unit, corresponding to activities in the Netherlands, the United Kingdom and Belgium.

Other movements primarily consist of the reclassification of the assets of certain French subsidiaries under joint control in the Water Division, to "Assets classified as held for sale" in the amount of €58.8 million.

Impairment tests as of December 31, 2008

Veolia Environnement performs systematic annual impairment tests in respect of goodwill and other intangible assets with an indefinite useful life. More frequent tests are performed where there is indication of loss in value.

The recoverable value of a cash-generating unit is estimated in accordance with the method set-out in Note 1.11. The main assumptions on which the value in use of a cash-generating unit is based are the discount rate and trends in volumes, prices and direct costs (inflation) over the period.

Discount rates (weighted-average cost of capital) are estimated by management for each cash-generating unit and reflect current market assessments of the time value of money and the specific risks to which the cash-generating unit is exposed. The methodology for determining rates in a period of financial crisis is presented in Note 2, Use of management estimates in the application of Group accounting standards. Trends in volumes, prices and direct costs are based on past trends and the future market outlook.

Systematic impairment tests are based on future cash flows taken, for the first six years, from the long-term planning process in June 2008. The terminal value is then calculated based on discounted forecast flows for the last year (2014). These flows include an organic growth rate such as inflation (1.5% to 4.1%, depending on the business).

Given the current economic climate, the reduction in cash flows in the 2009 budget prepared at the end of 2008, of over 10% compared with 2009 figures in the long-term plan, led the Group to review its business plans for certain cash-generating units.

As Water activities in China follow a specific economic model, with extremely long contract terms (generally fifty years) and high investment flows during the initial contract years, fiscal year 2014 may not be considered a standard year. Therefore, exceptionally, the business plan was extended to 2023 for the “Water-China” cash-generating unit, in order to identify standard flows for the terminal year.

Discount rates used in 2008 reflect the country or geographical area of the cash-generating unit, in accordance with the criteria disclosed in Notes 1.11 and 2. The main average discount rates by geographical area in 2008 were as follows:

- France: 6.6%
- United States: 6.6%
- Germany: 6.6%
- United Kingdom: 7.2%
- China: 9.5%

Impairment tests led to the impairment of the goodwill of the “Environmental Services-Germany” cash-generating unit (discount rate of 6.6% and long-term growth rate of 1.9%) in the amount of €343.0 million and the impairment of the entire goodwill of the “Transportation-Other European” cash-generating unit (discount rate of 6.8% and long-term growth rate of 1.9%) in the amount of €55.3 million.

Sensitivity of impairment tests

A sensitivity analysis was performed on impairment tests, assuming a 1% increase in the discount rate and a 1% decrease in the perpetual growth rate.

A 1% increase in the discount rate would generate recoverable values for invested capital below the net carrying amount of certain cash-generating units. This reduction would be approximately €360 million (including €143 million for the “Environmental Services-Germany” cash-generating unit and €28 million for the “Transportation-Other European” cash-generating unit).

A 1% decrease in perpetual growth rates would generate recoverable values for invested capital below the net carrying amount of certain cash-generating units. This reduction would be approximately €256 million (including €110 million for the “Environmental Services-Germany” cash-generating unit and €19 million for the “Transportation–Other European” cash-generating unit).

Recap: Movements in the net carrying amount of goodwill during 2007 are as follows:

(€ million)	As of December 31, 2006	Changes in consolidation scope	Foreign exchange translation	Impairment losses and badwill	Other	As of December 31, 2007
Water	2,028.6	197.3	(30.4)	2.0	10.7	**2,208.2**
Environmental Services	2,294.0	903.7	(147.2)	-	(1.0)	**3,049.5**
Energy Services	839.2	246.7	2.5	10.4	(0.7)	**1,098.1**
Transportation	543.2	43.8	(18.4)	(13.9)	2.0	**556.7**
Other	-	-	-	-	0.7	**0.7**
Goodwill	**5,705.0**	**1,391.5**	**(193.5)**	**(1.5)**	**11.7**	**6,913.2**

In 2007, changes in consolidation scope primarily concerned the following acquisitions:

- Environmental Services: Sulo Group (Germany) for €687.6 million and VSA Tecnitalia, formerly TMT (Italy) for €106.9 million;
- Energy Services: Thermal North America Inc. (United States) for €139.3 million, Pannon Power (Hungary) for €30.1 million and CIT-Part (Brazil) for €21.3 million;
- Water: Anox Kaldnes and its subsidiaries (Sweden) for €54.9 million, Thames Water subsidiaries (United Kingdom) for €50.2 million and Ruas (France) for €31.0 million;
- Transportation: People Travel Group (Sweden) for €37.7 million and acquisitions of transportation-on-demand companies and new companies in the United States for €21.1 million;

Foreign exchange translation losses are primarily due to the depreciation of the pound sterling and the U.S. dollar against the euro in the amount of €104.7 million and €92.6 million respectively.

Impairment losses total €26.7 million and include €6.9 million in respect of the impairment of goodwill of the Eurolines cash-generating unit and €19.7 million in respect of Danish transportation activities sold on August 31, 2007. Badwill recognized in the Income Statement amounts to €25.2 million and includes €10.9 million for the Transportation Division and €10.3 million for the Energy Services Division.

NOTE 5. Concession intangible assets

Movements in the net carrying amount of concession intangible assets during 2008:

(€ million)	As of December 31, 2007	Additions	Disposals	Impairment losses	Amortization	Changes in consolidation scope	Foreign exchange translation	Other	**As of December 31, 2008**
Concession intangible assets, gross	**4,191.9**	400.8	(14.9)	-	-	362.8	77.0	(33.7)	**4,983.9**
Amortization & impairment losses	**(1,202.7)**	-	14.2	0.5	(200.5)	(13.6)	(2.2)	58.1	**(1,346.2)**
Concession intangible assets, net	**2,989.2**	**400.8**	**(0.7)**	**0.5**	**(200.5)**	**349.2**	**74.8**	**24.4**	**3,637.7**

Additions concern the Water Division in the amount of €274.4 million, the Energy Services Division in the amount of €96.1 million and the Environmental Services Division in the amount of €26.6 million.

Changes in consolidation scope mainly concern the external growth of the Water Division in the amount of €307.9 million (mainly in China, the United Kingdom and France).

Foreign exchange translation gains mainly concern the Water Division (€92.3 million), following the appreciation of the Chinese renminbi yuan and the depreciation of the pound sterling against the euro.

Other movements primarily consist of the reclassification of the assets of certain French subsidiaries under joint control in the Water Division, to “Assets classified as held for sale” in the amount of - €11.7 million.

Concession intangible assets by division break down as follows:

(€ million)	As of December 31, 2008			Net carrying amount as of December 31, 2007	Net carrying amount as of December 31, 2006
	Gross carrying amount	Amortization & impairment losses	Net carrying amount		
Water	3,736.0	(844.0)	**2,892.0**	**2,336.1**	1,766.4
Environmental Services	390.4	(131.3)	**259.1**	**242.7**	265.1
Energy Services	812.1	(358.5)	**453.6**	**388.8**	292.9
Transportation	-	-	**-**	**-**	-
Other	45.4	(12.4)	**33.0**	**21.6**	21.2
Concession intangible assets	**4,983.9**	**(1,346.2)**	**3,637.7**	**2,989.2**	**2,345.6**

Recap: Movements in the net carrying amount of concession intangible assets during 2007 are as follows:

(€ million)	As of December 31, 2006	Additions	Disposals	Impairment losses	Amortization	Changes in consolidation scope	Foreign exchange translation	Other	As of December 31, 2007
Concession intangible assets, gross	3,461.2	354.4	(55.7)	-	-	504.6	(60.9)	(11.7)	**4,191.9**
Amortization & impairment losses	(1,115.6)	-	44.1	0.4	(168.4)	(1.2)	4.0	34.0	**(1,202.7)**
Concession intangible assets, net	**2,345.6**	**354.4**	**(11.6)**	**0.4**	**(168.4)**	**503.4**	**(56.9)**	**22.3**	**2,989.2**

Additions concern the Water Division in the amount of €239.4 million, the Environmental Services Division in the amount of €10.8 million and the Energy Services Division in the amount of €104.1 million.

Changes in consolidation scope mainly concern the expansion of the Water Division in the amount of €502.8 million (mainly in China and the United Kingdom).

Foreign exchange translation losses mainly concern the Water Division (-€49.4 million), following the depreciation of the Chinese renminbi yuan, the U.S. dollar and the pound sterling against the euro.

Other movements are primarily due to reclassifications resulting from finalization of the implementation of IFRIC 12 in the Water, Energy Services and Environmental Services Divisions.

NOTE 6. Other intangible assets

Movements in the net carrying amount of other intangible assets during 2008 are as follows:

(€ million)	As of December 31, 2007	Additions	Disposals	Impairment losses	Amortization	Changes in consolidation scope	Foreign exchange translation	Other	**As of December 31, 2008**
Intangible assets with an indefinite useful life, net	**82.8**	**34.9**	**0.1**	**(0.9)**	**-**	**(12.2)**	**1.6**	**(6.8)**	**99.5**
Fees paid to local authorities	**634.5**	8.8	(0.1)	-	(60.8)	(1.5)	11.5	(15.9)	**576.5**
Purchased contractual rights	**595.9**	-	-	(62.6)	(71.4)	(8.4)	(9.0)	(45.6)	**398.9**
Purchased software	**131.4**	55.1	(0.5)	-	(51.4)	(4.3)	(1.7)	15.3	**143.9**
Purchased customer portfolios	**50.4**	0.8	-	-	(13.7)	35.3	4.8	0.6	**78.2**
Other purchased intangible assets	**181.7**	31.2	(0.8)	(0.7)	(23.3)	31.0	(6.3)	(9.7)	**203.1**
Other internally-developed intangible assets	**29.7**	9.5	(0.2)	-	(6.1)	0.1	(0.2)	2.3	**35.1**
Intangible assets with a definite useful life net	**1,623.6**	**105.4**	**(1.6)**	**(63.3)**	**(226.7)**	**52.2**	**(0.9)**	**(53.0)**	**1,435.7**
Other intangible assets	**1,706.4**	**140.3**	**(1.5)**	**(64.2)**	**(226.7)**	**40.0**	**0.7**	**(59.8)**	**1,535.2**

Intangible assets with an indefinite useful life are primarily trademarks.

Fees paid to local authorities in respect of public service contracts totaled €576.5 million as of December 31, 2008, including €569.7 million for the Water Division. The amortization of fees paid at the beginning of concession arrangement, calculated over the contract term, totaled €60.8 million in 2008, including €59.4 million for the Water Division.

Changes in consolidation scope impacting "Purchased customer portfolios" primarily concern external growth in the Water Division (€16.7 million) and the Environmental Services Division (€19.8 million).

Changes in consolidation scope impacting "Other purchased intangible assets" primarily concern acquisitions in the Water Division.

Impairment losses recognized in the year total €64.2 million and include €62.6 million in respect of impairment of the intangible assets of the Environmental Services Germany cash-generating unit.

Other movements primarily consist of the reclassification of the assets of certain French subsidiaries under joint control in the Water Division, to "Assets classified as held for sale" in the amount of €12.4 million.

Other intangible assets break down as follows:

(€ million)	**As of December 31, 2008**	As of December 31, 2007	As of December 31, 2006
Intangible assets with an indefinite useful life, net	**99.5**	**82.8**	**34.6**
Intangible assets with a definite useful life, gross	3,203.9	3,168.6	2,749.4
Amortization and impairment losses	(1,768.2)	(1,545.0)	(1,404.2)
Intangible assets with a definite useful life, net	**1,435.7**	**1,623.6**	**1,345.2**
Intangible assets, net	**1,535.2**	**1,706.4**	**1,379.8**

Recap: Movements in the net carrying amount of other intangible assets during 2007 are as follows:

(€ million)	As of December 31, 2006	Additions	Disposals	Impairment losses	Amortization	Changes in consolidation scope	Foreign exchange translation	Other	**As of December 31, 2007**
Intangible assets with an indefinite useful life, net	**34.6**	**14.4**	**(0.1)**	**(1.0)**	**(1.0)**	**55.6**	**(5.9)**	**(14.8)**	**82.8**
Fees paid to local authorities	672,4	19,6	(3.2)	-	(64.0)	1.1	(4.2)	12.8	**634.5**
Purchased contractual rights	377.5	2.7	(0.1)	-	(56.0)	375.8	(5.5)	(98.5)	**595.9**
Purchased software	126.8	44.3	(1.2)	-	(50.6)	7.3	0.1	4.7	**131.4**
Purchased customer portfolios	22.0	1.1	(0.3)	-	(7.0)	36.0	(2.4)	1.0	**50.4**
Other purchased intangible assets	93.9	22.2	(2.4)	-	(19.9)	6.2	(8.0)	89.7	**181.7**
Other internally-developed intangible assets	52.6	6.3	(0.2)	-	(4.0)	-	(2.5)	(22.5)	**29.7**
Intangible assets with a definite useful life net	**1,345.2**	**96.2**	**(7.3)**	-	**(201.5)**	**426.4**	**(22.5)**	**(12.8)**	**1,623.6**
Other intangible assets	**1,379.8**	**110.6**	**(7.4)**	**(1.0)**	**(202.5)**	**482.0**	**(28.4)**	**(27.6)**	**1,706.4**

Changes in consolidation scope impacting intangible assets with an indefinite life mainly concern the fair value measurement in the Transportation Division of Supershuttle International acquisitions in the United States (€35.0 million).

Fees paid to local authorities in respect of public service contracts totaled €634.5 million as of December 31, 2007. The amortization of fees paid at the beginning of concession arrangements in the Water Division, calculated over the contract term, totaled €60.8 million in 2007.

Changes in consolidation scope impacting contractual rights mainly concern the fair value measurement of Water Division assets in respect of acquisitions in the United States (Tetra Technologies for €21.3 million) and the United Kingdom for €23.9 million and acquisitions by the Environmental Services Division in Germany (€275.8 million) and Italy (€28.9 million).

NOTE 7. Property, plant and equipment

Movements in the net carrying amount of property, plant and equipment during 2008:

(€ million)	As of December 31, 2007	Additions	Disposals	Impairment losses	Depreciation	Changes in consolidation scope	Foreign exchange translation	Other	**As of December 31, 2008**
Property, plant and equipment, gross	**18,885.9**	1,954.6	(726.2)	-	-	353.4	(945.6)	(30.6)	**19,491.5**
Depreciation	**(9,682.7)**	-	580.7	(0.3)	(1,272.2)	(84.3)	402.0	(7.6)	**(10,064.4)**
Property, plant and equipment, net	**9,203.2**	**1,954.6**	**(145.5)**	**(0.3)**	**(1,272.2)**	**269.1**	**(543.6)**	**(38.2)**	**9,427.1**

Additions concern the Water Division in the amount of €372.6 million, the Environmental Services Division in the amount of €913.7 million, the Energy Services Division in the amount of €301.9 million and the Transportation Division in the amount of €324.7 million.

Disposals net of impairment losses and depreciation of €145.5 million, notably concern the Water Division in the amount of €37.6 million, the Environmental Services Division in the amount of €27.0 million and the Transportation Division in the amount of €66.3 million.

Changes in consolidation scope primarily concern the acquisition in the Energy Services Division of the Praterm Group in Poland (€86.9 million) and in the Environmental Services Division of the Bartin Group in France (€43.4 million).

Foreign exchange translation losses mainly concern the depreciation of the pound sterling against the euro in the Water (-€287.8 million) and Environmental Services (-€155.6 million) Divisions.

Other movements primarily consist of the reclassification of the assets of certain French subsidiaries under joint control in the Water Division, to “Assets classified as held for sale” in the amount of €31.5 million.

Property, plant and equipment by division break down as follows:

(€ million)	As of December 31, 2008			Net carrying amount as of December 31, 2007	Net carrying amount as of December 31, 2006
	Gross carrying amount	Depreciation & impairment losses	Net carrying amount		
Water	4,050.8	(2,026.4)	**2,024.4**	**2,250.9**	2,258.2
Environmental Services	8,476.9	(4,638.2)	**3,838.7**	**3,638.1**	3,104.3
Energy Services	3,085.8	(1,269.2)	**1,816.6**	**1,617.3**	955.9
Transportation	3,656.8	(2,025.0)	**1,631.8**	**1,603.0**	1,518.6
Other	221.2	(105.6)	**115.6**	**93.9**	81.7
Property, plant and equipment	**19,491.5**	**(10,064.4)**	**9,427.1**	**9,203.2**	**7,918.7**

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

(€ million	As of December 31, 2008			Net carrying amount as of December 31, 2007
	Gross carrying amount	Depreciation & impairment losses	Net carrying amount	
Land	1,467.6	(566.6)	**901.0**	859.8
Buildings	2,918.0	(1,374.1)	**1,543.9**	1,660.3
Technical installations, plant and equipment	7,554.8	(3,915.9)	**3,638.9**	3,499.8
Traveling systems and other vehicles	4,909.0	(2,867.7)	**2,041.3**	1,954.0
Other property, plant and equipment	1,980.7	(1,337.2)	**643.5**	615.9
Returnable assets	-	-	**-**	6.4
Owned property, plant and equipment in progress	660.7	(2.9)	**657.8**	604.0
Property, plant and equipment in progress	0.7	-	**0.7**	3.0
Property, plant and equipment	**19,491.5**	**(10,064.4)**	**9,427.1**	**9,203.2**

Recap: Movements in the net carrying amount of property, plant and equipment during 2007 are as follows:

(€ million)	As of December 31, 2006	Additions	Disposals	Impairment losses	Depreciation	Changes in consolidation scope	Foreign exchange translation	Other	**As of December 31, 2007**
Property, plant and equipment, gross	16,912.0	1,927.6	(699.6)	-	-	1,207.5	(421.0)	(40.6)	**18,885.9**
Depreciation	(8,993.3)	-	557.1	(35.7)	(1,179.5)	(168.1)	177.3	(40.5)	**(9,682.7)**
Property, plant and equipment, net	**7,918.7**	**1,927.6**	**(142.5)**	**(35.7)**	**(1,179.5)**	**1,039.4**	**(243.7)**	**(81.1)**	**9,203.2**

Net property, plant and equipment of €110.7 million was transferred to Assets classified as held for sale (including the “Jean Nicoli” boat owned by the Transportation Division in the amount of €103.9 million), compared to €44.0 million in 2006 (vehicles in Denmark and incinerators in the United Kingdom).

Additions concern the Water Division in the amount of €365.6 million, the Environmental Services Division in the amount of €873,4 million, the Energy Services Division in the amount of €207.1 million and the Transportation Division in the amount of €449.7 million.

Disposals, net of impairment losses and depreciation, concern the Water Division in the amount of €20.7 million, the Environmental Services Division in the amount of €59.5 million and the Transportation Division in the amount of €51.6 million.

Impairment losses mainly concern the impairment of Rimsa assets (Mexico) in the Environmental Services Division for €29.6 million, following the resolution of a dispute resulting in the receipt of compensation in the same amount.

Changes in consolidation scope mainly concern the acquisitions of Thermal North America Inc. (€398.9 million), Pannon Power (€69.4 million), Delitzsch (€24.6 million) and Kolin (€23.0 million) by the Energy Services Division and the Sulo Group by the Environmental Services Division (€346.5 million).

Foreign exchange translation losses mainly concern the depreciation of the U.S. dollar and the pound sterling against the euro in the Water (-€119.1 million) and Environmental Services (-€137.5 million) Divisions.

Other movements mainly concern the reclassification of the "Jean Nicoli" boat as held for sale in the amount of -€103.9 million and the sale of Transportation activities in Denmark in the amount of €62.8 million (€113.5 million gross carrying amount and depreciation of €50.7 million).

An agreement was signed on December 11, 2007 for the sale of the "Jean Nicoli" boat and the effective transfer of ownership took place on April 1, 2008.

NOTE 8. Investments in associates

The principal investments in associates with a value of greater than €10 million as of December 31, 2008 are as follows:

	As of December 31,								
	% control			Share in equity			Share of net income		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Fovarosi Csatomazasi Muvek	25.00%	25.00%	25.00%	92.3	95.7	95.4	1.3	1.0	0.8
Cie Méridionale de Navigation	45.00%	45.00%	45.00%	42.8	34.9	28.0	7.9	6.9	5.1
Doshion VWS	30.00%			15.8			-		
Cie Méridionale de Participations	45.00%	45.00%	45.00%	12.5	12.5	12.4	-	0.1	-
Stadtereinigung Holtmeyer Gmbh	40.00%			12.3	-		1.0		
TIRU	24.00%	24.00%	24.00%	11.4	13.1	13.6	0.1	0.1	2.2
Stadtreinigung Dresden Gmbh	49.00%			10.1	9.6		1.3		
Other amounts < €10 million in 2007 and 2008				114.4	126.3	91.6	6.9	8.8	(2.1)
Investments in associates				**311.6**	**292.1**	**241.0**	**18.5** (1)	**16.9** (1)	**6.0** (1)

(1) This amount includes the share of net income of associates realized by the Clemessy sub-group, prior to its disposal in December 2008. Pursuant to IFRS 5, this net income was transferred from "Share of net income of associates" to "Net income from discontinued operations" in the amount of €0.1 million in 2008 and €0.2 million in 2007 and 2006.

Movements in investments in associates in 2008 are as follows:

(€ million)	**% control as of December 31, 2008**	**2007**	Net income	Dividend distribution	Foreign exchange translation	Changes in consolidation scope	Other	**2008**
Fovarosi Csatomazasi Muvek	25.00%	95.7	1.3	-	(4.7)	-	-	92.3
Cie Méridionale de Navigation	45.00%	34.9	7.9	-	-	-	-	42.8
Doshion VWS	30.00%				(0.1)	15.9	-	15.8
Cie Méridionale de Participations	45.00%	12.5	-	-	-	-	-	12.5
Stadtereinigung Holtmeyer Gmbh	40.00%	-	1.0	-	-	11.3	-	12.3
TIRU	24.00%	13.1	0.1		(0.8)	-	(1.0)	11.4
Stadtreinigung Dresden Gmbh	49.00%	9.6	1.3	(1.0)	-	2.5	(2.3)	10.1
Other amounts < €10 million in 2007 and 2008		126.3	6.9	(6.4)	1.6	(9.5)	(4.5)	114.4
Investments in associates		**292.1**	**18.5** (1)	**(7.4)**	**(4.0)**	**20.2**	**(7.8)**	**311.6**

No amounts were transferred to Assets classified as held for sale in 2006, 2007 or 2008.

Summarized financial information for the main investments in associates is as follows (100% of amounts):

(€ million)	**As of December 31, 2008**	As of December 31, 2007	As of December 31, 2006
Non-current assets	696.1	870.8	848.6
Current assets	328.1	310.4	256.7
Total assets	**1,024.2**	**1,181.2**	**1,105.3**
Equity attributable to equity holders of the parent	559.4	618.7	586.3
Minority interests	(1.1)	0.8	1.0
Non-current liabilities	244.2	325.2	263.1
Current liabilities	221.7	236.5	254.9
Total equity and liabilities	**1,024.2**	**1,181.2**	**1,105.3**
Income Statement			
Revenue	456.5	377.6	329.5
Operating income	52.6	31.6	37.2
Net income for the year	**34.7**	14.9	24.6

Recap: Movements in investments in associates during 2007 are as follows:

(€ million)	% control as of December 31, 2007	2006	Net income	Dividend distribution	Foreign exchange translation	Changes in consolidation scope	Other	2007
Fovarosi Csatomazasi Muvek	25.00%	95.4	1.0	-	(0.7)	-	-	95.7
Cie Méridionale de Navigation	45.00%	28.0	6.9	-	-	-	-	34.9
TIRU	24.00%	13.6	0.1	-	(0.5)	-	(0.1)	13.1
Cie Méridionale de Participations	45.00%	12.4	0.1	-	-	-	-	12.5
Other amounts < €10 million in 2006 and 2007		91.6	8.8	(6.5)	(1.8)	43.1	0.7	135.9
Investments in associates		**241.0**	**16.9**	**(6.5)**	**(3.0)**	**43.1**	**0.6**	**292.1**

NOTE 9. Non-consolidated investments

Pursuant to IAS 39, non-consolidated investments are classified as available-for-sale and, as such, recognized at fair value. Unrealized gains and losses are taken directly to equity, except for unrealized losses considered long-term which are expensed in the Income Statement.

Movements in non-consolidated investments during 2008:

(€ million)	As of December 31, 2007	Additions	Disposals	Changes in consolidation scope	Fair value adjustments	Impairment losses (1)	Other	**As of December 31, 2008**
Non-consolidated investments	256.1	45.4	(49.5)	(30.2)	(18.6)	1.2	(1.6)	**202.8**

(1) Impairment losses are recorded in financial income and expenses.

Fair value adjustments mainly concern Gaz de Bordeaux shares in the amount of €8.8 million in the Energy Services Division and Mediterranea Delle Acque shares in the amount of -€27.5 million in the Water Division, as a result of negatives movements in the stock market.

Disposals concern the sale of Avacon shares in the Water Division and Domino Sanepar shares by Proactiva in the amount of €25 million and €20.6 million, respectively.

Changes in consolidation scope primarily concern the consolidation for the first time in 2008 of the Eco Créative entities in Japan (Water Division) and of Eolfi (Other businesses).

Non-consolidated investments break down as follows:

(€ million)	**% holding as of December 31, 2008**	Gross carrying amount as of December 31, 2008	Impairment losses [2]	Fair value adjustments	**Net carrying amount as of December 31, 2008**	Net carrying amount as of December 31, 2007	Net carrying amount as of December 31, 2006
Méditerranea delle Acque (formerly Genova Acque) [1]	17.1%	26.3		2.0	28.3	55.8	26.0
Avacon	-				-	26.6	25.0
Domino Sanepar	-	-			-	20.6	20.7
Gaz de Bordeaux [1]	24.0%	17.5		11.7	29.2	20.4	19.3
Net carrying amount per unit < €20 million in 2008 and 2007		163.2	(19.7)	1.8	145.3	132.7	90.7
Non-consolidated investments		**207.0**	**(19.7)**	**15.5**	**202.8**	**256.1**	**181.7**

(1) Investment not consolidated as not satisfying the "significant influence" criteria.

(2) Impairment losses recognized in the period are recorded in financial income and expenses.

Recap: Movements in non-consolidated investments during 2007 are as follows:

(€ million)	As of December 31, 2006	Additions	Disposals	Changes in consolidation scope	Fair value adjustments	Impairment losses [1]	Other	**As of December 31, 2007**
Non-consolidated investments	181.7	51.7	(2.9)	(3.4)	32.6	1.0	(4.6)	**256.1**

(1) Impairment losses are recorded in financial income and expenses.

NOTE 10. Non-current and current operating financial assets

Operating financial assets comprise financial assets resulting from the application of IFRIC 12 on accounting for concession arrangements and from the application of IFRIC 4 (see Note 1.21).

Movements in the net carrying amount of non-current and current operating financial assets during **2008**:

(€ million)	As of December 31, 2007	New financial assets	Repayments/ disposals	Impairment losses (1)	Changes in consolidation scope	Foreign exchange translation	Non-current / current reclassification	Other	**As of December 31, 2008**
Gross	5,278.4	551.0	(3.2)	-	87.8	(129.6)	(453.2)	(19.7)	**5,311.5**
Impairment losses	(6.0)	-	-	(6.4)	-	(0.2)	-	-	**(12.6)**
Non-current operating financial assets	**5,272.4**	**551.0**	**(3.2)**	**(6.4)**	**87.8**	**(129.8)**	**(453.2)**	**(19.7)**	**5,298.9**
Gross	355.2	1.7	(355.0)	-	5.4	(8.7)	453.2	0.5	**452.3**
Impairment losses	-	-	-	-	-	-	-	-	**-**
Current operating financial assets	**355.2**	**1.7**	**(355.0)**	**-**	**5.4**	**(8.7)**	**453.2**	**0.5**	**452.3**
Non-current and current operating financial assets	**5,627.6**	**552.7**	**(358.2)**	**(6.4)**	**93.2**	**(138.5)**	**-**	**(19.2)**	**5,751.2**

(1) Impairment losses are recorded in operating income.

The principal **new operating financial assets** in 2008 mainly concern:

- the Water Division and in particular projects in Berlin (€113.9 million), the Oman Sur BOT contract (€63.4 million) and the Brussels Aquiris contract (€40.2 million);
- the Energy Services Division and in particular cogeneration plants (€58.2 million).

The principal **repayments of operating financial assets** in 2008 concern:

- the Water Division and in particular projects in Berlin (-€135.3 million);
- the Energy Services Division and in particular cogeneration plants (-€96.6 million).

Foreign exchange translation losses mainly concern the Water Division (-€45.0 million) and the Environmental Services Division (-€85.5 million), following the depreciation of the Korean won, the Chinese renminbi yuan and the pound sterling against the euro.

Changes in consolidation scope mainly concern the Water Division and the acquisition of a joint investment in Veolia Israel (Ashkelon contract) in the amount of €98.4 million.

The breakdown of operating financial assets by division is as follows:

(€ million)	As of December 31,								
	Non-current assets			Current assets			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Water	**3,851.0**	3,719.4	3,667.0	**232.2**	165.1	163.5	**4,083.2**	3,884.5	3,830.5
Environmental Services	**768.4**	858.1	711.2	**68.6**	44.3	25.8	**837.0**	902.4	737.0
Energy Services	**562.0**	585.4	651.0	**117.4**	126.9	120.1	**679.4**	712.3	771.1
Transportation	**71.6**	104.3	98.8	**33.9**	18.7	16.6	**105.5**	123.0	115.4
Other	**45.9**	5.2	5.4	**0.2**	0.2	0.2	**46.1**	5.4	5.6
Operating financial assets	**5,298.9**	**5,272.4**	**5,133.4**	**452.3**	**355.2**	**326.2**	**5,751.2**	**5,627.6**	**5,459.6**

IFRIC 12 operating financial assets maturity schedule:

(€ million)	1 year	2 to 3 years	4 to 5 years	More than five years	Total
Water	211.6	392.7	395.6	2,640.3	**3,640.2**
Environmental Services	58.6	123.6	119.1	458.5	**759.8**
Energy Services	9.4	25.8	11.8	27.2	**74.2**
Transportation	33.9	31.2	10.9	29.5	**105.5**
Other	0.2	-	-	4.7	**4.9**
Total	**313.7**	**573.3**	**537.4**	**3,160.2**	**4,584.6**

IFRIC 4 operating financial assets maturity schedule:

(€ million)	1 year	2 to 3 years	4 to 5 years	More than five years	Total
Water	20.6	54.1	60.9	307.4	**443.0**
Environmental Services	10.0	20.1	19.9	27.2	**77.2**
Energy Services	108.0	221.3	115.1	160.8	**605.2**
Transportation	-	-	-	-	**-**
Other	-	-	-	41.2	**41.2**
Total	**138.6**	**295.5**	**195.9**	**536.6**	**1 166.6**

Recap: Movements in the net carrying amount of non-current and current operating financial assets during 2007 are as follows:

(€ million)	As of December 31, 2006	New financial assets	Repayments/ disposals	Impairment losses	Changes in consolidation scope	Foreign exchange translation	Non-current / current reclassification	Other	**As of December 31, 2007**
Gross	5,139.4	414.2	(36.4)	-	212.8	(98.3)	(355.9)	2.6	**5,278.4**
Impairment losses	(6.0)	-	-	-	-	-	-	-	**(6.0)**
Non-current operating financial assets	**5,133.4**	**414.2**	**(36.4)**	**-**	**212.8**	**(98.3)**	**(355.9)**	**2.6**	**5,272.4**
Gross	326.2	6.3	(324.3)	-	5.0	(4.5)	355.9	(9.4)	**355.2**
Impairment losses	-	-	-	-	-	-	-	-	**-**
Current operating financial assets	**326.2**	**6.3**	**(324.3)**	**-**	**5.0**	**(4.5)**	**355.9**	**(9.4)**	**355.2**
Non-current and current operating financial assets	**5,459.6**	**420.5**	**(360.7)**	**-**	**217.8**	**(102.8)**	**-**	**(6.8)**	**5,627.6**

The principal **new operating financial assets** in 2007 mainly concern:

- the Water Division and in particular projects in Berlin (€140.8 million), the Oman Sur BOT contract (€46.8 million) and the Veolia Eau Hynix industrial contract in Korea (€26.2 million);
- the Energy Services Division and in particular cogeneration plants (€19.5 million).

The principal **repayments of operating financial assets** in 2007 concern:

- the Water Division and in particular projects in Berlin (-€139.5 million);
- the Energy Services Division and in particular cogeneration plants (-€60.9 million).

Foreign exchange translation losses mainly concern the Water Division (-€60.1 million) and the Environmental Services Division (-€41.1 million), following the depreciation of the Korean won, the U.S. dollar and the pound sterling against the euro.

Changes in consolidation scope mainly concern the acquisition of VSA Tecnitalia by the Energy Services Division for €222.5 million.

Other movements primarily concern the reclassification of financial assets as "concession intangible assets" following IFRIC 12 analyses in the Water, Energy Services and Environmental Services Divisions.

NOTE 11. Other non-current financial assets

Movements in the value of other non-current financial assets during 2008:

(€ million)	As of December 31, 2007	Additions	Repayments/ disposals	Changes in consolidation scope	Impairment losses [(1)]	Foreign exchange translation	Non-current/ current reclassification	Other	**As of December 31, 2008**
Gross	572.6	262.0	(30.6)	18.2	-	(20.0)	(6.6)	7.4	803.0
Impairment losses	(57.6)	-	-	0.3	(3.4)	(3.0)	-	0.3	(63.4)
Non-current financial assets in loans and receivables	**515.0**	**262.0**	**(30.6)**	**18.5**	**(3.4)**	**(23.0)**	**(6.6)**	**7.7**	**739.6**
Other non-current financial assets	**231.0**	**35.5**	**(10.3)**	**(33.0)**	**(1.9)**	**(7.6)**	**-**	**(136.0)**	**77.7**
Total Other non-current financial assets	**746.0**	**297.5**	**(40.9)**	**(14.5)**	**(5.3)**	**(30.6)**	**(6.6)**	**(128.3)**	**817.3**

(1) Impairment losses are recorded in financial income and expenses.

Non-current financial assets in loans and receivables

Additions mainly correspond to the change in the non-Group portion of the loan to Dalkia International for €208.6 million.

As of **December 31, 2008,** the principal non-current financial assets in loans and receivables primarily correspond to the non-Group portion of loans granted to companies consolidated on a proportionate basis for €434.2 million (Dalkia International and its subsidiaries).

Other non-current financial assets

Other non-current financial assets are classified as "Available-for-sale assets" in accordance with the principles set out in Note 1.15.2.

Other movements notably concern the use of the investment placed in an escrow account in 2007, in the amount of €94.7 million, on the acquisition of Tianjin Shibei shares in China (Water Division).

Recap: Movements in the value of other non-current financial assets during 2007:

(€ million)	As of December 31, 2006	Additions	Repayments/ disposals	Changes in consolidation scope	Impairment losses (1)	Foreign exchange translation	Other	**As of December 31, 2007**
Gross	604.8	66.2	(69.5)	(4.0)	-	(5.5)	(19.4)	572.6
Impairment losses	(58.8)	-	-	(0.4)	(0.2)	6.0	(4.2)	(57.6)
Non-current financial assets in loans and receivables	**546,0**	**66.2**	**(69.5)**	**(4.4)**	**(0.2)**	**0.5**	**(23.6)**	**515.0**
Other non-current financial assets	**91.5**	**161.2**	**(16.3)**	**18.6**	**(1.8)**	**(7.5)**	**(14.7)**	**231.0**
Total Other non-current financial assets	**637.5**	**227.4**	**(85.8)**	**14.2**	**(2.0)**	**(7.0)**	**(38.3)**	**746.0**

(1) Impairment losses are recorded in financial income and expenses.

Non-current financial assets in loans and receivables

Additions mainly correspond to the change in the non-Group portion of the loan to Dalkia International for €39.1 million.

As of **December 31, 2007**, the principal non-current financial assets in loans and receivables primarily correspond to the non-Group portion of loans granted to companies consolidated on a proportionate basis for €238.7 million (Dalkia International).

Other non-current financial assets

Additions mainly correspond to an investment placed in an escrow account with a view to the acquisition of Tianjin Shibei shares in China for €113.2 million (Water Division).

Other movements notably concern the non-Group portion of loans granted to proportionately consolidated companies for -€50.9 million (mainly Dalkia and Berlin) and the reclassification in non-current financial assets of repayment entitlements relating to benefits granted to Australian employees in the Transportation Division for +€23.0 million.

NOTE 12. Deferred tax assets and liabilities

Movements in deferred tax assets and liabilities during 2008 are as follows:

(€ million)	As of December 31, **2007**	Changes in business through the Income Statement	Changes in business through equity	Changes in consolidation scope	Foreign exchange translation	Other	**As of December 31, 2008**
Deferred tax assets, gross	2,037.5	18.7	71.7	26.6	13.2	(17.5)	**2,150.2**
Deferred tax assets not recognized	(569.4)	(2.2)	(11.3)	1.6	11.0	(0.4)	**(570.7)**
Deferred tax assets, net	**1,468.1**	**16.5**	**60.4**	**28.2**	**24.2**	**(17.9)**	**1,579.5**
Deferred tax liabilities	**1,794.7**	**101.6**	**12.2**	**127.3**	**(85.4)**	**(14.4)**	**1,936.0**

As of December 31, 2008, the tax group in the United States has ordinary tax losses carried forward, relating to the restructuring of Water businesses in 2006 and associated with losses incurred by the former activities of U.S. Filter. These tax losses, which may exceed U.S.$4 billion, are currently being reviewed by the U.S. tax authorities, at the request of the company, which considers the validity of these tax losses to be established, based on external appraisals. A deferred tax asset of U.S.$434 million (€312 million) is recognized in the balance sheet in respect of these tax losses as of December 31, 2008.

As a result of the new tax schedule, notably integrating flows relating to Thermal North America Inc. for three additional years, the Group recognized an additional deferred tax asset of €47 million during the year.

Conversely, the French tax group offset tax losses brought forward and previously capitalized in the amount of €34 million.

Changes in business through equity mainly include the tax effect of fair value adjustments and actuarial gains and losses.

Changes in consolidation scope primarily concern the entry into the scope of consolidation of Tianjin Shibei, in the Water Division in China in the amount of €0.3 million in assets and €37.7 million in liabilities and the divestment of the Clemessy and Crystal entities in the Energy Services Division for -€14.6 million in assets and -€1.5 million in liabilities.

Foreign exchange translation losses are mainly due to fluctuations in the U.S. dollar and the pound sterling against the euro.

Other movements primarily consist of the reclassification of certain French subsidiaries under joint control in the Water Division, in “Assets classified as held for sale” and “Liabilities directly associated with assets classified as held for sale”. The deferred tax assets and liabilities of these subsidiaries were reclassified in the amount of -€7.5 million and -€10.9 million respectively.

Deferred tax assets and liabilities break down by **nature** as follows:

(€ million)	**As of December 31, 2008**	As of December 31, 2007	As of December 31, 2006
Deferred tax assets			
Tax losses	895.3	851.0	775.4
Provisions and impairment losses	332.4	338.1	272.1
Employee benefits	187.0	134.6	172.4
Financial instruments	142.5	106.0	97.6
Operating Financial Assets	106.1	107.5	119.3
Fair value remeasurement of assets purchased	79.3	88.5	36.7
Foreign exchange translation	53.9	44.0	21.1
Finance leases	34.2	31.4	34.1
Intangible assets and Property, plant and equipment	21.8	20.5	14.7
Other	297.7	315.9	244.2
Deferred tax assets, gross	**2,150.2**	**2,037.5**	**1,787.6**
Deferred tax assets not recognized	**(570.7)**	**(569.4)**	**(431.9)**
Recognized deferred tax assets	**1,579.5**	**1,468.1**	**1,355.7**

(€ million)	**As of December 31, 2008**	As of December 31, 2007	As of December 31, 2006
Deferred tax liabilities			
Intangible assets and Property, plant and equipment	676.6	662.0	553.6
Fair value remeasurement of assets purchased	276.4	310.1	223.4
Operating Financial Assets	191.5	187.1	165.9
Financial instruments	89.2	48.4	43.5
Finance leases	76.1	18.9	27.4
Provisions	56.8	52.9	33.4
Foreign exchange translation	38.9	23.0	25.0
Employee benefits	19.0	4.3	-
Other	511.5	488.0	432.7
Deferred tax liabilities	**1,936.0**	**1,794.7**	**1,504.9**

Deferred tax assets and liabilities break down by **destination** as follows:

(€ million)	**As of December 31, 2008**	As of December 31, 2007	As of December 31, 2006
Deferred tax assets, net			
Deferred tax assets on net income	1,433.8	1,400.5	1,276.7
Deferred tax assets on reserves	145.7	67.6	79.0
Deferred tax assets, net	**1,579.5**	**1,468.1**	**1,355.7**
Deferred tax liabilities			
Deferred tax liabilities on net income	1,876.8	1,755.1	1,476.4
Deferred tax liabilities on reserves	59.2	39.6	28.5
Deferred tax liabilities	**1,936.0**	**1,794.7**	**1,504.9**

The schedule for the expiration of unrecognized tax losses as of December 31, 2008 is the following:

(€ million)	Maturity			Total
	≤ 5 years	> 5 years	Unlimited	
Tax losses not recognized	12.9	57.0	368.1	**438.0**

Recap: Movements in deferred tax assets and liabilities during 2007 are as follows:

(€ million)	As of December 31, 2006	Changes in business through the Income Statement	Changes in business through equity	Changes in consolidation scope	Foreign exchange translation	Other	**As of December 31, 2007**
Deferred tax assets, gross	1,787.6	167.3	(19.9)	186.2	(73.0)	(10.7)	**2,037.5**
Deferred tax assets not recognized	(431.9)	(140.4)	(10.3)	0.9	5.7	6.6	**(569.4)**
Deferred tax assets, net	**1,355.7**	**26.9**	**(30.2)**	**187.1**	**(67.3)**	**(4.1)**	**1,468.1**
Deferred tax liabilities	**1,504.9**	**30.7**	**5.8**	**328.7**	**(70.7)**	**(4.7)**	**1,794.7**

NOTE 13. Working capital

Movements in net working capital during 2008 are as follows:

(€ million)	As of December 31, 2007	Changes in business	Impairment losses	Changes in consolidation scope	Foreign exchange translation	Other	**As of December 31, 2008**
Inventories and work-in-progress, net	839.4	172.1	(43.2)	75.4	(20.6)	(1.1)	1,022.0
Operating receivables, net	12,459.4	857.4	(24.6)	(33.7)	(183.2)	17.9	13,093.2
Operating payables, net	12,944.8	983.2	-	(36.6)	(231.3)	(68.3)	13,591.8
Net working capital	**354.0**	**46.3**	**(67.8)**	**78.3**	**27.5**	**85.1**	**523.4**

Net working capital of certain French subsidiaries under joint control in the Water Division was transferred to "Assets classified as held for sale" (€74.2 million) and "Liabilities directly associated with assets classified as held for sale" (-€81.5 million) in the net amount of -€7.3 million.

Net working capital includes "operating" working capital (inventories, trade receivables, trade payables and other operating receivables and payables, tax receivables and payables other than current tax), "tax" working capital (current tax receivables and payables) and "investment" working capital (receivables and payables in respect of capital expenditure). Movements in each of these working capital categories in 2008 were as follows:

(€ million)	As of December 31, 2007	Changes in business	Impairment losses	Changes in consolidation scope	Foreign exchange translation	Other	**As of December 31, 2008**
Inventories and work-in-progress, net	839.4	172.1	(43.2)	75.4	(20.6)	(1.1)	**1,022.0**
Operating receivables (including tax receivables other than current tax)	12,216.4	820.4	(24.6)	(43.6)	(156.9)	32.7	**12,844.4**
Operating payables (including tax payables other than current tax)	(12,228.6)	(843.9)	-	55.4	178.4	46.8	**(12,791.9)**
Operating working capital	**827.2**	**148.6**	**(67.8)**	**87.2**	**0.9**	**78.4**	**1,074.5**
Tax receivables (current tax)	197.7	42.2	-	9.6	(26.4)	3.8	**226.9**
Tax payables (current tax)	(281.2)	(77.3)	-	(6.6)	39.2	1.2	**(324.7)**
Tax working capital	**(83.5)**	**(35.1)**	**-**	**3.0**	**12.8**	**5.0**	**(97.7)**
Receivables on non-current asset disposals	45.2	(5.3)	-	0.4	0.1	(18.6)	**21.8**
Capital expenditure payables	(435.0)	(61.9)	-	(12.3)	13.7	20.3	**(475.2)**
Investment working capital	**(389.8)**	**(67.2)**	**-**	**(11.9)**	**13.8**	**1.7**	**(453.4)**
Net working capital	**354.0**	**46.3**	**(67.8)**	**78.3**	**27.5**	**85.1**	**523.4**

Movements in inventories during 2008 are as follows:

<u>Inventories</u> (€ million)	As of December 31, 2007	Changes in business	Impairment losses	Reversals of impairment losses	Changes in consolidation scope	Foreign exchange translation	Other	**As of December 31, 2008**
Raw materials and supplies	526.6	97.3	-	-	26.4	(18.4)	3.4	635.3
Work-in-progress	257.3	47.3	-	-	29.8	(1.5)	(3.6)	329.3
Other inventories	96.7	27.5	-	-	19.8	(3.7)	(0.9)	139.4
Inventories and work-in-progress, gross	**880.6**	**172.1**	**-**	**-**	**76.0**	**(23.6)**	**(1.1)**	**1,104.0**
Impairment losses on raw materials and supplies	(33.2)	-	(17.3)	7.2	(0.9)	1.5	-	(42.7)
Impairment losses on work-in-progress	(1.4)	-	(0.5)	0.8	0.3	0.1	-	(0.7)
Impairment losses on other inventories	(6.6)	-	(34.1)	0.7	-	1.4	-	(38.6)
Impairment losses on inventories and work-in-progress	**(41.2)**	**-**	**(51.9)**	**8.7**	**(0.6)**	**3.0**	**-**	**(82.0)**
Inventories and work-in-progress, net	**839.4**	**172.1**	**(51.9)**	**8.7**	**75.4**	**(20.6)**	**(1.1)**	**1,022.0**

Impairment losses were primarily recognized in the Energy Services and Environmental Services Divisions as a result of the fall in commodity prices (paper, ferrous and non-ferrous metals and CO_2).

Movements in operating receivables during 2008 are as follows:

Operating receivables (€ million)	As of December 31, 2007	Changes in business	Impairment losses (1)	Reversals of impairment losses (1)	Changes in consolidation scope	Foreign exchange translation	Other	**As of December 31, 2008**
Trade receivables	9,813.7	623.8	-	-	(19.5)	(121.7)	(43.3)	10,253.0
Impairment losses on trade receivables	(510.0)	-	(145.2)	115.0	(28.9)	14.5	3.6	(550.9)
Trade receivables, net (2)	**9,303.7**	623.8	(145.2)	115.0	(48.4)	(107.2)	(39.7)	9,702.1
Other operating receivables	1,508.1	(25.3)	-	-	13.1	(34.8)	(147.0)	1,314.1
Impairment losses on other operating receivables	(75.1)	-	(8.0)	13.6	(0.1)	0.4	9.5	(59.6)
Other operating receivables, net (2)	1,433.0	(25.3)	(8.0)	13.6	13.0	(34.4)	(137.5)	1,254.5
Other receivables (3)	530.6	111.2	-	-	9.5	(11.1)	23.3	663.4
Tax receivables	1,192.1	147.7	-	-	(7.8)	(30.5)	171.9	1,473.2
Operating receivables, net	**12,459.4**	**857.4**	**(153.2)**	**128.6**	**(33.7)**	**(183.2)**	**18.0**	**13,093.2**

(1) Impairment losses are recorded in operating income and included in the line “Changes in working capital” in the Cash flow statement.

(2) Financial assets as defined by IAS 39, valued in accordance with the rules applicable to loans and receivables.

(3) Receivables recognized on a percentage completion basis in respect of construction activities and prepayments.

Operating receivables are treated as loans and receivables for accounting purposes. Short-term commercial receivables and payables without a declared interest rate are recognized at nominal value, unless discounting at the market rate has a material impact.

Changes in consolidation scope primarily concerned the following acquisitions and disposals:

- **Water:** Acquisition of Japanese subsidiaries for €32.1 million;
- **Environmental Services:** Acquisition of Bartin Group for €90.4 million;
- **Energy Services:** Disposal in December 2008 of the Clemessy and Crystal cash-generating units for -€370.9 million and acquisition of companies in Italy and Poland for €17.8 million and €12.5 million respectively.

Foreign exchange translation losses are primarily due to the depreciation of the pound sterling and the Australian dollar, partially offset by the appreciation of the U.S. dollar and Japanese yen against the euro.

Other movements primarily consist of the reclassification of the assets of certain French subsidiaries under joint control in the Water Division, to “Assets classified as held for sale” in the amount of -€69.1 million.

Securitization of receivables in France

The French securitization program is governed by an agreement signed in June 2002 for five years with a securitized debt fund. This agreement was renewed on May 31, 2007 for an additional 5 years. Veolia Environnement decided to renew this agreement and include 16 new transferor companies in the Water Division (France), bringing the number of transferor companies to 24. Total securitized debts total €496.6 million as of December 31, 2008 compared to €495.5 million at the end of December 2007.

These receivables are retained in assets and the financing secured is recorded in “Current borrowings” (see Note 19, Current borrowings).

Assignment of receivables

Receivables definitively assigned to third parties in the Energy Services Division in Italy totaled €69.4 million as of December 31, 2008, compared to €25.5 million as of December 31, 2007.

Movements in **operating payables** during 2008 are as follows:

Operating liabilities (€ million)	As of December 31, **2007**	Changes in business	Changes in consolidation scope	Foreign exchange translation	Other	**As of December 31, 2008**
Trade payables [(1)]	5,343.8	415.4	(38.6)	(50.1)	(36.2)	5,634.5
Other operating payables [(1)]	5,009.4	161.7	112.0	(100.0)	(70.8)	5,112.2
Other liabilities [(2)]	1,184.3	188.9	(51.1)	(30.5)	(36.0)	1,255.6
Tax and employee-related liabilities	1,407.3	217.1	(58.9)	(50.6)	74.7	1,589.5
Operating payables	**12,944.8**	**983.1**	**(36.6)**	**(231.2)**	**(68.3)**	**13,591.8**

(1) Financial liabilities as defined by IAS 39, valued at amortized cost.

(2) Primarily deferred income.

Trade payables are treated as liabilities at amortized cost in accordance with IAS 39 for accounting purposes. Short-term commercial payables without a declared interest rate are recognized at nominal value, unless discounting at the market rate has a material impact.

Changes in consolidation scope primarily concerned the following acquisitions and disposals:

- **Water:** Acquisition of Japanese subsidiaries for €49.8 million;
- **Environmental Services:** Acquisition of Bartin Group for €85.4 million;
- **Energy Services:** Disposal in December 2008 of the Clemessy and Crystal cash-generating units for -€425.2 million and acquisition of companies in Italy and Poland for €18.8 million and €9.5 million respectively.

Foreign exchange translation losses are primarily due to the depreciation of the pound sterling and the Australian dollar, partially offset by the appreciation of the U.S. dollar and Chinese renminbi yuan against the euro.

Other movements primarily consist of the reclassification of the assets and liabilities of certain French subsidiaries under joint control in the Water Division to “Liabilities directly associated with assets classified as held for sale” in the amount of -€81.5 million.

Recap: Movements in net working capital during 2007 are as follows:

(€ million)	As of December 31, 2006	Changes in business	Impairment losses	Changes in consolidation scope	Foreign exchange translation	Other	**As of December 31, 2007**
Inventories and work-in-progress, net	731.8	62.3	(1.5)	53.2	(8.7)	2.3	839.4
Operating receivables, net	10,968.7	1,115.9	(10.1)	514.6	(141.6)	11.9	12,459.4
Operating payables, net	11,268.6	1,135.8	-	568.8	(151.1)	122.7	12,944.8
Net working capital	**431.9**	**42.4**	**(11.6)**	**(1.0)**	**0.8**	**(108.5)**	**354.0**

NOTE 14. Other current financial assets

Movements in other current financial assets during 2008 are as follows:

(€ million)	As of December 31, 2007	Changes in business	Changes in consolidation scope	Fair value adjustments	Impairment losses [(1)]	Foreign exchange translation	Non-current / current reclassification	Other	**As of December 31, 2008**
Gross	174.1	90.7	(8.4)	-	-	1.3	6.6	19.0	283.3
Impairment losses	(21.3)	-	(0.3)	-	(4.4)	-	-	(1.9)	(27.9)
Current financial assets in loans and receivables, net	**152.8**	**90.7**	**(8.7)**	**-**	**(4.4)**	**1.3**	**6.6**	**17.1**	**255.4**
Other current financial assets	**177.2**	**6.9**	**(12.4)**	**(0.3)**	**(3.4)**	**(5.6)**	**-**	**(96.4)**	**66.0**
Total Other current financial assets, net	**330.0**	**97.6**	**(21.1)**	**(0.3)**	**(7.8)**	**(4.3)**	**6.6**	**(79.3)**	**321.4**

(1) Impairment losses are recorded in financial income and expenses.

Other short-term loans are treated as loans and receivables as defined by IAS 39 for accounting purposes.

Other financial assets are treated as available-for-sale assets for accounting purposes.

Other current financial assets as of December 31, 2008 of €321.4 million primarily comprise loans granted to non-consolidated companies in the Water division of €42.2 million, funds placed in an escrow account with a view to acquisitions in the Water and Energy Services Divisions of €64.7 million and pre-financing of assets in the Transportation Division of €122.8 million.

Other movements notably concern the use of funds placed in an escrow account in the amount of -€91.0 million, on the acquisition of Tianjin Shibei shares in China (Water Division).

Recap: Movements in the value of other non-current financial assets during 2007 are as follows:

(€ million)	As of December 31, 2006	Changes in business	Changes in consolidation scope	Fair value adjustments	Impairment losses (1)	Foreign exchange translation	Other	**As of December 31, 2007**
Gross	363.3	27.6	4.6	-	-	(1.5)	(219.9)	**174.1**
Impairment losses	(158.0)	-	(1.0)	-	(3.3)	0.1	140.9	**(21.3)**
Current financial assets in loans and receivables, net	**205.3**	**27.6**	**3.6**	**-**	**(3.3)**	**(1.4)**	**(79.0)**	**152.8**
Other current financial assets	**66.4**	**90.9**	**37.6**	**(1.3)**	**0.1**	**(6.7)**	**(9.8)**	**177.2**
Total Other current financial assets, net	**271.7**	**118.5**	**41.2**	**(1.3)**	**(3.2)**	**(8.1)**	**(88.8)**	**330.0**

(1) Impairment losses are recorded in financial income and expenses.

Other current financial assets as of December 31, 2007 primarily comprise the non-Group portion of loans and current accounts, the pre-financing of assets in the Transportation Division and funds placed in an escrow account with a view to the acquisition of Tianjin Shibei shares in China for €106.1 million.

NOTE 15. <u>Cash & Cash equivalents</u>

Movements in cash and cash equivalents during 2008:

(€ million)	As of December 31, **2007**	Changes in business	Changes in consolidation scope	Fair value adjustments (1)	Foreign exchange translation	Other	**As of December 31, 2008**
Cash	1,449.5	(119.0)	16.2	-	(24.7)	(4.1)	1,317.9
Cash equivalents	1,666.1	845.1	13.0	-	(2.9)	10.4	2,531.7
Cash & cash equivalents	**3,115.6**	**726.1**	**29.2**	**-**	**(27.6)**	**6.3**	**3,849.6**

(1) Fair value adjustments are recorded in financial income and expenses.

Cash and cash equivalents of €1.8 million were transferred to “Assets classified as held for sale” in 2008, compared to €0.3 million in 2007.

Changes in consolidation scope primarily concerned the following acquisitions and disposals:

- **Water:** Acquisition of subsidiaries in Japan and the United Kingdom for €21.6 million and €27.4 million respectively.
- **Energy Services:** Disposal in December 2008 of the Clemessy and Crystal sub-groups for -€86.4 million and acquisition of the Praterm Group in Poland for €20.3 million;
- **Other:** Acquisition of the Eolfi Group (wind turbine energy) for €11.2 million.

As of December 31, 2008, the Water Division held cash of €492.0 million, the Environmental Services Division held cash of €204.2 million, the Energy Services Division held cash of €268.5 million, the Transportation Division held cash of €176.2 million, Veolia Environnement SA held cash of €3.3 million and certain subsidiaries (primarily insurance) held cash of €173.7 million.

Investment supports used by the Group include UCITS (Undertakings for Collective Investment in Transferable Securities), negotiable debt instruments (bank certificates of deposit and treasury notes with a maturity of less than three months) and monetary notes.

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

As of December 31, 2008, cash equivalents were primarily held by Veolia Environnement SA in the amount of €2,280.2 million including non-dynamic monetary UCITS of €586.0 million, negotiable debt instruments (bank certificates of deposit and treasury notes with a maturity of less than three months) of €955.8 million and monetary notes of €729.2 million. Cash equivalents are accounted for as assets designated at fair value through the Income Statement.

Investment lines in excess of €100 million break down by financial institution as following:

(€ million)		As of December 31, 2008
Euro Monetary UCITS		
	BFT monétaire	302
	Groupama entreprises	284
Monetary notes		
	Société Générale	729
Treasury notes		
	Unedic	135
Certificates of deposit		
	Barclays	150
	Royal Bank of Scotland	151
	Natixis	100
	Société Générale	100
	Crédit Agricole SA	200

Recap: Movements in cash and cash equivalents during 2007 are as follows:

(€ million)	As of December 31, 2006	Changes in business	Changes in consolidation scope	Fair value adjustments (1)	Foreign exchange translation	Other	**As of December 31, 2007**
Cash	1,263.8	97.3	114.9	-	(8.1)	(18.4)	1,449.5
Cash equivalents	1,394.2	333.8	20.4	(0.1)	(2.4)	(79.8)	1,666.1
Cash & cash equivalents	**2,658.0**	**431.1**	**135.3**	**(0.1)**	**(10.5)**	**(98.2)**	**3,115.6**

(1) Fair value adjustments are recorded in financial income and expenses.

Cash and cash equivalents of €0.3 million were transferred to Assets classified as held for sale in 2007.

Changes in consolidation scope mainly concern the acquisition of Sulo by the Environmental Services Division in Germany (+€26.1 million) and the acquisition of the Thames Water subsidiaries (+€21.4 million) and subsidiaries in Asia (+€45.3 million) by the Water Division.

As of December 31, 2007, the Water Division held cash of €482.6 million, the Energy Services Division held cash of €294.8 million, the Environmental Services Division held cash of €247.8 million, the Transportation Division held cash of €129.7 million, Veolia Environnement SA held cash of €134.8 million and certain subsidiaries (primarily insurance) held cash of €159.8 million.

As of December 31, 2007, cash equivalents were primarily held by Veolia Environnement SA in the amount of €1,416.1 million (including cash mutual fund investments of €515.8 million, treasury notes of €601.1 million and cash notes of €278.8 million).

NOTE 16. Equity

(€ million)	Number of shares outstanding	Share capital	Additional paid-in capital	Treasury shares	Consolidated reserves and retained earnings	Foreign exchange translation reserves	Fair value reserves	**Equity attributable to equity holders of the parent**	**Minority interests**	**Total equity**
As of January 1, 2006	**407,872,606**	**2,039.4**	**6,499.1**	**(452.7)**	**(4,452.1)**	**212.3**	**(55.8)**	**3,790.2**	**1,888.0**	**5,678.2**
Issues of share capital of the parent company	4,753,944	23.7	142.1	-	15.8	-	-	181.6	-	181.6
Elimination of treasury shares		-	-	(26.9)	25.8	-	-	(1.1)	-	(1.1)
Share purchase and subscription options		-	-	-	16.7	-	-	16.7	-	16.7
Third party share in share capital increases by subsidiaries and changes in consolidation scope		-	-	-	-	-	-	-	158.8	158.8
Parent company dividend distribution		-	-	-	(336.3)	-	-	(336.3)	-	(336.3)
Third party share in dividend distributions by subsidiaries		-	-	-	-	-	-	-	(142.9)	(142.9)
Foreign exchange translation		-	-	-	-	(106.8)	0.5	(106.3)	6.2	(100.1)
Fair value adjustments		-	-	-	0.2	-	33.2	33.4	1.3	34.7
Actuarial gains or losses on pension obligations		-	-	-	26.4	-	-	26.4	(0.8)	25.6
Net income for the year		-	-	-	758.7	-	-	758.7	236.2	994.9
Other changes		-	-	-	(41.9)	39.1	0.3	(2.5)	45.8	43.3

As of December 31, 2006	**412,626,550**	**2,063.1**	**6,641.2**	**(479.6)**	**(3,986.7)**	**144.6**	**(21.8)**	**4,360.8**	**2,192.6**	**6,553.4**
Issues of share capital of the parent company	59,136,206	295.7	2,538.3	-	33.8	-	-	2,867.8	-	2,867.8
Elimination of treasury shares		-	-	18.9	(0.3)	-	-	18.6	-	18.6
Share purchase and subscription options		-	-	-	15.6	-	-	15.6	-	15.6
Third party share in share capital increases by subsidiaries and changes in consolidation scope		-	-	-	-	-	-	-	178.5	178.5
Parent company dividend distribution		-	-	-	(419.7)	-	-	(419.7)	-	(419.7)
Third party share in dividend distributions by subsidiaries		-	-	-	-	-	-	-	(144.6)	(144.6)
Foreign exchange translation		-	-	-	-	(264.3)	-	(264.3)	15.4	(248.9)
Fair value adjustments		-	-	-	-	(8.1)	47.1	39.0	(0.8)	38.2
Actuarial gains or losses on pension obligations		-	-	-	79.5	-	-	79.5	8.5	88.0
Net income for the year		-	-	-	927.9,	-	-	927.9	326.9	1,254.8,
Other changes		-	-	-	(17.3)	8.7	(3.7)	(12.3)	1.3	(11.0)

As of December 31, 2007	**471,762,756**	**2,358.8**	**9,179.5**	**(460.7)**	**(3,367.2)**	**(119.1)**	**21.6**	**7,612.9**	**2,577.8**	**10,190.7**
Issues of share capital of the parent company	813,910	4.1	17.9					22.0	-	22.0
Elimination of treasury shares				3.2	2.3			5.5	-	5.5
Share purchase and subscription options					5.5			5.5		5.5
Third party share in share capital increases by subsidiaries and changes in consolidation scope									(129.0)	(129.0)
Parent company dividend distribution					(553.5)			(553.5)		(553.5)
Third party share in dividend distributions by subsidiaries									(200.8)	(200.8)
Foreign exchange translation						(591.9)		(591.9)	(1.9)	(593.8)
Fair value adjustments						298.1	(101.6)	196.5	(10.5)	186.0
Actuarial gains or losses on pension obligations					(94.8)			(94.8)	(9.2)	(104.0)
Net income for the year					405.1			405.1	304.1	709.2
Other changes					13.1	(20.0)	0.8	(6.1)		(6.1)
As of December 31, 2008	**472,576,666**	**2,362.9**	**9,197.4**	**(457.5)**	**(3,589.5)**	**(432.9)**	**(79.2)**	**7,001.2**	**2,530.5**	**9,531.7**

The dividend distribution per share was €1.21, €1.05 and €0.85 in 2008, 2007 and 2006 respectively.

A dividend distribution of €1.21 per share is proposed to the Annual Shareholders' Meeting of May 7, 2009.

16.1. Share capital management objectives, policies and procedures

Veolia Environnement manages its share capital within the framework of a prudent and rigorous financial policy that seeks to ensure easy access to French and international capital markets, to enable investment in projects that create value and provide shareholders with a satisfactory remuneration, while maintaining a credit rating in excess of BBB.

This policy has led Veolia Environnement to define a debt coverage ratio: Net debt / (Operating cash flow before changes in working capital + principal payments on operating financial assets) of between 3.5 and 4.

Net debt represents gross borrowings (non-current borrowings, current borrowings, bank overdrafts and other cash position items), less cash and cash equivalents and excluding fair value adjustments to derivatives hedging debt.

Recurring net income attributable to equity holders of the parent is defined as follows: recurring portion of operating income + recurring portion of financial items + recurring portion of the share of net income of associates - recurring portion of net income attributable to minority interests + recurring portion of the income tax expense. An accounting item is non-recurring if it is unlikely to recur during each period and if it substantially changes the economics of one or more cash-generating units. By their nature, all amendments to goodwill (impairment or badwill) are non-recurring.

16.2. Equity attributable to equity holders of the parent

16.2.1 Share capital

The share capital is fully paid up.

Share capital increases

In 2006, the share capital was increased by €92.9 million (including additional paid-in capital) following the exercise of share purchase and subscription options and by €70.7 million (including additional paid-in capital) following a share capital increase reserved for employees (Group employee savings plan). The discount on the issue price was expensed in the amount of €15.8 million.

In addition, the share capital was increased by €2.2 million (including additional paid-in capital) following the exercise of share subscription warrants.

On July 10, 2007, Veolia Environnement performed a share capital increase for cash with retention of preferential subscription rights in the amount of €2,558.1 million (after offset of share capital increase costs of €23.3 million against additional paid-in capital).

In addition in 2007, Veolia Environnement performed a share capital increase of €156.2 million, subscribed by members of the Group employee savings plan in France and abroad. The discount on the issue price was expensed in the amount of €33.8 million.

Furthermore, the share capital was increased by €119.7 million (including additional paid-in capital) following the exercise of share purchase and subscription options.

In 2008, Veolia Environnement performed a share capital increase of €22 million following the exercise of share purchase and subscription options.

Number of shares outstanding and par value

407,872,606 shares were outstanding as of January 1, 2006, 412,626,550 as of December 31, 2006, 471,762,756 as of December 31, 2007 and 472,576,666 as of December 31, 2008 (including treasury shares). The par value of each share is €5.

16.2.2 Offset of treasury shares against equity

In 2006, 3,424,934 shares were sold and a call sold covering 2,700,000 treasury shares was repurchased for a net carrying amount of €105.8 million as part of transactions reserved for employees. At the same time, Veolia Environnement purchased 2,689,000 treasury shares for a total consideration of €106.9 million and sold a call covering 1,400,000 shares. As of December 31, 2006, the Group held 15,254,308 of its own shares.

In 2007, the net decrease in treasury shares was 133,654 shares, for a net carrying amount of €3.2 million. As of December 31, 2007, the Group held 15,120 654 of its own shares.

In 2008, the net decrease in treasury shares was 140,620 shares, for a net carrying amount of €3.2 million. As of December 31, 2008, the Group held 14,980,034 of its own shares.

16.2.3 Share purchase and subscription options

In accordance with IFRS 2, an expense of €16.7 million in 2006, €15.6 million in 2007 and €5.5 million in 2008 was recognized in respect of share option plans granted to employees.

16.2.4 Appropriation of net income and dividend distribution

A dividend distribution of €553.5 million was paid in 2008 out of 2007 net income attributable to equity holders of the parent of €927.9 million. The residual balance of €374.4 million was transferred to Veolia Environnement consolidated reserves.

16.2.5 Foreign exchange translation reserves

Accumulated foreign exchange translation reserves as of January 1, 2006 are positive in the amount of €212.3 million (portion attributable to equity holders of the parent), including €49.1 million related to the U.S. dollar and €41.7 million related to the Korean won.

In 2006, translation losses of €106.3 million (portion attributable to equity holders of the parent) concerned the U.S. dollar in the amount of €95.0 million.

Accumulated foreign exchange translation reserves as of December 31, 2006 are positive in the amount of €144.6 million (portion attributable to equity holders of the parent), including +€32.6 million related to the Korean won, +€60.4 million related to the pound sterling, +€68.8 million related to the Czech crown and -€45.9 million related to the U.S. dollar.

In 2007, translation losses of €263.7 million (portion attributable to equity holders of the parent) concerned the U.S. dollar in the amount of €80.3 million, the pound sterling in the amount of €122.2 million and the Chinese renminbi yuan in the amount of €41.9 million.

Accumulated foreign exchange translation reserves as of December 31, 2007 are negative in the amount of €119.1 million (portion attributable to equity holders of the parent), including -€126.2 million related to the U.S. dollar, -€61.8 million related to the pound sterling, +€80.7 million related to the Czech crown and -€46.0 million related to the Chinese renminbi yuan.

In 2008, translation losses of €313.8 million (portion attributable to equity holders of the parent) primarily concerned the pound sterling in the amount of -€324.1 million, the U.S. dollar in the amount of €74.4 million and the Chinese renminbi yuan in the amount of €156.1 million.

Accumulated foreign exchange translation reserves as of December 31, 2008 are negative in the amount of €432.9 million (portion attributable to equity holders of the parent), including -€51.8 million related to the U.S. dollar, -€385.9 million related to the pound sterling, +€74 million related to the Czech crown and +€110.1 million related to the Chinese renminbi yuan.

The marked drop in foreign exchange translation reserves primarily reflects the appreciation of the euro against the pound sterling in 2008, while at the end of the fiscal year the U.S. dollar and Chinese renminbi yuan appreciated against the euro. Movements in foreign exchange translation reserves are nonetheless significantly reduced by the Group policy of securing borrowings in the local currency.

Movements in foreign exchange translation reserves (attributable to equity holders of the parent and minority interests):

(€ million)	**Total**	o/w attributable to equity holders of the parent
Translation differences on the financial statements of subsidiaries drawn up in a foreign currency	237.8	186.5
Translation differences on net foreign investments	(42.8)	(41.9)
As of December 31, 2006	**195.0**	**144.6**
Translation differences on the financial statements of subsidiaries drawn up in a foreign currency	(26.1)	(84.8)
Translation differences on net foreign investments	(36.8)	(34.3)
As of December 31, 2007	**(62.9)**	**(119.1)**
Translation differences on the financial statements of subsidiaries drawn up in a foreign currency	(307.0)	(295.0)
Translation differences on net foreign investments	(15.9)	(18.8)
Movements in 2008	**(322.9)**	**(313.8)**
Translation differences on the financial statements of subsidiaries drawn up in a foreign currency	(333.0)	(379.8)
Translation differences on net foreign investments	(52.8)	(53.1)
As of December 31, 2008	**(385.8)**	**(432.9)**

Breakdown by currency of Foreign exchange translation reserves attributable to equity holders of the parent:

(€ million)	As of December 31, **2006**	As of December 31, **2007**	Movement	**As of December 31, 2008**
Pound sterling	60.4	(61.8)	(324.1)	(385.9)
Chinese renminbi yuan	(4.1)	(46.0)	156.1	110.1
Czech crown	68.8	80.7	(6.7)	74.0
U.S. dollar	(45.9)	(126.2)	74.4	(51.8)
Australian dollar	1.0	(0.7)	(44.8)	(45.5)
Korean won	32.6	8.8	(41.1)	(32.3)
Polish zloty	5.2	11.3	(36.0)	(24.7)
Hong Kong dollar	8.2	16.3	(40.8)	(24.5)
Norwegian crown	(0.6)	2.4	(20.3)	(17.9)
Romanian leu	13.9	4.9	(12.0)	(7.1)
Canadian dollar	1.9	7.7	(12.5)	(4.8)
Swedish krona	1.5	(5.6)	1.7	(3.9)
Hungarian florint	3.4	2.7	(6.1)	(3.4)
Mexican peso	1.6	2.0	(3.1)	(1.1)
Egyptian pound	0.4	(0.6)	(0.2)	(0.8)
Other currencies	(3.7)	(15.0)	1.6	(13.4)
Total	**144.6**	**(119.1)**	**(313.8)**	**(432.9)**

16.2.6 Fair value reserves

Fair value reserves attributable to equity holders of the parent are -€55.8 million as of January 1, 2006, -€21.8 million as of December 31, 2006, +€21.6 million as of December 31, 2007 and -€79.2 million as of December 31, 2008.

(€ million)	Available-for sale securities	Commodity derivatives hedging cash flows	Foreign exchange derivatives hedging cash flows	Interest rate derivatives hedging cash flows	**Total**	Attributable to equity holders of the parent
As of December 31, 2006	**0.7**	**-**	**-**	**(23.1)**	**(22.4)**	**(21.8)**
Fair value adjustments	32.5	1.0	0.8	12.1	46.4	47.1
Other movements	1.2	-	-	(5.1)	(3.9)	(3.7)
As of December 31, 2007	**34.4**	**1.0**	**0.8**	**(16.1)**	**20.1**	**21.6**
Fair value adjustments	(18.5)	(32.9)	(0.6)	(60.1)	(112.1)	(101.6)
Other movements	0.1	4.1	-	0.9	5.1	0.8
As of December 31, 2008	**16.0**	**-27.8**	**0.2**	**(75.3)**	**(86.9)**	**(79.2)**

Amounts are presented net of tax.

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

16.3. Minority interests

A breakdown of the movement in minority interests is presented in the Statement of changes in equity.

The decrease in minority interests in 2008 is mainly due to the share capital reduction performed by the company carrying the Berlin contract in the Water Division for -€131.2 million and the distribution of dividends for -€200.8 million, partially offset by the net income for the year of €304.1 million.

NOTE 17. <u>Non-current provisions and other debt and current provisions</u>

Pursuant to IAS 37 (see Note 1.14), provisions maturing after more than one year are discounted. Discount rates used were as follows:

<u>Discount rates</u>

	As of December 31, 2008	As of December 31, **2007**	As of December 31, **2006**
Euro			
2 to 5 years	5.67 %	5.27 %	4.37%
6 to 10 years	5.97 %	5.52 %	4.60%
More than ten years	6.65 %	6.04 %	5.20%
U.S. Dollar			
2 to 5 years	4.95 %	4.35 %	5.20%
6 to 10 years	5.75 %	4.94 %	5.36%
More than ten years	6.82 %	5.84 %	5.86%
Pound Sterling			
2 to 5 years	6.13 %	5.51 %	5.60%
6 to 10 years	6.40 %	5.66 %	5.56%
More than ten years	6.46 %	5.88 %	5.60%

The discount rate calculation methodology is presented in Note 2, Use of management estimates in the application of Group accounting standards.

Movements in non-current provisions and other debt during **2008**:

(€ million)	As of December 31, 2007	Addition / charge	Repayment / Utilization during the year	Reversal	Actuarial gains (losses)	Unwinding of discount	Changes in consolidation scope	Foreign exchange translation	Non-current / current reclassification	Other	**As of December 31, 2008**
Tax litigations	95.7	40.6	(19.1)	(0.7)		1.6	8.9	(0.9)	(0.6)	0.5	126.0
Employee litigations	10.3	2.7	(1.0)	(2.2)		0.1	-	-	(0.6)	-	9.3
Other litigations	78.7	16.5	(4.0)	(11.4)		2.3	0.8	0.2	(10.0)	3.1	76.2
Contractual commitments	268.1	177.0	(182.8)	(0.2)		-	0.4	-	-	(13.9)	248.6
Provisions for work-in-progress & losses to completion on LT contracts	276.4	23.0	(39.9)	(2.1)		12.1	24.1	(2.6)	(64.0)	(0.4)	226.6
Closure and post-closure costs	539.6	0.3	(12.1)	(1.1)		39.3	10.3	(20.1)	(34.1)	(1.7)	520.4
Restructuring provisions	1.3	0.2	(0.2)	(0.1)		-	-	-	-	-	1.2
Self-insurance provisions	133.8	27.3	(36.9)	(0.2)		3.6	(2.6)	1.9	(0.3)	0.1	126.7
Other	89.2	28.1	(9.3)	(9.7)		1.9	8.5	(4.7)	(6.3)	(0.7)	97.0
Non-current provisions excl. pensions and other employee benefits	**1,493.1**	**315.7**	**(305.3)**	**(27.7)**		**60.9**	**50.4**	**(26.2)**	**(115.9)**	**(13.0)**	**1,432.0**
Provisions for pensions and other employee benefits	**645.8**	**78.5**	**(84.1)**	**(14.4)**	**135.5**	**21.0**	**(12.3)**	**(34.1)**	**-**	**(7.7)**	**728.2**
Non-current provisions[(1)]	**2,138.9**	**394.2**	**(389.4)**	**(42.1)**	**135.5**	**81.9**	**38.1**	**(60.3)**	**(115.9)**	**(20.7)**	**2,160.2**

(1) Other non-current liabilities presented in “Non-current provisions and other debt” in 2006 were primarily reclassified in working capital in 2007.

Movements in current provisions during **2008**:

(€ million)	As of December 31, 2007	Charge	Utilization	Reversal	Changes in consolidation scope	Foreign exchange translation	Non-current / current reclassification	Other	**As of December 31, 2008**
Tax litigations	88.0	25.4	(30.1)	(4.4)	(2.0)	(0.6)	0.6	(13.7)	63.2
Employee litigations	28.7	15.7	(11.5)	(3.6)	(1.2)	(0.1)	0.6	0.1	28.7
Other litigations	125.5	51.9	(29.7)	(39.6)	(0.4)	(0.6)	10.7	(4.8)	113.0
Provisions for work-in-progress & losses to completion on LT contracts	189.8	58.4	(116.3)	(7.9)	(4.2)	(5.2)	64.0	(19.8)	158.8
Closure and post-closure costs	65.9	4.9	(34.5)	(0.3)	(0.8)	(4.4)	34.1	3.8	68.7
Restructuring provisions	32.0	23.0	(21.2)	(7.2)	1.0	(1.0)	-	-	26.6
Self-insurance provisions	100.4	49.3	(40.3)	(2.8)	(1.8)	0.6	0.4	0.2	106.0
Other	195.4	102.2	(70.5)	(39.6)	(0.7)	(4.1)	5.6	19.8	208.1
Current provisions	**825.7**	**330.8**	**(354.1)**	**(105.4)**	**(10.1)**	**(15.4)**	**116.0**	**(14.4)**	**773.1**

Other movements primarily consist of the reclassification of liabilities of certain French subsidiaries under joint control in the Water Division as "Liabilities directly associated with assets classified as held for sale" in the amount of €16.3 million (including non-current liabilities of €13.4 million and current liabilities of €2.9 million). Liabilities reclassified as of December 31, 2007 amounted to €1.9 million, while no reclassifications were performed in 2006.

Movements in non-current and current provisions break down as follows:

Litigation

This provision covers all losses that are considered probable and that relate to litigation (taxation, employee or other) arising in the normal course of Veolia Environnement's business operations.

The Water, Energy Services and Environmental Services Divisions account for the majority of the provisions (€258.3 million, €48.6 million and €66.6 million respectively).

Contractual commitments

As part of its obligations under public services contracts, Veolia Environnement generally assumes responsibility for the maintenance and repair of the installations it manages. The resulting maintenance and repair costs are analyzed in accordance with IAS 37 on provisions and, where necessary, a provision for contractual commitments is recorded where there is outstanding work to be performed. These provisions total €248.6 million and primarily relate to the Water and Energy Services Divisions in the amount of €157.9 million and €90.6 million respectively.

Work-in-progress and losses to completion on long-term contracts

As of December 31, 2008, these provisions mainly concern the Water Division (primarily engineering and construction activities) in the amount of €65.6 million, the Transportation Division in the amount of €172.8 million and the Environmental Services Division in the amount of €80.7 million.

Changes in consolidation scope mainly concern fair value adjustments to the acquisition balance sheet of VSA Tecnitalia in the Environmental Services Division in the amount of €15.4 million and the sale of Clemessy and Crystal activities in the Energy Services Division in the amount of -€10.0 million.

Reversals of provisions mainly concern engineering and construction contracts in the Water Division for -€60.1 million and the SNCM contract in the Transportation Division for -€26.3 million.

These provisions also include warranty and customer care provisions in the engineering and construction businesses.

Closure and post-closure costs

This provision encompasses the legal and contractual obligations of the Group on the completion of operating activities at a site (primarily site restoration provisions) and, more generally, expenditure associated with environmental protection as defined in the ethics charter of each entity (provision for environmental risks).

These provisions total €589.1 million and primarily concern the Environmental Services Division in the amount of €508.9 million, compared to €532.1 million in 2007 and €433.9 million in 2006 and the Energy Services Division in the amount of €63.8 million, compared to €55.6 million in 2007 and €14.7 million in 2006.

The change in these provisions is mainly due to the unwinding of the discount and substantial foreign exchange translation losses in the Environmental Services Division of €34.6 million and -€23.8 million respectively.

Changes in consolidation scope mainly concern fair value adjustments of €10.1 million to Thermal North America Inc. provisions (Energy Services Division) as part of the valuation of its acquisition balance sheet.

Provisions for site restoration cover obligations relating to closure and post-closure costs at waste disposal facilities operated by the Group and for which it is responsible. These provisions primarily concern the Environmental Services Division. Forecast site restoration costs are provided pro rata to waste tonnage deposited over the authorized duration of the sites and amounted to €527.4 million at the end of 2008, including €469.1 million in respect of the Environmental Services Division compared to €452.8 million at the end of 2007 and €428.5 million at the end of 2006.

Other provisions concern environmental risks in the amount of €46.5 million in 2008, compared to €66.0 million in 2007 and €4.7 million in 2006 and plant dismantling in the Water, Energy Services and Environmental Services Divisions in the amount of €15.3 million in 2008, compared to €18.2 million in 2007 and €5.4 million in 2006.

Self-insurance provisions

As of December 31, 2008, self-insurance provisions amount to €232.7 million and are mainly recorded by Group insurance and reinsurance subsidiaries in the amount of €114.6 million, the Energy Services Division in the amount of €39.7 million and the Transportation Division in the amount of €39.4 million.

Other

Other provisions include various obligations recorded as part of the normal operation of the Group's subsidiaries.

Pensions and other employee benefits

Provisions for pensions and other employee benefits as of December 31, 2008 total €728.2 million, and include provisions for pensions and other post-employment benefits of €576.6 million (governed by IAS 19 and detailed in Note 32, Employee benefit obligation) and provisions for other long-term benefits of €151.6 million.

Recap: Movements in non-current provisions and other debt during 2007:

(€ million)	As of December 31, 2006	Addition / charge	Repayment / Utili-zation	Reversals	Actuarial gains (losses)	Unwinding of discount	Changes in consolidation scope	Foreign exchange translation	Non-current / current reclassifi-cation	Other	**As of December 31, 2007**
Tax litigations	65.3	34.2	(20.3)	(1.5)	-	0.7	5.8	(0.1)	(1.9)	13.5	95.7
Employee litigations	3.2	3.8	(4.4)	(0.1)	-	-	0.1	-	-	7.7	10.3
Other litigations	94.5	19.5	(17.2)	(10.9)	-	2.0	0.5	(1.2)	(9.5)	1.0	78.7
Contractual commitments	287.8	164.6	(184.5)	(3.7)	-	-	0.8	-	-	3.1	268.1
Provisions for work-in-progress & losses to completion on LT contracts	312.6	36.4	(19.9)	(2.3)	-	14.7	(11.0)	(1.2)	(51.9)	(1.0)	276.4
Closure and post-closure costs	398.3	8.5	(14.0)	(4.8)	-	40.4	84.2	(20.4)	(15.1)	62.5	539.6
Restructuring provisions	23.2	0.1	(0.2)	(0.2)	-	-	(17.0)	-	(5.7)	1.1	1.3
Self-insurance provisions	131.1	39.6	(36.8)	-	-	1.6	(0.5)	(3.6)	(5.0)	7.4	133.8
Other	131.6	37.8	(15.7)	(21.8)	-	2.1	2.6	(2.0)	(7.8)	(37.6)	89.2
Non-current provisions excl. pensions and other employee benefits	**1,447.6**	**344.5**	**(313.0)**	**(45.3)**	-	**61.5**	**65.5**	**(28.5)**	**(96.9)**	**57.7**	**1,493.1**
Provisions for pensions and other employee benefits*	**749.0**	**66.6**	**(89.5)**	**(6.2)**	**(122.7)**	**18.2**	**22.1**	**(10.7)**	-	**19.1**	**645.8**
Non-current provisions	**2,196.6**	**411.1**	**(402.5)**	**(51.5)**	**(122.7)**	**79.7**	**87.6**	**(39.2)**	**(96.9)**	**76.8**	**2,138.9**
Other non-current debt	207.3	-	-	-	-	-	-	-	(207.3) (1)	-	-
Non-current provisions and other debt	**2,403.9**	**411.1**	**(402.5)**	**(51.5)**	**(122.7)**	**79.7**	**87.6**	**(39.2)**	**(304.2)**	**76.8**	**2,138.9**

(1) Other non-current liabilities were primarily reclassified in working capital.

* See Note 32, Employee benefit obligation.

Recap: Movements in current provisions during 2007:

(€ million)	As of December 31, 2006	Charge	Utilization	Reversal	Changes in consolidation scope	Foreign exchange translation	Non-current / current reclassification	Other	**As of December 31, 2007**
Tax litigations	48.6	43.2	(15.9)	(4.4)	13.9	(0.4)	1.9	1.0	88.0
Employee litigations	23.5	15.1	(6.0)	(3.2)	0.1	(0.1)	-	(0.7)	28.7
Other litigations	103.9	54.7	(26.0)	(30.1)	4.1	(2.2)	9.5	11.6	125.5
Provisions for work-in-progress & losses to completion on LT contracts	221.6	72.2	(149.5)	(7.7)	13.8	(3.3)	51.9	(9.2)	189.8
Closure and post-closure costs	64.1	7.8	(24.7)	(0.4)	3.1	(3.0)	15.1	3.9	65.9
Restructuring provisions	46.1	13.7	(11.9)	(2.4)	(17.8)	(0.4)	5.7	(1.0)	32.0
Self-insurance provisions	83.1	53.8	(38.6)	(1.1)	-	(3.7)	5.0	1.9	100.4
Other	235.0	98.6	(71.4)	(29.3)	2.1	(1.3)	7.8	(46.1)	195.4
Current provisions	**825.9**	**359.1**	**(344.0)**	**(78.6)**	**19.3**	**(14.4)**	**96.9**	**(38.5)**	**825.7**

NOTE 18. Non-current borrowings

Movements in non-current borrowings during **2008**:

(€ million)	As of December 31, **2007**	Increases / subscriptions (2)	Repayments	Changes in consolidation scope	Fair value adjustments (1)	Foreign exchange translation	Non-current / current reclassification	Other	**As of December 31, 2008**
Bonds	9,009.6	1,807.6	(37.7)	47.0	442.8	(121.6)	(68.8)	18.7	11,097.6
Other non-current borrowings	4,938.4	1,918.0	(147.1)	58.4	10.0	(83.2)	(711.7)	(16.5)	5,966.3
Non-current borrowings	**13,948.0**	**3,725.6**	**(184.8)**	**105.4**	**452.8**	**(204.8)**	**(780.5)**	**2.2**	**17,063.9**

(1) Fair value adjustments are recorded in financial income and expenses.

(2) The increase of €3,725.6 million includes new finance lease obligations in the amount of €135 million.

Non-current borrowings are recorded as financial liabilities at amortized cost for accounting purposes. Given changes in interest rates in 2008 in France and the United States, hedging transactions were entered into in respect of certain fixed-rate bond issues. Fair value hedge accounting was applied to these transactions.

Fair value adjustments of €442.8 million to bond issues were primarily due to reductions in interest rates in 2008 and an increase in the number of fair value hedging relationships hedging fixed-rate debts. These fair value adjustments break down as follows:

- private placements in the United States: €19.5 million
- other U.S. dollar borrowings: €123.7 million
- other EMTN (Euro Medium Term Notes) series: €299.6 million

Changes in consolidation scope mainly concern the Water Division in the amount of €114.2 million and primarily acquisitions in the United Kingdom and acquisitions of additional equity investments in Israel.

Other movements primarily consist of the reclassification of liabilities of certain French subsidiaries under joint control in the Water Division, to “Liabilities directly associated with assets classified as held for sale” in the amount of -€13.4 million.

Non-current bond issues break down by maturity as follows:

(€ million)	As of December 31, **2006**	As of December 31, **2007**	**As of December 31, 2008**	**Maturity**		
				2 to 3 years	**4 to 5 years**	**> 5 years**
Publicly offered or traded issuances [(a)]	**7,588.6**	**8,191.1**	**10,290.9**	**22.2**	**2,545.8**	**7,722.9**
European market [(i)]	7,588.6	8,191.1	8,884.3	22.2	2,013.8	6,848.3
U.S. market [(ii)]	-	-	1,406.6	-	532.0	874.6
Private placements [(b)]	309.1	288.8	320.2	-	145.7	174.5
Three Valleys bond issue [(c)]	292.1	267.6	206.1	-	-	206.1
Stirling Water Seafield Finance bond issue [(d)]	-	59.3	88.0	6.1	7.1	74.8
Other amounts < €50 million in 2008	227.7	202.8	192.4	33.6	27.9	130.9
Bonds	**8,417.5**	**9,009.6**	**11,097.6**	**61.9**	**2,726.5**	**8,309.2**

(a) Publicly offered or traded issuances

i) European market: As of December 31, 2008, the balance sheet amount of bonds issued under the European Medium Term Notes (EMTN) program totaled €8,928.2 million, including €8,884.3 million maturing in more than one year. The impact of the fair value measurement of non-current borrowings was €182 million.

During 2008, Veolia Environnement issued notes under its EMTN program for a nominal amount (euro equivalent) of €572 million as of December 31, 2008 (recognized in the balance sheet for €560 million). These issues break down as follows:

• On January 7, 2008, Veolia Environnement reopened the GBP-denominated series 24 bond issue maturing in 2037 in the amount of GBP 150 million (euro equivalent of €157 million as of December 31, 2008), bringing the total bond amount to GBP 650 million;

• On March 14, 2008, Veolia Environnement reopened the EUR-denominated series 21 bond issue maturing in 2017 in the amount of €140 million, bringing the total bond amount to €1,140 million;

• On April 1, 2008, Veolia Environnement reopened for the first time the series 15 corporate bond issue indexed to European inflation and maturing in 2015, in the amount of €275 million, bringing the total bond amount to €875 million (before indexing).

In addition, Veolia Environnement redeemed three bond issues in 2008: redemption on February 15, 2008 of a €300 million bond issued performed in February 2006, on June 27, 2008 of a €700 million bond issue performed in June 2001 and on August 26, 2008, of a €200 million bond issue performed in February 2007. Given their maturities, these bond issues were classified in current borrowings as of December 31, 2007.

Two bond issues were transferred to current borrowings given their maturity in 2009:

- a CZH 660 million bond issue (€21.5 million euro equivalent at historical rates), maturing April 29, 2009,
- a U.S.$27 million bond issue (€22.2 million euro equivalent at historical rates), maturing March 4, 2009.

(ii) U.S. market: Due notably to the strengthening of the Group's long-term presence in the United States with the acquisition in 2007 of Thermal North America Inc. (Energy Services Division), Veolia Environnement performed on May 21, 2008, a fixed-rate bond issue listed in the United States in the amount of USD 1.8 billion and comprising three tranches (USD 700 million 5-year tranche, USD 700 million 10-year tranche and USD 400 million 30-year tranche). As of December 31, 2008, nominal bond outstandings (euro equivalent) total €1,293.3 million and the balance sheet amount is €1,406.7 million (including fair value adjustments of €123.7 million). This first bond issue by the Group on the U.S. market enables a better match between long-term cash flows generated in the United States and local USD long-term debt.

(b) Private placements: As of December 31, 2008, the balance sheet euro-equivalent amount of private placements performed in the United States in 2003 (USPP) is €320.2 million (including fair value adjustments of €23.9 million). These bond issue comprise five tranches:

- Tranches A, B and C, maturing January 30, 2013, of €33 million (fixed-rate interest of 5.84%), £7 million (fixed-rate interest of 6.22%) and U.S.$ 147 million (fixed-rate interest of 5.78%) respectively,
- Tranche D, maturing January 30, 2015, of U.S.$125 million, bearing fixed-rate interest of 6.02%,
- Tranche E, maturing January 30, 2018, of U.S.$85 million, bearing fixed-rate interest of 6.31%.

(c) Three Valleys bond issue: The €200 million bond issue performed by Three Valleys in the U.K. (Water Division) in July 2004, bearing interest of 5.875%, is recognized as of December 31, 2008, at amortized cost for a euro equivalent of €206.1 million. This bond matures on July 13, 2026.

(d) Stirling Water Seafield Finance bond issue: The outstanding balance as of December 31, 2008 on the amortizable bond issue performed in 1999 by Stirling Water Seafield Finance (Thames Water subsidiary, Water Division), is GBP 91.5 million. This bond issue is recognized at amortized cost for a euro equivalent of €88.0 million as of December 31, 2008 (non-current portion). Stirling Water was proportionately consolidated in the amount of 49% in 2007 and is fully consolidated since December 2008 following the buy-out of minority interests. This bond matures on September 26, 2026.

Breakdown of long-term bond issues by main component:

Operation (€ million)	Final maturity	Currency	Nominal	Interest rate	**Net carrying amount**
Series 7	02/01/2012	EUR	1,000	5.88%	1,000
Series 9	04/23/2010	CZK	22	Pribor 3M + 0.67%	22
Series 10	05/28/2013	EUR	1,000	4.88%	1,014
Series 10 bis	05/28/2018	EUR	750	5.38%	778
Series 12	11/25/2033	EUR	700	6.13%	695
Series 14	06/30/2015	USD	36	4.69%	40
Series 15	06/17/2015	EUR	875	1.75% (indexed to European inflation)	929
Series 17	02/12/2016	EUR	900	4.00%	904
Series 18	12/11/2020	EUR	600	4.38%	635
Series 21	01/16/2017	EUR	1,140	4.38%	1,155
Series 23	05/24/2022	EUR	1,000	5.13%	1,044
Series 24	10/29/2037	GBP	683	6.13%	668
Total bond issues (EMTN)	**n/a**	**n/a**	**8,706**	**n/a**	**8,884**
USD Series Tranche 1	06/03/2013	USD	503	5.25%	532
USD Series Tranche 2	06/01/2018	USD	503	6%	547
USD Series Tranche 3	06/01/2038	USD	287	6.75%	328
Total publicly offered or traded issuances in USD	**n/a**	**n/a**	**1,293**		**1,407**
USPP EUR 2013	01/30/2013	EUR	33	5.84%	33
USPP GBP 2013	01/30/2013	GBP	7	6.22%	7
USPP USD 2013	01/30/2013	USD	106	5.78%	106
USPP USD 2015	01/30/2015	USD	90	6.02%	100
USPP USD 2018	01/30/2018	USD	61	6.31%	74
Total U.S. private placements	**n/a**	**n/a**	**297**	**n/a**	**320**
Three Valleys bond issue	07/13/2026	GBP	210	5.88%	206
Stirling Water Seafield Finance bond issue	09/26/2026	GBP	90	5.82%	88
Total principal bond issues	**n/a**	**n/a**	**10,596**	**n/a**	**10,905**

Breakdown of other non-current borrowings by main component:

(€ million)	As of December 31, **2006**	As of December 31, **2007**	**As of December 31, 2008**	**Maturity**		
				2 to 3 years	**4 to 5 years**	**> 5 years**
BWB and SPE debts (a)	2,067.1	1,234.8	1,392.4	204.7	154.3	1033.4
Multi-currency syndicated loan facility (b)	-	-	1,109.7	-	1,109.7	-
Finance leases obligations (c)	866.1	754.5	751.2	235.7	200.1	315.4
Syndicated loan facility in CZK (d)	363.8	338.0	316.3	223.3	93.0	-
Minority interest put options (Note 1.15.5) (1)	276.0	309.9	183.6	172.2	-	11.4
Aquiris (e)	164.2	184.2	175.4	15.8	17.4	142.2
Cogevolt (f)	358.8	259.7	170.6	131.0	35.3	4.3
Redal (g)	97.3	161.3	165.7	27.4	32.4	105.9
Delfluent (h)	102.3	118.3	107.6	7.9	8.3	91.4
Shenzhen (i)	97.5	93.2	105.3	2.6	3.5	99.2
VSA Tecnitalia (j)	-	164.6	100.4	34.3	28.9	37.2
Local authority borrowing annuities (k)	101.1	67.3	53.4	26.7	22.2	4.5
Other < €100 million	1,089.9	1,252.6	1,334.7	352.7	236.4	745.6
Other non-current borrowings	**5,584.1**	**4,938.4**	**5,966.3**	**1,434.3**	**1,941.5**	**2,590.5**

(a) BWB and SPE debts: The Berliner Wasser Betriebe ("BWB") non-current borrowing, proportionately consolidated in the amount of 50%, breaks down as follows:

- The debt borne by the operating companies of €1,113.1 million as of December 31, 2008, compared to €933.3 million as of December 31, 2007 and €1,148.7 million as of December 31, 2006.
- Special purpose entity (SPE) debts of €279.3 million as of December 31, 2008, compared to €301.5 million as of December 31, 2007 and €318.4 million as of December 31, 2006.

(b) Multi-current syndicated loan facility: This €4 billion multi-currency syndicated loan facility matures in 2012. Two draw-downs were performed in October 2008 in euros and Polish zlotys. As of December 31, 2008, this syndicated loan facility was drawn in the amount of €1,110 million (€886 million and PLN 928 million, or a euro equivalent of €224 million as of December 31, 2008).

(c) Finance lease obligations: As of December 2008, finance lease obligations fall due between 2009 and 2031. Interest rates are fixed or floating (indexed to EONIA, euro T4M and euro TAM or their equivalent for financing in other currencies).

(d) Syndicated loan facility in CZK: This CZK 12 billion syndicated loan facility arranged by Komerčni Banka, Crédit Lyonnais and ING Bank in favor of Veolia Environnement, refinanced in 2005 the five-year CZK 8 billion syndicated loan facility negotiated in November 2003. It includes a CZK 8 billion tranche maturing July 29, 2010 and a CZK 4 billion tranche maturing July 27, 2012. As of December 31, 2008, this syndicated loan facility had been drawn down by CZK 8.5 billion (€316.3 million euro equivalent).

(e) Aquiris: This financing carried by Aquiris in respect of the North Brussels wastewater treatment plant construction project (Water Division), was secured in December 2006. It comprises two credit lines bearing floating-rate interest. As of December 31, 2008, the lines had been drawn in the amount of €175.4 million.

(f) Cogevolt: This securitization of future receivables was organized to finance cogeneration installations in the Energy Services Division. The debt reflects payments due in respect of the amortization of future receivables over the period to May 2012. The average fixed rate of interest payable on this debt is 5.25%.

(g) Redal : Non-recourse debt carried by Redal, Morocco (Water Division) and maturing on December 31, 2018, of €165.7 million as of December 31, 2008.

(h) Delfluent: Three floating-rate financing lines carried by Delfluent BV (Water Division), proportionately consolidated in the amount of 40%, in respect of the Hague wastewater treatment plant construction project. One of these lines is repayable in full on maturity in 2009 (€17.5 million), while the other two lines, maturing 2030, are redeemable loans. As of December 31, 2008, the three lines had been drawn in the total amount of €128.3 million.

(i) Shenzhen: This financing which concerns the comprehensive water management contract for the town of Shenzhen is carried by Beijing Capital VW Invest. Co and is proportionately consolidated (50%) in the euro equivalent of €105.3 million as of December 31, 2008. This Chinese renminbi yuan redeemable loan matures in June 2022 and bears interest to November 22, 2010, at a fixed-rate of 6.93% (revisable every six years).

(j) VSA Tecnitalia: Primarily two floating-rate redeemable financing lines in the amount of €100.4 million, carried by VSA Tecnitalia (purchased in 2007, Environmental Services Division) to finance waste thermal treatment plant projects in Italy.

(k) The Group assumes certain fee obligations to local authorities under public service contracts. Consolidated local authority borrowing annuities total €53.4 million as of December 31, 2008.

(l) The decrease in minority interest put obligations primarily reflects the exercise of the put option on Société Nationale Maritime Corse Méditerranée (SNCM), by the Transportation Division.

Non-current borrowings break down by original currency (before swap transactions) as follows:

(€ million)	As of December 31, **2006**	As of December 31, **2007**	**As of December 31, 2008**
Euro	11,542.0	10,701.8	12,256.0
U.S. dollar	558.2	641.7	2,066.9
Pound sterling	554.0	1,290.1	1,204.9
Czech crown	447.1	418.7	377.8
Chinese renminbi yuan	183.8	218.1	286.6
Polish zloty	64.7	88.2	277.0
Moroccan dirham	n.a.	241.6	257.1
Korean won	60.8	49.3	31.7
Norwegian crown	37.9	28.2	17.8
Australian dollar	17.4	9.9	0
Other	535.7	260.4	288.0
Non-current borrowings	**14,001.6**	**13,948.0**	**17,063.9**

The Group uses finance leases to finance the purchase of certain operating property, plant and equipment and real estate assets recorded in balance sheet assets.

Assets financed by **finance leases** break down by category as follows:

(€ million)	Property, plant and equipment, net	Concession intangible assets	Operating financial assets	**Total**
December 31, 2008	455.1	173.8	271.0	**899.9**
December 31, 2007	423.5	191.7	284.8	**900.0**
December 31, 2006	433.0	327.1	362.7	**1,122.8**

As of December 31, 2008, future minimum lease payments under these contracts break down as follows:

(€ million)	Finance leases (in the Balance Sheet)
Less than 1 year	189.6
2 to 3 years	299.4
4 to 5 years	251.9
More than 5 years	412.0
Total future minimum lease payments	**1,152.9**
Less amounts representing interest	273.3
Present value of minimum lease payments (finance leases)	**879.6**

Contingent rent and sub-lease income for the period recorded in the Income Statement are not material.

Recap: Movements in long-term borrowings during 2007:

(€ million)	As of December 31, **2006**	Increases / subscriptions	Repayments	Changes in consolidation scope	Fair value adjustments (1)	Foreign exchange translation	Non-current / current reclassification	Other	As of December 31, **2007**
Bonds	8,417.5	1,712.6	(1.3)	86.4	(47.0)	(112.9)	(1,050.5)	4.8	9,009.6
Other non-current borrowings	5,584.1	486.7	(1,361.6)	1,564.6	8.8	(51.5)	(1,046.9)	(245.8)	4,938.4
Non-current borrowings	**14,001.6**	**2,199.3**	**(1,362.9)**	**1,651.0**	**(38.2)**	**(164.4)**	**(2,097.4)**	**(241.0)**	**13,948.0**

NOTE 19. <u>Current borrowings</u>

Movements in current borrowings during **2008**:

(€ million)	As of December 31, **2007**	Changes in business	Changes in consolidation scope	Fair value adjustments	Foreign exchange translation	Non-current / current reclassification	Other	**As of December 31, 2008**
Current borrowings	**3,805.0**	**(1,435.3)**	**151.0**	**(267.0)**	**119.4**	**780.5**	**66.3**	**3,219.7**

Current borrowings are recorded as financial liabilities at amortized cost for accounting purposes.

Current borrowings total €3,219.7 million as of December 31, 2008 compared to €3,805.0 million as of December 31, 2007.

This decrease is mainly due to:

- the repayment of the Berlin acquisition debt of €600 million, which matured on January 17, 2008;
- the redemption of the €300 million EMTN series 20 bond issue (maturing February 15, 2008);
- the redemption of the residual balance on the €700 million EMTN series 1 bond issue (maturing June 27, 2008);
- redemption of the €200 million bond issue performed in January 2001 and redeemed in August 2008;
- partially offset by a €813 million increase in treasury note outstandings and the reclassification of two bond issues in current borrowings, given their maturity in 2009:

- a CZK 660 million bond issue (€21.5 million euro equivalent at historical rates), maturing April 29, 2009;

- a U.S.$27 million bond issue (€22.2 million euro equivalent at historical rates), maturing March 4, 2009.

Other movements primarily consist of the reclassification of liabilities of certain French subsidiaries under joint control in the Water Division, to “Liabilities directly associated with assets classified as held for sale” in the amount of €28.4 million and the reclassification of the “Bank overdrafts and other cash position items” account in the Environmental Services Division in the amount of €45 million.

As of December 31, 2008, current borrowings mainly concern:

- Veolia Environnement SA for €1,615.3 million (including treasury notes of €922 million, bond issues maturing within one year of €44 million, securitization program debts of €374 million and accrued interest on debt of €271 million);
- the Water Division for €559.2 million (including the company carrying the Berlin contract for €155.5 million);
- the Environmental Services Division for €473.7 million;
- The Energy Services Division for €464.8 million (including the current portion of Cogevolt financing of €89 million);
- the Transportation Division for €63.2 million.

Current debts in respect of Group finance leases total €141.9 million as of December 31, 2008, compared to €125.6 million as of December 31, 2007 and €131.3 million as of December 31, 2006.

Recap: Movements in current borrowings during 2007:

(€ million)	As of December 31, **2006**	Changes in business	Changes in consolidation scope	Fair value adjustments	Foreign exchange translation	Non-current / current reclassification	Other	**As of December 31, 2007**
Current borrowings	**2,904.1**	**(1,464.8)**	**421.4**	**(16.0)**	**(132.3)**	**2,097.4**	**(4.8)**	**3,805.0**

NOTE 20. Bank overdrafts and other cash position items

Movements in bank overdrafts and other cash position items during **2008**:

(€ million)	As of December 31, 2007	Changes in business	Changes in consolidation scope	Foreign exchange translation	Other	**As of December 31, 2008**
Water	209.0	(3.4)	(5.2)	0.1	(0.2)	210.7
Environmental Services	130.6	6.7	7.8	(0.5)	(45.5)	99.1
Energy Services	91.7	(16.8)	3.6	(1.5)	0.9	77.9
Transportation	26.0	19.1	1.5	(3.2)	-	43.4
Other	2.1	27.1	-	(0.9)	-6.3	34.6
Bank overdrafts and other cash position items	**459.4**	**32.7**	**18.1**	**(6.0)**	**(38.5)**	**465.7**

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

Recap: Movements in bank overdrafts and other cash position items during 2007:

(€ million	As of December 31, 2006	Changes in business	Changes in consolidation scope	Foreign exchange translation	Other	**As of December 31, 2007**
Water	135.3	65.8	12.0	(2.6)	(1.5)	209.0
Environmental Services	96.9	32.2	1.7	(2.2)	2.0	130.6
Energy Services	174.5	(90.5)	8.6	0.3	(1.2)	91.7
Transportation	26.2	(2.7)	2.2	0.1	0.2	26.0
Other	23.1	(20.4)	0.4	-	(1.0)	2.1
Bank overdrafts and other cash position items	**456.0**	**(15.6)**	**24.9**	**(4.4)**	**(1.5)**	**459.4**

NOTE 21. Revenue

Pursuant to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, the Income Statements of the Clemessy and Crystal entities in the Energy Services Division, divested in December 2008, have been grouped together in a separate line, Net income from discontinued operations, for fiscal year 2008 and fiscal years 2007 and 2006 presented for comparative purposes.

BREAKDOWN OF REVENUE (SEE NOTE 1.18)

(€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Services rendered	29,440.0	26,609.8	23,761.9
Sales of goods	1,743.6	1,464.8	1,609.1
Revenue from operating financial assets	400.4	345.1	351.0
Construction	4,621.5	3,512.5	2,219.0
Revenue	**36,205.5**	**31,932.2**	**27,941.0**

Sales of goods mainly concern sales of technological solutions in the Water Division and sales of products relating to recycling activities in the Environmental Services Division.

The marked increase in construction revenue is notably due to the expansion of these activities in the Water Division, by the Veolia Eau Solutions & Technologies subsidiary, notably in the Middle East.

NOTE 22. Operating income

Operating income is calculated as follows:

(€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Revenue	**36,205.5**	**31,932.2**	**27,941.0**
Cost of sales	**(30,418.4)**	**(26,020.4) (1)**	**(22 581.6) (1)**
o/w: Impairment losses on goodwill and badwill recorded in the Income Statement	(319.9)	18.2	10.7
Restructuring costs	(29.2)	(28.8)	(25.1)
Selling costs	**(622.5)**	**(560.7) (1)**	**(521.5) (1)**
General and administrative expenses	**(3,262.7)**	**(2,932.2) (1)**	**(2,754.0) (1)**
o/w: Research and development costs	(92.1)	(84.6)	(66.4)
Other operating revenue and expenses	**49.4**	**63.6**	**40.3**
o/w: Capital gains and losses on disposal (2)	48.9	106.6	50.9
Other	0.5	-	15.1
Operating income	**1,951.3**	**2,482.5**	**2,124.2**

(1) In 2008, as part of ongoing efficiency measures, the Group reclassified certain expenses from cost of sales to selling costs and general and administration expenses. These reclassifications had no impact on operating income. The impact of these reclassifications on Cost of sales, Selling costs and General and administrative expenses is €256.0 million, -€29.9 million and -€226.1 million respectively in 2007 and €214.9 million, -€27.6 million and -€187.3 million respectively in 2006.

(2) Primarily capital gains on disposals of financial assets; overall, industrial and financial capital gains totaled €115.7 million in 2008 compared to €171 million in 2007 and capital gains on assets classified as held for sale totaled €172.5 million, compared to €0.7 million in 2007.

Operating depreciation, amortization, provisions and impairment losses included in operating income in **2008** break down as follows:

(€ million)	Charge	Reversal	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006
Operating depreciation, amortization and provisions, net	**(2,674.2)**	**1,014.7**	**(1,659.5)**	**(1,460.0)**	**(1,412.7)**
Depreciation and amortization	**(1,711.5)**	**22.2**	**(1,689.3)**	**(1,542.6)**	**(1,351.4)**
Property, plant and equipment	(1,285.1))	22.2	(1,262.9)	(1,173.8)	(1,041.9)
Intangible assets	(426.4)		(426.4)	(368.8)	(309.5)
Impairment losses	**(286.6)**	**146.0**	**(140.6)**	**(48.0)**	**(57.8)**
Property, plant and equipment	(8.3)	8.0	(0.3)	(35.7)	(16.2)
Intangible assets	(74.3)	4.2	(70.1)	(0.7)	(7.8)
Inventories	(51.9)	8.6	(43.3)	(1.7)	(2.6)
Trade receivables	(144.1)	111.6	(32.5)	(39.7)	(37.6)
Other operating and non-operating receivables	(8.0)	13.6	5.6	29.8	6.4
Non-current and current operating provisions other than replacement provisions	**(676.1)**	**846.5**	**170.4**	**130.6**	**(3.5)**
Non-current operating provisions other than replacement provisions	(379.0)	429.7	50.7	51.5	(103.4)
Current operating provisions	(297.1)	416.8	119.7	79.1	99.9
Replacement costs*			**(390.3)**	**(358.4)**	**(368.1)**
Impairment losses and impact of disposals on goodwill and badwill presented in the Income Statement			**(319.9)**	**(18.2)**	**0.6**
Operating depreciation, amortization, provisions and impairment losses			**(2,369.7)**	**(1,800.2)**	**(1,780.2)**

* **Replacement costs:** all replacement costs for concession assets in the context of public service delegation contracts in France are considered in the cash flow statement as investments, irrespective of whether the infrastructure was originally financed by the concession holder. As such, in the passage from net income (loss) to net cash from operating activities, all replacement costs are eliminated under adjustments for operating depreciation, amortization, provisions and impairment losses.

Operating depreciation, amortization, charges to provisions and impairment losses in the cash flow statement include operating depreciation, amortization, provisions and impairment losses transferred to Net income from discontinued operations in the amount of -€0.2 million in 2008 and -€24.9 million in 2007 (primarily Clemessy and Crystal in 2008 and 2007 and Transportation Division operations in Denmark in 2007).

Recap: Published operating depreciation, amortization, provisions and impairment losses included in operating income in 2007, before adjustment for the sale of Clemessy and Crystal, break down as follows:

(€ million)	Charge	Reversal	Year ended December 31, 2007	Year ended December 31, 2006
Operating depreciation, amortization and provisions, net	**(2,529.8)**	**1,067.5**	**(1,462.3)**	**(1,409.8)**
Depreciation and amortization	**(1,572.1)**	**24.0**	**(1,548.1)**	**(1,356.8)**
Property, plant and equipment	(1,202.2)	24.0	(1,178.2)	(1,045.8)
Intangible assets	(369.9)	-	(369.9)	(311.0)
Impairment losses	**(234.6)**	**186.6**	**(48.0)**	**(59.7)**
Property, plant and equipment	(43.3)	7.6	(35.7)	(16.2)
Intangible assets	(1.3)	0.6	(0.7)	(7.8)
Inventories	(9.5)	8.0	(1.5)	(2.4)
Trade receivables	(166.4)	126.5	(39.9)	(38.9)
Other operating and non-operating receivables	(14.1)	43.9	29.8	5.6
Non-current and current operating provisions other than replacement provisions	**(723.1)**	**856.9**	**133.8**	**6.7**
Non-current operating provisions other than replacement provisions	(395.8)	450.3	54.5	(99.1)
Current operating provisions	(327.3)	406.6	79.3	105.8
Replacement costs*			**(358.4)**	**(368.1)**
Impairment losses and impact of disposals on goodwill and badwill presented in the Income Statement			**18.2**	**0.6**
Operating depreciation, amortization, provisions and impairment losses			**(1,802.5)**	**(1,777.3)**

Breakdown of impairment losses and the impact of disposals on goodwill

Impairment losses on goodwill break down as follows (see also Note 4, Goodwill):

(€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Impairment losses on goodwill of the Environmental Services Division Germany CGU	(343.0)	-	-
Impairment losses on goodwill of the Transportation Division “Other European” CGU	(55.3)	-	-
Impairment losses on goodwill of the Eurolines CGU		(6.9)	-
Badwill recorded in the Income Statement – Water Division	2.3	-	11.2
Badwill recorded in the Income Statement - SNCM	70.2	10.9	-
Badwill recorded in the Income Statement following employee share subscriptions – Lodz (Energy Services Division - Poland)	2.1	10.3	-
Other	3.8	3.9	(0.5)
Impairment losses on goodwill and badwill presented in Cost of sales in the Income Statement	**(319.9)**	**18.2**	**10.7**
Correction to purchase price allocations in the Water Division Germany CGU	-	-	(2.8)
Impairment losses on goodwill of the Transportation Germany CGU	-	-	(7.3)
Impairment losses and impact of disposals on goodwill presented in Other operating revenue and expenses in the Income Statement	-	-	**(10.1)**
Impairment losses and impact of disposals on goodwill and badwill presented in the Income Statement	**(319 .9)**	**18.2**	**0.6**

Restructuring costs

(€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Restructuring expenses	(34.7)	(29.7)	(30.5)
Net charge to restructuring provisions	5.5	0.8	5.3
Restructuring costs	**(29.2)**	(28.8)	(25.2)

As of December 31, 2008, restructuring costs mainly concern the Water Division (€3.8 million), the Environmental Services Division (€13.7 million), primarily in Germany, the Energy Services Division (€8.8 million) and the Transportation Division (€2.9 million).

Personnel costs

(€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Employee costs	(10,449.5)	(9,573.7)	(8,542.5)
Profit sharing and incentive schemes	(172.1)	(166.6)	(164.7)
Share-based compensation (IFRS 2)	(5.5)	(65.4)	(40.9)
Personnel costs	**(10,627.1)**	**(9,805.7)**	**(8,748.1)**

The IFRS 2 share-based compensation expense in respect of 2008 (€5.5 million) solely concerns share option and free share allocation plans granted in 2007 and prior years. No new share purchase or subscription plans were granted or employee shareholding transactions performed in 2008.

Research and development costs

Research and development costs totaled €92.1 million, €84.6 million and €66.4 million in 2008, 2007 and 2006 respectively.

NOTE 23. Net finance costs

The income and expense balances making up net finance costs are as follows:

(€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Finance income	203.4	152.2	82.8
Finance costs	(1,128.1)	(971.0)	(784.7)
Net finance costs	**(924.7)**	**(818.8)**	**(701.9)**

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

The increase in net finance costs is due to:

- the increase in average net debt from €14,609 million in 2007 to €16,142 million in 2008;
- the increase in the financing rate due to a rise in the cost of liquidity, with cash and cash equivalents invested in low-risk short-term investments and external debt refinanced with long maturities in a context of highly volatile interest rates.

The financing rate (defined as net finance costs excluding fair value adjustments to instruments not qualifying for hedge accounting, divided by average monthly net debt during the period) increased from 5.49% in 2007 to 5.61% in 2008.

(€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Financial liabilities measured using the Effective Interest Rate	(1,036.3)	(893.1)	n.a.
Commission not included in the EIR	(3.1)	(4.2)	n.a.
Expenses on gross debt	**(1,039.4)**	**(897.3)**	**(750.9)**
Assets at fair value through the Income Statement (fair value option)*	**138.6**	**129.5**	**81.0**
Net gains and losses on derivative instruments, hedging relationships and other	**(23.9)**	**(51.0)**	**(32.0)**
Net finance costs	**(924.7)**	**(818.8)**	**(701.9)**

* Cash equivalents are valued at fair value through the Income Statement.

Net gains and losses on derivative instruments, hedging relationships and other include the following amounts as of December 31, 2008:

- the remeasurement of debts hedged by a fair value hedge in the amount of -€442.8 million,
- the remeasurement of fair value hedge derivative instruments in the amount of €437.8 million,
- the unwinding of the discount on minority interest put options in the amount of -€18.0 million,
- net gains and losses on "trading" derivative instruments of €6.4 million, including €8.1 million in respect of interest rate derivatives and -€1.7 million in respect of foreign exchange derivatives hedging financing (see Note 30),
- the residual balance under this line item represents interest flows on hedging relationships (fair value hedges and cash flow hedges).

In addition, the charge relating to the ineffective portion of net investment hedges and cash flow hedges was not material in 2008.

Interest income on instruments measured using the effective interest method (including interest income recorded in operating income and in other financial income and expenses) totaled €429.2 million in 2008. Interest expenses on instruments measured using the effective interest method (including interest expenses recorded in operating income and in other financial income and expenses) totaled -€1,036.3 million in 2008.

NOTE 24. Other financial income and expenses

(€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Net gains on loans and receivables(1)	30.6	57.4	21.5
Net gains and losses on available-for-sale assets (2)	9.3	10.3	9.7
Assets and liabilities at fair value through the Income Statement	35.1	5.4	(21.6)
Unwinding of the discount on provisions	(74.0)	(59.5)	(15.9)
Foreign exchange gains and losses	(42.7)	(2.1)	(13.9)
Other expenses	(9.5)	(7.4)	(11.6)
Other financial income and expenses	**(51.2)**	4.1	(31.8)

(1) including impairment losses of €19.3 million in 2008, compared to €7.1 million in 2007 and €8.4 million in 2006.

(2) including dividends received of €8.4 million in 2008, compared to €8.8 million in 2007 and €6.7 million in 2006.

Other financial income and expenses decreased from net income of €4.1 million in 2007, to a net expense of €51.2 million in 2008.

This downturn is mainly due to:

- a decrease in net gains on loans and receivables of €26.8 million; in 2007 this account included interest of €26.5 million on the Berlin drainage receivables following resolution of the dispute;
- an increase in the negative impact of the unwinding of the discount on provisions of €14.5 millions; this impact mainly concerns provisions for site restoration in the Environmental Services Division, pension obligations determined in accordance with IAS 19 and the unwinding of the discount on provisions for onerous long-term contracts;
- the appreciation of the euro against certain currencies;
- the inclusion of risks relating to minority holdings in associates.

NOTE 25. Income tax expense

Analysis of the income tax expense

The income tax expense breaks down as follows:

(€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Current income tax expense	**(382.7)**	(415.0)	(334.7)
France	(90.5)	(108.7)	(78.9)
Other countries	(292.2)	(306.3)	(255.8)
Deferred income tax expense (credit)	**(86.1)**	(2.9)	(74.3)
France	(29.4)	(95.1)	(98.7)
Other countries	(56.7)	92.2	24.4
Total income tax expense	**(468.8)**	(417.9)	(409.0)

A number of French subsidiaries elected to form a consolidated tax group with Veolia Environnement as the head company, with effect from January 1, 2001 (five-year agreement, renewed in 2006). Veolia Environnement is liable to the French treasury department for the full income tax charge, calculated based on the group tax return. Any tax savings are recognized at the level of Veolia Environnement SA.

The U.S. tax group was reorganized in 2006. This reorganization is still being reviewed by the U.S. tax authorities (see Notes 12 and 37).

The increase in the tax expense in 2008 is due to:

- the review of the Sulo business plan in the Environmental Services Division in Germany, resulting in the loss of deferred tax assets of €42 million;
- the absence of deferred tax assets in certain loss-making subsidiaries, due to insufficient taxable profit forecasts for the next five years;
- a change in regulations regarding the deductibility of depreciation and amortization in the United Kingdom (-€36 million);
- the favorable impact, in 2007, of reductions in tax rates in Germany and the United Kingdom (income of €54.6 million).

Tax amounts recognized in 2008 in respect of the current tax expense of prior years total -€6.5 million.

Effective tax rate

	Year ended December 31, 2008	Year ended December 31, **2007**	Year ended December 31, **2006**
Net income from ordinary activities before tax	975.4	1,667.8	1,390.5
Income tax expense	(468.8)	(417.9)	(409.0)
Legal tax rate	**34.43%**	**34.43%**	**34.43%**
Impairment losses on goodwill not deductible for tax purposes	9.65%	0.11%	0.17%
Differences in tax rate	(0.04%)	(7.53%)	(5.81%)
Effect of tax projections	(6.17%)	(4.50%)	(6.12%)
Dividends	2.78%	2.14%	1.47%
Taxation without basis	4.66%	1.67%	0.71%
Share-based compensation (2)	-	-	0.81%
Other	2.75%	(1.26%)	3.75%
Effective tax rate (1)	**48.06%**	**25.06%**	**29.41%**

(1) The effective tax rate is computed by dividing the current and deferred tax expense by pre-tax net income from continuing operations before the share of net income of associates.

(2) Information not material given the new tax provisions since 2007

NOTE 26. Share of net income of associates

The share of net income of associates increased from €16.7 million in 2007 to €18.4 million in 2008.

This increase is mainly due to the improved results of Compagnie Méridionale de Navigation in the Transportation Division and Environmental Services Division subsidiaries in Asia, and the entry into the scope of consolidation in 2008 of certain equity associates of the Sulo Group (Environmental Services Division, Germany).

In addition, the share of net income of equity associates of the Clemessy sub-group, divested in December 2008, was transferred to net income from discontinued operations in the amount of €0.1 million in 2008 and €0.2 million in 2007 and 2006.

NOTE 27. Net income from discontinued operations

During the first half of 2006, Veolia Environnement decided to withdraw from its partnership with the Royal Bank of Scotland in the Water sector in the United Kingdom and to sell its investment in Southern Water. Given the impact on the Water business in the United Kingdom and the unwinding of commitments at Veolia Environnement level, this transaction was recorded in the accounts in net income from discontinued operations in accordance with IFRS 5.

Transportation Division activities in Denmark were sold on August 31, 2007. This business was classified in discontinued operations for accounting purposes.

At the end of December 2008, the Clemessy and Crystal businesses in the Energy Services Division were sold for a consideration, excluding selling costs, of €299.6 million, received in full on December 16, 2008. Net cash and cash equivalents of the entities sold was €73.3 million at that date. The enterprise value of the businesses sold was, therefore, €226.3 million.

These businesses were consolidated for the period January 1, 2008 to the date of sale in the line "Net income from discontinued operations". In the consolidated income statement presented for comparative purposes, the net income of these businesses for the years ended December 31, 2007 and 2006 was transferred to "Net income from discontinued operations".

Net income from discontinued operations in 2008 mainly concerns the Clemessy and Crystal businesses. In 2007 this heading also includes Transportation Division activities in Denmark and in 2006 Southern Water activities.

The amount recorded in respect of the Clemessy and Crystal businesses in the Energy Services Division in 2008, comprises the net income for the period plus the capital gain on disposal, net of tax.

Movements in the net income (expense) from discontinued operations:

(€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Income (expense) from discontinued operations	8.2	(12.5)	(46.8)
Capital gains and losses on disposal	176.5	0.7	3.8
Income tax expense	(0.5)	-	50.6
Net income (expense) from discontinued operations	**184.2**	**(11.8)**	**7.6**

Breakdown of net income (expense) from discontinued operations in **2008**:

(€ million)	Crystal Clemessy (1)	Southern Water (2)	Danish Transportation activities (3)	**Total**
Income (expense) from discontinued operations	8.4	1.9	(2.1)	8.2
Capital gains and losses on disposal	176.5			176.5
Income tax expense	(0.5)			(0.5)
Net income (expense) from discontinued operations	**184.4**	**1.9**	**(2.1)**	184.2

(1) Activities sold in 2008: sale of two CGUs (Clemessy and Crystal) in a single transaction

(2) Activity sold in 2006

(3) Following a decision made in 2006, activity sold in 2007

The main Income Statement items for discontinued operations for the year ended December 31, 2008 are as follows:

(€ million)	Clemessy Crystal (1)	Southern Water	Danish Transportation activities	**Total**
Revenue	620.1			**620.1**
Operating income	10.3	1.9	(3.5)	**8.7**
Financial items	0.9			**0.9**
Income tax expense	(2.9)		1.4	**(1.5)**
Share of net income of associates	0.1			**0.1**
Net income (expense) from discontinued operations	**8.4**	**1.9**	**(2.1)**	**8.2**

(1) The two CGUs (Clemessy and Crystal) recorded Revenue of €447.8 million and €172.3 million respectively for the period January 1 to December 16, 2008, the date of the sale.

Breakdown of net income (expense) from discontinued operations in **2007** are as follows:

(€ million)	Clemessy Crystal (1)	Southern Water (2)	Danish Transportation activities (3)	**Total**
Income (expense) from discontinued operations	11.4	(1.9)	(22.0)	**(12.5)**
Capital gains and losses on disposal			0.7	**0.7**
Income tax expense				**-**
Net income (expense) from discontinued operations	**11.4**	**(1.9)**	**(21.3)**	**-11.8**

(1) Activity sold in 2008

(2) Activity sold in 2006

(3) Following a decision made in 2006, activity sold in 2007

The main Income Statement items for discontinued operations for the year ended December 31, 2007 are as follows:

(€ million)	Clemessy Crystal (1)	Southern Water	Danish Transportation activities	**Total**
Revenue	696.0		65.5	**761.5**
Operating income	14.4	(1.9)	(20.5)	**(8.0)**
Financial items	(1.0)		(1.5)	**(2.5)**
Income tax expense	(2.2)			**(2.2)**
Share of net income of associates	0.2			**0.2**
Net income (expense) from discontinued operations	**11.4**	**(1.9)**	**(22.0)**	**(12.5)**

(1) Revenue of the two CGUs, Clemessy and Crystal, for fiscal year 2007 is €535.1 million and €160.9 million respectively.

Breakdown of net income from discontinued operations in **2006** are as follows:

(€ million)	Clemessy Crystal	Southern Water	Danish Transportation activities	**Total**
Income (expense) from discontinued operations	7.0	(1.9)	(51.9)	**(46.8)**
Capital gains and losses on disposal	-	3.8	-	**3.8**
Income tax expense	-	50.6	-	**50.6**
Net income (expense) from discontinued operations	**7.0**	**52.5**	**(51.9)**	**7.6**

The main Income Statement items for discontinued operations for the year ended December 31, 2006 are as follows:

(€ million)	Clemessy Crystal (1)	Southern Water	Danish Transportation activities	**Total**
Revenue	679.4	-	108.2	**787.6**
Operating income	8.7	(4.4)	(51.2)	**(46.9)**
Financial items	(1.3)	-	(2.6)	**(3.9)**
Income tax expense	(0.6)	-	1.9	**1.3**
Share of net income of associates	0.2	2.5	-	**2.7**
Net income (expense) from discontinued operations	**7.0**	**(1.9)**	**(51.9)**	**(46.8)**

(1) Revenue of the two CGUs, Clemessy and Crystal, for fiscal year 2006 is €521.1 million and €158.3 million respectively.

The balance sheets of the Clemessy and Crystal sub-groups are presented below:

Clemessy sub-group

Clemessy designs and performs highly technical projects and primarily electrical projects, manufacturing process automation projects and mechanical system projects, in both the installation and maintenance sectors. The group operates primarily in France.

(€ million)	**As of December 31, 2007**	**As of December 31, 2006**
ASSETS		
Non-current assets	112	104
Current assets	268	250
Cash and cash equivalents	13	8
Total assets	**393**	**362**
EQUITY AND LIABILITIES		
Equity	107	102
Non-current liabilities	27	24
Current liabilities	259	236
Total equity and liabilities	**393**	**362**

Crystal sub-group

Crystal is the number two installer of environmental engineering systems in France. Its activities involve the design and installation of systems as part of construction and renovation projects.

(€ million)	As of December 31, 2007	As of December 31, 2006
ASSETS		
Non-current assets	9	10
Current assets	78	78
Cash and cash equivalents	2	4
Total assets	**89**	**92**
EQUITY AND LIABILITIES		
Equity	5	4
Non-current liabilities	4	5
Current liabilities	80	83
Total equity and liabilities	**89**	**92**

NOTE 28. Net income for the year attributable to minority interests

Net income attributable to minority interests for the year ended December 31, 2008 is €304.1 million, compared to €326.9 million for the year ended December 31, 2007 and €236.2 million for the year ended December 31, 2006. This item concerns minority interests in subsidiaries.

Net income for the year attributable to minority interests breaks down by division as follows:

(€ million)		**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Water	(a)	118.9	178.9	115.7
Environmental Services		18.3	21.8	18.6
Energy Services	(b)	144.8	96.4	87.1
Transportation		19.4	28.9	14.7
Other		2.7	0.9	0.1
Minority interests		**304.1**	**326.9**	**236.2**

(a) Including minority interests in Germany (Berlin water services company and Stadtwerke of Braunschweig) of €69 million in 2006, €120.5 million in 2007 and €75.9 million in 2008.

(b) Including EDF's interest in Dalkia Holding of €58.1 million in 2006, €68.2 million in 2007 and €121.7 million in 2008 and the Lodz contract for €13.1 million in 2006, €21.4 million in 2007 and €14.4 million in 2008.

NOTE 29. **Earnings per share**

Basic earnings per share is calculated by dividing net income attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the fiscal year.

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

Net income and the number of shares used to calculate basic and diluted earnings per share are presented below for all businesses.

	Year ended December 31, 2008	Year ended December 31, **2007**	Year ended December 31, **2006**
Weighted average number of ordinary shares (in million)			
Weighted average number of ordinary shares for the calculation of basic earnings per share	457.4	430.0	398.8
Theoretical number of additional shares resulting from the exercise of share purchase and subscription options	1.8	5.0	3.6
Weighted average number of ordinary shares for the calculation of diluted earnings per share (in million)	**459.2**	**435.0**	**402.4**
Net income attributable to equity holders of the parent per share (€ million)			
Net income attributable to equity holders of the parent	405.1	927.9	758.7
Net income attributable to equity holders of the parent per share:			
Basic	0.89	2.16	1.90
Diluted	0.88	2.13	1.89
Net income (expense) from discontinued operations attributable to equity holders of the parent per share (€ million)			
Net income (expense) from discontinued operations attributable to equity holders of the parent	121.4	(15.6)	5.2
Net income (expense) from discontinued operations attributable to equity holders of the parent per share:			
Basic	0.27	(0.04)	0.01
Diluted	0.26	(0.04)	0.01
Net income from continuing operations attributable to equity holders of the parent per share (€ million)			
Net income from continuing operations attributable to equity holders of the parent	283.7	943.5	753.5
Net income from continuing operations attributable to equity holders of the parent per share:			
Basic	0.62	2.19	1.89
Diluted	0.62	2.17	1.87

The only potentially dilutive instruments recognized by Veolia Environnement in the three periods are share subscription or purchase options.

The theoretical number of additional shares is based on share purchase or subscription options. The number of additional shares is calculated taking into account the difference between the 2000 plan exercise price of €31.41, the 2001 plan exercise price of €40.59, the 2002 plan exercise plan of €36.65, the 2003 plan exercise price of €22.14, the 2004 plan exercise price of €24.32, the 2006 plan exercise price of €44.03 and the 2007 plan exercise price of €57.05 and the average price of the Veolia Environnement share in 2008 of €37.91.

NOTE 30. Financial risk management

Group objectives and organization

The Group is exposed to the following financial risks in the course of its operating and financial activities:

- Market risks, presented in Note 30.1:

  - interest-rate risk, presented in Note 30.1.1 (interest-rate fair value hedges, cash flow hedges and derivatives not qualifying for hedge accounting)

  - foreign exchange risk, presented in Note 30.1.2 (hedges of a net investment in a foreign operation, hedges of balance sheet foreign exchange exposure by derivatives not qualifying for hedge accounting, embedded derivatives, overall foreign exchange risk exposure)

  - commodity risk, presented in Note 30.1.3 (fuel and electricity risks, greenhouse gas emission rights)

  - equity risk, presented in Note 30.1.4

  - and counterparty risk, presented in Note 30.1.5

- Liquidity risk, presented in Note 30.2
- Credit risk, presented in Note 30.3

30.1. Market risk management

In order to reduce its exposure to market risks, the Group centralizes the management of these financial risks in accordance with the principles of security, transparency and efficiency defined by Executive Management.

The Group uses derivatives to manage and reduce its exposure to fluctuations in interest rates, exchange rates and commodity prices.

The fair value of derivatives recognized in the balance sheet breaks down as follows:

(€ million)	**As of December 31, 2008**		As of December 31, **2007**		As of December 31, **2006**	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest-rate derivatives	**389.1**	**116.8**	**71.1**	**113.0**	**80.9**	**77.4**
Fair value hedges	378.9	7.4	21.2	48.9	45.2	16.3
Cash flow hedges	0.3	96.6	11.8	41.0	6.8	48.4
Derivatives not qualifying for hedge accounting	9.9	12.8	38.1	23.1	28.9	12.7
Foreign exchange derivatives	**172.7**	**61.7**	**105.2**	**49.2**	**56.5**	**42.7**
Net investment hedges	65.1	8.0	78.3	13.6	42.0	4.3
Derivatives not qualifying for hedge accounting	107.6	53.7	26.9	35.6	14.5	38.4
Other derivatives, including commodity derivatives	**89.4**	**107.3**	**61.8**	**35.6**	**64.2**	**25.8**
Total derivatives	**651.2**	**285.8**	**238.1**	**197.8**	**201.6**	**145.9**
o/w non-current derivatives	**508.4**	**159.9**	123.7	**163.8**	**201.6**	**145.9**
o/w current derivatives	**142.8**	**125.9**	114.4	**34.0**	**n.a**	**n.a**

The fair value of derivatives recognized in the balance sheet is determined and breaks down as follows:

(€ million)	**As of December 31, 2008**		Internal model with observable parameters (%)		Internal model with certain non-observable parameters (%)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest-rate derivatives	389.1	116.8	100.0%	100.0%	-	-
Foreign exchange derivatives	172.7	61.7	100.0%	100.0%	-	-
Other derivatives, including commodity derivatives	89.4	107.3	34.4%	83.9%	65. 6%	16.1%
Total derivatives	**651.2**	**285.8**	**91.0%**	**94.0%**	**9.0%**	**6.0%**

Derivatives valued using internal models integrating certain non-observable data are electricity derivatives for which there are no quoted prices in an active market (notably electricity purchase options with extremely long maturity) or observable market data (forward prices for component materials), in particular for distant maturities. In such cases, parameters are estimated by Veolia Environnement experts.

(€ million)	As of December 31,**2007**		Internal model with observable parameters (%)		Internal model with certain non-observable parameters (%)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest-rate derivatives	71.1	113.0	100.0%	100.0%	-	-
Foreign exchange derivatives	105.2	49.2	100.0%	100.0%	-	-
Other derivatives, including commodity derivatives	61.8	35.6	27.5%	56.7%	72.5%	43.3%
Total derivatives	**238.1**	**197.8**	**81.2%**	**92.2%**	**18.8%**	**7.8%**

(€ million)	As of December 31,**2006**		Internal model with observable parameters (%)		Internal model with certain non-observable parameters (%)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest-rate derivatives	80.9	77.4	100.0%	100.0%	-	-
Foreign exchange derivatives	56.5	42.7	100.0%	100.0%	-	-
Other derivatives, including commodity derivatives	64.2	25.8	13.1%	7.8%	86.9%	92.2%
Total derivatives	**201.6**	**145.9**	**72.3%**	**83.7%**	**27.7%**	**16.3%**

30.1.1 Management of interest rate risk

The Group's exposure to interest rate risk is mainly attributable to its operating financial assets (see Note 31, Additional information on financial assets and liabilities) and its net debt. The Group manages a fixed/floating rate position in each currency in order to limit the impact of interest rate fluctuations on its net income and to optimize the cost of debt. For this purpose, it uses interest rate swap and swaption instruments.

Interest rate hedge derivatives:

Derivatives may be classified as fair value hedges or cash flow hedges. An interest rate fair value hedge changes fixed-rate financial assets or liabilities into floating rate financial assets or liabilities in order to protect against changes in their fair value. A cash flow hedge protects against changes in the value of cash flows associated with assets or liabilities.

The fair value of interest rate derivatives recognized in the balance sheet breaks down as follows:

(€ million)	Note	**As of December 31, 2008**		As of December 31, **2007**		As of December 31, **2006**	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest-rate derivatives		**389.1**	**116.8**	**71.1**	**113.0**	**80.9**	**77.4**
Fair value hedges	30.1.1.1	378.9	7.4	21.2	48.9	45.2	16.3
Cash flow hedges	30.1.1.2	0.3	96.6	11.8	41.0	6.8	48.4
Derivatives not qualifying for hedge accounting	30.1.1.3	9.9	12.8	38.1	23.1	28.9	12.7

The financing structure of the Group exposes it naturally to the risk of interest rate fluctuations. As such, fixed-rate debt is exposed to a risk of change in fair value if repurchased on the market, while floating-rate debt impacts future financial results.

Short-term debt is primarily indexed to short-term indexes (Eonia for the treasury note program and Euribor/Libor for the main short-term credit lines). Medium and long-term debt comprises both fixed and floating-rate debt. Borrowings are primarily denominated in euro, pound sterling, U.S. dollar, Czech crown, Chinese renminbi and Polish zloty.

Exposure to interest rate risk: fixed/floating rate breakdown of gross debt:

(€ million)	**As of December 31, 2008**		As of December 31, **2007**		As of December 31, **2006**	
	Outstandings	% total debt	Outstandings	% total debt	Outstandings	% total debt
Fixed rate	14,055.2	69.0%	12,129.7	66.5%	11,290.6	65.1%
Floating rate	6,322.6	31.0%	6,111.0	33.5%	6,042.3	34.9%
Total before hedging	**20,377.8**	**100.0%**	**18,240.7**	**100.0%**	**17,332.9**	**100.0%**
Fixed rate	9,960.8	48.0%	9,759.2	53.6%	9,148.6	52.7%
Capped floating rate (active caps)	36.0	0.2%	1,401.7	7.7%	1,862.6	10.8%
Floating rate	10,752.5	51.8%	7,052.1	38.7%	6,350.5	36.5%
Total after hedging and fair value remeasurement of fixed-rate debt (1)	**20,749.3**		**18,213.0**	**100.0%**	**17,361.7**	**100.0%**
Fair value adjustments to (asset)/liability hedging derivatives	**(371.5)**		**27.7**		**(28.8)**	
Total non-current and current borrowings at amortized cost	**20,377.8**		**18,240.7**		**17,332.9**	

(1) including Bank overdrafts and other cash position items

Total gross debt as of December 31, 2008 after hedging was 48.2% fixed-rate (including 0.2% at capped floating rates) and 51.8% floating-rate. As of December 31, 2008, only two euro caps with a notional amount of €36 million were active.

As of December 31, 2008, the Group has cash and cash equivalents of €3,850 million, the majority of which bears interest at floating rates.

Net debt after hedging totals €16,528 million and is 58.5% fixed-rate (including 0.2% at capped floating rates) and 41.5% floating-rate.

Sensitivity of the Income Statement and equity:

The Group manages its exposure to interest rate fluctuations based on floating-rate gross debt net of cash.

The breakdown of the Group's floating-rate debt by maturity is as follows:

(€ million)	**Overnight and less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Total assets (cash and cash equivalents)	3,850	-	-	3,850
Total floating-rate liabilities	(3,638)	(1,972)	(713)	(6,323)
Net floating-rate position before hedging	**212**	**(1,972)**	**(713)**	**(2,473)**
Derivative instruments[(1)]	-	(1,400)	(2,983)	(4,383)
Net floating-rate position after active management and hedging	**212**	**(3,372)**	**(3,696)**	**(6,856)**

(1) Hedging financial instruments excluding inactive caps of U.S.$400 million and €100 million.

The analysis of the sensitivity of finance costs to interest rate risk covers financial assets and liabilities and the derivative portfolio as of December 31, 2008. Given the net debt structure of the Group and its derivative portfolio, a change in interest rates would impact the income statement via the cost of floating-rate debt, the fair value of trading derivatives and Group investments.

The analysis of the sensitivity of equity to interest rate risk concerns the cash flow hedge reserve. The impact on equity corresponds to fair market value movements in cash flow hedge derivatives as a result of an instantaneous change in interest rates.

Assuming a constant net debt structure and management policy, an increase in interest rates of 0.5% at the balance sheet date would generate an increase in equity of €27 million (before tax) and a decrease in net income (before tax) of €33 million. A decrease in interest rates of 0.5% would have the opposite impact on net income and equity.

All other variables have been assumed to be constant for the purpose of this analysis and the change in net income and equity is attributable to the variation in interest rates, all other things being equal.

30.1.1.1. Interest rate fair value hedges

The risk of volatility in the value of debt is hedged by fixed-rate receiver/floating-rate payer swaps which change bond issues to floating-rate debt (see Note 18).

Fair value hedging swaps represent notional outstanding amount of €5,357.4 million as of December 31, 2008, with a net fair value in the balance sheet of €371.5 million, as follows:

Fixed-rate receiver / floating-rate payer swaps	Notional contract amount by maturity				Fair value of derivatives	
(€ million)	Total	Less than 1 year	1 to 5 years	More than 5years	Total assets	Total liabilities
As of December 31, 2008	**5,357.4**	**-**	**1,812.4**	**3,545.0**	**378.9**	**7.4**
As of December 31, **2007**	**3,808.8**	**499.7**	**600.0**	**2,709.1**	**21.2**	**48.9**
As of December 31, **2006**	3,308.3	49.5	499.7	2,759.1	45.2	16.3

The increase in the fair value hedging portfolio is mainly due to:

- several floating-rate payer swaps hedging EMTN issues, in the total amount of €3,039 million;
- the expiry of a €500 million swap;
- and the cancellation of three EURIBOR swaps (Euro Interbank Offered Rate, interest rate on inter-bank exchanges in the euro-zone, for terms of 1 to 12 months) on the EMTN 10A series, in the amount of €1,000 million.

For euro-denominated debt, floating-rate payer swaps entered into in 2008 were indexed to EONIA (European Overnight Index Average, overnight Euro rate).

Over and above the volume impact, the increase in the fair value of floating-rate payer swaps can also be attributed to the marked drop in interest rates at the end of 2008.

30.1.1.2. Cash flow hedges

Cash flow hedges comprise floating–rate receiver/fixed-rate payer swaps which fix interest payable on floating rate debt primarily secured to finance BOT (Build Operate Transfer) contracts, to the extent the underlying assets generate fixed-rate flows.

Floating-rate receiver/Fixed –rate payer swaps/purchases of caps	Notional contract amount by maturity				Fair value of derivatives	
(€ million)	Total	Less than 1 year	1 to 5 years	More than 5years	Total assets	Total liabilities
As of December 31, 2008	**1,136.4**	**40.2**	**416.6**	**679.6**	**0.3**	**96.6**
As of December 31, **2007**	1,715.3	305.9	811.1	598.3	11.8	41.0
As of December 31, **2006**	1,476.5	94.6	1,072.2	309.7	6.8	48.4

-€75.3 million, net of tax, was recorded directly in equity (fair value reserves) in respect of cash flow hedge interest-rate derivatives as of December 31, 2008.

Contractual flows associated with interest rate swaps are paid at the same time as contractual flows in respect of floating-rate borrowings and the amount recorded in equity is released to net income in the period in which interest flows on the debt impact the Income Statement.

The decrease in the cash-flow hedging portfolio is mainly due to:

- the set-up of new swaps for an amount of €280 million to hedge syndicated loans, including €168 million for a syndicated loan denominated in PLN;
- the expiry of swaps hedging EMTN series 20 issues, in the amount of €300 million.
- the cancellation of swaps and caps totaling €600 million.

Conversely to fair value hedges, the drop in interest rates had a negative impact on the market value of fixed-rate payer swaps.

30.1.1.3. Interest-rate derivatives not qualifying for hedge accounting

A certain number of derivative do not qualify as hedges under IAS 39. The Group does not, however, consider these transactions to be of a speculative nature and views them as necessary for the effective management of its exposure to interest rate risk.

(€ million)	Notional amounts as of **December 31, 2008**				Fair value of derivatives	
	Total	Less than 1 year	1 to 5 years	More than 5years	Total assets	Total liabilities
Fixed-rate receiver / floating-rate payer swaps	202.4	-	41.7	160.7	3.7	-
Floating-rate receiver / fixed-rate payer swaps	513.9	468.9	2.5	42.5	-	2.0
Floating-rate receiver / floating-rate payer swaps	915.5	665.5	-	250.0	0.5	1.1
Fixed-rate receiver / fixed-rate payer swaps	2.0	-	-	2.0	-	4.0
Total firm financial instruments	**1,633.8**	**1,134.4**	**44.2**	**455.2**	**4.2**	**7.1**
Purchases of vanilla and structured caps	423.4	-	323.4	100.0	3.0	-
Sales of caps	-	-	-	-	-	-
Sales of swaptions	102.0	-	-	102.0	2.7	5.7
Total optional financial instruments	**525.4**	**-**	**323.4**	**202.0**	**5.7**	**5.7**
Total interest-rate derivatives not qualifying for hedge accounting	**2,159.2**	**1,134.4**	**367.6**	**657.2**	**9.9**	**12.8**

The decrease in the portfolio of interest rate derivatives not qualifying for hedge accounting is mainly due to:

- the cancellation or expiry of approximately €600 million of financial instruments;
- the expiry or early unwinding of over €1,000 million of options;
- the setting-up of approximately €1,200 million of new instruments, essentially to hedge the treasury note program and short-term cash investments.

(€ million)	Notional amounts as of December 31, **2007**				Fair value of derivatives	
	Total	Less than 1 year	1 to 5 years	More than 5years	Total assets	Total liabilities
Fixed-rate receiver / floating-rate payer swaps	325.0	5.0	20.6	299.4	-	17.9
Floating-rate receiver / fixed-rate payer swaps	513.8	318.9	150.0	44.9	3.4	0.2
Floating-rate receiver / floating-rate payer swaps	150.0	-	-	150.0	0.7	-
Total firm financial instruments	**988.8**	**323.9**	**170.6**	**494.3**	**4.1**	**18.1**
Purchases of vanilla and structured caps	1,253.2	144.0	909.2	200.0	34.0	-
Sales of caps	75.1	75.1	-	-	-	-
Sales of swaptions	200.0	-	-	200.0	-	5.0
Total optional financial instruments	**1,528.3**	**219.1**	**909.2**	**400.0**	**34.0**	**5.0**
Total interest-rate derivatives not qualifying for hedge accounting	**2,517.1**	**543.0**	**1,079.8**	**894.3**	**38.1**	**23.1**

(€ million)	Notional amounts as of December 31, **2006**				Fair value of derivatives	
	Total	Less than 1 year	1 to 5 years	More than 5 years	Total assets	Total liabilities
Fixed-rate receiver / floating-rate payer swaps	336.8	-	8.1	328.7	-	1.0
Floating-rate receiver / fixed-rate payer swaps	281.3	239.3	-	42.0	0.6	0.8
Floating-rate receiver / floating-rate payer swaps	803.2	652.0	1.2	150.0	0.8	8.8
Total firm financial instruments	**1,421.3**	**891.3**	**9.3**	**520.7**	**1.4**	**10.6**
Purchases of vanilla and structured caps	2,263.7	700.0	753.6	810.1	27.5	-
Sales of caps (*)	772.8	700.0	72.8	-	-	-
Sales of swaptions	200.0	-	-	200.0	-	2.1
Total optional financial instruments	**3,236.5**	**1,400.0**	**826.4**	**1,010.1**	**27.5**	**2.1**
Total interest-rate derivatives not qualifying for hedge accounting	**4,657.8**	**2,291.3**	**835.7**	**1,530.8**	**28.9**	**12.7**

(*) Sales of caps are backed in the amount of €700 million by purchases of caps with the same exercise price and maturity and which do not therefore impact net income.

30.1.2 Management of foreign exchange risk

The Group's international activities generate significant foreign currency flows.

The Group's central treasury department manages foreign exchange risk centrally within limits set by the Chief Financial Officer. The Group uses derivatives to hedge its exposure to foreign exchange risk (currency swaps, cross currency swaps, currency options, currency forwards).

The fair value of foreign exchange derivatives recognized in the balance sheet breaks down as follows:

(€ million)	Note	**As of December 31, 2008**		As of December 31, **2007**		As of December 31, **2006**	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Foreign exchange derivatives		**172.7**	**61.7**	**105.2**	**49.2**	**56.5**	**42.7**
Net investment hedge	30.1.2.1	65.1	8.0	78.3	13.6	42.0	4.3
Derivatives not qualifying for hedge accounting	30.1.2.2	104.7	53.7	26.9	11.8	14.5	4.1
Embedded derivatives	30.1.2.3	2.9	-	-	23.8	-	34.3

Management of foreign exchange transaction risk:

The Group has no significant exposure to foreign exchange transaction risk. Income and expenses are mainly denominated in the currency of the country where the Group operates.

Management of foreign exchange asset risk:

Financing is secured in the local currency for operations located in foreign countries. In the case of inter-company financing, these credit lines can generate foreign exchange risk. In order to limit the impact of this risk, Veolia Environnement has developed a policy which seeks to back foreign-currency financing and foreign-currency derivatives with inter-company receivables denominated in the same currency.

The asset exposure hedging strategy primarily involves ensuring that Group companies do not have a material balance sheet foreign exchange position that could generate significant volatility in foreign exchange gains and losses and hedging certain net foreign investments (IAS 21 / IAS 39).

30.1.2.1. Hedge of a net investment in a foreign operation

Financial instruments designated as net investment hedges break down as follows:

(€ million)	Notional amount as of **December 31, 2008** by currency and maturity					Fair value of derivatives	
Financial instrument	Currency	Amount	Less than 1year	1 to 5 years	More than 5 years	Total assets	Total liabilities
Currency payer swaps	AED	**2.8**	2.8			0.1	
	AUD	**5.9**	5.9				0.1
	GBP	**62.5**	62.5			11.8	
	HKD	**171.6**	171.6			0.2	4.8
	HUF	**42.4**	42.4			0.5	
	ILS	**18.3**	18.3			1.1	
	JPY	**63.7**	63.7				0.2
	MXN	**1.0**	1.0				
Embedded derivatives (forward sale)	KRW	**50.7**	15.9	32.2	2.6	29.1	
Cross currency swaps: fixed-rate payer / fixed-rate receiver	CNY	**131.6**	65.4		66.2	22.3	2.9
Total currency derivatives		**550.5**	**449.5**	**32.2**	**68.8**	**65.1**	**8.0**
USPP borrowings	USD	**1,221.9**		306.8	915.1	N/A	N/A
GBP borrowings	GBP	**682.4**			682.4	N/A	N/A
Syndicated loan	CZK	**187.5**		187.5		N/A	N/A
Syndicated loan	PLN	**199.1**		199.1		N/A	N/A
Total financing		**2,290.9**	**-**	**693.4**	**1,597.5**		

The above currency swaps are short-term but are generally renewed at maturity, until financing of an appropriate term is secured in the currency of the related country.

Overall, the Group adapted its financing policy for foreign-currency assets in 2008, preferring local debt to foreign exchange derivatives.

Therefore, the decrease in currency derivative outstanding is offset by foreign-currency debt secured to finance recent Group acquisitions in the United States, the United Kingdom and Poland.

Fair value movements compared with December 31, 2007 are mainly due to:

- the expiry of EUR/USD cross currency swaps which had a market value of €64 million as of December 31, 2007;
- the change in the fair value of EUR/CNY cross currency swaps for €33 million;
- the change in the fair value of the KRW embedded derivative for €21 million.

Inter-company loans and receivables forming part of a foreign investment (IAS 21) are nearly systematically hedged by foreign currency external financing or currency derivatives (cross currency swaps, currency forwards) meeting IAS 39 criteria for hedge accounting. Foreign exchange gains and losses recorded in foreign exchange translation reserves in respect of hedging instruments are systematically offset by foreign exchange gains and losses recognized in foreign exchange translation reserves on loans forming part of the net investment, unless:

- the inter-company loan forming part of the net investment in a foreign operation is not hedged;
- the hedge is partially ineffective due to a difference between the nominal amount of the hedge and the amount of the hedged net asset;
- only the net assets of the foreign subsidiary (excluding the loan forming part of the net investment) are hedged.

Net foreign exchange losses recorded in foreign exchange translation reserves as of December 31, 2008 of €52.8 million mainly comprise:

- the impact of exchange rate fluctuations on hedges of Water Division investments in China, Korea, the Czech Republic and the United States of -€14.3 million;
- the impact of exchange rate fluctuations on hedges of Transportation Division investments in Sweden of -€19.7 million;
- the impact of exchange rate fluctuations on hedges of Veolia Environnement SA investments in the United States of -€27 million.

Recap: the breakdown as of December 31, 2007 and 2006 is as follows:

(€ million)	Notional amount as of **December 31, 2007** by currency and maturity					Fair value of derivatives	
Financial instrument	Currency	Amount	Less than 1year	1 to 5 years	More than 5 years	Total assets	Total liabilities
Currency payer swaps	HKD	50.0	50.0	-	-	3.7	-
	JPY	35.5	35.5	-	-	0.2	-
	MXN	1.2	1.2	-	-	0.1	-
	PLN	82.7	82.7	-	-	-	0.3
	GBP	272.7	272.7	-	-	-	0.8
	AUD	7.2	7.2	-	-	0.1	-
	USD	451.2	451.2	-	-	1.7	-
	SKK	76.5	76.5	-	-	0.3	-
Embedded derivatives (forward sale)	KRW	66.5	15.9	48.1	2.5	7.8	-
Cross currency swaps: fixed-rate payer / fixed-rate receiver	CNY	116.2	-	57.8	58.4	0.2	12.5
Cross currency swaps: floating rate payer / floating rate receiver	USD	234.9	234.9	-	-	64.2	-
Total currency derivatives		**1,394.6**	**1,227.8**	**105.9**	**60.9**	**78.3**	**13.6**
USPP borrowings	USD	247.1	-	18.3	228.8	N/A	N/A
GBP borrowings	GBP	681.8	-	-	681.8	N/A	N/A
Syndicated loan	CZK	189.2	-	189.2	-	N/A	N/A
Total financing		**1,118.1**	**-**	**207.5**	**910.6**	**-**	**-**

(€ million)	Notional amount as of **December 31, 2006** by currency and maturity					Fair value of derivatives	
Financial instrument	Currency	Amount	Less than 1year	1 to 5 years	More than 5 years	Total assets	Total liabilities
Currency payer swaps	HKD	55.9	55.9	-	-	2.1	-
	JPY	14.5	14.5	-	-	0.1	-
	MXN	1.4	1.4	-	-	-	-
	PLN	78.3	78.3	-	-	0.8	-
	SKK	112.7	112.7	-	-	0.1	4.3
Embedded derivatives (forward sale)	KRW	82.5	15.9	52.8	13.8	2.7	-
Cross currency swaps: floating rate payer/floating rate receiver	USD	299.1	-	299.1	-	36.2	-
Total currency derivatives		**644.4**	**278.7**	**351.9**	**13.8**	**42.0**	**4.3**
USPP borrowings	USD	285.1	-	-	285.1	N/A	N/A
Syndicated loan	CZK	203.9	-	203.9	-	N/A	N/A
Total financing		**489.0**	**-**	**203.9**	**285.1**	**N/A**	**N/A**

30.1.2.2. Hedging of balance sheet foreign exchange exposure by derivatives not qualifying for hedge accounting

The Group determines its foreign exchange position and enters into hedging transactions once it has quantified its foreign exchange exposure and notably the overall foreign exchange position. Currency derivatives hedging the overall balance sheet foreign exchange position do not qualify for hedge accounting under IAS 39.

The Group nonetheless considers these transactions to be necessary to the effective management of its foreign exchange risk exposure and not to be of a speculative nature, as the currency payer swaps seek to match the euro debt secured by the Group and the functional currencies of the entities financed by the parent company.

Fair value	**As of December 31, 2008**				
(€ million)	**Total**	**HKD**	**NOK**	**PLN**	**Other**
Forward purchases	(11.6)	-	(5.0)	(2.3)	(4.3)
Currency receiver swaps	(20.6)	-	-	(1.7)	(18.9)
Total currency swaps and forward purchases	**(32.2)**	**-**	**(5.0)**	**(4.0)**	**(23.2)**
Forward sales	(1.6)	-	-	2.2	(3.8)
Currency payer swaps	86.8	28.3	19.3	12.0	27.2
Total currency swaps and forward sales	**85.2**	**28.3**	**19.3**	**14.2**	**23.4**
Call options	-	-	-	-	-
Put options	(2.0)	-	-	-	(2.0)
Total currency options	**(2.0)**	**-**	**-**	**-**	**(2.0)**
Derivatives not qualifying for hedge accounting (*)	**51.0**	**28.3**	**14.3**	**10.2**	**(1.8)**

(*) Net fair value (Assets–Liabilities) excluding embedded derivatives

Hedges as of December 31, 2007 and 2006 were as follows:

Fair value	**As of December 31, 2007**			
(€ million)	**Total**	**USD**	**GBP**	**Other**
Forward purchases	(4.2)	(4.5)	(0.1)	0.4
Currency receiver swaps	(1.8)	-	-	(1.8)
Total currency swaps and forward purchases	**(6.0)**	**(4.5)**	**(0.1)**	**(1.4)**
Forward sales	9.2	10.2	-	(1.0)
Currency payer swaps	11.5	5.1	3.2	3.2
Total currency swaps and forward sales	**20.7**	**15.3**	**3.2**	**2.2**
Call options	(0.4)	(0.4)	-	-
Put options	0.8	0.8	-	-
Total currency options	**0.4**	**0.4**	**-**	**-**
Derivatives not qualifying for hedge accounting (*)	**15.1**	**11.2**	**3.1**	**0.8**

Fair value	**As of December 31, 2006**			
(€ million)	**Total**	**USD**	**GBP**	**Other**
Forward purchases	(1.5)	(1.6)	-	0.1
Currency receiver swaps	0.7		-	0.7
Total currency swaps and forward purchases	**(0.8)**	**(1.6)**	**-**	**0.8**
Forward sales	0.6	0.3	-	0.3
Currency payer swaps	10.6	8.5	0.7	1.4
Total currency swaps and forward sales	**11.2**	**8.8**	**0.7**	**1.7**
Put options	**-**	-	-	-
Total currency options	**-**	-	-	-
Derivatives not qualifying for hedge accounting (*)	**10.4**	**7.2**	**0.7**	**2.5**

(*) Net fair value (Assets–Liabilities) excluding embedded derivatives

The above portfolio of currency derivatives was mainly contracted by Veolia Environnement SA to hedge its foreign currency-denominated net debt (comprising foreign currency-denominated borrowings and foreign currency-denominated inter-company loans and borrowings).

30.1.2.3. Embedded derivatives

The embedded derivatives concern Water treatment contracts with Korean industrial customers. The contracts feature clauses indexing to the euro or U.S. dollar, while the operating expenses are in Korean won.

30.1.2.4. Overall exposure to foreign exchange risk and sensitivity of the income statement and equity

Foreign exchange risk as defined in accordance with IFRS 7 mainly results from receivables and payables not denominated in the functional currency of the accounting entity.

As such, foreign exchange positions within the Group primarily result from:

(a) foreign currency-denominated loans/borrowings and the related hedges (e.g. currency swaps),

(b) foreign currency-denominated purchases and sales of goods and services relating to operating activities and the related hedges (e.g. currency forwards). Such transactions remain nonetheless limited within the Group, as the activities of the Group are performed by subsidiaries operating in their own country and their own currency. Operating exposure to foreign exchange risk is therefore naturally limited.

The following tables summarize Group exposure to exchange rate movements by main currency:

(€ million)	As of December 31, 2008							
	EUR	USD	GBP	HKD	CZK	PLN	KRW	Other
Balance sheet position before management	(34)	(260)	204	536	(209)	107	-	755
Off-balance sheet position (1)	-	149	(220)	(524)	214	(102)	(128)	(736)
Position after management	(34)	(111)	(16)	12	5	5	(128)	19

(1) The off-balance sheet position corresponds to the notional amount of derivatives set-up to hedge balance sheet exposure and embedded derivatives sensitive to foreign exchange risk.

The net euro position mainly corresponds to euro-denominated debt carried by Swedish, Moroccan, Polish and Romanian subsidiaries. The net USD position corresponds to financing in Asia, Australia, South America and the Middle East. The net HKD position corresponds to financing primarily in China. The KRW position corresponds to the aforementioned HPC Korean embedded derivative.

Given the policy of hedging foreign currency denominated receivables and payables, the sensitivity of Group net income as of December 31, 2008 to changes in exchange rates remains relatively limited. Therefore, an instantaneous 10% increase in the four main currencies against the euro, all other things being equal, would have an impact of -€24 million on the consolidated income statement, excluding the impact of translating the operating net income of entities realized in these different currencies.

(€ million)	As of December 31, 2008							
	USD		GBP		HKD		KRW	
	Net income (1)	Equity	Net income (1)	Equity	Net income (1)	Equity	Net income (1)	Equity
Impact	**(11)**	**n/a**	**(2)**	**n/a**	**1**	**n/a**	**(12)**	**n/a**

(1) before tax.

30.1.3 Management of commodity risk

As of December 31, 2008, the fair value of commodity derivatives totaled €89.4 million in assets and €107.3 million in liabilities.

30.1.3.1. Fuel and electricity risks

Fuel prices can be subject to significant fluctuations. Nonetheless, Veolia Environnement's activities have not been materially affected and should not be materially affected in the future by cost increases or the availability of fuel or other commodities. The contracts entered into by Veolia Environnement generally include price review and/or indexation clauses which enable it to pass on the majority of any increases in commodity or fuel prices to the price of services sold to customers, even if this may be performed with a time delay.

Nonetheless, as part of supply management and cost optimization, certain Group subsidiaries may be required, depending on their activities, to contract forward purchases or sales of commodities (gas, electricity) and set-up heavy fuel and diesel derivatives to fix the cost of refined petroleum supplies, where the contracts do not offer adapted protection.

As such, **in the Transportation Division**, a fuel hedging policy has been implemented in order to control trends in fuel prices. The Group uses derivatives whose characteristics (notional amount, maturity) are defined in line with forecast fuel requirements (based on firm orders or highly probably forecast flows). The majority of these derivatives are swaps.

These derivatives were analyzed in accordance with IAS 39 and classified as hedging instruments (cash flow hedges).

In addition, the Group enters into long-term contracts for the purchase of gas, coal, electricity and biomass in order to secure its supply chain.

The majority of these commitments are reciprocal; the third parties concerned are obliged to deliver the quantities indicated in these contracts and the Group is obliged to take them.

These contracts are considered to fall outside the scope of IAS 39, except for specific transactions in Germany, where electricity purchase options and sales commitments have been contracted in parallel. These transactions are not classified as hedges in accordance with IAS 39.

Purchase options cover the period 2008 to 2025 and represent a notional amount of €55.8 million, based on valuation assumptions at the balance sheet date. Sales commitments cover the period 2008 to 2011 and represent a notional amount of €17.3 million, based on the same valuation assumptions.

Contract notional amounts are as follows:

(€ million)		Notional contract amount as of **December 31, 2008** by maturity			
		Total	Less than one year	1 to 5 years	More than five years
Electricity purchase options:	in Gwh	12,854	868	3,063	8,923
	in € million	667.5	41.9	159.5	466.1
Electricity sales commitments:	in Gwh	3,817	824	2,993	-
	in € million	250.6	38.2	212.4	-

(€ million)		Notional contract amount as of **December 31, 2007** by maturity			
		Total	Less than one year	1 to 5 years	More than five years
Electricity purchase options:	in Gwh	15,280	935	3,445	10,900
	in € million	749.6	50.3	169.3	530.0
Electricity sales commitments:	in Gwh	3,202	1,032	2,170	-
	in € million	177.1	55.7	121.4	-

(€ million)		Notional contract amount as of **December 31, 2006** by maturity			
		Total	Less than one year	1 to 5 years	More than five years
Electricity purchase options:	in Gwh	16,511	886	3,501	12,124
	in € million	717.0	37.5	150.3	529.2
Electricity sales commitments:	in Gwh	3,811	876	2,935	-
	in € million	184.4	39.3	145.1	-

A 10% increase or decrease in the price of electricity (all other things being equal) would have an impact on net income of +€2.5 million and -€3.2 million, respectively.

30.1.3.2. Greenhouse gas emission rights

Other transactions not qualifying for hedge accounting relate to contracts swapping greenhouse gas emission rights for Carbon Emission certificates, maturing at the end of 2007. These transactions are recorded in assets in the amount of €0.7 million and in liabilities in the amount of €2.2 million (see Note 42).

30.1.4 Management of equity risk

As of December 31, 2008, Veolia Environnement held 14,980,034 of its own shares with a market value of €332.6 million, based on a share price of €22.20 and a net carrying amount of €457.5 million deducted from equity.

As part of its cash management strategy, Veolia Environnement holds UCITS shares. These UCITS have the characteristics of monetary UCITS and are not subject to equity risk.

30.1.5 Management of counterparty risk

The Group minimizes counterparty risk through internal control procedures limiting the choice of counterparties to leading banks and financial institutions (banks and financial institutions with a minimum Moody's, Standard & Poor's or Fitch's rating of A1/P1/F1 respectively for transactions with a term of less than one year and of A2/A/A respectively for transactions with a term of more than one year). Limits are determined for each counterparty based primarily on the rating awarded by the rating agencies.

Deposit counterparty risk is managed by the Treasury and Financing Department which centralizes the cash positions of Group entities. In this way, the counterparty risk of entities is limited to settlement and account keeping banking activities, signature commitments and the continuation of credit lines obtained from banks with the authorization of the Group Treasury and Financing Department.

Counterparty risk on financial transactions is monitored on an ongoing basis by the back-office. The Group is not exposed to any risk as a result of material concentration.

30.2. Management of liquidity risk

The operational management of liquidity and short-term financing is managed by the Treasury and Financing Department.

Similarly, new financing is secured and managed centrally in order to optimize liquidity.

The Group secures financing on the bank lending market, the treasury note market, international bond markets and international private placement markets.

Veolia Environnement financing does not contain any events of default tied to compliance with a debt ratio, an interest coverage ratio or a minimum credit rating, except for the private placement performed in the United States in 2003 (see Note 18), which is subject to two coverage ratios (debt and finance costs).

Financial ratios may also be encountered in certain project financing, most generally carried by dedicated companies (non-recourse or limited recourse financing, involving amounts which are not individually material at Group level) or financing granted by multilateral development banks to certain Group subsidiaries.

At the end of 2008, Veolia Environnement complied with the covenants of all its material financing.

Veolia Environnement SA cash surpluses are managed with a profitability objective close to that of the money market and avoiding exposure to capital risk and maintaining a low level of volatility.

The following table presents undiscounted contractual flows of financial liabilities, comprising principal payments and interest flows. Market data used are valid as of December 31, 2008:

(€ million)	As of December 31, 2008		Maturing in			
	Net carrying amount	**Total contractual flows** (1)	**Less than 1 year**	**2 years**	**3 to 5 years**	**More than 5 years**
Non-current borrowings	17,063.9	16,449.4	-	845.2	5,301.9	10,302.3
o/w bond issues – publicly offered	10,290.9	10,067.1	-	22.3	2,503.0	7,541.8
o/w bond issues – private placements	320.2	296.9	-	-	146.0	150.9
Current borrowings	3,219.7	3,219.7	3,219.7	-	-	-
Trade payables	5,634.5	5,634.5	5,634.5	-	-	-
Other current operating payables	5,112.3	5,112.3	5,112.3	-	-	-
Bank overdrafts and other cash position items	465.7	465.7	465.7	-	-	-
Interest on non-current and current borrowings (2)	-	-	843.2	770.6	1,891.0	4,111.0
Derivative instruments – Liabilities	285.8					
o/w interest rate derivatives	116.8	344.4	28.6	26.5	66.2	223.1
Fair value hedges	7.4	48.1	5.8	5.8	17.1	19.4
Cash flow hedges	96.6	279.4	17.9	16.4	46.8	198.3
Derivatives not qualifying for hedge accounting	12.8	16.9	5.0	4.3	2.2	5.4
o/w foreign exchange derivatives not qualifying for hedge accounting	53.7	46.3	37.5	3.7	5.1	-
Inflows		(1,079.6)	(964.8)	(74.7)	(40.1)	-
Outflows		1,125.9	1,002.3	78.4	45.2	-
o/w foreign exchange derivatives hedging a net investment	8.0	2.1	2.1	-	-	-
Inflows		(219.7)	(219.7)	-	-	-
Outflows		221.8	221.8	-	-	-
o/w commodity derivatives	107.3					
Sub-total debts and liabilities			14,877.8	1,645.9	7,264.3	14,636.4
Derivative instruments – Assets	(651.2)					
o/w interest rate derivatives	(389.1)	(715.9)	(84.6)	(84.0)	(221.9)	(325.4)
Fair value hedges	(378.9)	(684.5)	(76.1)	(76.1)	(215.2)	(317.1)
Cash flow hedges	(0.3)	(3.2)	(0.9)	(0.9)	(1.1)	(0.3)
Derivatives not qualifying for hedge accounting	(9.9)	(28.2)	(7.6)	(7.0)	(5.6)	(8.0)
o/w foreign exchange derivatives not qualifying for hedge accounting	(107.6)	(109.7)	(103.8)	(3.7)	(2.2)	-
Inflows		(1,606.2)	(1,524.8)	(61.3)	(20.1)	-
Outflows		1,496.5	1,421.0	57.5	17.9	-
o/w foreign exchange derivatives hedging a net investment	(65.1)	(22.1)	(15.0)	(0.4)	(1.2)	(5.5)
Inflows		(168.6)	(161.5)	(0.4)	(1.2)	(5.5)
Outflows		146.5	146.5	-	-	-
o/w commodity derivatives	(89.4)		-	-	-	-
Sub-total assets			**(203.4)**	**(88.1)**	**(225.3)**	**(331.0)**
Total			**14,674.4**	**1,557.8**	**7,039.0**	**14,305.4**

(1) debts are presented at the year-end exchange rate

(2) floating-rate interest is calculated at the year-end interest rate

Liquid assets of the Group as of December 31, 2008 break down as follows:

(€ million)	**As of December 31, 2008**	As of December 31, **2007**	As of December 31, **2006**
Veolia Environnement:			
Undrawn MT syndicated loans *	2,890.3	4,000.0	4,000.0
Undrawn MT credit lines	575.0	850.0	925.0
Undrawn ST credit lines	350.0	175.0	150.0
Other financial assets (marketable securities)		-	17.6
Cash & cash equivalents	2,283.6	1,550.8	1,140.5
Subsidiaries:			
Other financial assets (marketable securities)		-	48.9
Cash & cash equivalents	1,566.0	1,564.8	1,517.5
Total liquid assets	**7,664.9**	**8,140.6**	**7,799.5**
Current debts and bank overdrafts and other cash position items			
Current debts	**3,219.7**	**3,805.0**	**2,904.1**
Bank overdrafts and other cash position items	**465.7**	**459.4**	**456.0**
Total current debts and bank overdrafts and other cash position items	**3,685.4**	**4,264.4**	**3,360.1**
Total liquid assets net of current debts and bank overdrafts and cash position items	**3,979.5**	**3,876.2**	**4,439.4**

* maturing April 20, 2012

As of December 31, 2008, Veolia Environnement had total liquid assets of €7.7 billion, including cash and cash equivalents of €3.9 billion.

Veolia Environnement SA cash surpluses (€2,283.6 million) are managed with a profitability objective close to that of the money market and avoiding exposure to capital risk and maintaining a low level of volatility. Investment supports primarily comprise UCITS, monetary notes, certificates of deposit, treasury notes and equivalent (see Note 15, Cash and cash equivalents).

In 2008, the Group continued its policy of optimizing the cost and maturity of its liquid assets. Veolia Environnement SA drew down the syndicated loan in the amount of €1,150 million (euro equivalent at the time of draw-down; €1,110 million as of December 31, 2008 - see Note 18, Non-current borrowings), with all bank pool members contributing in the amount of their agreed share.

Undrawn credit lines as of December 31, 2008 are as follows:

Bank	Amount in € million	Maturity
Natixis	200	February 9, 2009[(1)]
BNP Paribas	150	March 3, 2009 [(1)]
Calyon	100	January 4, 2010
CIC	100	November 15, 2010
ABN AMRO	125	December 20, 2010
Société Générale	150	December 23, 2010
Royal Bank of Scotland	100	December 29, 2010
Total	925	

(1) currently in renegotiation

The €75 million credit line with Société Générale which matured on December 28, 2008 was renewed in the same amount, with a new maturity of December 23, 2010.

The €100 million credit line with Deutsche Bank which matured on December 29, 2008 was not renewed.

The next substantial bond redemption will take place in February 2012.

30.3. Management of credit risk

Credit risk must be considered separately with respect to operating financial assets and operating receivables. Credit risk on operating financial assets is appraised via the rating of primarily public customers. Credit risk on other operating receivables is appraised through an analysis of risk dilution and late payments for private customers and exceptionally, for public customers, by a credit analysis.

Given the nature of the Group's activities and its customers, and notably the ongoing nature of its activities, the Group considers that credit risk is unlikely to have a material impact.

(€ million)	Note	As of December 31, 2008			Breakdown by customer type			
		Gross carrying amount	Provisions	Net carrying amount	Public customers - Delegating authority	Private customers - Individuals	Public customers - Other	Private customers - Companies
Non-current and current operating financial assets	**10**	5,763.8	(12.6)	5,751.2	4,834.9	-	54.0	862.3
Trade receivables	**13**	10,253.0	(550.9)	9,702 .1	2,228.2	1,877.2	1,776.1	3,820.6
Other current operating receivables	**13**	1,314.1	(59.6)	1,254.5	244.3	312.9	153.1	544.2
Other non-current financial assets in loans and receivables	**11**	803.0	(63.4)	739.6	59.9	21.8	28.9	629.0 (1)
Current financial assets in loans and receivables	**14**	283.3	(27.9)	255.4	29.4	4.7	28.6	192.7
Loans and receivables		**18,417.2**	**(714.4)**	**17,702.8**	**7,396.7**	**2,216.6**	**2,040.7**	**6,048.8**
Other non-current financial assets	11	**91.5**	**(13.8)**	**77.7**	**23.3**	**8.1**	**17.6**	**28.7**
Other current financial assets	14	**70.2**	**(4.2)**	**66.0**	**2.0**	**3.9**	**26.0**	**34.1**

(1) Including Dalkia International and its subsidiaries for €434,2 million.

Financial assets maturity schedule

(€ million)	Note	As of December 31, 2008				Assets past due but not impaired		
		Gross carrying amount	Provisions	Net carrying amount	Assets not yet due	0-6 months	6 months - 1 year	More than 1 year
Non-current and current operating financial assets	**10**	5,763.8	(12.6)	5,751.2	5,738.4	7.2	5.6	-
Trade receivables	**13**	10,253.0	(550.9)	9,702.1	6,649.7	2,258.2	387.4	406.8
Other current operating receivables	**13**	1,314.1	(59.6)	1,254.5	819.5	162.5	162.1	110.4
Other non-current financial assets in loans and receivables	**11**	803.0	(63.4)	739.6	739.6	-	-	-
Current financial assets in loans and receivables	**14**	283.3	(27.9)	255.4	188.6	45.2	12.3	9.3
Loans and receivables		**18,417.2**	**(714.4)**	**17,702.8**	**14,135.8**	**2,473.1**	**567.4**	**526.5**
Other non-current financial assets	**11**	**91.5**	**(13.8)**	**77.7**	**77.7**	**-**	**-**	**-**
Other current financial assets	**14**	**70.2**	**(4.2)**	**66.0**	**17.7**	**30.5**	**3.9**	**13.9**

Assets past due over 6 months and not impaired (€1,111.8 million) mainly consist of trade receivables.

Payment delays in excess of 6 months are mainly concentrated in two countries where settlement periods are exceptionally long:

- In Italy, the net "trade receivables" account for all Group subsidiaries is €234.8 million as of December 31, 2008, for receivables past due over 6 months. This period is due to settlement practices in this country. Furthermore, in Italy, trade receivables primarily consist of a multitude of user/private customers for which the credit risk is highly diluted and local authorities and state bodies for which the recovery period is long.
- In Morocco, the net "trade receivables" account is €73.3 million as of December 31, 2008, compared to €88 million as of December 31, 2007, for receivables past due over 6 months. Recovery action plans implemented in 2007 were continued with local authorities and state bodies who comprise the majority of debtors.

Finally, in France, net trade receivables past due over 6 months total €262.1 million at the end of 2008 (€189.6 million at the end of 2007) representing 5.09% of customer outstandings (including €98.5 million past due over one year), the majority of which concern amounts invoiced on behalf of local authorities and public bodies and VAT.

Financial assets maturity schedule as of December 31, 2007:

(€ million)	Note	As of December 31, **2007**				**Assets past due but not impaired**		
		Gross carrying amount	Provisions	Net carrying amount	Assets not yet due	0-6 months	6 months - 1 year	More than 1 year
Non-current and current operating financial assets	**10**	5,633.6	(6.0)	5,627.6	5,624.4	2.5	0.7	-
Trade receivables	**13**	9,813.7	(510.0)	9,303.7	6,335.5	2,305.0	309.7	353.5
Other current operating receivables	**13**	1,508.1	(75.1)	1,433.0	784.0	451.5	134.1	63.4
Other non-current financial assets in loans and receivables	**11**	572.6	(57.6)	515.0	515.0	-	-	-
Current financial assets in loans and receivables	**14**	174.1	(21.3)	152.8	123.3	15.7	6.2	7.6
Loans and receivables		**17,702.1**	**(670.0)**	**17,032.1**	**13,382.2**	**2,774.7**	**450.7**	**424.5**
Other non-current financial assets	**11**	**231.0**	**-**	**231.0**	**231.0**	**-**	**-**	**-**
Other current financial assets	**14**	**177.2**	**-**	**177.2**	**177.2**	**-**	**-**	**-**

NOTE 31. Additional information on financial assets and liabilities

Fair value measurement principles are presented in Note 1.27.

Financial assets

The following schedules present the net carrying amount and fair value of Group financial assets as of December 31, 2008, 2007 and 2006:

(€ million)		**As of December 31, 2008**							
		Net carrying amount	**Financial assets at fair value**			**Fair value**	**Method of determining fair value**		
	Note		Available-for-sale assets	Loans and receivables	Assets designated at fair value through the Income Statement		Prices quoted in an active market	Fair value determined using models integrating observable market data	Fair value determined using models integrating certain data not observable on the market
Non-consolidated investments	**9**	202.8	202.8			202.8	X	X	
Non-current and current operating financial assets	**10**	5,751.2		5,751.2		**5,666.9**		X	
Other non-current financial assets	**11**	817.3	77.7	739.6		817.3		X	
Trade receivables	**13**	9,702.0		9,702.0		**9,702.0**		X	
Other current operating receivables	**13**	1,254.5		1,254.5		1,254.5		X	
Other current financial assets	**14**	321.4	66.0	255.4		321.4	X	X	X
Cash and cash equivalents	**15**	3,849.6			3,849.6	3,849.6	X	X	
Total		**21,898.8**	**346.5**	**17,702.7**	**3,849.6**	**21,814.5**			

The change in the fair value of operating financial assets between 2007 and 2008 is affected by the downturn in counterparty credit risks and in particular that of Hynix.

(€ million)		As of December 31, 2007							
		Net carrying amount per IAS 39 category				Fair value			
	Note	Total	Available-for-sale assets	Loans and receivables	Assets designated at fair value through the Income Statement	Total	Available-for-sale assets	Loans and receivables	Assets designated at fair value through the Income Statement
Non-consolidated investments	**9**	**256.1**	256.1	-	-	**256.1**	256.1	-	-
Non-current and current operating financial assets	**10**	**5,627.6**	-	5,627.6	-	**5,666.2**	-	5,666.2	-
Other non-current financial assets	**11**	**746.0**	231.0	515.0	-	**746.0**	231.0	515.0	-
Trade receivables	**13**	**9,303.7**	-	9,303.7	-	**9,303.7**	-	9,303.7	-
Other current operating receivables	**13**	**1,433.0**	-	1,433.0	-	**1,433.0**	-	1,433.0	-
Other current financial assets	**14**	**330.0**	177.2	152.8	-	**330.0**	177.2	152.8	-
Cash and cash equivalents	**15**	**3,115.6**	-	-	3,115.6	**3,115.6**	-	-	3,115.6
Total		**20,812.0**	**664.3**	**17,032.1**	**3,115.6**	**20,850.6**	**664.3**	**17,070.7**	**3,115.6**

(€ million)	Note	As of December 31, **2006**					
		Net carrying amount per IAS39 category					
	Note	**Total**	Held-to-maturity assets	Available-for-sale assets	Loans and receivables	Assets designated at fair value through the Income Statement	Assets at fair value through the Income Statement and held for trading
Non-consolidated investments	**9**	**181.7**	-	181.7	-	-	-
Non-current and current operating financial assets	**10**	**5,459.6**	-	-	5,459.6	-	-
Other non-current financial assets	**11**	**637.5**	-	91.5	546.0	-	-
Trade receivables	**13**	**8,490.6**	-	-	8,490.6	-	-
Other current operating receivables	**13**	**1,262.2**	-	-	1,262.2	-	-
Other current financial assets	**14**	**271.7**	-	66.4	205.3	-	-
Cash and cash equivalents	**15**	**2,658.0**	-	-	-	2,658.0	-
Total		**18,961.4**	**-**	**339.6**	**15,963.8**	**2,658.0**	**-**

Financial liabilities

The following tables present the net carrying amount and fair value of financial liabilities by category as of December 31, 2008, 2007 and 2006:

(€ million)	Note	As of December 31, 2008							
		Net carrying amount	**Financial liability at fair value**			**Fair value**	**Method of determining fair value**		
		Total	Liabilities at amortized cost	Liabilities at fair value through the Income Statement	Liabilities at fair value through the Income Statement and held for trading	**Total**	Prices quoted in an active market	Fair value determined using models integrating observable market data	Fair value determined using models integrating certain data not observable on the market
Borrowings and other financial liabilities									
- non-current bonds	**18**	**11,097.6**	11,097.6			**9,836.9**	X	X	
- other non-current borrowings	**18**	**5,966.3**	5,966.3			**5,227.4**		X	
- current borrowings	**19**	**3,219.7**	3,219.7			**3,219.7**		X	
- bank overdrafts and other cash position items	**20**	**465.7**	465.7			**465.7**		X	
Other non-current debt	**18**	**-**	-			**-**		X	
Trade payables	**13**	**5,634.5**	5,634.5			**5,634.5**		X	
Other operating payables	**13**	**5,112.3**	**5,112.3**			**5,112.3**		X	
Total		**31,496.1**	**31,496.1**			**29,496.5**			

(€ million)	Note	As of December 31, **2007**							
		Net carrying amount per IAS 39 category				**Fair value**			
		Total	Liabilities at amortized cost	Liabilities designated at fair value through the Income Statement	Liabilities at fair value through the Income Statement and held for trading	**Total**	Liabilities at amortized cost	Liabilities designated at fair value through the Income Statement	Liabilities at fair value through the Income Statement and held for trading
Borrowings and other financial liabilities									
- non-current bonds	**18**	**9,009.6**	9,009.6	-	-	**8,747.8**	8,747.8	-	-
- other non-current borrowings	**18**	**4,938.4**	4,938.4	-	-	**4,761.6**	4,761.6	-	-
- current borrowings	**19**	**3,805.0**	3,805.0	-	-	**3,805.0**	3,805.0	-	-
- bank overdrafts and other cash position items	**20**	**459.4**	459.4	-	-	**459.4**	459.4	-	-
Other non-current debt	**18**	**-**	-	-	-	**-**	-	-	-
Trade payables	**13**	**5,343.8**	5,343.8			**5,343.8**	5,343.8		
Other operating payables	**13**	**5,009.4**	5,009.4	-	-	**5,009.4**	5,009.4	-	-
Total		**28,565.6**	**28,565.6**	**-**	**-**	**28,127.0**	**28,127.0**	**-**	**-**

(€ million)	Note	As of December 31, **2006**							
		Net carrying amount per IAS 39 category				**Fair value**			
		Total	Liabilities at amortized cost	Liabilities designated at fair value through the Income Statement	Liabilities at fair value through the Income Statement and held for trading	**Total**	Liabilities at amortized cost	Liabilities designated at fair value through the Income Statement	Liabilities at fair value through the Income Statement and held for trading
Borrowings and other financial liabilities									
- non-current bonds	**18**	**8,417.5**	8,417.5	-	-	**8,635.6**	8,635.6	-	-
- other non-current borrowings	**18**	**5,584.1**	5,584.1	-	-	**5,640.4**	5,640.4	-	-
- current borrowings	**19**	**2,904.1**	2,904.1	-	-	**2,904.1**	2,904.1	-	-
- bank overdrafts and other cash position items	**20**	**456.0**	456.0	-	-	**456.0**	456.0	-	-
Other non-current debt	**17**	**207.3**	207.3	-	-	**207.3**	207.3	-	-
Trade payables	**13**	**4,776.0**	4,776.0			**4,776.0**	4,776.0		
Other operating payables	**13**	**4,445.6**	4,445.6	-	-	**4,445.6**	4,445.6	-	-
Total		**26,790.7**	**26,790.7**	**-**	**-**	**27,065.1**	**27,065.1**	**-**	**-**

NOTE 32. Employee benefit obligation

SHARE-BASED COMPENSATION

Veolia Environnement share purchase and subscription option plans

Veolia Environnement has implemented several standard fixed share purchase and subscription option plans, as well as a variable plan for management.

Outstanding option plans at the end of 2008 were as follows:

	N°7 2007	N°6 2006	N°5 2004	N°4 2003	N°3 2002	N°2 2001
Grant date	07/17/2007	03/28/2006	12/24/2004	03/24/2003	01/28/2002	02/08/2001
Number of options granted	2,490,400	4,044,900	3,341,600	5,192,635	4,413,000	3,462,000
Number of options not exercised	660,150*	3,832,565	3,085,972	1,591,712	1,935,603	1,382,525
Plan term	8 years	8 years	8 years	8 years	8 years	8 years
Vesting conditions	4 years service plus performance conditions to be satisfied	4 years service	3 years service plus performance conditions for certain plans	3 years service	3 years service	3 years service
Vesting method	After 4 years	After 4 years	By tranches of 1/3 over 3 years	By tranches of 1/3 over 3 years	By tranches of 1/3 over 3 years	After 3 years
Strike price (in euros)	57.05	44.03**	24.32**	22.14**	36.65**	40.59**

* Given the performance criteria, the number of options effectively exercisable has been reduced from 2,402,800 to 660,150.

** Strike price adjusted to take account of transactions impacting the share capital of the Company (issue of share subscription warrants on December 17, 2001 and share capital increases with retention of preferential subscription rights on August 2, 2002 and July 10, 2008). The initial strike prices for plans n°2, n°3, n°4, n°5 and n°6 were €42.00, €37.53, €22.50, €24.72 and €44.75 respectively.

2008:

The Group did not grant any share options in 2008.

2007:

In 2007, the Group granted 2,490,400 share options to two employee groups. The first group comprises Veolia Environnement Group management, including members of the Executive Committee. The second group comprises senior managers of Veolia Environnement Group companies and employees recognized for their excellent performance in 2006. The estimated fair value of each option granted in 2007, calculated using the Black and Scholes model, is €13.91. The assumptions underlying this model are as follows: share price of €57.26, historical volatility of 21.75 %, expected dividend yield of 2%, risk-free interest rate of 4.59 %, estimated exercise maturity of 6 years.

In 2007, the Group granted 333,700 Free Shares to employees recognized for their excellent performance in 2006. In France, rights vest after two years, followed by a two year lock-in period and are subject to performance conditions. Outside France, rights vest after four years subject to performance conditions. The estimated fair value of each free share granted in 2007 was €57.26, net of dividends not received during the vesting period and, for shares granted to French employees, a discount for non-transferability.

Finally, in 2007, the Group granted 205,200 Stock Appreciation Rights (SAR) to ordinary shares to three groups of employees: firstly, Veolia Environnement Group management, secondly senior managers of Veolia Environnement Group companies and thirdly employees recognized for their excellent performance in 2006. Rights vest after four years subject to performance conditions. As of December 31, 2008, the estimated fair value of each option granted in 2007 is €0.228. This value was calculated using the Black and Scholes model based on the following underlying assumptions: share price of €21.16, historical volatility of 31.72%, expected dividend yield of 6.33%, risk-free interest rate of 2.831%, estimated exercise maturity of 4 years, subscription price of €57.20.

The number of options granted under the three 2007 plans (share options, free shares and SAR) was determined based on the increase in net earnings per share between December 31, 2006 and December 31, 2008. This has been taken into account in the calculation of the number of options vested and the compensation expense.

2006:

In 2006, the Group granted 4,044,900 share options to three employee groups. The first group comprises Veolia Environnement Group management, including members of the Executive Committee. The second group comprises senior management of Veolia Environnement Group companies. The third group comprises Group employees recognized for their excellent performance. The estimated fair value of each option granted in 2006 was adjusted to €10.01. This value was calculated using the Black and Scholes model based on the following underlying assumptions: share price of €44.75, historical volatility of 22.6%, expected dividend yield of 1.92%, risk-free interest rate of 3.69%, estimated exercise maturity of 6 years.

Given the progressive vesting conditions based on length of presence in the company, the compensation expense for 2008, 2007 and 2006 is €5.5 million, €15.6 million and €16.7 million respectively.

Information on share purchase and subscription options granted since 2001 is detailed below, with a breakdown of movements in 2006, 2007 and 2008 (share option plans excluding SAR plans and free share plans):

	Number of shares outstanding	Weighted average strike price (in €)
As of December 31, 2005	**15,964,344**	**31.01**
Granted	4,044,900	44.75
Exercised	(3,065,733)	34.32
Cancelled	(143,253)	36.04
Expired	-	-
As of December 31, 2006	**16,800,258**	**33.67**
Granted	2,490,400	57.05
Adjustment for share capital increase of July 10, 2007	228,525	33.79
Exercised	(4,046,076)	30.20
Cancelled	(51,934)	49.70
Expired	-	-
As of December 31, 2007	**15,421,173**	**37.71**
Granted	-	-
Exercised	(886,095)	28.36
Cancelled	(242,056)	46.78
Expired	(1,804,495)*	56.17
As of December 31, 2008	**12,488,527**	**35.53**

* including 1,742,650 shares due to failure to meet performance conditions

The average share price at the time of option exercise in 2008 was €50.50.

Details of Veolia Environnement share purchase and subscription options outstanding as of December 31, 2008 are as follows:

Strike price	Number of options outstanding	Average strike price (in euros)	Average residual term (in years)	Number of options vested
20-25	4,677,684	23.58	3.38	4,677,684
35-40	1,935,603	36.65	1.08	1,935,603
40-45	5,215,090	43.12	3.88	1,382,525
55-60	660,150	57.05	6.54	0
	12,488,527	**35.53**	**3.40**	**7,995,812**

As of December 31, 2008, 7,995,812 can be exercised.

Employees' savings plans

Veolia Environnement has set-up standard and leveraged savings plans which enable a large number of employees of Veolia Environnement and its subsidiaries to subscribe for Veolia Environnement shares. Employees generally benefit from a 20% discount compared with the average Veolia Environnement share price during the 20 business days preceding the date of authorization of these plans by the Board of Directors. Shares subscribed by employees under these plans are subject to certain restrictions regarding their sale or transfer by employees.

Veolia Environnement did not introduce any new employee savings plans in 2008.

Shares subscribed by Veolia Environnement employees in 2006 and 2007:

	2007	**2006**
Number of shares	1,415,163	1,502,731
Subscription price	€48.37 (*)	€37.52
Amount subscribed (€ million)	68.5	56.4

(*) weighted average price - 1,392,857 shares were subscribed at €48.18 and 22,306 were subscribed at €60.23 (leveraged formula with the grant of share subscription warrants in Germany and leveraged formula with the grant of SAR in Australia, Canada, South Korea, Portugal and Sweden).

In 2007, a compensation expense of €49.7 million was recorded in accordance with IFRS 2 on share-based payments. In 2007, Veolia Group applied the recommendations of the CNC (communiqué of December 21, 2004 on Group Savings Plans and supplementary notice of February 2, 2007) and, as such, this compensation includes a discount for non-transferability of €7.2 million. The discount for non-transferability was determined by calculating the difference between the value of a five-year forward sale of shares and the spot purchase of the same number of shares (€62.47), financed by a loan. The risk-free interest rate and the interest rate for calculating the carrying cost are 4.05% and 6.74% respectively. The notional cost of non-transferability of shares as a percentage of the spot rate of the shares at the grant date is 12%.

In 2006, a compensation expense of €24.3 million was recorded in accordance with IFRS 2 on share-based payments. In 2006, Veolia Group applied the recommendations of the CNC (communiqué of December 21, 2004 on Group Savings Plans and supplementary notice of February 2, 2007) and, as such, this compensation includes a discount for non-transferability of €6.8 million. The discount for non-transferability was determined by calculating the difference between the value of a five-year forward sale of shares and the spot purchase of the same number of shares (€49.18), financed by a loan. The risk-free interest rate and the interest rate for calculating the carrying cost are 3.70% and 6.40% respectively. The notional cost of non-transferability of shares as a percentage of the spot rate of the shares at the grant date is 12%.

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

a- Description of plans

In accordance with the regulatory environment and collective agreements, the Group has established defined benefit and defined contribution pension plans (company or multi-employer) in favor of employees and other post-employment benefits.

In addition, Group companies have defined contribution plans in the majority of countries where the Group is present. Expenses incurred by the Group under these plans total €89 million for 2008 and €65.4 million for 2007.

Certain Group companies have established defined benefit pension plans. The largest defined benefit pension plans are located in the United Kingdom, with a pension obligation as of December 31, 2008 of €791 million and in France with a pension obligation as of December 31, 2008 of €451 million, notably in respect of retirement termination payments. Benefits are based on the remuneration and seniority of employees.

Under collective agreements, certain Group companies participate in multi-employer defined benefit pension plans. However, as these plans are unable to provide a consistent and reliable basis for the allocation of the obligation, assets and costs between the different participating entities, they are recorded as defined contribution plans in accordance with IAS 19. The main multi-employer plans are located in Sweden, Germany and the Netherlands and concern approximately 17,000 employees. The corresponding expense recorded in the Income Statement is equal to annual contributions and totals slightly over €32 million in 2008 and €29.2 million in 2007. Multi-employer plans in Sweden and the Netherlands are funded by capitalization; German multi-employer plans are funded by redistribution.

The Group also offers post-employment benefits and notably health insurance plans in the United States and France.

b- Obligations in respect of defined benefit pension plans and other post-employment benefits

The following schedules present obligations in respect of defined benefit pension plans and other post-employment benefits.

> NB: these schedules exclude, by definition, defined contribution pension plans (as the obligation is limited to the annual contribution expensed in the year and the plans do not, therefore, result in the recording of a provision based on actuarial valuations) and multi-employer defined benefit pension plans which are accounted for as defined contribution pension plans.

b-1 Change in the defined benefit obligation (D.B.O)

(€ million)	As of December 31,					
	Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)			Health insurance coverage of retirees		
Change in the defined benefit obligation	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**
Defined benefit obligation at beginning of year	**1,733.4**	**1,836.0**	**1,457.4**	**41.0**	**53.8**	**25.9**
Current service cost	53.4	61.8	55.6	1.4	1.6	1.5
Interest cost	88.7	85.7	67.2	2.2	2.3	2.1
Plan participants' contributions	7.1	7.9	6.0	-	-	-
Benefit obligation assumed on acquisition of subsidiaries	7.3	41.3	325.2	-	-	25.1
Benefit obligation transferred on disposal of subsidiaries	(20.4)	(2.3)	(0.9)	-	-	-
Curtailments	(5.0)	(3.3)	(9.3)	-	(8.3)	-
Liquidations	(23.2)	(9.6)	(0.1)	-	-	-
Actuarial loss (gain)	(75.2)	(128.5)	(15.6)	(3.7)	(5.9)	0.9
Benefits paid	(79.2)	(75.6)	(68.2)	(3.1)	(2.6)	(2.1)
Plan amendments	43.0	21.1	20.6	-	-	-
Other (incl. changes in consolidation scope and foreign exchange translation)	(207.9)	(101.1)	(1.9)	3.9	0.1	0.4
(1) Define benefit obligation at end of year	**1,522.0**	**1,733.4**	**1,836.0**	**41.7**	**41.0**	**53.8**

Other changes in the defined benefit obligation for pension plans and other post-employment benefits (excluding medical insurance coverage of retirees) primarily concern the impact of foreign exchange translation (-€239 million, entirely on the pound sterling).

b-2 Change in plan assets

(€ million)	As of December 31,					
	Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)			Health insurance coverage of retirees		
Change in plan assets	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**
Fair value of plan assets at beginning of year	**1,242.7**	**1,220.8**	**867.2**	**-**	**-**	**-**
Expected return on plan assets	72.8	70.9	55.4	-	-	-
Actuarial gains (losses)	(219.6)	(5.6)	21.5	-	-	-
Group contributions	45.2	74.9	62.0	-	-	-
Plan participants' contributions	7.1	7.9	6.0	-	-	-
Plan assets acquired on acquisition of subsidiaries	1.8	24.8	243.1	-	-	-
Plan assets transferred on disposal of subsidiaries	(1.6)	(0.5)	(0.1)	-	-	-
Liquidations	(12.2)	(9.9)	-	-	-	-
Benefits paid	(49.0)	(47.8)	(45.2)	-	-	-
Other (incl. changes in consolidation scope and foreign exchange translation)	(185.9)	(92.8)	10.9	-	-	-
(2) Fair value of plan assets at end of year	**901.1**	**1,242.7**	**1,220.8**	**-**	**-**	**-**

Other changes in plan assets primarily concern the impact of foreign exchange translation (-€211 million, including -€218 million on the pound sterling).

The actual return on plan assets (expected return on plan assets + actuarial gains/losses) was -€146.8 million at the end of 2008, compared to +€65.3 million at the end of December 2007 and +€76.9 million at the end of December 2006.

Group contributions in 2007 include exceptional contributions of €28 million in France and the United Kingdom.

The Group plans to make contributions of €40 million to defined benefit plans in 2009.

The expected return on plan assets in 2009 is €56 million. A 1% increase in the expected rate of return assumption would generate additional income of €8.7 million.

Group pension plan assets were invested as follows as of December 31, 2008, 2007 and 2006:

	As of December 31, 2008	As of December 31, **2007**	As of December 31, **2006**
Shares	46%	50%	51%
Bonds and debt instruments	40%	38%	39%
Insurance risk-free funds	12%	8%	8%
Liquid assets	0%	3%	1%
Other	2%	1%	1%

b-3 Change in funding status and the provision

(€ million)	As of December 31					
	Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)			Health insurance coverage of retirees		
	2008	**2007**	**2006**	**2008**	**2007**	**2006**
Funding status = (2) – (1)	**(620.9)**	**(490.7)**	**(615.2)**	**(41.7)**	**(41.0)**	**(53.8)**
Unrecognized past service costs	96.6	61.2	50.3	-	-	7.0
Other	(2.1)	(6.4)	(5.3)	-	-	-
Net obligation	**(526.4)**	**(435.9)**	**(570.2)**	**(41.7)**	**(41.0)**	**(46.8)**
Provisions	(539.8)	(445.3)	(580.1)	(41.7)	(41 .0)	(46.8)
Prepaid benefits	13.6	9.4	9.9	-	-	-

The increase in unrecognized past service costs is linked to the impact of the Labor Modernization Law (*Loi de Modernisation du Travail*) on retirement termination payment obligations in France, and primarily in Dalkia.

Provisions for post-employment benefits total €581.5 million, compared to €486.3 million in 2007. In 2008, this amount notably includes provisions of €4.9 million reclassified in the balance sheet in Liabilities directly associated with assets held for sale (i.e. an amount of €576.6 million recorded in the balance sheet).

The defined benefit obligation (DBO) is €340.5 million for unfunded defined benefit pension plans and other post-employment benefits (excluding medical insurance coverage of retirees) and €1,180.9 million for partially or fully funded plans as of December 31, 2008, compared to €333.8 million and €1,440.7 million at the end of 2007 and €297.8 million and €1,538.2 million at the end of 2006.

b-4 Change in repayment entitlement

(€ million)	2008	2007	2006
Change in repayment entitlement			
Fair value of repayment entitlement at beginning of year	**21.5**	**25.9**	**7.5**
Expected return on repayment entitlement	0.9	1.1	0.7
Actuarial gains (losses)	(1.0)	(3.3)	(0.4)
Repayment entitlement acquired on acquisition of subsidiaries	-	-	18.6
Repayments	(1.6)	(2.2)	(0.5)
Other (incl. changes in consolidation scope and foreign exchange translation)	2.5 *-	-	-
Fair value of repayment entitlement at end of year	**22.3**	**21.5**	**25.9**

* new repayment entitlement

The market value of repayment entitlement recorded in assets as of December 31, 2008 is €22.3 million. Repayment entitlement concerns the portion of employee rights to post-employment benefits corresponding to periods during which the employee was employed by a previous employer or where the operating contract stipulates that employee entitlement to post-employment benefits is assumed by a third party.

b-5 Impact on the Income Statement

The net benefit cost for the period is as follows:

(€ million)	As of December 31,					
	Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)			Health insurance coverage of retirees		
	2008	**2007**	**2006**	**2008**	**2007**	**2006**
Current service cost	53.4	61.8	55.6	1.4	1.6	1.5
Interest cost	88.7	85.7	67.2	2.2	2.3	2.1
Expected return on plan assets	(72.8)	(70.9)	(55.4)	-	-	-
Expected return on repayment entitlement	-	(1.1)	(0.7)	(0.9)	-	-
Past service costs recognized in the year	9.4	7.6	3.8	-	0.1	0.5
Curtailments / liquidations	(16.3)	(3.1)	(10.1)	-	-	-
Other	(1.2)	(0.3)	(1.8)	2.2	-	-
Net benefit cost (1)	**61.2**	**79.7**	**58.6**	**4.9**	**4.0**	**4.1**

(1) The 2008 cost excludes the Clemessy and Crystal entities, divested in December 2008.

These costs were recorded in full in operating income, except for interest costs and the expected return on plan assets which are recorded in net finance costs.

c - Actuarial assumptions

Actuarial assumptions used for calculation purposes vary depending on the country in which the plan is implemented. Group assets in France are primarily invested with insurance companies and the expected long-term return on these assets is directly linked to past rates of return. Assets in the United Kingdom are primarily invested in shares and bonds via a trust and expected long-term rates of return are based on long-term market performance statistics.

Pension plans

The benefit obligation in respect of pension plans as of December 31, 2008, 2007 and 2006 is based on the following average assumptions:

Pension obligation	**As of December 31, 2008**	As of December 31, **2007**	As of December 31, **2006**
Discount rate	5.83%	5.49%	4.74%
Expected rate of salary increase	3.8%	3.5%	3.65%

Periodic movements in pension benefit obligations in 2008, 2007 and 2006 are based on the following average assumptions:

	As of December 31, 2008	As of December 31, **2007**	As of December 31, **2006**
Discount rate	5.5%	4.7%	4.5%
Expected return on plan assets	6.4%	6.0%	6.2%
Expected rate of salary increase	3.5%	3.7%	3.3%
Average residual active life expectancy (in years)	12.0	12.0	13.8

The actual return on plans assets in 2008, 2007 and 2006 was -13.7%, 5.3% and 7.4% respectively.

The Group benefit obligation is especially sensitive to the discount rate and inflation. A 1% increase in the discount rate would decrease the benefit obligation by €191 million and current service costs by €9 million. A 1% decrease in the discount rate would increase the benefit obligation by €226 million and current service costs by €12 million.

Conversely, a 1% increase in the inflation rate would increase the benefit obligation by €206 million and current service costs by €9 million. A 1% decrease in the inflation rate would decrease the benefit obligation by €179 million and current service costs by €8 million.

Other post-employment benefits

Additional assumptions concerning health insurance plans are as follows:

Average rate of increase in health insurance costs	**As of December 31, 2008**	As of December 31, **2007**	As of December 31, **2006**
Assumed rate of increase in health costs in the coming year	5.1 %	5.4 %	5.5%
Target rate of increase in costs	3.6%	3.5%	4.0%
Year long-term rate is expected to stabilize	2020	2020	2014

Assumptions concerning the growth in health insurance costs impact the post-employment benefit obligation as follows: a 1% increase in the assumed rate of increase in health costs would increase the post-employment benefit obligation by €6.5 million and, conversely, a 1% decrease would reduce the post-employment benefit obligation by €5.1 million.

Assumptions concerning the rate of increase in health insurance costs have a minimal impact on the current service cost.

Amounts for the current and three prior periods are as follows:

Pension Obligation	**2008**	**2007**	**2006**	**2005**
Benefit obligation at year end	(1,522.0)	(1,733.4)	(1,836.0)	(1,457.4)
Fair value of plan assets at year end	901.1	1,242.7	1,220.8	867.2
Funded status	**620.9**	**(490.7)**	**(615.2)**	**(590.2)**
Actuarial gains (losses) / experience adjustments on obligations	8.8	(0.7)	3.4	(15.6)
Actuarial gains (losses) / experience adjustments on plan assets	(219.6)	(5.6)	21.5	57.2

Other post-employment benefits	**2008**	**2007**	**2006**	**2005**
Benefit obligation at year end	(41.7)	(41.0)	(53.8)	(25.9)
Fair value of plan assets at year end	-	-	-	-
Funded status	**(41.7)**	**(41.0)**	**(53.8)**	**(25.9)**
Actuarial gains (losses) / experience adjustments on obligations	1.9	1.9	(0.7)	1.6
Actuarial gains (losses) / experience adjustments on plan assets	-	-	-	-

Cumulative actuarial gains and losses on obligations and assets and the change in the asset ceiling recognized in equity are as follows:

	2008	**2007**
Cumulative amount as of January 1	**(48.3)**	**(172.7)**
Change during the period	(137.5)	124.4
Cumulative amount as of December 31	**(185.8)**	**(48.3)**

NOTE 33. Main acquisitions

33.1. Acquisitions in 2008

Acquisitions in 2008 with related net cash flows exceeding €100 million are described hereafter.

Acquisitions in 2008 with related net cash flows of less than €100 million represent business combinations costs of €645 million. These acquisitions contributed €466 million to Group revenue in 2008.

No material badwill was recognized in respect of these acquisitions, except on the acquisition of an additional stake in SNCM (see Note 22, Operating income).

In general, goodwill balances are justified by synergies with existing operations in the Group and future developments.

Acquisition of Tianjin Shibei (Water Division in China)

In September 2007, Veolia Eau was selected by the Tianjin municipality to supply drinking water to the Shibei and Binhai districts and entered into a contract concerning the joint control of 49% of the share capital of Tianjin Shibei Water Company (a subsidiary of the Tianjin municipality company, Tianjin Shibei Water Co).

The opening balance sheet date is July 1, 2008, corresponding to the effective start-up of the joint venture, which adopted the legal name of Tianjin Jinbin Veolia Water.

Tianjin Jinbin Veolia Water is proportionately consolidated in the amount of 49%.

This transaction was recognized in accordance with the standard on business combinations (IFRS 3).

In accordance with IFRS 3, the Group has a period of 12 months during which to finalize the accounting recognition of the business combination. Asset and liability fair values recorded at the balance sheet date are therefore likely to change in 2009. The provisional fair value (100%) and proportionately consolidated value (49%) of assets and liabilities break down as follows:

(€ million)	IFRS net carrying amount	Purchase accounting	2008 provisional fair value	Share (49%) of 2008 provisional fair value
Assets				
Intangible assets	233.8	308.0	541.8	265.5
Deferred tax assets	0.5		0.5	0.3
Working capital assets	4.4	-	4.4	2.1
Current financial assets	-		-	-
Cash	0.2	-	0.2	0.1
Liabilities				
Deferred tax liabilities	-	(77.0)	(77.0)	(37.7)
Current borrowings	(128.7)		(128.7)	(63.1)
Total net assets	**110.2**	**231.0**	**341.2**	**167.2**
Net assets purchased (49%)			**167.2**	**-**
Residual goodwill			37.7	37.7
Purchase price			**204.9**	**204.9**
Business combination cost			**204.9**	**204.9**
Net cash flows relating to the acquisition				**204.8**
Purchase price				204.9
Cash transferred in				0.1
Enterprise value				268.0
Purchase price				204.9
Non-current and current borrowings - cash				63.1

Pursuant to IFRIC 12, property, plant and equipment have been reclassified in “Concession intangible assets” and are amortized over the contract term.

Business combination costs allocated to intangible assets primarily correspond to the valuation of the Tianjin Shibei contract acquired.

Tianjin Jinbin Veolia Water is proportionately consolidated in the amount of 49% and contributed €9.6 million to revenue in 2008.

Acquisition of Bartin Aero Recycling Group

On November 19, 2007, the Environmental Services Division announced the signature of an agreement for the acquisition of the entire share capital of Bartin Recycling Group, a company specializing in the collection and recovery of industrial waste, the recycling of ferrous and non-ferrous metals in particular.

This transaction represents an investment of €189 million and was finalized on February 13, 2008.

This transaction was recognized in accordance with the standard on business combinations (IFRS 3).

In accordance with IFRS 3, the Group has a period of 12 months during which to finalize the accounting recognition of the business combination. Asset and liability fair values recorded at the balance sheet date and detailed below, are therefore likely to change in 2009.

(€ million)	Net carrying amount excluding IFRS 5	IFRS 5	IFRS net carrying amount	Purchase method	2008 provisional fair value
Assets					
Intangible assets	44.0	-	44.0	(43.8)	0.2
Property, plant and equipment	43.4		43.4		43.4
Non-current financial assets	1.2		1.2	-	1.2
Deferred tax assets	1.8		1.8	-	1.8
Working capital assets	108.9		108.8	2.3	111.1
Cash	2.0		2.0		2.0
Assets classified as held for sale	-	3.8	3.8		3.8
Liabilities					
Minority interests	(0.4)	(0.7)	(1.1)		(1.1)
Non-current provisions	(1.2)		(1.2)		(1.2)
Non-current borrowings	(28.4)		(28.4)		(28.4)
Deferred tax liabilities	(4.6)		(4.6)	(0.8)	(5.4)
Other non-current liabilities	(0.1)		(0.1)	-	(0.1)
Current provisions	(0.5)		(0.5)		(0.5)
Working capital liabilities	(85.3)		(85.3)		(85.3)
Current borrowings	(6.9)	-	(6.9)	-	(6.9)
Bank overdrafts and other cash position items	(6.0)	-	(6.0)	-	(6.0)
Liabilities directly associated with assets classified as held for sale	-	-	-	-	-
Total net assets	**67.8**	**3.1**	**70.9**	**(42.3)**	**28.6**
Net assets purchased (100%)					**28.6**
Residual goodwill					120.7 *
Purchase price					149.3
Business combination cost					**149.3**
Net cash flows relating to the acquisition					**153.3**
Purchase price					149.3
Cash transferred in					(4.0)
Enterprise value					**188.6**
Purchase price					149.3
Non-current and current borrowings - cash					39.3

* This goodwill is recognized in the amount of €121.6 in “Goodwill” and -€0.9 in “Investments in associates”.

The goodwill is justified by operating and commercial synergies to be realized with existing business in the Environmental Services Division in France and growth opportunities for the Group in the Recycling business.

The Bartin Group contributed €246.6 million to revenue in 2008.

Acquisitions of Praterm Group

In February 2008, Dalkia became the majority shareholder with a stake of 100% in the Praterm group, a heat production and distribution group in Poland. This transaction enabled Dalkia to strengthen its position in this country, where it already owns two of the largest heating networks in Poznan and Lodz. This transaction represents an investment with an enterprise value of €128 million for Dalkia (Group share).

This transaction was recognized in accordance with the standard on business combinations (IFRS 3).

In accordance with IFRS 3, the Group has a period of 12 months during which to finalize the accounting recognition of the business combination. Asset and liability fair values recorded at the balance sheet date are therefore likely to change in 2009. The provisional fair value (100%) of assets and liabilities presented below corresponds to the percentage purchased by Dalkia International. It is presented alongside at the proportionately consolidated value (75.81%):

(€ million)	Net carrying amount excluding IFRS5	Purchase method	2008 provisional fair value	Contribution to the Group (PC at 75.81%)
Assets				
Intangible assets	2.4	(1.7)	0.7	0.5
Property, plant and equipment	76.9	36.3	113.2	85.9
Non-current financial assets	1.2	(1.2)	-	-
Deferred tax assets	1.2	-	1.2	0.9
Working capital assets	25.7	-	25.7	19.5
Current financial asset	0.8	-	0.8	0.6
Cash	25.6	1.2	26.8	20.3
Liabilities				
Minority interests	(12.8)	(2.6)	(15.4)	(11.7)
Non-current provisions	(0.5)	-	(0.5)	(0.4)
Non-current borrowings	(4.2)	-	(4.2)	(3.2)
Deferred tax liabilities	(1.3)	(6.1)	(7.4)	(5.6)
Other non-current liabilities	-	-	-	-
Current provisions	(0.3)	-	(0.3)	(0.2)
Working capital liabilities	(16.9)	-	(16.9)	(12.8)
Current borrowings	(45.4)	-	(45.4)	(34.4)
Bank overdrafts and other cash position items	-	-	-	-
Total net assets	**52.4**	**25.9**	**78.3**	**59.4**
Net assets purchased (49%)	**-**		**78.3**	**59.4**
Residual goodwill			67.8	51.3
Purchase price			146.1	110.7
Business combination cost			**146.1**	
Net cash flows relating to the acquisition			**119.3**	**90.4**
Purchase price			146.1	110.7
Cash transferred in			26.8	20.3
Enterprise value			**168.9**	**128.0**
Purchase price			146.1	110.7
Non-current and current borrowings - cash			22.8	17.3

The residual goodwill is justified by synergies with existing activities and notably Lodz and the future expansion of the Group in Poland.

The Praterm Group contributed €37.0 million to revenue in 2008.

33.2. Acquisitions in 2007

Asset and liability fair values recorded at the end of 2007 in the opening balance sheets of 2007 acquisitions not yet definitive as of December 31, 2007 (SULO in the Environmental Services Division in Germany, non-regulated Thames activities in the Water Division in the United Kingdom, Thermal North America Inc. in the Energy Services Division in the United States and VES Tecnitalia in the Environmental Services Division in Italy) were not materially changed during the 12-month allocation period following their acquisition date.

NOTE 34. Construction contracts

Construction contracts

(€ million)	**As of December 31, 2008**	As of December 31, **2007**
Construction contracts in progress / Assets (A)	495.6	593.8
Construction contracts in progress / Liabilities (B)	332.2	232.0
Construction contracts in progress / net (A) – (B)	**163.4**	**361.8**
Costs incurred plus income and losses recognized to date (C)	4,404.8	4,068.7
Amounts billed (D)	4,241.4	3,706.9
Construction contracts in progress / net (C) – (D)	**163.4**	**361.8**
Customer advances	**355.8**	**41.2**

The amount of costs incurred, plus profits and less losses recognized (notably in provisions for losses to completion) and intermediary billings is determined on an individual contract basis. Where positive, this amount is recognized in assets in “Construction contracts in progress/Assets”. Where negative, this amount is recognized in liabilities in “Construction contracts in progress/Liabilities”.

NOTE 35. Operating leases

Assets financed by operating lease

The Group enters into operating leases (mainly for transportation equipment).

The future minimum lease payments under operating leases amount to €2,530.4 million as of December 31, 2008, compared to €2,190.0 million as of December 31, 2007 and €2,125.9 million as of December 31, 2006.

The increase between 2007 and 2008 is mainly due to the impact of external acquisitions and the signature of new technical installation contracts in the United States in the Environmental Services Division.

As of December 31, 2008, future minimum lease payments under these contracts were as follows:

(€ million)	Operating lease
2009	585.0
2010 & 2011	779.6
2012 & 2013	548.4
2014 and thereafter	617.4
Total future minimum lease payments	**2,530.4**

Lease payments for the period

(€ million)	Year ended December 31, 2008	Year ended December 31, 2007
Minimum lease payments expensed in the period	609.7	523.4
Contingent rent expensed in the period	13.6	17.1
Total lease payments for the period	**623.3**	**540.5**

Sub-lease revenue is not material.

Assets leased under operating leases

The value of assets concerned by operating leases within the Group is not material.

NOTE 36. Proportionately consolidated companies

Summarized financial information in respect of proportionately consolidated companies is set out below (Group part):

(€ million)	**As of December 31, 2008**	As of December 31, **2007**	As of December 31, **2006**
Non-current assets	7,682.7	6,757.3	5,651.9
Current assets	3,670.8	3,115.5	2,898.2
Total assets	**11,353.5**	**9,872.8**	**8,550.1**
Equity attributable to equity holders of the parent	2,910.7	2,295.9	1,367.0
Minority interests	801.6	895.5	945.9
Non-current liabilities	3,016.6	2,650.8	3,293.4
Current liabilities	4,624.6	4,030.6	2,943.8
Total equity and liabilities	**11,353.5**	**9,872.8**	**8,550.1**

(€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Income Statement data			
Revenue	5,481.1	4,623.7	4,143.4
Operating income	612.6	659.9	540.1
Net income for the year	261.2	322.9	109.9
Financing data			
Operating cash flows	712.3	567.0	521.2
Investing cash flows	(621.7)	(566.8)	(258.0)
Financing cash flows	(533.2)	(289.9)	(281.3)

The most material proportionately consolidated subsidiaries are as follows:

- BWB (Berlin water services company) in the Water Division in Germany is 50% consolidated and contributed revenue of €609 million, operating income of €222 million, net assets of €2,733 million and net debt of €1,540 million;
- Dalkia International is 75.81% consolidated and contributed revenue of €2,168 million, operating income of €158 million and net assets of €1,633 million;
- the Proactiva Group in South America contributed revenue of €153 million, operating income of €16 million and net assets of €82 million;
- the Shenzhen and Tianjin Shibei contracts in the Water Division in China, are 49% consolidated and contributed €103 million and €10 million respectively to revenue and €210 million and €349.5 million respectively to net assets.

NOTE 37. Tax audit

In the normal course of their business, the Group entities in France and abroad are subject to regular tax audits.

In France, the tax authorities have carried out various tax audits in respect of both consolidated tax groups and individual entities, including a significant number of audits focusing specifically on local taxes. The tax audits concerning major Group companies in France were closed in 2008**.** None of these audits led to material liabilities to the tax authorities in excess of amounts estimated during the audit of tax risks and the booking of provisions in accordance with IAS 37.

Outside France, the Group is present in numerous countries and is constantly subject to tax audits. Among the countries where the Group has a strong presence, tax audits are notably in progress in Germany, Morocco, Italy and South Korea, covering fiscal years 2000 to date. Discussions continued in 2008 with the tax authorities of these countries**.** Where necessary, tax authorities assessments or identified uncertain tax positions in respect of which assessments have not been yet issued are adequately provided for, and tax risks reserve amounts are regularly reviewed in accordance with IAS37 criteria.

In the United States, the Group has initiated a pre-filing agreement procedure with the Internal Revenue Service (I.R.S) in order to validate the amount of tax losses as of December 31, 2006, following the reorganization of Water Division activities ("Worthless Stock Deduction"). This reorganization led to the recognition of ordinary losses resulting from the operations and disposal of former U.S.Filter activities in respect of fiscal years 1999 to 2004, in an amount which could exceed U.S.$ 4 billion. The Group holds several external advisors opinions confirming its position. Given the amount at state, the Group decided to request immediate validation of these tax losses by the tax authorities. The I.R.S. issued numerous information and document requests during the procedure. Meetings were held with the audit team and its hierarchy. At no time, has the I.R.S. provided information that could lead the Group to reconsider the appropriateness of the position adopted with the agreement of its advisors in its U.S. tax return.

In addition, the Group is also subject to a tax audit in the United States with respect to its ordinary activities in the 2004-2006 period. This tax audit is complicated by the numerous legal reorganizations which accompanied the piecemeal sale of former U.S. Filter assets and subsidiaries. The duration and outcome of this audit are difficult to estimate precisely. Nonetheless, the majority of potential tax uncertain positions, if confirmed, would have a limited impact on the consolidated financial statements of the Group due to the tax losses generated by the reorganization of the Water Division activities.

NOTE 38. Off-balance sheet commitments

Specific commitments given

Specific Berlin contract commitments

Under the Berlin Water contract, the Group plans to purchase easement rights for water pipes from landowners.

The gross amount of this investment could reach €426 million (50%), approximately €175 million of which would be borne by the Berlin Lander, representing a net commitment of €250 million.

Given the uncertain nature of estimating easement rights, this commitment was retained off-balance sheet as of December 31, 2007.

More precise estimates were performed in 2008, leading to valuation of €113 million (100%), including a portion, estimated at €57 million, to be reimbursed by the Berlin Lander. The Group therefore recognized an asset and operating liability of €113 million. As these rights will be acquired by 2011, the amounts paid will be recorded, net of amounts reimbursed by the Berlin Lander, in operating financial assets and remunerated pursuant to the contract.

Agreements with EDF

Veolia Environnement granted EDF a call option covering all of its Dalkia shares in the event an EDF competitor takes control of the company.

Likewise EDF granted Veolia Environnement a call option covering all of its Dalkia shares, exercisable in the event of a change in the legal status of EDF or should a Veolia Environnement competitor, acting alone or in concert, take control of EDF. Failing an agreement on the share transfer price, this would be decided by an expert.

Breakdown by maturity of specific commitments given

(€ million)	As of December 31, **2006**	As of December 31, **2007**	**As of December 31, 2008**
Specific Berlin contract commitment (50%)	426	426	-
Specific commitments given	**426**	**426**	**-**

Other commitments given

Other commitments and contingencies include neither collateral guarantees supporting borrowings (see Note 39) nor specific commitments and contingencies described above.

Other commitments are as follows:

(€ million)	As of December 31, **2006**	As of December 31, **2007**	**As of December 31, 2008**	Maturing in		
				Less than 1 year	1 to 5 years	More than 5 years
Operational guarantees including performance bonds	**4,043.6**	**5,591.4**	**6,624.9**	**1,302.0**	**3,414.7**	**1,908.2**
Financial guarantees	**749.3**	**835.6**	**667.5**	**317.7**	**113.7**	**236.1**
Debt guarantees	300.7	355.6	303.0	158.6	66.2	78.2
Vendor warranties received	448.6	480.0	364.5	159.1	47.5	157.9
Commitments given	**180.6**	**617.1**	**507.8**	**330.2**	**133.6**	**44.0**
Purchase commitments	149.3	589.9	476.5	307.2	125.9	43.4
Sales commitments	31.3	27.2	31.3	23.0	7.7	0.6
Other commitments given	**1,654.3**	**957.3**	**912.7**	**527.9**	**290.3**	**94.5**
Letters of credit	904.5	573.8	706.7	465.7	236.5	4.5
Other commitments given	749.8	383.5	206.0	62.2	53.8	90.0
Other commitments given	**6,627.8**	**8,001.4**	**8,712.9**	**2,477.8**	**3,952.3**	**2,282.8**

Operational guarantees: in the course of their normal activities, the Group's subsidiaries give guarantees to their customers. If the company does not reach its specified targets, it may have to pay penalties. This commitment is often guaranteed by an insurance company, a financial institution, or the parent company of the Group. These guarantees included in the contract are performance commitments. The insurance company or the financial institution often requires counter guarantees from the parent company. The commitment is the amount of the guarantee anticipated in the contract and given by the parent company to the customer or the counter guarantee given by the parent company to the insurance company or to the financial institution.

Debt guarantees: these relate to guarantees given to financial institutions in connection with the financial debts of non-consolidated companies, equity associates, or the non-consolidated portion of financial debts of proportionately consolidated companies when the commitment covers the entire amount.

Vendor warranties: these include warranties linked to the sale in 2004 of Water activities in the United States for the amount of €255 million.

Purchase commitments: these include commitments given by Group companies to purchase shares in other companies or to invest. As of December 31, 2008, these commitments mainly concerned the Energy Services Division (€91.5 million), the Environmental Services Division (€20.4 million), the Transportation Division (€71.2 million) and the Water Division (€292.9 million).

Letters of credit: letters of credit delivered by financial institutions to Group creditors, customers and suppliers guaranteeing operating activities.

These off-balance sheet commitments notably include:

- Off-balance sheet commitments and site restoration provisions:

Pursuant to environmental texts and legislation concerning the operation of waste storage facilities, the Group is obliged to provide financial guarantees to local authorities/government agencies. These guarantees notably encompass the restoration and supervision of the site during 30 years or more, depending on national legislation (currently 60 years in the United Kingdom), following its operation.

In this context, performance bonds, letters of credit, etc. are issued to local authorities and other public bodies.

Depending on the contract, these guarantees cover the costs necessary for the restoration of all or part of the site and the supervision of the site during 30 years.

These guarantees are quantified in accordance with legally or contractually-defined procedures. These guarantees, which are given in their total amount from the start of operations, expire at the end of the commitment (termination of restoration work and site supervision).

Therefore, the amount of our commitment for the restoration and supervision of waste storage facilities is in general different from the amount of the provision recorded in the Group accounts (see Note1.13).

Provisions calculated by the Group are based on different valuations (based on internal policies regarding site security and designed for optimal environmental protection), which take into account the progressive nature of the obligation: operation of the storage facility results in progressive damage to the site and, as such, a related liability is recognized as the facility is operated.

If the amount of the commitment is less than the provision at the balance sheet date, an off-balance sheet commitment is not disclosed. Conversely, if the amount of the commitment is greater than the provision, an off-balance sheet commitment is disclosed in the amount not provided.

- <u>Engineering and construction activities</u>:

Total commitments given in respect of construction activities in the Water Division (Veolia Eau Solutions & Technologies) amount to €2,969.8 million as of December 31, 2008, compared to €1,630.4 million as of December 31, 2007.

Total commitments received (see below) in respect of these same activities amount to €856.9 million as of December 31, 2008, compared to €866.2 million as of December 31, 2007.

Commitments given and received in respect of the five principal contracts account for approximately 80% of total commitments.

- <u>Commitments given in respect of concession contracts:</u>

Pursuant to public service contracts with a public entity, the Group may be called on/obliged to invest in infrastructures that will then be operated and remunerated in accordance with contractual terms and conditions.

The contractual commitment may concern both the financing of installations and infrastructures to be used in operations and also the maintenance and replacement of infrastructures necessary to operations.

An analysis of the accounting treatment of these commitments is presented in Notes 1.21, 1.14 and 17.

Expenditure relating to the replacement or restoration of installations is monitored and recognized through any timing differences between the total contractual commitment over the contract term and its realization, in accordance with IAS 37 on Provisions.

Expenditure relating to the construction, maintenance and restoration of concession assets is reviewed with respect to IFRIC 12 and detailed in Note 1.21.

Other commitments given break down by Division as follows:

(€ million)	**As of December 31, 2008**	As of December 31, **2007**	As of December 31, **2006**
Water	5,891.8	4,368.3	3,253.2
Environmental Services	901.7	1,171.1	876.7
Energy Services	538.1	755.7	543.0
Transportation	415.8	398.3	294.9
Proactiva	50.6	39.8	5.7
Holding companies	891.3	1,241.5	1,598.3
Other	23.6	26.7	56.0
Total	**8,712.9**	**8,001.4**	**6,627.8**

The increase in commitments is mainly due to new construction contracts won in the Middle East.

Lease contracts entered into by the Group are analyzed in Notes 18 and 35.

Contingent assets and liabilities relating to legal or arbitration proceedings

The Group is subject to various litigation in the normal course of its business. In accordance with IAS 37 criteria, management does not consider it appropriate to record a provision or recognize deferred income in respect of these legal or arbitration proceedings at the balance sheet date, due to the uncertain nature of their outcome.

Commitments received

(€ million)	**As of December 31, 2008**	As of December 31, **2007**	As of December 31, **2006**
Guarantees received	**2,082.0**	**1,459.7**	**951.3**
Debt guarantees	351.6	266.6	171.0
Vendor warranties received	294.8	53.6	34.6
Other guarantees received	1,435.6	1,139.5	745.7

The commitments notably consist of commitments received from our partners in respect of construction contracts.

In addition, the Group has undrawn medium and short-term credit lines and syndicated loans in the amount of €3.8 billion (see Note 30.2).

NOTE 39. Collateral given supporting borrowings

As of December 31, 2008, the Group has given €924 million of collateral guarantees in support of borrowings. The breakdown by type of asset is as follows (€ millions):

Type of pledge / mortgage	Amount pledged (a)	Total balance sheet amount (b)	Corresponding % (a) / (b)
Intangible assets	2	1,535	0.14%
Property, plant and equipment	225	9,427	2.39%
Financial assets (*)	588	-	-
Total non-current assets	**815**	**-**	**-**
Current assets	109	19,084	0.57%
Total assets	**924**	**-**	**-**

* As the majority of financial assets pledged as collateral are shares of consolidated subsidiaries and other financial assets, the ratio is not significant.

The breakdown by maturity is as follows:

(€ million)	As of December 31, **2006**	As of December 31, **2007**	**As of December 31, 2008**	**Maturing in**		
				Less than 1 year	1 to 5 years	More than 5 years
Intangible assets	**2**	**2**	**2**	**1**	**1**	**-**
Property, plant and equipments	**390**	**293**	**225**	**45**	**134**	**46**
Mortgage pledge	80	15	16	3	2	11
Other PP&E mortgage pledge (1)	310	278	209	42	132	35
Financial assets (2)	**389**	**313**	**588**	**12**	**40**	**536**
Current assets	**23**	**26**	**109**	**4**	**15**	**90**
Pledges on receivables	21	23	108	4	15	89
Pledges on inventories	2	3	1	-	-	1
Total	**804**	**634**	**924**	**62**	**190**	**672**

(1) mainly equipment and traveling systems.

(2) including non-consolidated investments of €195 million and other financial assets (primarily operating financial assets) of €393 million as of December 31, 2008.

NOTE 40. Related party transactions

The purpose of this note is to present related-party transactions.

40.1. "Related party" concept

Group related parties comprise, in accordance with IAS 24, *Related Party Disclosures*, the companies over which the Group exercises control, joint control or significant influence (joint ventures and equity associates), shareholders who exercise joint control over group joint ventures, minority shareholders who exercise significant influence over group subsidiaries, key management personnel of the group and the companies over which the latter exercise control, joint control or significant influence or in which they hold significant voting rights.

In addition, as the share capital of the Group is widely held, certain shareholders holding a small stake in the share capital are nonetheless considered related parties.

40.2. Compensation and related benefits of key management personnel

Group Executive Committee members and directors represent the key management personnel of the Group.

The following table summarizes amounts recorded by the Group in respect of compensation and other benefits granted to key management personnel:

(€ million)	**As of December 31, 2008**	As of December 31, 2007	As of December 31, 2006
Short-term benefits, excluding employer contributions [(a)]	**8.2**	6.9	6.7
Employer contributions	**3.2**	2.5	2.5
Post-employment benefits [(b)]	**1.2**	1.0	1.0
Other long-term benefits [(c)]	**-**	-	-
Share-based payments	**1.0**	1.6	2.0
Contract termination payments	**-**	-	-
Total	**13.6**	**12.0**	**12.2**

(a) Fixed and variable compensation, employee benefits and directors fees. Variable compensations comprise amounts due in respect of the fiscal year and paid during the next fiscal year.

(b) Current service costs

(c) Other compensation vested but payable in the long-term

All the Board of Directors members, except the Chairman and Chief Executive Officer, only receive as compensation director's fees from Veolia Environnement and its controlled companies.

Director's fees paid to Directors, excluding the Chairman and Chief Executive Officer, totaled €771,952 in 2008, €741,380 in 2007 and €711,555 in 2006.

The reference document (Chapter 15) contains detailed disclosures on compensation and benefits paid to key management personnel of the Group.

40.3. Transactions with other related parties

40.3.1 Relations with proportionately consolidated companies and equity associates

- The Group granted a loan of €1,359.7 million to Dalkia International and its subsidiaries Siram and Dalkia Pologne, which are proportionately consolidated at 75.81%. The non-group portion of this loan is recorded in assets in the Group consolidated balance sheet in the amount of €434.2 million (see Note 11 Other non-current financial assets).
- In addition, given the Group's businesses, operating flows between companies are generally limited to companies operating in the same country. As such, the level of operating transactions between the Group and proportionately consolidated companies is not material.

However, certain contractual agreements, notably in Asia and Central Europe, impose the existence of a holding company (generally equity accounted or proportionately consolidated) and companies carrying the operating contract (generally fully consolidated). These complex legal arrangements generate “asset supply” flows between the companies jointly controlled or subject to significant influence and the companies controlled by the Group. Assets are generally supplied for a specific remuneration that may or may not include the maintenance of the installations in good working order or the technical improvement of the installations.

40.3.2 Relations with other related parties

Relations with Group shareholders (BNP PARIBAS, CDC, Société Générale)

Relations with BNP Paribas (0.66% interest in the share capital), Société Générale and Caisse des Dépôts et Consignations (10.00% interest in the share capital)

Management of these three shareholder financial groups is represented on the Board of Directors of Veolia Environnement.

Veolia Environnement has financing relations with these three institutions comprising global financing arrangements (syndicated loans, bilateral credit lines), structured financing ("Dailly law" assignment of receivables, securitization program and financing of the automobile pool) and cash management. These relations are remunerated at market rates.

Vivendi Universal undertook to pay an indemnity to Veolia Environnement in respect of the financial management of replacement expenses and then transferred this obligation to Société Générale under a perfect delegation contract on December 21, 2004. Consequently, Vivendi Universal no longer has any obligation towards Veolia Environnement in that respect.

Conversely, Société Générale, considered a related party, is liable to Veolia Environnement in this respect for a maximum amount of €17.6 million as of December 31, 2008, which may be claimed each year up to 2010 under the conditions laid down in the contract.

Veolia Environnement claimed an amount of €41.4 million from Société Générale in respect of 2008.

Relations with Electricité de France (3.87% interest in Veolia Environnement)

EDF Group has a 3.87% interest in Veolia Environnement, a 34% interest in Dalkia and a 25% interest in Dalkia International. In accordance with the Decree 97-07, EDF purchases electricity produced in France by Dalkia cogeneration power plants at a guaranteed fixed price for 2007/2008. Electricity sold by Dalkia to EDF in 2006, 2007 and 2008 totaled €482.6 million, €521.7 million and €608.4 million respectively.

Other related parties (EBRD, Bartin recycling, Mubadala)

Relations with EBRD:

The European Bank for Reconstruction and Development (EBRD) holds minority interests in Group operating entities in Central Europe, primarily in the Energy Services, Transportation and Water Divisions.

Bartin Recycling:

The Group acquired Bartin Recycling in 2008, in which the Lazard Group investment fund held a share capital interest of 36% and Mr. Georges Ralli, manager of Lazard and director of Veolia Environnement, held a share capital interest in a personal capacity of 0.35%. The transaction was performed at market price.

Mubadala:

The State-owned company, Mubadala Development Company, holds a share capital interest of 49% in the group “New Asset Management 1”, pursuant to the development of the Group’s strategic partnership in the Middle-East and North Africa.

In this context, the Group granted the joint venture a shareholders' loan in the amount of €126.2 million. This loan has a term of 16 years and bears interest at Euribor 3 months + 80bp.

NOTE 41. Consolidated employees

Consolidated employees * break down as follows:

By category	As of December 31, 2008	As of December 31, 2007 (1)	As of December 31, 2006 (1)
Consolidated employees*	**297,965**	**284,072**	**260,088**

By Division	As of December 31, 2008	As of December 31, 2007 (1)	As of December 31, 2006 (1)
Water	78,040	74,280	65,246
Environmental Services	95,399	84,994	78,951
Energy Services	44,370	46,387	42,651
Transportation	74,526	73,299	69,320
Proactiva	4,823	4,503	3,399
Other	807	609	521
Consolidated employees*	**297,965**	**284,072**	**260,088**

By company	As of December 31, 2008	As of December 31, 2007 (1)	As of December 31, 2006 (1)
Fully consolidated companies	251,772	241,857	222,634
Proportionately consolidated companies	46,193	42,215	37,454
Consolidated employees*	**297,965**	**284,072**	**260,088**

* Consolidated employees equal the average number of full-time equivalent employees. Employees of proportionately consolidated companies are included according to their percentage of consolidation. Employees of equity associates are not included.

(1) The information presented for fiscal years 2007 and 2006 includes the employees of the Clemessy and Crystal entities divested in 2008. These entities employed an average of 5,886 staff in 2007.

The increase in the average number of employees in 2008 is primarily due to:

- in the Water Division, the signature of new contracts in China and in other Asian countries, the expansion of activities in France and the growth of engineering and construction activities;
- in the Environmental Services Division, the acquisition in 2007 of the Sulo Group which produced a full year effect in 2008 (5,040 staff) and in 2008 of the Bartin Group and an increase in activity, primarily in Africa and the Middle East.

NOTE 42. Greenhouse gas emission rights

The process governing the grant and valuation of these rights is presented in Note 1.24, Greenhouse gas emission rights.

The position in 2008 is as follows:

Volume in thousands of metric tons	As of January 1, 2008	Entries into the consolidation scope	Granted	Purchased / sold / cancelled	Consumed	As of December 31, 2008
Total	**1,073**	**593**	**13,166**	**(1,144)**	**(12,325)**	**1,363**

By optimizing installations and climatic conditions, the Group was able to generate surpluses in Phase I. The Group attached value to these surpluses by entering into forward sales transactions and swaps (EUA I (European Union Allowance I) sales against CER (Certified Emission Reduction) purchases). As such, the EUA I balance (not available for carry forward to phase II) after the surrender process in April 2008, was not material.

In 2008, the Group entered into new swaps (sales of EUA II against purchases of CER) in order to benefit from positive rate differences, up to the CER surrender limit set by each country.

At the end of 2007 and during 2008, the Group entered into allowance loan transactions (EUA II and CER) effective in 2008 with surrender in 2012. The commission received on allowance loans is recorded on receipt as deferred income and recognized in the Income Statement on a straight-line basis over the loan term.

Entries into the scope of consolidation concern Energy Services Division acquisitions in Europe.

Phase II rights granted free of charge for fiscal years 2009/2012 are estimated at €767 million.

NOTE 43. Segment reporting

Pursuant to IAS 14, Veolia Environnement provides primary information by business segment and secondary information by geographical area. The business segments are Water, Environmental Services, Energy Services and Transportation.

The **Water** segment integrates drinking water and wastewater activities such as water distribution, water and wastewater treatment, industrial process water, manufacturing of water treatment equipment and systems.

The **Environmental Services** segment collects, processes and disposes of household, trade and industrial waste.

The **Energy Services** segment includes heat production and distribution, energy optimization and related services, and electricity production.

The **Transportation** segment focuses on the operation of passenger transportation services.

In accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*, the Income Statements of the Clemessy and Crystal entities in the Energy Services Division, divested in December 2008, are grouped together in a separate line, Net income from discontinued operations, in 2008 and in fiscal years 2007 and 2006 presented for comparative purposes.

Business segments

Revenue by segment (€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Water	12,557.9	10,927.4	10,087.6
Environmental Services	10,144.1	9,214.3	7,462.9
Energy Services	7,449.4	6,200.4	5,439.0
Transportation	6,054.1	5,590.1	4,951.5
Revenue as per the consolidated income statement	**36,205.5**	**31,932.2**	**27,941.0**

Inter-segment revenue (€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Water	36.6	25.5	19.4
Environmental Services	99.8	80.9	68.4
Energy Services	59.8	39.1	33.6
Transportation	5.0	5.4	5.9
Inter-segment revenue	**201.2**	**150.9**	**127.3**

Operating income by segment (€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Water	1,198.5	1,267.7	1,160.6
Environmental Services	285.5	803.5	648.3
Energy Services	429.7	384.3	369.0
Transportation	145.4	130.3	13.6
Total business segments	**2,059.1**	**2,585.8**	**2,191.5**
Unallocated operating income	(107.8)	(103.3)	(67.3)
Operating income as per the consolidated income statement	**1,951.3**	**2,482.5**	**2,124.2**

Net charge to operating depreciation, amortization and provisions by segment (€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Water	(461.7)	(396.0)	(436.3)
Environmental Services	(766.8)	(696.8)	(529.4)
Energy Services	(226.7)	(147.9)	(125.8)
Transportation	(174.3)	(189.9)	(293.2)
Total business segments	**(1,629.5)**	**(1,430.6)**	**(1,384.7)**
Unallocated net charge to operating depreciation, amortization and provisions	(30.0)	(29.4)	(28.0)
Net charge to operating depreciation, amortization and provisions	**(1,659.5)**	**(1,460.0)**	**(1,412.7)**

Impairment losses by segment for the year ended December 31, 2008 (€ million)	Water	Environmental Services	Energy	Transportation	Unallocated amounts	**Total**
Impairment losses recognized in net income	(85.7)	(471.3)	(61.2)	0.6	(12.6)	(630.2)
Reversals of impairment losses recognized in net income	49.9	32.7	48.7	25.5	3.9	160.7
Net impairment losses recognized in net income	**(35.8)**	**(438.6)**	**(12.5)**	**26.1**	**(8.7)**	**(469.5)**

Impairment losses by segment for the year ended December 31, 2007 (€ million)	Water	Environmental Services	Energy	Transportation	Unallocated amounts	**Total**
Impairment losses recognized in net income	(110.8)	(68.4)	(16.3)	(39.1)	(6.6)	(241.2)
Reversals of impairment losses recognized in net income	105.4	32.6	34.9	12.1	3.3	188.3
Net impairment losses recognized in net income	**(5.4)**	**(35.8)**	**18.6**	**(27.0)**	**(3.3)**	**(52.9)**

Impairment losses by segment for the year ended December 31, 2006 (€ million)	Water	Environmental Services	Energy	Transportation	Unallocated amounts	**Total**
Impairment losses recognized in net income	(107.6)	(38.8)	(29.4)	(81.6)	(7.2)	(264.6)
Reversals of impairment losses recognized in net income	74.0	38.7	42.4	8.3	5.5	168.9
Net impairment losses recognized in net income	**(33.6)**	**(0.1)**	**13.0**	**(73.3)**	**(1.7)**	**(95.7)**

Share of net income of associates by segment (€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Water	2.3	3.3	3.4
Environmental Services	5.2	3.3	(3.8)
Energy Services	3.9	2.8	2.4
Transportation	8.1	7.3	3.8
Total business segments	**19.5**	**16.7**	**5.8**
Unallocated Share of net income of associates by segment	(1.1)	-	-
Share of net income of associates as per the consolidated income statement	**18.4**	**16.7**	**5.8**

Capital expenditure by segment(€ million)	**Year ended December 31, 2008**	Year ended December 31, **2007**	Year ended December 31, **2006**
Water	945	866	853
Environmental Services	974	846	692
Energy Services	541	429	318
Transportation	342	459	302
Unallocated capital expenditure	91	42	32
Total capital expenditure (1)	**2,893**	**2,642**	**2,197**

(1) Pursuant to IAS 14, capital expenditure presented in segment reporting includes investments financed by finance lease in the amount of €113 million, excluded from capital expenditure presented in the Cash flow statement.

Assets by segment as of December 31, 2008 (€ million)	Water	Environmental Services	Energy Services	Transportation	Unallocated amounts	**Total assets in the consolidated balance sheet**
Goodwill, net	2,247.7	2,736.6	1,131.1	551.4	56.5	6,723.3
Intangible assets and property, plant and equipment, net	5,887.6	4,388.0	2,374.7	1,724.8	224.9	14,600.0
Operating financial assets	4,083.2	836.9	679.5	105.5	46.1	5,751.2
Working capital assets including DTA	6,496.8	3,116.4	3,883.3	1,396.7	801.5	15,694.7
Total segment assets	**18,715.3**	**11,077.9**	**8,068.6**	**3,778.4**	**1,129.0**	**42,769.2**
Investments in associates	140.7	81.3	27.7	58.2	3.7	311.6
Other unallocated assets					6,045.3 *	6,045.3
Total assets	**18,856.0**	**11,159.2**	**8,096.3**	**3,836.6**	**7,178.0**	**49,126.1**

* Including Assets classified as held for sale of €203.0 million (primarily the reclassification of the assets of certain French subsidiaries under joint control in the Water Division).

Assets by segment as of December 31, 2007 (€ million)	Water	Environmental Services	Energy Services	Transportation	Unallocated amounts	**Total assets in the consolidated balance sheet**
Goodwill, net	2,208.2	3,049.5	1,098.1	556.7	0.7	6,913.2
Intangible assets and property, plant and equipment, net	5,658.3	4,292.4	2,112.0	1,694.2	141.9	13,898.8
Operating financial assets	3,884.5	902.4	712.3	123.0	5.4	5,627.6
Working capital assets including DTA	5,847.8	3,257.4	3,755.2	1,321.1	585.4	14,766.9
Total segment assets	**17,598.8**	**11,501.7**	**7,677.6**	**3,695.0**	**733.4**	**41,206.5**
Investments in associates	137.2	75.5	25.5	53.9	-	292.1
Other unallocated assets					4,808.3 *	4,808.3
Total assets	**17,736.0**	**11,577.2**	**7,703.1**	**3,748.9**	**5,541.7**	**46,306.9**

* Including Assets classified as held for sale of €122.5 million (Transportation Division for €103.9 million and Environmental Services Division for €18.6 million).

Assets by segment as of December 31, 2006 (€ million)	Water	Environmental Services	Energy Services	Transportation	Unallocated amounts	**Total assets in the consolidated balance sheet**
Goodwill, net	2,029.3	2,294.0	839.2	543.2	(0.7)	5,705.0
Intangible assets and property, plant and equipment, net	5,142.5	3,492.1	1,309.5	1,570.0	130.0	11,644.1
Operating financial assets	3,830.5	737.0	771.1	115.4	5.6	5,459.6
Working capital assets including DTA	5,260.3	2,670.9	3,357.7	1,213.2	554.1	13,056.2
Total segment assets	**16,262.6**	**9,194.0**	**6,277.5**	**3,441.8**	**689.0**	**35,864.9**
Investments in associates	130.7	44.4	19.6	46.3	-	241.0
Other unallocated assets					4,017.8*	4,017.8
Total assets	**16,393.3**	**9,238.4**	**6,297.1**	**3,488.1**	**4,706.8**	**40,123.7**

* Including Assets classified as held for sale of €67.3 million (Transportation Division for €42.3 million and Environmental Services Division for €25 million).

Liabilities by segment as of December 31, 2008 (€ million)	Water	Environmental Services	Energy Services	Transportation	Unallocated amounts	**Total liabilities in the consolidated balance sheet**
Provisions for contingencies and losses	1,011.1	871.9	468.1	422.4	159.8	2,933.3
Working capital liabilities including DTL	7,599.6	3,056.5	2,956.8	1,598.3	316.5	15,527.8
Other segment liabilities	-	-	-	-	-	--
Total segment liabilities	**8,610.7**	**3,928.4**	**3,424.9**	**2,020.7**	**476.4**	**18,461.1**
Other unallocated liabilities					30,665.0*	30,665.0
Total liabilities	**8,610.7**	**3,928.4**	**3,424.9**	**2,020.7**	**31,141.4**	**49,126.1**

* Including Liabilities directly associated with assets classified as held for sale of €98.2 million (reclassification of the liabilities of certain French subsidiaries under joint control in the Water Division).

Liabilities by segment as of December 31, 2007 (€ million)	Water	Environmental Services	Energy Services	Transportation	Unallocated amounts	**Total liabilities in the consolidated balance sheet**
Provisions for contingencies and losses	1,013.9	873.6	476.1	456.7	144.3	2,964.6
Working capital liabilities including DTL	6,855.4	3,138.3	2,996.7	1,544.1	205.0	14,739.5
Other segment liabilities	-	-	-	-	-	-
Total segment liabilities	**7,869.3**	**4,011.9**	**3,472.8**	**2,000.8**	**349.3**	**17,704.1**
Other unallocated liabilities					28,602.8 *	28,602.8
Total liabilities	**7,869.3**	**4,011.9**	**3,472.8**	**2,000.8**	**28,952.1**	**46,306.9**

* Including Liabilities directly associated with assets classified as held for sale of €1.9 million (Veolia Environnement SA).

Liabilities by segment as of ecember 31, 2006 (€ million)	Water	Environmental Services	Energy Services	Transportation	Unallocated amounts	**Total liabilities in the consolidated balance sheet**
Provisions for contingencies and losses	1,012.4	791.3	464.0	611.9	142.9	3,022.5
Working capital liabilities including DTL	6,238.8	2,548.9	2,524.1	1,361.0	100.7	12,773.5
Other segment liabilities	273.4	41.6	29.1	12.2	(3.1)	353.2
Total segment liabilities	**7,524.6**	**3,381.8**	**3,017.2**	**1,985.1**	**240.5**	**16,149.2**
Other unallocated liabilities					23,974.5*	23,974.5
Total liabilities	**7,524.6**	**3,381.8**	**3,017.2**	**1,985.1**	**24,215.0**	**40,123.7**

* Including Liabilities directly associated with assets classified as held for sale of €59.4 million (Transportation Division).

GEOGRAPHICAL AREA

Geographical breakdown of Revenue

Year ended December 31, 2008 (€ million)	France (1)	Germany	United Kingdom	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	**Total**
Water	4,883.5	1,376.7	671.5	1,679.7	612.2	358.5	976.9	862.1	1,136.8	12,557.9
Environ-mental Services	3,693.9	1,108.8	1,667.7	1,195.6	1,350.4	479.3	226.7	79.9	341.8	10,144.1
Energy Services	3,628.2	57.8	487.9	2,595.1	322.0	53.4	56.0	60.6	188.4	7,449.4
Transport-ation	2,317.3	621.9	128.2	1,584.0	760.4	546.5	10.3	24.2	61.3	6,054.1
Revenue	**14,522.9**	**3,165.2**	**2,955.3**	**7,054.4**	**3,045.0**	**1,437.7**	**1,269.9**	**1,026.8**	**1,728.3**	**36,205.5**

(1) Excluding foreign construction subsidiaries and entities in the Water

Year ended December 31, 2007 (€ million)	France	Germany	United Kingdom	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	Total
Water	4,927.2	1,276.9	573.4	1,413.0	539.3	299.8	732.8	313.9	851.1	10,927.4
Environ-mental Services	3,332.0	787.9	1,776.0	993.5	1,315.8	430.7	181.4	63.3	333.7	9,214.3
Energy Services	3,183.3	56.5	473.5	2,159.9	15.3	69.1	42.3	52.5	148.0	6,200.4
Transport-ation	2,144.5	557.6	122.8	1,466.9	710.0	508.6	4.5	17.3	57.9	5,590.1
Revenue	**13,587.0**	**2,678.9**	**2,945.7**	**6,033.3**	**2,580.4**	**1,308.2**	**961.0**	**447.0**	**1,390.7**	**31,932.2**

Year ended December 31, 2006 (€ million)	France	Germany	United Kingdom	Rest of Europe	United States	Oceania	Asia	Rest of the world	Total
Water	4,802.4	1,282.6	552.2	1,279.4	640.8	123.9	578.9	827.4	10,087.6
Environmental Services	3,112.1	151.7	1,135.4	817.2	1,354.2	402.9	167.0	322.4	7,462.9
Energy Services	2,879.8	38.7	426.2	1,899.9	10.3	-	25.0	159.1	5,439.0
Transportation	1,953.1	496.1	73.0	1,321.4	645.0	404.6	-	58.3	4,951.5
Revenue	**12,747.4**	**1,969.1**	**2,186.8**	**5,317.9**	**2,650.3**	**931.4**	**770.9**	**1,367.2**	**27,941.0**

Geographical breakdown of segment assets

December 31, 2008 (€ million)	France	Germany	United Kingdom	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	Total
Water	5,707.5	4,456.2	1,642.9	2,171.6	544.4	106.8	2,460.4	340.4	1,285.1	**18,715.3**
Environmental Services	3,681.5	1,073.8	1,963.5	1,503.2	1,978.2	304.0	248.3	87.8	237.6	**11,077.9**
Energy Services	3,581.0	120.8	211.2	3,111.3	718.0	20.3	149.7	35.7	120.6	**8,068.6**
Transportation	1,808.7	395.2	75.9	844.6	431.0	143.4	2.0	23.1	54.5	**3,778.4**
Unallocated amounts	473.3	-	24.2	222.3	409.2	-	-	-	-	**1,129.0**
Segment assets	**15,252.0**	**6,046.0**	**3,917.7**	**7,853.0**	**4,080.8**	**574.5**	**2,860.4**	**487.0**	**1,697.8**	**42,769.2**

December 31, 2007 (€ million)	France	Germany	United Kingdom	Rest of Europe	United States	Rest of the world	**Total**
Water	5,559.2	4,510.0	1,914.7	1,999.6	407.0	3,208.3	17,598.8
Environmental Services	3,396.2	1,337.4	2,380.0	1,819.1	1,806.8	762.2	11,501.7
Energy Services	3,774.9	115.8	232.3	2,678.0	661.8	214.8	7,677.6
Transportation	1,748.5	354.3	116.5	846.8	385.0	243.9	3,695.0
Unallocated amounts	322.0	-	20.3	13.4	249.4	128.3	733.4
Segment assets	**14,800.8**	**6,317.5**	**4,663.8**	**7,356.9**	**3,510.0**	**4,557.5**	**41,206.5**

December 31, 2006 (€ million)	France	Germany	United Kingdom	Rest of Europe	United States	Rest of the world	**Total**
Water	5,145.0	4,427.0	1,706.3	1,769.6	583.3	2,631.4	16,262.6
Environmental Services	3,212.0	89.7	2,503.9	828.5	1,834.1	725.8	9,194.0
Energy Services	3,608.2	87.2	192.2	2,246.5	7.4	136.0	6,277.5
Transportation	1,640.3	348.5	96.6	774.2	354.4	227.8	3,441.8
Segment assets	**13,605.5**	**4,952.4**	**4,499.0**	**5,618.8**	**2,779.2**	**3,721.0**	**35,175.9**

Geographical breakdown of capital expenditure

December 31, 2008 (€ million)	France	Germany	United Kingdom	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	**Total**
Water	458	43	155	84	22	5	91	5	82	945
Environmental Services	366	78	151	138	137	44	14	13	33	974
Energy Services	278	18	15	165	30	-	30	1	4	541
Transportation	137	11	3	162	17	8	1	-	3	342
Unallocated amounts	66	-	-	22	3	-	-	-	-	91
Capital expenditure	**1,305**	**150**	**324**	**571**	**209**	**57**	**136**	**19**	**122**	**2,893** (1)

(1) Pursuant to IAS 14, capital expenditure presented in segment reporting includes investments financed by finance lease in the amount of €113 million, excluded from capital expenditure presented in the Cash flow statement.

December 31, 2007 (€ million)	France	Germany	United Kingdom	Rest of Europe	United States	Rest of the world	**Total**
Water	414	28	157	83	22	162	866
Environmental Services	302	36	101	114	196	97	846
Energy Services	239	6	3	136	2	43	429
Transportation	240	28	25	95	22	49	459
Unallocated amounts	22	-	-	-	-	20	42
Capital expenditure	**1,217**	**98**	**286**	**428**	**242**	**371**	**2,642**

December 31, 2006 (€ million)	France	Germany	United Kingdom	Rest of Europe	United States	Rest of the world	**Total**
Water	412	25	129	92	11	184	853
Environmental Services	285	8	66	88	164	81	692
Energy Services	182	13	6	101	4	12	318
Transportation	132	34	36	76	10	14	302
Unallocated amounts	12	-	-	-	-	20	32
Capital expenditure	**1,023**	**80**	**237**	**357**	**189**	**311**	**2,197**

NOTE 44. Post-balance sheet events

No significant event occurred since the end of the fiscal year 2008.

NOTE 45. Main companies included in the 2008 consolidated financial statements

In 2008, the Group consolidated or accounted for a total of 2,628 companies, of which the principal companies are:

Company and address	French company registration number (N° Siret)	Consolidation method	% control	% interest
Veolia Environnement SA 36-38, avenue Kléber – 75116 Paris	40 321 003 200 047	FC	100.00	100.00
Société d'Environnement et de Services de l'Est SAS 2, rue Annette Bloch – 25200 Montbéliard	44 459 092 100 052	FC	99.99	80.35
EOLFI SA and its subsidiaries 25, place de la Madeleine - 75008 Paris	477 951 644 00020	PC	50.00	50.00
WATER				
Veolia Eau - Compagnie Générale des Eaux 52, rue d'Anjou – 75008 Paris	57 202 552 600 029	FC	100.00	100.00
Veolia Water 52, rue d'Anjou – 75008 Paris	42 134 504 200 012	FC	100.00	100.00
Including the following companies in France:				
Compagnie des Eaux et de l'Ozone 52, rue d'Anjou – 75008 Paris	77 566 736 301 597	FC	100.00	100.00
Compagnie des Eaux de Paris 7, rue Tronson-du-Coudray – 75008 Paris	32 920 774 000 047	FC	100.00	100.00
Société Française de Distribution d'Eau 7, rue Tronson-du-Coudray – 75008 Paris	54 205 494 500 069	FC	99.86	99.86
Compagnie Fermière de Services Publics 3, rue Marcel Sembat – Immeuble CAP 44 44100 Nantes	57 575 016 100 342	FC	99.11	99.11
Compagnie Méditerranéenne d'exploitation des Services d'Eau – CMESE 12, boulevard René Cassin – 06100 Nice	78 015 329 200 112	FC	99.72	99.72
Société des Eaux de Melun Zone Industrielle – 198/398, rue Foch 77000 Vaux Le Pénil	78 575 105 800 047	FC	99.28	99.28
Société des Eaux de Marseille 25, rue Edouard Delanglade – BP 29 13254 Marseille	5 780 615 000 017	PC	48.85	48.85
Société des Eaux du Nord 217, boulevard de la Liberté – 59800 Lille	57 202 641 700 244	PC	49.55	49.55
Société des Eaux de Versailles et de Saint-Cloud 145, rue Yves le Coz – 78000 Versailles	31 863 464 900 053	PC	50.00	50.00
Sade-Compagnie Générale de Travaux d'Hydraulique (CGTH-SADE) and its subsidiaries 28, rue de la Baume – 75008 Paris	56 207 750 300 018	FC	99.11	99.11
Veolia Eau Solutions & Technologies and its subsidiaries l'Aquarène – 1, place Montgolfier 94417 St Maurice Cedex	41 498 621 600 037	FC	100.00	100.00
OTV France l'Aquarène – 1 place Montgolfier 94417 St Maurice Cedex	433 998 473 000 14	FC	100.00	100.00

Company and address	French company registration number (N° Siret)	Consolidation method	% control	% interest
Société Internationale de Dessalement (SIDEM) 20-22 rue de Clichy – 75009 Paris	342 500 956 000 12	FC	100.00	100.00
Including the following foreign companies:				
Veolia Water UK Plc and its subsidiaries Fifth Floor - Kings Place - 90 York Way, London N19AG (United Kingdom)		FC	100.00	100.00
Three Valleys Water Plc Bishops Rise Hatfield – Hertfordshire AL10 9HL (United Kingdom)		FC	100.00	100.00
Veolia Water North America and its subsidiaries 200 E. Randolph St., Suite 7900 Chicago, IL 60601 (United States)		FC	100.00	100.00
Veolia Wasser GmbH and its subsidiaries Lindencorso Unter den linden 21 – D 10 117 Berlin (Germany)		FC	100.00	100.00
Berliner Wasserbetriebe Anstalt des Offentichen Rechts - Neue Jüdenstrasse 1 – D10179 Berlin Mitte (Germany)		PC	49.90	24.95
Braunschweig Versorgungs AG & Co.KG Taubenstrasse 7 D-38 108 Braunschweig (Germany)		FC	74.90	74.90
Aquiris SA Avenue de Vilvorde 450 – 1130 Brussels (Belgium)		FC	99.00	99.00
Apa Nova Bucuresti Srl Strada Aristide Demetriade nr 2, Sector 1, h, Bucarest (Romania)		FC	73.69	73.69
Veolia Voda and its subsidiaries 52, rue d'Anjou – 75 008 Paris	434 934 809 00016	FC	90.00	90.00
Prazske Vodovody A Kanalizagce As 11 Parizska – 11 000 Prague 1 (Czech Republic)		FC	100.00	90.00
Severoceske Vodovody A Kanalizagce As 1 689 Pritkovska – 41 550 Teplice (Czech Republic)		FC	50.10	45.09
Shenzhen Water Group Company Ltd and its subsidiaries Water Tower, 1019 Shennan Zhong Road, 518031 SHENZHEN (China)		PC	45.00	25.00
Shanghai Pudong Veolia Water Corporation Ltd No. 703 Pujian Road, Pudong New District, 200127 SHANGHAI (China)		PC	50.00	50.00
Changzhou CGE Water Co Ltd No.12 Juqian Road, CHANGZHOU Municipality, Jiangsu Province, 213000 (China)		PC	49.00	24.99
Kunming CGE Water Supply Co Ltd No. 626 Beijing Road, KUNMING City, Yunnan Province, 650051 (China)		PC	49.00	24.99
Veolia Water Korea Co Ltd and its subsidiaries San 5-1, Kagwa-Ri, Bubal-Eup, Inchon-Shi, GYONGGI-DO 467-701 (South Korea)		FC	100.00	100.00
Veolia Water Australia and its subsidiaries Level 4, Bay Center, 65 Pirrama Road, Pyrmont NSW 2009 (Australia)		FC	100.00	100.00
Société d'Energie et d'Eau du Gabon Avenue Felix Eboué - BP 2082 – Libreville (Gabon)		FC	51.00	41.08
New Asset Management 1 52, rue d'Anjou 75008 Paris - France	505 190 801 00017	FC	51.00	51.00
Veolia Water AMI and its subsidiaries 52,rue d'Anjou – 75 008 Paris	403 105 919 00019	FC	80.55	41.08
Amendis 23,rue Carnot – 90 000 Tangiers (Morocco)		FC	100.00	33.28

Company and address	French company registration number (N° Siret)	Consolidation method	% control	% interest
REDAL SA 6 Zankat Al Hoceima, BP 161 – 10 000 Rabat (Morocco)		FC	100.00	33.94
Lanzhou Veolia Water Co LTD No. 2 Hua Gong Street, Xigu District, LANZHOU, Gansu Province, (China)		PC	45.00	22.95
Sharqiyah Desalination Co. SAOC PO Box 685, PC 114 Jibroo, Sultanate of Oman	1 011 277	FC	55.00	54.41
Biothane systems international Holdings B.V. Thanthofdreef 21 – PO BOX 5068 - 2623 EW Delft (Netherlands)	27267973	FC	100.00	100.00
Tianjin Jinbin Veolia Water Co No2, Xinxiang Road, Bridge 4 Jin Tang Expressway, Dongli District, Tianjin Municipality PRC (China)		PC	49.00	49.00
ENVIRONMENTAL SERVICES				
Veolia Propreté Parc des Fontaines – 163 / 169, avenue Georges Clémenceau 92000 Nanterre	57 222 103 400 778	FC	100.00	100.00
Société d'Assainissement Rationnel et de Pompage (S.A.R.P.) and its subsidiaries 162/166, boulevard de Verdun - Energy Park IV 92413 Courbevoie Cedex	77 573 481 700 353	FC	99.55	99.55
SARP Industries and its subsidiaries 427, route du Hazay – Zone Portuaire Limay-Porcheville 78520 Limay	30 377 298 200 029	FC	99.85	99.85
Veolia Propreté Nettoyage et Multiservices and its subsidiaries 132, boulevard de Verdun - Energy Park IV 92400 Courbevoie Cedex	334 516 895 000 11	FC	100.00	100.00
ROUTIERE DE L'EST PARISIEN ZI Rue Robert Moinon 95190 GOUSSAINVILLE	61 200 696 500 026	FC	100.00	100.00
ONYX AUVERGNE RHONE ALPES 235, Cours Lafayette 69006 LYON	30 259 089 800 169	FC	100.00	99.99
VALNOR 5, rue de Courtalin - Val d'Europe 77450 MAGNY LE HONGRE	41 030 116 200 302	FC	100.00	100.00
OTUS 26, avenue des Champs Pierreux 92000 NANTERRE	62 205 759 400 336	FC	100.00	100.00
Bartin Recycling Group and its subsidiaries 15,Rue Albert et Paul Thouvenin - 18100 VIERZON	48 141 629 500 014	FC	100.00	100.00
Including the following foreign companies:				
Veolia ES Holding PLC and its subsidiaries Veolia house – 154A Pentonville Road N1 9PE – London (United Kingdom)		FC	100.00	100.00
Veolia Environmental Services North America Corp. 700 E. Butterfield road - Suite 201 IL 60148 LOMBARD (United States)		FC	100.00	100.00
Veolia ES Solid Waste, Inc One Honey Creed Corporate Center – 125 South 84th Street – Suite 200 WI 53214 Milwaukee (United States)		FC	100.00	100.00
MONTENAY INTERNATIONAL One Pennsylvania Plaza - Suite 4400 NY 10119 NEW YORK (United States)		FC	100.00	100.00

Company and address	French company registration number (N° Siret)	Consolidation method	% control	% interest
VES TECHNICAL SOLUTIONS LLC Butterfield Center – 700 East Butterfield Road, #201 60148 Lombard (United States)		FC	100.00	100.00
Veolia ES Industrial Services, Inc 1980 North Highway 146 La Porte 77571 Texas (United States)		FC	100.00	100.00
VEOLIA ES CANADA SERVICES INDUSTRIELS INC 1705, 3eme avenue Canadian Corporate Office - 80 Birmingham Street L8L 6W5 Hamilton (Canada)		FC	100.00	100.00
Veolia Environmental Services Australia Pty Ltd Level 4, Bay Center – 65 Pirrama Road – P.O. Box H126 –NSW 2009 – Pyrmont (Australia)		FC	100.00	100.00
Veolia Environmental Services Asia Pte Ltd 50, Robinson Road – 16-00 Building , Centennial Tower – Singapore		FC	100.00	100.00
Veolia Environnmental Services China LTD 7/F Allied Kajima Building 138 Gloucester Road – Central - Hong Kong		FC	100.00	100.00
VEOLIA MILJØ AS Box 567 Skoyen 0214 Oslo (Norway)		FC	100.00	100.00
Veolia Umweltservice GmbH (formerly Sulo) Am Sandtorkai 75 D-20457 Hamburg (Germany)		FC	100.00	100.00
Veolia Servizi Ambientali SpA and its subsidiaries Riazza Della Repubblica 7 Milan – 20121 -(Italy)		FC	100.00	100.00
ENERGY				
Dalkia – Saint-André 37, avenue du Mal de Lattre de Tassigny 59350 St André les Lille	40 321 129 500 023	FC	66.00	66.00
Dalkia France 37, avenue du Mal de Lattre de Tassigny 59350 St André les Lille	45 650 053 700 018	FC	99.93	65.96
Dalkia Investissement 37, avenue du Mal de Lattre de Tassigny 59350 St André les Lille	40 443 498 700 073	PC	50.00	33.00
Dalkia International 37, avenue du Mal de Lattre de Tassigny 59350 St André les Lille	43 353 956 600 011	PC	75.81	50.03
Citelum and its subsidiaries 37, rue de Lyon – 75012 Paris	38 964 385 900 019	FC	100.00	65.96
Proxiserve Holding and its subsidiaries 7,Rue Troncon du Coudray – 75008 Paris	403 210 875 00015	FC	100.00	82.98
Including the following foreign companies:				
Dalkia PLC and its subsidiaries Elizabeth House – 56-60 London Road – Staines TW18 4BQ (United Kingdom)		PC	75.81	50.03
Dalkia NV and its subsidiaries 52, Quai Fernand Demets – 1070 – Anderlecht (Belgium)		PC	75.81	50.03
Siram SPA and its subsidiaries Via Bisceglie, 95 – 20152 Milan (Italy)		PC	75.81	50.03
Dalkia Energia Y Servicios and its subsidiaries Cl Juan Ignacio Luca De tgna, 4 – 28 027 Madrid (Spain)		PC	75.81	50.03
Dalkia GmbH and its subsidiaries Carl-Ulrich-Strabe 4 – 63263 Neu Isenburg (Germany)		PC	75.81	50.03

Company and address	French company registration number (N° Siret)	Consolidation method	% control	% interest
Dalkia SGPS SA et ses Filiales Estrada de Paço d'Arcos 2770 – 129 Paco d'Arços (Portugal)		PC	75.81	50.03
Dalkia Limitada and its subsidiaries Rua Funchal 418 – 14 andar, Vila Olimpia -60 Sao Paulo SP (Brazil)		PC	75.81	50.03
Dalkia Polska and its subsidiaries Ul Mysia 5 – 00 496 Warsaw (Poland)		PC	75.81	32.52
Zespol Elektrocieplownl w Lodzi and its subsidiary Ul.Jadzi. Andrzejewskiej Street 90-975 Lodz (Poland)		PC	75.81	18.73
Dalkia AB and its subsidiaries Hälsingegatan 47 – 113 31 Stockholm (Sweden)		PC	75.81	50.03
Tallinna Kute Punane 36 13619 Tallinn (Estonia)		PC	75.81	48.73
UAB Vilnius Energija Joconiu St. 13 - 02300 Vilnius (Lithuania)		PC	75.81	50.03
Dalkia Energia Zrt. and its subsidiaries Budafoki út 91-93 – H-1117 Budapest (Hungary)		PC	75.81	49.89
Dalkia a.s and its subsidiaries Kutlíkova 17 – Technopol – 851 02 Bratislava 5 (Slovakia)		PC	75.81	50.03
Dalkia Ceska Republika and its subsidiaries 28.řijna 3123/ 152 – 709 74 Ostrava (Czech Republic)		PC	75.81	49.06
PRATERM Group and its subsidiaries UL B.Czecha 36 - 04-555 Warszawa (Poland)		PC	75.81	32.52

TRANSPORTATION				
VEOLIA TRANSPORT Parc des Fontaines – 163 / 169, avenue Georges Clémenceau 92000 Nanterre	383 607 090 00016	FC	100.00	100.00
Société Nationale Maritime Corse-Méditerranée (SNCM) 61, boulevard des Dames – 13002 Marseille	775 558 463 00011	FC	66.00	66.00
C.F.T.I. (Compagnie Française de Transport Interurbain) Parc des Fontaines 163 / 169, avenue Georges Clémenceau – 92000 Nanterre	552 022 063 01075	FC	99.94	99.94
VEOLIA TRANSPORT URBAIN Parc des Fontaines – 163 / 169, avenue Georges Clémenceau 92000 Nanterre	344 379 060 00082	FC	100.00	100.00
Veolia Eurolines and its subsidiaries 163/169, avenue Georges Clémenceau – 92000 Nanterre	434 009 254 00021	FC	100.00	100.00
Veolia Cargo 169 avenue Georges Clemenceau – 92000 Nanterre	444 413 942 00012	FC	100.00	100.00
Including the following foreign companies:				
VEOLIA TRANSPORTATION Inc. and its subsidiaries 8757 Georgia Avenue – Suite 1300 – Silver Pring MD 20910 Baltimore (United States)		FC	100.00	100.00
Super Shuttle International Inc, and its subsidiaries 14500 N. Northsight boulevard, Suite 329 Scottsdale, AZ 85260 (United States)		FC	100.00	100.00

VEOLIA TRANSPORT AUSTRALASIA Pty Ltd and its subsidiaries Level 24, 1 Spring Street Melbourne, Victoria 3000, Australia		FC	100.00	100.00
Connex Melbourne Pty Ltd 1 Spring Street Melbourne, Victoria 3001, Australia		FC	100.00	100.00
Veolia Transport Northern Europe AB and its subsidiaries Englundavägen 9, Box 1820 SE-171 24 Solna (Sweden)		FC	100.00	100.00
VEOLIA TRANSPORT NORD AS Havnegata 3, Postboks 308 9615 Hammerfest (Norway)		FC	100.00	100.00
Veolia Transport Sverige AB and its subsidiaries Englundavägen 9, Box 1820 SE-171 24 Solna (Sweden)		FC	100.00	100.00
People Travel Group AB 72 Klarabergsviadukten 11 164 Stockholm (Sweden)		FC	100.00	100.00
Veolia Transport Norge AS Klubbgaten 1 – N 4013 – Stavanger (Norway)		FC	100.00	100.00
VEOLIA TRANSPORT UK LTD and its subsidiaries - 37-41 Old Queen Street London SW 1H 9JA, (United Kingdom)		FC	100.00	100.00
Veolia Transport Nederland Holding BV and its subsidiaries Mastbosstraat 12 - Postbus 3306 4813 GT Breda		FC	100.00	100.00
Veolia Transport Belgium nv and its subsidiaries Groenendaallaan 387 2030 Antwerp (Belgium)		FC	100.00	100.00
Veolia Transport Central Europe GmbH and its subsidiaries Georgenstrasse 22 10117 Berlin (Germany)		FC	65.00	65.00
Veolia Verkehr GmbH and its subsidiaries Georgenstrasse 22 10117 Berlin (Germany)		FC	100.00	100.00
Veolia Transport Ceska Republica a.s. K Hutim 664/7 198 00 Praha 9 (Czech Republic)		FC	100.00	65.00
PROACTIVA Medio Ambiente SA Calle Cardenal Marcelo Spinola 8 – 3A – 28016 Madrid (Spain)		PC	50.00	50.00
Veolia Energy North America Holding 1250 handcock street Suite 204N Quincy Massachusetts 02169 (United States)		FC	100.00	100.00
Thermal North America Inc 99 summer street; suite 900 Boston Massachusetts 02110 (United States)		FC	100.00	100.00
RIDGELINE ENERGY HOLDING INC The Nemours Building 1007 Orange Street Suite 1414 Wilmington,DL 19801 (Unites States)		FC	100.00	100.00
Veolia Environnement Europe Services SA Rue des Deux Eglises 26 B-1000 Brussels, (Belgium)	RPM Brussels: BCE 0894.628.426	FC	100.00	100.00

Consolidation method

FC: Full consolidation – PC: Proportionate consolidation – EA: Equity associate

NOTE 46. Audit fees

Audit fees incurred by the Group during fiscal years 2008 and 2007 total €51.7 million and €52.2 million respectively, including €40.3 million in 2008 and €37.6 million in 2007 in respect of the statutory audit of the accounts and €11.4 million in 2008 and €14.6 million in 2007 in respect of services falling within the scope of diligences directly related to the audit engagement.

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2008

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English-speaking users. This report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report should be read in conjunction with, and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended December 31, 2008, on:

- the audit of the accompanying consolidated financial statements of Veolia Environnement ;
- the justification of our assessments;
- the specific verification required by French law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

1. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, by audit sampling and other selective testing methods, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the management, and the overall financial statements presentation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2008 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

2. Justification of assessments

In accordance with the requirements of article L.823-9 of the French Commercial Law ("Code de commerce") relating to the justification of our assessments, we bring to your attention the following matters:

- Management's significant judgements and estimations are disclosed in note 2 to the consolidated financial statements and include those relating to the method for calculating the discount rates which have been analysed to take into account the current financial crisis. As part of our audit, we considered that these judgments and estimates relate principally to:

  - Goodwill and other intangible assets with an indefinite useful life which are subjected to regular annual impairment tests, or when a triggering event occurs as described in the notes 1-11 and 4. We have analysed the implementation procedures for these tests and the assumptions used to compute futures cash flows and have verified that the information disclosed in the notes 4 and 6 is appropriate.

  - Fixed assets and other intangible assets with a definite useful life (notes 1-11, 1-21, 5, 6 et 7), financial assets (notes 10, 11 and 14), income taxes (notes 1-20, 12 et 25), provisions and post-employment benefits (notes 1-14, 1-16, 17 et 32) and financial instruments (notes 1-15, 1-27, 30 et 31). Our work consisted in assessing the financial information and assumptions underlying these judgements and estimates, reviewing, on a test basis, the calculations made by the company, and verifying that the information disclosed in the notes to the consolidated financial statements is appropriate.

- The note 1.2 to the consolidated financial statements discloses the change in presentation made during the financial year as a result of the reclassification of certain expenses from cost of sales to general and administration expenses and selling costs, that do not affect operating income. The comparative information relating to years 2007 and 2006, presented in the consolidated financial statements, has been restated to take into account retrospectively this change in presentation. Consequently, the comparative financial information differs from the consolidated financial statements published in 2007. As part of our assessment, we have examined the proper restatement of the financial statements for 2007 and 2006 and the relating information disclosed in note 22.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to our audit opinion expressed in the first part of this report.

3. Specific verification

We have also verified the information given in the group management report as required by French law.

We have no matters to report regarding its fair presentation and consistency with the consolidated financial statements.

The Statutory Auditors

French original signed by

Paris-La Défense and Neuilly-sur-Seine, March 30, 2009.

KPMG Audit		**ERNST & YOUNG et Autres**	
A division of KPMG S.A.			
Jay Nirsimloo	Baudouin Griton	Patrick Gounelle	Jean Bouquot

20.2 STATUTORY FINANCIAL STATEMENTS

BALANCE SHEET AS OF DECEMBER 31, 2008 *(in euro)*

Assets	December 31, 2008			Dec. 31, 2007
	GROSS	AMORT. & PROV.	NET	NET
SHARE CAPITAL SUBSCRIBED BUT NOT CALLED	-	-	-	-
NON-CURRENT ASSETS				
Intangible assets				
Preliminary expenses	-	-	-	-
Research & development expenditure	-	-	-	-
Concessions, patents, licenses, trademarks, processes, software, rights and similar	7,600	644	6,956	8,590,256
Purchased goodwill [1]	-	-	-	-
Other intangibles	-	-	-	-
Intangible assets under construction	21,716,306	-	21,716,306	11,637,090
Property, plant and equipment				
Land	-	-	-	-
Buildings	-	-	-	-
Industrial and technical plant	-	-	-	-
Other plant and equipment	337,943	122,087	215,856	1,145,639
PP&E under construction	-	-	-	-
Payments on account - PP&E	-	-	-	947,596
Long-term loans and investments [2]				
Equity investments	16,047,871,978	243,887,580	15,803,984,398	12,819,109,828
Loans to equity investments	6,892,498,533	-	6,892,498,533	5,761,108,560
Long-term portfolio investments (TIAP)	-	-	-	-
Other long-term investment securities	98,596,366	86,161	98,510,205	128,841,117
Loans	50,704	-	50,704	67,200
Other long-term loans and investments	400,967,160	142,419,620	258,547,540	357,539,459
TOTAL (I)	**23,462,046,589**	**386,516,092**	**23,075,530,498**	**19,088,986,745**
CURRENT ASSETS				
Inventories and work-in-progress				
Raw materials & supplies	-	-	-	-
Work in process – goods and services	-	-	-	-
Semi-finished and finished goods	-	-	-	-
Bought-in goods	-	-	-	-
Payments on account – inventories	392,516	-	392,516	3,864,805

Receivables [(3)] **:**				
Trade receivables				
Trade receivables and related accounts	181,258,149	-	181,258,149	157,514,635
Other receivables	1,686,056,980	3,250,000	1,682,806,980	3,433,064,251
Miscellaneous receivables				
Share capital subscribed and called but not paid in	-	-	-	-
Marketable securities				
Treasury shares	143,973,916	20,448,105	123,525,811	146,620,244
Other securities	2,203,800,904	-	2,203,800,904	1,395,106,916
Treasury instruments - Assets	210,075,481	-	210,075,481	204,145,696
Cash at bank and in hand	19,338,733	-	19,338,733	144,402,086
Prepayments [(4)]	21,234,418	-	21,234,418	26,702,630
TOTAL (II)	**4,466,131,096**	**23,698,105**	**4,442,432,992**	**5,511,421,263**
ACCRUED INCOME AND DEFERRED CHARGES				
Deferred charges **(III)**	31,257,679	-	31,257,679	29,073,409
Bond redemption premiums **(IV)**	90,819,286	-	90,819,286	54,912,432
Unrealized foreign exchange losses (V)	147,401,438	-	147,401,438	136,507,515
GRAND TOTAL (I+II+III+IV+V)	**28,197,656,089**	**410,214,197**	**27,787,441,892**	**24,820,901,364**

(1) Of which leasehold rights		-
(2) Portion due within less than one year	111,468,911	43,410,981
(3) Portion due within more than one year	28,146,771	28,874,982
(4) Portion due within more than one year	13,735,750	16,903,682

EQUITY AND LIABILITIES	2008	2007
SHAREHOLDERS' EQUITY		
Share capital (of which paid in: 2,362,883,330)	2,362,883,330	2,358,813,780
Additional paid-in capital	9,010,157,780	8,992,260,346
Revaluation reserves	-	-
Equity accounting revaluation reserve	-	-
Reserves:		
Reserve required by law	176,817,830	152,255,065
Reserves required under the bylaws or contractually	-	-
Special long-term capital gain reserve	-	-
Other reserves	343,226,042	343,226,042
Retained earnings	620,378,893	707,146,231
Net income (loss) for the period	152,854,426	491,255,300
SUB-TOTAL: Shareholders' equity	**12,666,318,300**	**13,044,956,764**
INVESTMENT SUBSIDIES		
TAX-DRIVEN PROVISIONS	111,776	12,522
TOTAL (I)	**12,666,430,076**	**13,044,969,286**
EQUITY EQUIVALENTS		
Proceeds from issues of equity equivalent securities	-	-
Subordinated loans	-	-
Other	-	-
TOTAL (I B)	**-**	**-**
PROVISIONS :		
Provisions for contingencies	110,317,727	144,403,864
Provisions for losses	8,777,437	7,264,144
TOTAL (II)	**119,095,164**	**151,668,008**
LIABILITIES [(1)] :		
Convertible bonds	-	-
Other bonds	10,672,675,656	10,119,080,120
Bank borrowings [(2)]	1,455,248,489	344,835,031
Other borrowings	2,185,532,686	805,821,319
Payments received on account for work-in-progress	22,842	88,048
Operating liabilities		
Trade payables and related accounts	82,263,221	75,437,600
Tax and employee-related liabilities	55,920,065	50,822,626
Other operating liabilities	-	-

Other liabilities		
Amounts payable in respect of PP&E and related accounts	6,893,699	12,705,449
Tax liabilities (income tax)	-	-
Other miscellaneous liabilities	46,724,828	44,367,591
Treasury instruments - Liabilities	346,077,819	48,607,806
DEFERRED INCOME AND MISCELLANEOUS		
Deferred income	38,225,410	31,760,779
TOTAL (III)	**14,889,584,715**	**11,533,526,368**
UNREALIZED FOREIGN EXCHANGE GAINS **(IV)**	112,331,937	90,737,702
GRAND TOTAL (I+II+III+IV)	**27,787,441,892**	**24,820,901,364**

(1) Portion due in more than one year	11,894,150,575	9,131,487,874
Portion due in less than one year	2,957,208,730	2,370,277,713
(2) of which overdrafts and current bank facilities	13,022,964	3,944,502
(3) of which equity equivalent loans	-	-

INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2008

(in euro)	**2008**	**2007**
OPERATING REVENUE [1]:		
Sales of bought-in goods	-	-
Sales of own goods and services	370,032,304	350,419,767
NET SALES	370,032,304	350,419,767
Of which export sales		
Changes in inventory of own production of goods and services	-	-
Own production capitalized	3,909,026	-
Operating subsidies	34,454	21,977
Write-back of depreciation, amortization and provisions and expense reclassifications	10,251,045	6,184,098
Other revenue	103,833	29,067
TOTAL (I)	**384,330,663**	**356,654,909**
OPERATING EXPENSES [2] :		
Purchases of bought-in goods	-	-
Change in inventories of bought-in goods	-	-
Purchases of raw materials and other supplies	-	-
Change in inventories of raw materials and other supplies	-	-
Other purchases and external charges [*]	407,615,185	379,543,501
Duties and taxes other than income tax	8,148,038	6,638,176
Wages and salaries	53,414,526	43,217,421
Social security contributions	26,353,886	20,429,538
Depreciation, amortization and charges to provisions :		
On non-current assets: depreciation and amortization	4,376,339	6,823,452
On non-current assets: charges to provisions	-	-
On current assets: charges to provisions	-	-
For contingencies and losses: charges to provisions	1,187,872	2,908,510
Other charges	2,481,292	1,764,267
TOTAL (II)	**503,577,137**	**461,324,865**
1. OPERATING LOSS (I – II)	**(119,246,475)**	**(104,669,956)**

JOINT VENTURE OPERATIONS :		
Profits transferred in or losses transferred out **(III)**	-	-
Profits transferred out or losses transferred in **(IV)**	-	-
(*) Of which: Equipment finance lease installments	-	-
Real estate finance lease installments	-	-
(1) Of which income relating to prior periods	-	-
(2) Of which expenses relating to prior periods	-	-

	2008	2007
FINANCIAL INCOME (3)		
Financial income from equity investments	906,640,824	772,923,597
Financial income from other securities and long-term receivables	3,247,275	2,244,950
Other interest and similar income	217,972,442	227,465,524
Write-back of provisions and expense reclassifications	144,375,260	71,067,183
Foreign exchange gains	1,098,554,191	650,377,335
Net proceeds from the sale of marketable securities	24,363,646	49,844,718
TOTAL (V)	**2,395,153,638**	**1,773,923,307**
FINANCIAL EXPENSES		
Amortization and charges to provisions for financial items	483,314,027	166,227,896
Interest and similar expenses (4)	655,840,986	574,407,355
Foreign exchange losses	1,169,769,987	568,538,733
Net expenses on sales of marketable securities	-	241,586
TOTAL (VI)	**2,308,925,000**	**1,309,415,570**
2. NET FINANCIAL INCOME (EXPENSE) (V–VI)	**86,228,638**	**464,507,737**
3. NET INCOME/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAX (I-II+III-IV+V-VI)	**(33,017,837)**	**359,837,781**
EXCEPTIONAL INCOME		
Exceptional income from non-capital transactions	2,287	227,325
Exceptional income from capital transactions	24,394,671,	1,996,420
Write-back of provisions and expense reclassifications	4,045,675	3,420,237
TOTAL (VII)	**28,442,633**	**5,643,982**

EXCEPTIONAL EXPENSES		
Exceptional expenses on non-capital transactions	91,760	37,026,300
Exceptional expenses on capital transactions	22,068,498	2,333,605
Exceptional depreciation, amortization and charges to provisions	7,333,460	370,575
TOTAL (VIII)	**29,493,718**	**39,730,480**
4. NET EXCEPTIONAL ITEMS (VII–VIII)	(1,051,085)	(34,086,498)
STATUTORY EMPLOYEE PROFIT-SHARING **(IX)**	-	-
INCOME TAX EXPENSE **(X)**	186,923,347	165,504,017
TOTAL INCOME (I+III+V+VII)	**2,807,926,933**	**2,136,222,198**
TOTAL EXPENSES (II+IV+VI+VIII+IX-X)	**2,655,072,508**	**1,644,966,898**
NET INCOME	**152,854,426**	**491,255,300**
(3) Of which income from related parties	1,536,822,860	1,200,492,629
(4) Of which interest charged by related parties	25,302,642	30,251,116

PROPOSED APPROPRIATION OF 2008 NET INCOME

(in euro)	2008
2008 accounting net income	152,854,426
Retained earnings	620,378,893
Gross distributable reserves	**773,233,319**
Dividend distribution (€1.21 x 457,596,632 shares) (1)	553,691,925
Reserve required by law	7,642,721
Retained earnings	211,898,673
Gross distributable reserves	**773,233,319**

(1) As of December 31, 2008, the share capital comprises 472,576,666 shares, including 14,980,034 treasury shares. As treasury shares are not entitled to dividends, the total distribution may change depending on the number of treasury shares held at the dividend payment date.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(in € thousand)	**2008**	**2007**
SOURCE OF FUNDS:		
Operating cash before changes in working capital	497,737	593,103
Disposals or decreases in non-current assets:		
Disposals of intangible assets and PP&E	10,385	153
Disposals of equity investments	111	111
Repayment of contributions	-	-
Repayment of financial receivables (long-term advances)	915,804	993,179
Repayment of deposits and guarantees	24,230	528,855
Increase in shareholders' equity	21,967	2,834,031
New medium and long-term borrowings	2,891,240	1,893,778
TOTAL SOURCE OF FUNDS	**4,361,474**	**6,843,210**
APPLICATION OF FUNDS:		
Dividend distribution (excluding withholding tax)	553,460	419,702
Acquisitions or purchases of non-current assets:		
Intangible assets and PP&E	21,633	13,012
Long-term loans and investments:		
Equity investments	3,143,659	1,304,125
Long-term financial receivables	2,010,657	2,241,907
Deposits and guarantees	72,657	519,355
Other long-term loans and investments	-	-
Decrease in shareholders' equity	-	-
Principal payments on borrowings	1,270,159	666,508
TOTAL APPLICATION OF FUNDS	**7,072,226**	**5,164,609**
Increase / decrease in working capital	(2,710,753)	1,678,601
TOTAL	**4,361,474**	**6,843,210**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 1. Major events of the period

1.1. Company financing

1.1.1 Exercise of share subscription options

The successive exercise of share options during 2008 led to the creation of 813,910 new shares with a par value of €5, representing a share capital increase of €4.1 million and additional paid-in capital of €18.6 million. The share options exercised mainly concerned plans granted in 2001, 2002, 2003 and 2004.

1.1.2. New bond issues

Three bond issues were performed during the year. The first issue of €140 million was performed on March 14, 2008 and matures on January 16, 2017. The second issue of GBP 150 million (€201 million) was performed on January 7, 2008 and matures on October 29, 2037. Finally, an inflation-linked issue of €300 million was performed on April 1, 2008 and matures on June 17, 2015.

In addition, three US dollar bond issues were performed in 2008. The first issue of USD 400 million (€254 million) was performed on June 1, 2008 and matures June 1, 2038, the second issue of USD 700 million (€444 million) was performed on June 1, 2008 and matures June 1, 2018 and the third issue of USD 700 million (€444 million) was also performed on June 1, 2008 and matures June 3, 2013.

1.1.3. Maturity of certain bond issues

Three bond issues of €300 million, €700 million and €200 million, issued in February 2006, June 2001 and February 2007, respectively, arrived at maturity in February 2008, June 2008 and August 2008.

1.2. Subsidiary financing

1.2.1. VEIT

On June 30, 2008, with retroactive affect from January 1, 2008, Veolia Environnement transferred assets to VEIT with a net carrying amount of €11.5 million. In consideration for this asset transfer, Veolia Environnement received shares issued following a reserved share capital increase. VEIT now holds all IT intangible assets and property, plant and equipment.

1.2.2. VENAO

Pursuant to the proposal of the VENAO Board of Directors on November 7, 2007, Veolia Environnement subscribed on February 1, 2008 to a share capital increase of USD 406 million (€272 million) performed by its subsidiary VENAO.

This transaction was performed in order to finance Veolia Transportation Inc. (VT) and Veolia Environmental Services North America Corp. (VESNA).

1.2.3. VEES

On January 2, 2008, Veolia Environnement subscribed for 999 of the 1,000 Veolia Environnement Europe Services (VEES) shares issued on the creation of this company, for an amount of €0.1 million.

Following the VEES Extraordinary Shareholders' Meeting of January 31, 2008, Veolia Environnement subscribed for the entire share capital increase performed in the amount of €2,440 million.

Exercising the subscription rights conferred by the VEES Extraordinary Shareholders' Meeting of June 30, 2008, Veolia Environnement subscribed for a share capital increase of €410 million, after the other shareholders waived their preferential subscription rights.

Therefore, the total investment acquired by Veolia Environnement in VEES in 2008 was €2,850.1 million.

The aim of this transaction is to finance the activities of Veolia Group in Europe.

1.2.4. Ridgeline Energy Holdings

On September 19, 2008, Veolia Environnement subscribed to the share capital increase performed by the U.S. company Ridgeline Energy Holding Inc, in the amount of €15.9 million (USD 25 million).

1.2.5 Deers Green Power

Pursuant to a shareholders' agreement dated April 4, 2008, Veolia Environnement acquired a 49.98% investment in the Spanish company, Deers Green Power Development Company SL, for a consideration of €4.9 million.

1.3. Other events

Due to the fall in its share price, Veolia Environnement recorded a provision for the impairment of treasury shares in the amount of €162.9 million as of December 31, 2008, based on the average share price in December 2008 of €19.67.

NOTE 2. Accounting principles and methods

2.1. Basis of preparation

The company financial statements for the year ended December 31, 2008 are prepared and presented in accordance with legislative and regulatory provisions applicable in France.

Amounts recorded in the accounts are valued on a historical cost basis.

The accounting period ends on December 31, 2008 and has a duration of 12 months.

2.2. Main accounting policies

Non-current assets: On initial recognition in the accounts, non-current assets are recorded at acquisition cost if acquired for valuable consideration, at market value if acquired for nil consideration or at production cost if produced by the company.

Intangible assets: In the course of major IT projects, the company incurs project costs which it capitalizes when they satisfy certain criteria. These costs are not amortized prior to asset commissioning. At this date, capitalized project costs are transferred at their net carrying amount to VEIT, which is then responsible for providing the corresponding service.

Property, plant and equipment: Depreciation is calculated over the expected period of use. More specifically, fixtures and fittings and installations are depreciated on a straight-line basis over periods of six to ten years. Furniture and office equipment is depreciated on a straight-line basis over periods of between five and ten years. Finally, vehicles are depreciated on a straight-line basis over five years.

Equity investments: This heading records the acquisition cost of securities held by Veolia Environnement in companies over which it exercises control or significant influence, directly or indirectly.

At the date of entry into company assets, the net carrying amount of "Equity investments" is their acquisition cost. The company has elected to capitalize costs relating to the acquisition of equity investments. At all other dates, equity investments are measured at their value in use to the company, determined based on criteria encompassing profitability, growth perspectives, net assets and the stock market value of securities held, where applicable. Where the net carrying amount of an equity investment exceeds its value in use, an impairment provision is recorded in the amount of the difference.

Pursuant to the change in tax regime applicable to equity investment acquisition costs introduced by Article 21 of the 2007 Finance Act and completed by Article 209 of the French General Tax Code and based on Opinion n°2007-C of June 15, 2007 issued by the Urgent Issues Taskforce of the French National Accounting Institute (Conseil National de la Comptabilité), Veolia Environnement recognizes the tax deferral of security acquisition costs over a period of five years in the accelerated depreciation account since January 1, 2007.

Other long-term loans and investments: Treasury shares are recorded in long-term investment securities when earmarked for external growth operations. They are recognized at acquisition cost and an impairment provision is recorded if their market value is less than their net carrying amount.

Marketable securities: Marketable securities comprise treasury shares held in respect of Group Savings Plans and share option plans and other highly liquid investment securities. Treasury shares are classified as marketable securities when purchased for presentation to employees under share option plans and employee savings plans benefiting certain employees. Marketable securities are recognized at acquisition cost and an impairment provision is recorded if their market value is less than their net carrying amount.

Foreign currency-denominated transactions: During the year, foreign currency-denominated transactions are translated into euro at the daily exchange rate.

Liabilities, receivables and cash balances denominated in currencies other than the euro are recorded in the balance sheet at their euro equivalent determined using year-end exchange rates. Gains and losses resulting from the translation of foreign currency liabilities and receivables and related hedge transactions at year-end exchange rates are recorded in Unrealized foreign exchange gains and losses.

In accordance with Article 342-7 of the French General Chart of Accounts, unrealized foreign exchange gains and losses on foreign currency cash accounts are recognized directly in foreign exchange gains and losses. Similarly, foreign exchange gains and losses on subsidiary current accounts equivalent in nature to cash accounts are recognized directly in foreign exchange gains and losses. Pursuant to Articles 372.2 and 342.6.I of the 1999 French General Chart of Accounts, Veolia Environnement applies hedge accounting to clearly identified and documented matching structural foreign exchange positions, which seek to perfectly hedge the consequences of currency fluctuations. Foreign exchange gains and losses arising on components of this matching exposure are recognized in order to offset the hedged item.

This approach is also applied to equity investments denominated in a foreign currency, hedged by borrowings or currency derivatives.

Other foreign exchanges liabilities, receivables and derivatives not forming part of matching hedge relationships are included in the overall foreign exchange position per currency, as provided in Article 346 III of the French General Chart of Accounts.

Contingency provisions are recorded in respect of all unrealized foreign exchange losses identified on matching foreign exchange positions and overall foreign exchange positions by currency, in the amount of the total net loss.

Recognition of financial transactions: Financial transactions (loans, borrowings, derivatives, etc.) are recognized at the value date, with the exception of cash pooling transactions with subsidiaries which are recognized at the trade date.

Inflation-linked bond issue: the issue premium is fixed on issue and amortized on a time apportioned basis over the bond term. The redemption premium, equal to the difference between the redemption value and the nominal value is revalued based on the inflation ratio observed at each balance sheet date.

Derivatives: Veolia Environnement manages its market risks relating to fluctuations in interest rates and foreign exchange rates using derivatives and notably interest rate swaps, interest rate option contracts (caps and floors), currency forwards, currency swaps and currency options. These instruments are primarily used for hedging purposes.

The notional amounts of instruments are recorded in specific off-balance sheet accounts.

Interest-rate derivatives: Income and expenses relating to the use of these instruments are recognized in the Income statement to match income and expenses on the hedged transactions. Certain transactions satisfying the criteria laid down in the Veolia Environnement hedging policy are not recognized as hedges for accounting purposes. These transactions are recognized as follows:

- Unrealized losses, calculated for each instrument traded over-the-counter (OTC), are provided in full;
- Unrealized gains on OTC instruments are recognized in income on the unwinding of the transaction only;
- Unrealized gains and losses on instruments traded on organized markets are recognized directly in profit or loss.

Currency derivatives: Firm currency financial instruments are valued by comparison with the closing exchange rate defined by the European Central Bank. The difference between the spot rate of the instrument and the closing rate is recognized in unrealized foreign exchange gains and losses and the difference between the forward rate and the spot rate of the instrument is recorded in a specific financial instruments account entitled “premium/discount”. This distinguishes the interest rate impact from the currency impact.

These currency derivatives are either included in the overall foreign exchange position or allocated to hedge an identified structural foreign exchange position.

Valuation of provisions for contingencies and losses: Provisions for contingencies and losses are valued at the best estimate of the outflow of resources necessary to settle the obligation. When valuing a single obligation in the presence of several valuation assumptions concerning the outflow of resources necessary, the best estimate is the most probable assumption.

Valuation of provisions for incentive schemes and bonuses:

Provision for incentive schemes:

Under the current agreement, the unit amount of incentive payments is based on the rate of growth in consolidated recurring net income, adjusted for exogenous factors and changes in scope that could significantly affect trends. Based on the observed growth rate, the level of incentive payments is determined using a contractually defined chart. The total euro amount of incentive payments provided is equal to the individual amount determined above multiplied by the number of beneficiaries given by the Human Resources Department.

Provision for bonuses:

This provision is determined based on the amount of bonuses awarded in the previous year multiplied by an estimated percentage increase and adjusted for changes in employee numbers.

Concept of Income from ordinary activities and Exceptional items: Items concerning the ordinary activities of the company, even if exceptional in amount or frequency, are included in Income from ordinary activities. Only those items that do not concern the ordinary activities of the company are recognized in exceptional items.

Valuation of employee-related commitments: Pursuant to Article L 123-13 of the French Commercial Code, Veolia Environnement has elected not to recognize a provision for retirement benefits and other employee commitments. This information is presented in off-balance sheet commitments in the notes to the financial statements.

NOTE 3. Balance sheet assets

3.1. Non-current assets

Movements in gross values:

(In € thousand)	Opening balance	Additions	Disposals	Closing balance
Intangible assets	25,732	31,783	35,791	21,724
Property, plant and equipment	3,446	163	3,272	338
Long-term loans and investments				
Equity investments	12,892,844	3,155,139	111	16,047,872
Loans to equity investments	5,761,108	22,953,209	21,821,819	6,892,499
Other long-term investment securities	128,842	223	30,468	98,596
Loans	67	9	25	51
Other long-term loans and investments	357,539	73,250	29,822	400,967
Total	**19,169,578**	**26,213,776**	**21,921,308**	**23,462,047**

Movements in depreciation, amortization and non-current asset provisions

(In € thousand)	Opening balance	Addition/ Charge	Utilization/Release	Closing balance
Amortization of intangible assets	5,505	1	5,505	1
Depreciation of property, plant and equipment	1,353	31	1,262	122
Financial impairment provisions	73,734	312,676	17	386,393
Total	**80,592**	**312,708**	**6,784**	**386,516**
Nature of charges and releases:				
. Operating		32	6,767	
. Financial		312,676	17	
. Exceptional				
Total		**312,708**	**6,784**	

Intangible assets and Property, plant and equipment:

Disposals of non-current assets mainly concern the partial asset transfer by Veolia Environnement to VEIT.

Long-term loans and investments:

a) Equity investments: Equity investments total €16,047,872 thousand as of December 31, 2008.

The ***increase*** in equity investments breaks down as follows:

(In € thousand)	**Amount**
VEIT share capital increase	11,480
Veolia North America (VNAO) share capital increase	272,685
VEES share capital increase	2,850,100
EOLFI share capital increase	34
Acquisition of Deers Green Power	4,896
Acquisition of Ridgeline	15,944
TOTAL	**3,155,138**

The ***decrease*** in equity investments breaks down as follows:

(In € thousand)	**Amount**
Divestiture of Vigies 24AS, 25AS, 26AS	111

b) Loans to equity investments: This heading totals €6,892,498 thousand as of December 31, 2008.

(In € thousand)	**Opening balance**	**Increase**	**Decrease**	**Foreign exchange translation**	**Closing balance**
Veolia Propreté	1,943,028	485,348	20,309	5,653,	2,402,414
Veolia Eau (Compagnie Générale des Eaux)	1,270,168	938,345	5,262	1,801	2,201,450
Veolia Transport	1,011,015	8,186	77,666	1,607	939,928
Sulo	808,124	-	808,124	-	-
Campus Veolia Environnement	21,636	2	1,557	-	20,080
Dalkia International	699,731	429,848	415	(995)	1,130,159
Centre d'Analyses Environnementales	6,701	1	301	-	6,401
Ofis (Office Français d'Ingénierie Sanitaire)	706	2	506	-	202
Artelia	0	23,577	-	-	23,577
Eolfi	0	10,245	-	-	10,245
Ridgeline	0	17,137	-	(828)	17,965
VEIT (Veolia Environnement Informations et Technologies)	0	45,228	-	-	45,228
Collex PTY Ltd	0	94,770	-	(79)	94,850
Total	**5,761,109**	**2,052,689**	**914,140**	**7,159**	**6,892,499**

c) Other long-term investment securities: This heading comprises subordinated shares issued as part of a securitization program launched in 2002 and renewed in June 2007, of €79,474 thousand (including accrued interest), a perpetual subordinated loan granted to Veolia PPP Finances (formerly Vigie 9) of €15,092 thousand (including accrued interest) and shares in the Demeter venture capital mutual fund of €3,944 thousand. Veolia Environnement was recognized as a qualified investor in the Demeter mutual fund, within the meaning of Article L.411-2 of the French Monetary and Financial Code.

d) Other long-term loans and investments: This heading includes 8,701,189 treasury shares with a gross value of €313,601 thousand and guarantee deposits in respect of subsidiary financing operations of GBP 18,500 thousand, USD 2,400 thousand, AUD 31,000 thousand and €50,000 thousand, representing a total of €87,030 thousand (including accrued interest).

e) Provisions for financial impairment: This heading mainly comprises the provision for the impairment of treasury shares in the amount of €142,420 thousand, the impairment of equity investments held by the Transportation Division in the amount of €170,000 thousand and the impairment of the Demeter mutual fund in the amount of €86 thousand.

3.2. Prepayments

Prepayments total €21,234 thousand and include swap balancing cash adjustments of €16,904 thousand, operating prepayments of €1,751 thousand concerning in particular insurance and professional fees and interest paid in advance on treasury notes of €2,580 thousand.

3.3. Accrued income and deferred charges

3.3.1. Bond redemption premiums

Unamortized bond redemption premiums total €90,819 thousand. Bond redemption premiums are amortized on a straight-line basis over the bond term. The five new bond issues led to the payment of redemption premiums of €45,499 thousand.

3.3.2. Deferred charges: loan issue costs

Bond issue costs are spread on a straight-line basis over the bond term. Net deferred charges as of December 31, 2008 total €25,793 thousand.

The two new bond issues led to the payment of issue costs of €6,529 thousand.

Other deferred charges total €5,465 thousand and mainly comprise issue costs incurred in prior years in setting up credit lines.

3.4. Accrued income

(in € thousand)

Accrued income included in balance sheet headings	**2008**	**2007**
Loans to equity investments	42,033	28,492
Other long-term investment securities	131	233
Loans	9	7
Other long-term loans and investments	685	536
Trade receivables and related accounts	45,329	42,665
Other receivables	30,994	9,919
Marketable securities	40,822	10,468
Treasury instruments	62,531	94,751
Total	**222,535**	**187,071**

3.5. Other receivables

Other receivables total €1,682,807 thousand and mainly comprise the following balances:

(In € thousand)	**2008**	**2007**
Current accounts with Veolia Eau (formerly CGE)	587,756	1,048,710
Current accounts with Veolia Propreté	363,331	300,889
Current accounts with Dalkia International	218,074	282,116
Current account with Veolia UK	141,396	1,095,558
Current account with VEES	89,467	0
Current accounts with Collex	47,116	110,127
Income tax account	42,820	36,132
“C” shares relating to the securitization program*	42,698	44,105
Current accounts with Veolia Transport	37,950	229,839
Accrued interest receivable	28,067	7,437
Current account with VEIT	16,499	0
Current account with Sulo	7,950	31,980
Current account with Dalkia Holding	0	181,191

(*) The value of “C” shares carried by Veolia Environnement in respect of the receivables securitization program is €42,698 thousand. A liability of the same amount is recognized to these companies.

3.6. Foreign exchange gains and losses

Foreign exchange gains and losses concern hedges of matching foreign exchange structural positions and overall foreign exchange positions by currency.

(In € thousand)	**Unrealized foreign exchange losses**	**Unrealized foreign exchange gains**
Foreign exchange hedge of a structural foreign exchange position (Note 3.6.1)	56,243	48,486
Overall foreign exchange position (Note 3.6.2)	91,159	63,846
Total	**147,401**	**112,332**

The following tables present the foreign exchange positions for the main currencies determined at the balance sheet date.

3.6.1 Unrealized foreign exchange gains and losses on matching foreign exchange positions (in € thousand)

Unrealized foreign exchange gains and losses detailed below include not only unrealized gains and losses, but also realized gains and losses neutralized by the application of matching foreign exchange position rules.

Account heading concerned by the foreign exchange gain/loss	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Total net unrealized foreign exchange loss	Provision for contingencies
Loans	13,482	20,981		
Borrowings	19,723	0		
Currency derivatives	0	0		
Total CZK	**33,205**	**20,981**	**12,224**	**12,224**
Loans	0	0		
Borrowings	83,780	0		
Currency derivatives	12,671	52,432		
Total USD	**96,451**	**52,432**	**44,019**	**0**
Grand total	**129,656**	**73,413**	**56,243**	**12,224**

The U.S. dollar net unrealized foreign exchange loss is not provided as it corresponds to a hedge of securities.

Account heading concerned by the foreign exchange gain/loss	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Total net unrealized foreign exchange gain
Loans	0	0	
Borrowings	0	12,868	
Currency derivatives..	37,319	24,451	
Total PLN	**37,319**	**37,319**	**0**
Loans	0	0	
Borrowings	0	233,694	
Current accounts	46,641	0	
Currency derivatives	205,050	18,132	
Total GBP	**251,691**	**251,826**	**135**
Loans	114,932	31,964	
Borrowings	35,305	148,004	
Current accounts	2,446	2,876	
Currency derivatives..	2,007	20,195	
Total USD	**154,690**	**203,039**	**48,349**
Grand total	**443,700**	**492,184**	**48,484**

3.6.2. Unrealized foreign exchange gains and losses on overall foreign exchange positions excluding matching foreign exchange positions (in € thousand)

Account heading concerned by the foreign exchange gain/loss	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Total net unrealized foreign exchange loss	Provision for contingencies
Loans	7	870		
Borrowings	0	0		
Currency derivatives	1,916	239		
Total CHF	**1,923**	**1,109**	**814**	**814**
Loans	479	0		
Borrowings	18,232	0		
Currency derivatives	22,355	4,694		
Total CZK	**41,066**	**4,694**	**36,372**	**36,372**
Loans	9,966	702		
Borrowings	0	3,327		
Current accounts	0	0		
Currency derivatives	11,325	6,399		
Total GBP	**21,291**	**10,428**	**10,863**	**10,863**
Loans	0	0		
Borrowings	0	0		
Currency derivatives	460	139		
Total JPY	**460**	**139**	**321**	**321**
Loans	0	9		
Borrowings	0	0		
Currency derivatives	528	67		
Total MXN	**528**	**76**	**452**	**452**
Loans	531	0		
Borrowings	0	0		
Currency derivatives	0	278		
Total RON	**531**	**278**	**253**	**253**
Loans	0	0		
Borrowings	0	0		
Currency derivatives	20	0		
Total RUB	**20**	**0**	**20**	**20**
Loans	132	0		
Borrowings	0	0		
Currency derivatives	1,486	83		
Total SGD	**1,618**	**83**	**1,535**	**1,535**
Loans	0	19		
Borrowings	0	0		
Currency derivatives	204	29		
Total SKK	**204**	**48**	**156**	**156**

Loans	0	0		
Borrowings	0	0		
Currency derivatives	31	31		
Total TWD	**31**	**31**	**0**	**0**
Loans	8,036	1,613		
Borrowings	40,840	4,557		
Currency derivatives	4,501	6,837		
Total USD	**53,377**	**13,007**	**40,370**	**40,370**
Grand total	**121,049**	**29,893**	**91,156**	**91,156**

Account heading concerned by the foreign exchange gain/loss	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Total net unrealized foreign exchange gain
Loans	52	0	
Borrowings	0	0	
Currency derivatives	3	98	
Total AED	**55**	**98**	**43**
Loans	0	216	
Borrowings	0	0	
Currency derivatives	1,966	6,063	
Total AUD	**1,966**	**6,279**	**4,313**
Loans	0	115	
Borrowings	0	0	
Currency derivatives	90	0	
Total BHD	**90**	**115**	**25**
Loans	823	191	
Borrowings	0	0	
Currency derivatives	84	1,601	
Total CAD	**907**	**1,792**	**885**
Loans	0	0	
Borrowings	0	0	
Currency derivatives	0	1	
Total DKK	**0**	**1**	**1**
Loans	5,631	0	
Borrowings	0	0	
Currency derivatives	6,292	29,492	
Total HKD	**11,923**	**29,492**	**17,569**
Loans	65	0	
Borrowings	0	0	
Currency derivatives	661	1,146	
Total HUF	**726**	**1,146**	**420**
Loans	912	876	
Borrowings	0	0	
Currency derivatives	185	5,060	
Total ILS	**1,097**	**5,936**	**4,839**
Loans	7,587	0	
Borrowings	0	0	
Currency derivatives	14,946	26,530	
Total NOK	**22,533**	**26,530**	**3,997**

Loans	0	0	
Borrowings	0	0	
Currency derivatives	89	105	
Total NZD	**89**	**105**	**16**
Loans	5,645	0	
Borrowings	0	23,186	
Currency derivatives	11,350	24,250	
Total PLN	**16,995**	**47,436**	**30,441**
Loans	0	40	
Borrowings	0	0	
Currency derivatives	21,287	22,428	
Total SEK	**21,287**	**22,468**	**1,181**
Loans	0	45	
Borrowings	0	0	
Currency derivatives	151	223	
Total ZAR	**151**	**268**	**117**
Grand total	**77,819**	**141,666**	**63,847**

3.7. Treasury shares (classified in marketable securities)

Veolia Environnement holds 14,980,034 treasury shares purchased under the share purchase program, including 8,701,189 classified in “Other long-term loans and investments” (*see Note 3.1.d above).* The remaining 6,278,845 shares, recorded in marketable securities and earmarked for an Employee Savings Plan, SEQUOIA, have a net value of €123,526 thousand at the year-end. The provision of €20,448 thousand corresponds to the impairment of the Veolia Environnement share following the fall in the share price in December 2008.

3.8. Other securities

Other securities total €2,203,801 thousand and include certificates of deposit of €885,000 thousand, mutual fund investments of €585,865 thousand, monetary notes of €692,114 thousand and accrued interest of €40,822 thousand.

NOTE 4. Balance sheet liabilities

4.1. Share capital and reserves

(In € thousand)	Opening balance	Increase	Decrease	Closing balance
Share capital subscribed, called and paid	2,358,814	4,069	-	2,362,883
Additional paid-in capital	4,860,584	17,897	-	4,878,481
Additional paid-in capital (2003 share capital reduction)	3,443,099	-	-	3,443,099
Additional paid-in capital in respect of contributions	3,971	-	-	3,971
Additional paid-in capital in respect of bonds convertible into shares	681,881	-	-	681,881
Additional paid-in capital in respect of share subscription warrants	2,725	-	-	2,725
Reserve required by law	152,255	24,563	-	176,818
Special long term capital gain reserve......	-	-	-	-
Frozen reserves	-	-	-	-
Other reserves	343,226	-	-	343,226
Retained earnings	707,146	-	86,767	620,379
Prior year net income	491,255	-	491,255	-
TOTAL BEFORE NET INCOME FOR THE YEAR	**13,044,956**	**46,529**	**578,022**	**12,513,464**
Net income for the year	-	152,854	-	152,854
TOTAL AFTER NET INCOME FOR THE YEAR	**13,044,956**	**199,383**	**578,022**	**12,666,318**

The share capital comprises 472,576,666 shares of €5 par value each, compared with 471,762,756 shares of €5 par value each as of December 31, 2007.

During 2008, 813,910 shares were created following the exercise of share options, generating an increase in share capital of €4,069,550. The additional paid-in capital in respect of these share capital increases is €18,582,598.

As stipulated in Article L. 225-210 of the French Commercial Code (Code de Commerce), Veolia Environnement has frozen reserves of an amount at least equal to treasury shares held. These frozen reserves are not recorded in a separate balance sheet account as authorized by the same article. Note that issue, contribution and merger additional paid-in capital, with the exception of revaluation gains and losses, all constitute reserves targeted by this obligation.

Veolia Environnement has additional paid-in capital in respect of share issues of a net amount of €8,321,581 thousand at the balance sheet date.

4.2. Provisions for contingencies and losses

Movements in provisions for contingencies and losses:

(In € thousand)	**Opening balance**	**Charge**	**Utilized**	**Released**	**Closing balance**
Provision for foreign exchange risk	136,507	103,382	136,507	-	103,382
Provisions for other contingencies (1)	7,897	6,935	7,897	-	6,935
Provisions for losses (2)	7,264	8,422	5,254	1,654	8,778
Total	**151,668**	**118,739**	**149,658**	**1,654**	**119,095**
Nature of additional provisions and releases:					
. Operating		1,188	1,254	1,654	
. Financial		110,317	144,358	-	
. Exceptional		7,234	4,046	-	
Total		**118,739**	**149,658**	**1,654**	

(1) Including a provision for unrealized losses on financial instruments (trading) of €6,935 thousand.

(2) Including a contingency provision in respect of corporate patronage tax credits for fiscal years 2004 and 2005 of €7,234 thousand.

4.3. Bond issues

(In € thousand)	**Opening balance**	**Increase**	**Decrease**	**Foreign exchange translation**	**Closing balance**
Other bonds	9,850,222	1,802,677	1,200,181	(34,486)	10,418,232
Accrued interest on other bonds	268,858	254,443	268,858	-	254,443
Total	**10,119,080**	**2,057,121**	**1,469,039**	**(34,486)**	**10,672,676**

The increase of €2,057 million breaks down as follows:

- the issue in June 2008 of a USD 1,800 million (€1,142 million) fixed-rate bond. This bond comprises three tranches: a USD 400 million tranche maturing June 2038 and paying fixed-rate interest of 6.75%, a USD 700 million tranche maturing June 2018 and paying fixed-rate interest of 6% and a USD 700 million tranche maturing June 2013 and paying fixed-rate interest of 5.25%.

- a supplementary issue in March 2008 of a €140 million bond paying fixed-rate interest of 4.375%, maturing January 2017,

- a supplementary issue in January 2008 of a GBP 150 million bond paying fixed-rate interest of 6.125%, maturing October 2037,

- a €20.2 million increase in the initial inflation-linked bond and the issue of a second tranche of this bond in April 2008 for a total of €300 million.

The decrease of €1,200 million is mainly due to three redemptions: the first in February 2008 in the amount of €300 million, the second in June 2008 in the amount of €700 million and the third in August 2008 in the amount of €200 million.

4.4. Bank and other borrowings

Bank and other borrowings total €3,640,781 thousand and comprise the following main balances:

(In € thousand)	**2008**	**2007**
Syndicated loan arranged by Crédit Lyonnais	1,441,688	337,990
Treasury note outstandings	922,800	109,000
Current accounts with Veolia Eau (Compagnie Générale des Eaux)	485,854	312,422
Current account with Dalkia Holding	307,415	0
Loan from Veolia Energie (Dalkia)	166,724	207,497
Current account with Veolia North America	126,660	63,631
Current accounts with VEES	93,045	0
Current accounts with Veolia Environnement Services RE	33,383	30,434
Current account with Sense	17,350	18,535
Bank accounts in overdraft	13,022	3,945
Tax group current accounts	12,230	20,408
Current accounts with Veolia Propreté	8,893	17,499
Current accounts with Dalkia International	5,444	19,000
Current accounts with Veolia Transport	3,203	2,629

4.5. Accrued expenses included in the following balance sheet headings:

(In € thousand)	2008	2007
Other bonds	254,443	268,858
Bank borrowings	16,234	2,900
Other borrowings	8,947	10,816
Trade payables and related accounts	74,362	69,033
Tax and employee-related liabilities	19,670	20,350
Other liabilities	4,011	193
Treasury instruments	11,492	15,233
Total	**389,160**	**387,383**

4.6. Tax and employee-related liabilities

Tax and employee-related liabilities total €55,920 thousand and mainly comprise VAT payable of €13,032 thousand, output VAT on sales of €10,812 thousand, VAT on purchase invoice accruals of €7,821 thousand, the provision for performance bonuses and related social security contributions of €16,412 thousand and amounts due to social welfare and tax organizations of €8,200 thousand.

4.7. Deferred income

Deferred income totals €38,225 thousand and mainly comprises balancing cash adjustments on derivatives of €36,621 thousand, interest received in advance on certificates of deposit of €716 thousand and bond issue premiums of €888 thousand.

NOTE 5. Debt maturity analysis

(In € thousand)	Amount	Falling due within one year	Falling due within more than one year
Non-current assets:			
Loans to equity investments	6,892,499	43,587	6,848,911
Other long-term investment securities	98,596	223	98,373
Loans	51	51	-
Other long-term loans and investments	400,967	67,607	333,360
Current assets:			
Payments on account – inventories	393	393	-
Trade receivables and related accounts	181,258	181,258	-
Group and associates	1,557,885	1,557,885	-
Other receivables	128,172	100,025	28,147
Marketable securities (1)	2,557,850	2,557,850	-
Cash at bank and in hand	19,339	19,339	-
Prepayments	21,234	7,499	13,736
Total receivables	**11,858,244**	**4,535,717**	**7,322,527**

(1) including treasury instruments of €210,075,481.

(In € thousand)	Amount	Falling due within one year	Falling due within one to five years	Falling due after five years
Liabilities:				
Bonds	10,672,676	298,402	2,671,283	7,702,991
Other borrowings	2,365,030	939,039	1,425,991	-
Group and associates	1,096,004	1,096,004	-	-
Bank current accounts	13,023	13,023	-	-
Group loans	166,724	72,838	93,886	-
Miscellaneous liabilities	-	-	-	-
Other	576,128	545,484	21,619	9,025
Total liabilities	**14,889,585**	**2,964,790**	**4,212,779**	**7,712,016**

NOTE 6. <u>Income statement</u>

6.1. Net loss from ordinary activities

The net loss from ordinary activities before tax is €33 million.

Income:

Operating revenue is €384.3 million and mainly comprises:

- indemnities received in full and final discharge of repair and maintenance work of €220.9 million,
- management fees received from subsidiaries of €94.5 million,
- brand fees of €28.2 million
- fees for the provision of employees of €15.1 million,
- miscellaneous rebillings of €11.2 million,
- transferred operating expenses in respect of bond issue costs of €6.5 million.
- capitalized production in respect of the Agora IT project of €3.9 million,
- reversals of operating provisions for contingencies and losses of €2.9 million.

Financial income is €2,395.2 million and mainly comprises:

- foreign exchange gains of €1,098.6 million,
- dividends of €612.9 million,
- interest received on current accounts and advances to Group companies of €396.0 million,
- reversals of provisions for foreign exchange losses of €136.5 million,
- investment interest of €49.1 million,
- amortization of premiums/discounts of €33.3 million,
- balancing cash adjustment received on financial instruments of €24.6 million,
- proceeds from the sale of marketable securities of €24.4 million,
- reversals of financial provisions for contingencies and losses of €7.9 million.

Expenses:

Operating expenses total €503.6 million and mainly comprise:

- compensation paid in respect of repair and maintenance work of €225.3 million,
- administrative and management costs associated with the management of essential head office functions of €182.3 million,
- personnel costs (wages, salaries and social security contributions) of €79.8 million,
- taxes other than income tax of €8.1 million,
- charges to depreciation, amortization and provisions of €5.6 million.

Financial expenses total €2,308.9 million and mainly comprise:

- foreign exchange losses of €1,169.8 million,
- interest on bond issues (including hedges) of €534.9 million,
- charges to provisions for impairment of equity investments of €170.2 thousand,
- charges to provisions for impairment of treasury shares of €163.1 thousand,
- charges to provisions for foreign exchange losses of €103.4 million.
- interest paid on other borrowings and treasury notes less interest received on related hedges of €51.4 million
- amortization of bond redemption premiums of €36.6 million,
- premiums and discounts of €36.1 million,
- interest paid on subsidiary current accounts of €19.2 million,
- balancing cash adjustments paid on financial instruments of €10.4 million,
- charges to other financial provisions of €10.2 million,

6.2. Exceptional items

Exceptional items represent a net expense of €1.1 million and mainly comprise the following items:

- a profit of €2.3 million on the sale of treasury shares,
- the reversal of the provision for loss of the minimum tax charge of €4.0 million,
- a charge to provisions for the loss of the corporate patronage tax credit of €7.2 million.

6.3. Income tax and the consolidated tax group

Within the framework of a tax group agreement, Veolia Environnement forms a tax group with those subsidiaries at least 95% owned that have elected to adopt this regime. Veolia Environnement is liable for the full income tax charge due by the resulting tax group. It is also liable for the minimum income tax charge payable by tax group companies.

The income tax expense is allocated to the different entities comprising the tax group according to the “neutrality” method. Each subsidiary bears the tax charge to which it would have been liable if it were not a member of the tax group. The parent company records its own tax charge and the tax saving or additional charge resulting from application of the tax group regime.

The tax group election came into force on January 1, 2001 for a period of five years and benefits from tacit renewal failing explicit termination by Veolia Environnement at the end of this five-year period.

The application of the tax group regime in 2008 is reflected in the Veolia Environnement financial statements by a tax saving in respect of the subsidiaries of €188.5 million. The share of the group tax credit benefiting Veolia Environnement is €1.6 million in respect of 2008.

In addition, offsetting Group losses, a tax expense of €0.4 million concerns share capital increase costs deducted from corresponding additional paid-in capital and another additional tax expense of €3.1 million concerns the discount on the group savings plan.

Finally, corrections to prior year tax expenses were recorded in the amount of €4.3 million, together with €(4.0) million in respect of minimum income tax charges no longer available for offset.

Veolia Environnement is currently the subject of a tax audit covering fiscal years 2004 to 2006, which commenced in November 2008

6.4.Net income for the year

The net income for 2008 is €152.9 million.

NOTE 7. Other information

7.1. Off-balance sheet commitments

7.1.1. Commitments given

Commitments given by Veolia Environnement, primarily financing guarantees and performance bonds on behalf of subsidiaries, total €2,392.9 million as of December 31, 2008, including counter-guarantees (*in € thousand)*:

Commitments given	**Amount**
Discounted notes not yet matured	
Endorsements and guarantees [(1)]	2,393,360
Equipment finance lease commitments	-
Real estate finance lease commitments	-
Pension obligations and related benefits [(2)]	(473)
Other commitments given	-
Total [(2)]	2,392,887
[(3)] of which commitments given to:	
- management – including the payments disclosed hereafter (see b)	
- related entities	
of which collateral-backed commitments	21,147

(1) Additional information on guarantees:

Operational guarantees include guarantees granted by Veolia Environnement to insurance companies guaranteeing up to a maximum total amount of USD 1.1 billion, to enable such insurance companies to issue surety bonds at the request of U.S. subsidiaries in the course of their activities (operating guarantees, site restoration guarantees, etc.). As of December 31, 2008, drawn outstandings guaranteed by Veolia Environnement represented a euro equivalent of €196 million. Veolia Environnement also guarantees a group syndicated credit line of a maximum amount of USD 1.25 billion, covering the issue of letters of credit to U.S. subsidiaries for the purpose of their activities. As of December 31, 2008, total outstandings guaranteed by Veolia Environnement in respect of this credit line represented a euro equivalent of €599 million.

(2) Additional information on pension obligations and related benefits:

Obligations, net of plan assets, are broken down in the following table (in € thousand):

Pension obligations pursuant to Article 14 of the Collective Bargaining Agreement	8,538		
Collective insurance contract in favor of Group executives	(6,373)	[(a)]	Rebilled in part to Group subsidiaries
Insurance company contract in favor of Executive Committee members	(2,638)	[(b)]	
Total	**(473)**		

(a) Net of payments of €27,850 thousand in respect of fiscal years 2006 to 2008, including €4,370 thousand in respect of 2008.

(b) Net of payments of €12,100 thousand in respect of fiscal years 2006 to 2008, including €2,000 thousand in respect of 2008.

Note: The above presentation does not omit the existence of a material off-balance sheet commitment.

7.1.2 Commitments received

Veolia Environnement received a guarantee from the UK Treasury expiring April 13, 2012 and covering, as of December 31, 2008, a €150 million certificate of deposit issued by the Royal Bank of Scotland.

7.2. Specific contractual commitments

The financial management of maintenance and repair costs for installations provided by delegating authorities, for the majority of French subsidiaries, was mutualized and centralized until December 31, 2003 within Veolia Environnement and, partially, since January 1, 2004 within Veolia Eau (Compagnie Générale des Eaux). Therefore, Veolia Environnement, as an active partner of all water and heating subsidiaries, undertakes 1to repay all maintenance and repair costs incurred by them in respect of contractual obligations to local authorities under public service delegation contracts. In return, the subsidiaries pay an indemnity to Veolia Environnement corresponding to the amortization of forecast maintenance and repair costs.

With respect to the financial management of repair and maintenance costs, Vivendi undertook to pay an indemnity to the company and then transferred this obligation to Société Générale under a perfect delegation contract on December 21, 2004. As such, Vivendi no longer has any obligation to Veolia Environnement in this respect. Conversely, Société Générale is liable to the company in this respect for a maximum amount, equal to €17,612,040 as of December 31, 2008, payable each year up to 2010 under the conditions laid down in the contract. A portion of these indemnities is retroceded by Veolia Environnement to Veolia Eau – Compagnie Générale des Eaux under the terms of the contract of December 16, 2003. For 2008, the company claimed an amount of €41,341,042 from Société Générale and recognized in the accounts an amount of €21,916,042 to be retroceded to Veolia Eau – Compagnie Générale des Eaux.

Ridgeline Holdings, a wholly-owned subsidiary of Veolia Environnement, is committed to paying the residual purchase consideration of USD 27 million for the acquisition of Ridgeline LCC, no later than February 28, 2010. Furthermore, under an earn-out clause granted in favor of the vendor, Ridgeline Holdings is committed to paying an additional maximum amount of USD 45 million. Veolia Environnement has granted a shareholder's guarantee to Ridgeline Holdings.

7.3. Derivative financial instruments and counterparty risk

As a result of its businesses, Veolia Environnement is exposed to various financial risks. The company uses derivative financial instruments to manage interest rate risks inherent to its financing activities, to a large extent on behalf of its subsidiaries.

Veolia Environnement does not expect the default of any counterparties which could have a material impact on transaction positions or results.

As of December 31, 2008, the main derivative products held primarily comprised:

- caps and floors,
- interest rate swaps,
- trading swaps,
- cross currency swaps,
- forward purchases of currency,
- forward sales of currency,
- currency options.

The following table presents the net carrying amount of derivatives at the balance sheet date:

(In € thousand)	**Asset**	**Liability**
Accrued interest on swaps	62,531	11,492
Interest rate option premiums	1,386	-
Currency derivatives	135,800	316,597
Equity derivatives	-	8,330
Premium/discount*	10,358	9,659
Prepayments	16,904	-
Deferred income	-	36,621
Total	**226,979**	**382,699**

(*) The premium/discount represents the difference between the spot rate and the forward rate of the instruments. It is amortized over the term of the financial instrument.

Accrued interest receivable or payable on these instruments is broken down in the headings "Accrued income" and "Accrued expenses".

The fair value of derivatives at the balance sheet date is presented below:

(In € thousand)	**Asset**	**Liability**
Interest rate derivatives	**488,354**	**129,521**
Hedging derivatives	379,397	19,877
Derivatives not qualifying for hedge accounting (trading)	108,957	109,644
Currency derivatives	**175,504**	**353,700**
Hedging derivatives	147,825	327,134
Derivatives not qualifying for hedge accounting (trading)	27,679	26,566
Total	**663,858**	**483,221**

The notional amounts of interest-rate swaps globally designated as interest rate hedges at the balance sheet date are presented in the following table:

(In € thousand)		**Foreign currency amount**	**€ equivalent**
Swaps hedging long-term debt			
Fixed-rate payer/floating-rate receiver swaps	EUR	211,726	211,726
Fixed-rate payer/floating-rate receiver swaps	CZK	6,217,686	231,356
Fixed-rate payer/floating-rate receiver swaps	GBP	0	0
Fixed-rate payer/floating-rate receiver swaps	USD	32,407	23,286
Fixed-rate payer/floating-rate receiver swaps	PLN	700,000	168,533
Floating-rate payer/fixed-rate receiver swaps	EUR	3,961,726	3,961,726
Floating-rate payer/fixed-rate receiver swaps	CZK	217,686	8,100
Floating-rate payer/fixed-rate receiver swaps	GBP	400,000	419,948
Floating-rate payer/fixed-rate receiver swaps	USD	1,281,807	921,037
Floating-rate payer/fixed-rate receiver swaps	PLN	0	0

Floating-rate payer/floating-rate receiver swaps	USD	0	0
Floating-rate payer/floating-rate receiver swaps	EUR	0	0
Fixed-rate payer/fixed-rate receiver swaps	EUR	354,600	354,600
Total			**6,300,310**
Swaps hedging short-term debt			
Floating-rate payer/fixed-rate receiver swaps	EUR	665,514	665,514
Fixed-rate payer/floating-rate receiver	EUR	468,851	468,851
Total			**1,134,365**
Caps hedging long-term debt			
Caps	EUR	130,00	130,000
Caps	USD	400,000	287,418
Total			**417,418**

The notional amounts of cross currency swaps and forward currency swaps (currency hedges) at the balance sheet date are presented in the following table:

(In € thousand)	**Purchases**	**Sales**
Currency hedging instruments:		
Cross currency swaps:		
CNY	131,540	131,540
Total	**131,540**	**131,540**
Currency forwards:		
USD	268,555	417,438
GBP	376,043	838,079
PLN	189,309	215,580
CZK	84,554	298,667
AUD	157,281	30,286
CNY	30,135	30,135
Other currencies	1,520,529	331,236
Total	**2,626,407**	**2,161,420**

7.4. Average workforce

	Salaried employees	**Employees at the disposition of the company**
Executives	385	11
Supervisors and technicians	12	11
Administrative employees	19	-
Workers	-	-
Total	**416**	**22**

7.5. Executive compensation

Compensation granted to members of *(in euros)*	**Amount**
Management bodies	3,174,730

The above amount includes only compensation borne by the company. Compensation paid by other entities is, therefore, excluded.

7.6. Specific information on individual training entitlement

Entitlement vested between May 7, 2004 and December 31, 2008 in respect of individual training entitlement represents 25,330 cumulative training hours. A training request has not yet been received in respect of 24,937 hours.

7.7. Deferred tax

Deferred tax liability *(in € thousand)*	**Amount**
Tax-driven provisions:	
Accelerated depreciation	99
Provisions for price increase	-
Provisions for exchange rate fluctuations	-
Other:	
Investment subsidy	-
Income temporarily non-taxable	8,330
Income deferred for accounting but not tax purposes	-
Unrealized foreign exchange losses	147,401
Total	**155,830**

Deferred tax asset	**Amount**
Provisions not deductible in the year recorded:	
- Provisions for paid leave	-
- Statutory employee profit-sharing	-
- Provisions for contingencies and losses	-
- Other non-deductible provisions	124,303
Other:	
- Taxed income not recognized	24,586
- Amortization of option premiums	10,244,
- Unrealized foreign exchange gains	112,332
Total	**271,465**
Tax losses carried forward	1,433,271
Long-term capital losses	-

The impact of these timing differences on the financial statements, as if the company were taxed separately, identifies a theoretical net tax receivable of €533.3 million.

7.8. Related party transactions

Related parties consist of companies likely to be fully consolidated in the consolidated financial statements of Veolia Environnement Group.

The main transactions with related parties and amounts due to or from related parties are as follows:

(In € thousands)	**2008**	**2007**
Equity investments net of provisions	15,803,837	12,800,506
Loans to equity investments	6,892,499	5,761,109
Other receivables	1,587,764	3,341,033
Trade receivables	181,037	116,049
Borrowings	1,262,728	696,821
Other liabilities	59,402	46,975
Operating revenue	366,982	309,288
Operating expenses	298,118	274,471
Financial income [(1)]	1,536,823	1,200,492
Financial expenses [(1)]	826,589	429,022
Exceptional income	22,068	247
Exceptional expenses	22,146	19,895

(1) Including foreign exchange gains and losses on transactions with related parties provided in accordance with the overall foreign exchange position per currency principle.

7.9. Audit fees

Audit fees billed in respect of the statutory audit of the accounts and services falling within the scope of related diligences are detailed in the notes to the Veolia Environnement Group consolidated financial statements.

7.10. Share-based payments

Veolia Environnement has implemented several standard fixed share purchase and subscription options plans, as well as a variable plan for management.

Outstanding options plans at the end of 2008 were as follows:

	N°7 2007	N°6 2006	N°5 2004	N°4 2003	N°3 2002	N°2 2001
Grant date	07/17/2007	03/28/2006	12/24/2004	03/24/2003	01/28/2002	02/08/2001
Number of options granted	2,490,400	4,044,900	3,341,600	5,192,635	4,413,000	3,462,000
Number of options not exercised	660,150*	3,832,565	3,085,972	1,591,712	1,935,603	1,382,525
Plan term	8 years	8 years	8 years	8 years	8 years	8 years
Vesting conditions	4 years service plus performance conditions to be satisfied	4 years service	3 years service plus performance conditions for certain plans	3 years service	3 years service	3 years service
Vesting method	After 4 years	After 4 years	By tranches of 1/3 over 3 years	By tranches of 1/3 over 3 years	By tranches of 1/3 over 3 years	After 3 years
Strike price (in euros)	57.05	44.03**	24.32**	22.14**	36.65**	40.59**

* Given the performance criteria, the number of options effectively exercisable has been reduced from 2,402,800 to 660,150.

** Strike price adjusted to take account of transactions impacting the share capital of the company (issue of share subscription warrants on December 17, 2001) and share capital increases with retention of preferential subscription rights on August 2, 2002 and July 10, 2008). The initial strike prices for plans n°2, n°3, n°4, n°5 and n°6 were €42.00, €37.53, €22.50, €24.72 and €44.75 respectively.

7.11. Subsequent events

There are no subsequent events to report.

7.12. Investments

The table providing a breakdown of equity investments is presented below.

SUBSIDIARIES AND EQUITY INVESTMENTS

Company	Number of shares held	Share capital (2)	Sharehold ers' equity other than share capital (*) (2)	% share capital held	Carrying amount of shares held		Loans and advances granted by the company (gross) (**) (2)	Guarantee s provided by the company (2)	2007 revenue (2)	2008 revenue (2)	2007 net income (2)	2008 net income (2)	Dividends recorded in the last fiscal year (2)	Year-end
					GROSS (2)	NET (2)								
Veolia Eau (Compagnie Générale des Eaux)(1), 52, rue d'Anjou, 75008 Paris	214,187,292	2,207,287	1,086,411	100.00%	8,300,000	8,300,000	2,781,967	-	3,525,183	3,579,509	409,490	280,688	319,139	Dec. 31, 2008
Veolia Energie (Dalkia)(1), 37, av. Mal. de Lattre de Tassigny, 59350 Saint-André-Lez-Lille cedex	42,069,294	968,869	513,800	66.00%	641,342	641,342	1,348,515	-	252,571	136,734	211,460	228,216	84,139	Dec. 31, 2008
Veolia Propreté(1), 163-169, av. G. Clémenceau, 92000 Nanterre	8,966,811	143,473	1,578,278	100.00%	1,929,892	1,929,892	2,740,326	-	784,150	667,364,	122,866	(288,491,)	164,989	Dec. 31, 2008
Veolia Transport (1) 163-169, av. G. Clémenceau, 92000 Nanterre	18,317,015	293,072	549,384	100.00%	1,055,993	1,055,993	969,691	-	281,519	285,771	53,865	48,355	-	Dec. 31, 2008
Proactiva Medio Ambiente SA, Torre Puerta de Europa, Paseo de la Castellana, Madrid	4,710	56,520	27,735	50.00%	119,733	47,201	-	-	16,336	48,735	6,305	5,804	1,726	Dec. 31, 2008
S.I.G. 41	2,493	38	(13)	99.72%	38	38	-	-	1	0	0	0	-	Dec. 31, 2008
V.I.G.I.E. 1	3,815	38	(16)	99.87%	38	38	-	-	0	0	(2)	(1)	-	Dec. 31, 2008
V.I.G.I.E. 2	3,813	38	(3,680)	99.82%	38	0	6,649	-	0	0	(198)	(2,585)	-	Dec. 31, 2008
V.I.G.I.E. 3	41,829	251	105	100.00%	266	266	28	-	0	0	41	69	-	Dec. 31, 2008
Veolia Environnement Service RE	2,499,994	3,000	7,795	100.00%	3,000	3,000	-	-	(428)	6,785	2,446	3,921	**-**	Dec. 31, 2008
Veolia PPP Finance (formerly V.I.G.I.E 9)	3,500,334	35,003	(790)	99.82%	35,003	35,003	850	-	236	0	(68)	(695)		Dec. 31, 2008
VE Informations et Technologies (formerly V.I.G.I.E 10 AS)	1,916,998	11,517	26	100.00%	11,532	11,532	61,499	-	0	28,439	0	26	-	Dec. 31, 2008
CAMPUS VEOLIA ENVIRONNEMENT	882,200	11,000	(1,009)	80.20%	8,822	8,822	27,149	-	28,569	33,833	149	(277)	-	Dec. 31, 2008
V.I.G.I.E. 14 AS	3,700	707	(1,217)	100.00%	1,123	126	505	-	21	21	(231)	(636)	-	Dec. 31, 2008

V.I.G.I.E. 15 AS	3,700	37	(519)	100.00%	37	37	343	-	0	1,522	0	(514)	-	Dec. 31, 2008
G.I.E. GECIR	5	0	506	5.00%	35	35	-	-	20,430	17,888	873	506	-	Dec. 31, 2008
Veolia North America Operations [3],	240	2,140	(131,588)	10.18%	872,992	872,992	-	-	6,113	0	35,089	57	20,149	Dec. 31, 2008
C.A.E.	22,500	250	46	90.00%	225	225	6,400	-	12,372	13,746	(5)	26	-	Dec. 31, 2008
CODEVE	3,000,000	38,000	3,178	100.00%	38,000	38,000	-	-	37,692	27,500	299	1,290	-	Dec. 31, 2008
VEOLIA ENVIRONNEMENT INDUSTRIE	33,334	500	1,584	100.00%	1,113	1,113	-	-	3,372	3,710	(8)	762	-	Dec. 31, 2008
ARTELIA Portugal	10,000	50	(101)	100.00%	50	50	23,240	-	0	0	0	(101)	-	Dec. 31, 2008
SASLT 65	60,000	1,075	(909)	27.90%	300	46	-	-	2,858	3,213	(563)	(346)	-	Dec. 31, 2008
EOLFI	37,018	74	13,098	50.00%	18,397	18,397	11,244	-	2,134	2,531	(887)	(4,450)	-	Dec. 31, 2008
VEOLIA ENVIRONNEMENT COMPETITION (formerly V.I.G.I.E. 17 AS)	3,700	37	(37)	100.00%	37	0	1,486	-	791	857	2	(36)	-	Dec. 31, 2008
VEOLIA ENERGIE (formerly V.I.G.I.E. 20 AS)	13,703,700	137,037	41	100.00%	137,037	137,037	-	-	88	5	48	(7)	-	Dec. 31, 2008
VEES	28,500,999	2,850,100	121,805	100.00%	2,850,100	2,850,100	89,467	-	-	0	-	121,805	-	Dec. 31, 2008
DEER GREEN POWER	300	6	2,471	50.00%	4,896	4,896	-	-	-	639	-	(2,152)	-	Dec. 31, 2008
RIDGELINE ENERGY HOLDINGS	100	17,964	(1,904)	100.00%	15,944	15,944	17,964	-	-	41	-	(452)	-	Dec. 31, 2008
VIGIE 21 AS	3,700	37	-	100.00%	37	37	-	-	-	0	-	0	-	Dec. 31, 2008
VIGIE 22 AS	3,700	37	-	100.00%	37	37	-	-	-	0	-	0	-	Dec. 31, 2008
VIGIE 23 AS	3,700	37	-	100.00%	37	37	-	-	-	0	-	0	-	Dec. 31, 2008
VIGIE 28 AS	3,700	37	(1)	100.00%	37	37	-	-	-	0	-	(1)	-	Dec. 31, 2008
VIGIE 29 AS	3,700	37	(1)	100.00%	37	37	-	-	-	0	-	(1)	-	Dec. 31, 2008
VIGIE 30 AS	3,700	37	(1)	100.00%	37	37	-	-	-	0	(1)	(1)	-	Dec. 31, 2008

VIGIE 31 AS	3,700	37	(1)	100.00%	37	37	-	-	-	0	(1)	(1)	-	Dec. 31, 2008
VIGIE 32 AS	3,700	37	(1)	100.00%	37	37	-	-	-	0	(1)	(1)	-	Dec. 31, 2008
VIGIE 33 AS	3,700	37	(1)	100.00%	37	37	-	-	-	0	(1)	(1)	-	Dec. 31, 2008
VIGIE 34 AS	3,700	37	(1)	100.00%	37	37	-	-	-	0	(1)	(1)	-	Dec. 31, 2008
Other subsidiaries and equity investments (less than 1% of share capital)														
Veolia Environnement UK[(1),]	865,733	618,917	26,980	0.15%	1,387	1,387	141,396	-	124,981	37,385	55,073	36,696	-	Dec. 31, 2008
VIGEO	1,300	15,910	(6,852)	1.00%	130	100	-	-	-	-	-	-	-	Dec. 31, 2008
VE EST	1	2,100	(66)	-	0.01	0.01	-	-	1	1	(3)	(3)	-	Dec. 31, 2008
VESTALIA (formerly V.I.G.I.E. 16 AS)	1	37	2 674	-	0.01	0.01	-	-	90,997	107,802	1,499	1,175	-	Dec. 31, 2008
CLIG2	1	-	-	-	0.02	0.02	-	-	-	-	-	-	-	Dec. 31, 2008
CLIG3	1	38	(15)	0.04%	0.02	0.02	-	-	-	-	(3)	-	-	Dec. 31, 2008
SLOVEO	10	33	696	1.00%	0.29	0.29	-	-	-	11,694	-	384	6	Dec. 31, 2008

(*) including net income for the year

(**) including partner current accounts

(1) company which is primarily a holding company. The "Revenue" column includes operating revenue and financial income

(2) in € thousand.

(3) The main activity of this company consists in being the head company of the US consolidated tax group.

STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Year ended December 31, 2008

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English-speaking users. This report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements. This report should be read in conjunction with, and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended December 31, 2008, on:

• the audit of the accompanying annual financial statements of Veolia Environnement;

• the justification of our assessments;

• the specific verifications and information required by French law.

These annual financial statements have been approved by the Board of. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, by audit sampling and other selective testing methods, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, the significant estimates made by the management, and the overall financial statements presentation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities as of December 31, 2008, and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

2. Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Law ("Code de commerce") relating to the justification of our assessments, we bring to your attention the following matters:

As disclosed in note 2.2 to the financial statements in respect of the accounting principles for financial investments, your company recognises provisions for impairment when the net carrying amount of a financial investment exceeds its going value. The going value for the investment is determined based on criteria that include profitability and growth potential, net assets and the stock market value of the securities. Based on the current information available, we performed our assessment of the methods used by your company, and reviewed, through audit sampling, their application.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore, contributed to our audit opinion expressed in the first part of this report.

3. Specific verifications and information

We have also performed the specific verifications required by French law.

We have no matters to report regarding the following:

- the fair presentation and consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements;
- the fair presentation of the information given in the management report of the Board of Directors in respect of remunerations and benefits granted to the relevant directors and any other commitments in their favour in connection with, or subsequent to, their appointment, termination or change in current function.

In accordance with French law, we have ensured that the required information concerning the purchase of investments and controlling interests and the names of the principal shareholders has been properly disclosed in the management report of the Board of Directors.

The Statutory Auditors

French original signed by

Paris-La Défense and Neuilly-sur-Seine, March 30, 2009.

KPMG Audit		**ERNST & YOUNG et Autres**	
A division of KPMG S.A.			
Jay Nirsimloo	Baudouin Griton	Patrick Gounelle	Jean Bouquot

Fiscal year ended December 31, 2008

Parent Company results over the past five years

(in thousands of euros)	**2008**	**2007**	**2006**	**2005**	**2004**
Capital at the end of the financial year:					
Shareholders' equity	2,362,883	2,358,814	2,063,133	2,039,363	2,032,110
Number of shares issued	472,576,666	471,762,756	412,626,550	407,872,606	406,421,983
Financial year transactions and results:					
Revenue, excluding taxes	384,331	356,655	337,591	305,841	286,161
Income before tax, amortization and provisions	310,813	427,594	231,828	24,732	406,688
Company tax	(186,923)	(165,504)	(236,792)	(228,473)	(145,079)
Income after tax, amortization and provisions	152,854	491,255	414,945	388,429	525,658
Amount of distributed income	553,692[a]	553,460	419,702	336,341	265,417
Income per share *(in euros):*					
Income after tax, before amortization and provisions	1.05	1.26	1.14	0.62	1.36
Income after tax, amortization and provisions	0.32	1.04	1.01	0.95	1.29
Dividend allocated to each share[b]	1.21	1.21	1.05	0.85	0.68
Personnel:					
Number of employees (annual average)	416	337	304	231	231
Total payroll	53,415	43,217	39,173	32,135	27,804
Amount of sums paid as welfare benefits (Social Security, benevolent works, etc.)	26,354	20,430	15,549	13,704	11,647

(a) As of December 31, 2008, the share capital comprises 472,576,666 shares, including 14,980,034 treasury shares. As treasury shares are not entitled to dividends, the total distribution may change depending on the number of treasury shares held at the dividend payment date.

(b) For the corresponding fiscal year.

20.3 DIVIDEND POLICY

20.3.1 Dividends per share paid during the last five fiscal years

(in euros)	**2003 dividend**	**2004 dividend**	**2005 dividend**	**2006 dividend**	**2007 dividend**
Gross Dividend Per Share	0.825/0.605*	0.68	0.85	1.05	1.21
Net Dividend Per Share	0.55	0.68**	0.85***	1.05***	1.21
Tax Credit (*Avoir fiscal*)	0.275/0.055*	n/a	n/a	n/a	n/a
Amount of Paid Dividends (without tax credit)	217,917,234	265,417,221	336,340,679	419,701,966	553,459,872

n/a: not applicable

* The amount of the tax credit is 0.275 euro per share for individual and corporate shareholders benefiting from the "parent-subsidiary" (mère-fille) regime, and 0.055 euro per share for corporate shareholders who do not benefit from the "parent-subsidiary" regime.

** Individual shareholders will benefit from a 50% tax discount with respect to such dividends.

*** Individual shareholders will benefit from a 40% tax discount with respect to such dividends.

A dividend payment of €1.21 per share for each of the Company's outstanding shares carrying dividend rights redeemable as of January 1, 2008 was approved at the combined general shareholders' meeting of May 7, 2008. This dividend was separated from the share on May 22, 2008 (ex-dividend date) and redeemable as of May 27, 2007 based on the Company's shareholding at the close of business on May 26, 2008 (record date).

As of December 31, 2007, the shareholding was composed of 470,719,806 shares, including 15,120,654 treasury shares. The total distribution amount has been adjusted according to the total number of new shares created following the exercise of the share subscription and purchase options and of treasury shares held by Veolia Environnement at the date of payment, the treasury shares not benefiting from dividend rights.

The payment of a dividend of €1.21 per share will be proposed to the general shareholders' meeting on May 7, 2009, which shall be payable in cash or in Veolia Environnement shares. Subject to the approval of the shareholders' meeting, these new shares will be issued with a maximum discount of 10% on the average opening price on the Euronext of the shares over the twenty trading days prior to the day of the general shareholders' meeting less the amount of the dividend. The ex-dividend date has been set on May 13, 2009. The period during which shareholders may choose the option of the payment of the dividend in cash or in shares will begin on May 13, 2009 and end on May 28, 2009. Dividends will be paid – in cash or in shares – beginning on June 8, 2009.

For individual shareholders who are French tax residents, dividends, whether they are paid in cash or in shares, are included in global income that is taxed on a progressive scale. They qualify for both an unlimited 40% reduction (*abattement*) over their gross amount and for a fixed annual reduction (€1,525 for singles and €3,050 for married couples). The also qualify for a tax credit equal to 50 % of their gross amount (i.e. before application of the reductions mentioned before), the annual amount of which is limited (€115 for singles and €230 for married couples). All Veolia Environnement shares are eligible for this treatment.

Individual French tax residents may however choose for these dividends to be subject to a flat-rate withholding tax over the gross amount of dividends, without any deduction of charges and reductions (article 117 quater of the General Tax Code). The applicable base rate is 18% and it represents a global tax rate of 30.1% once increased by social contributions. This option is irrevocable; it must be exercised by the taxpayer at the paying establishment prior to the payment of dividends. If the option has been exercised at least once during a given year, dividends received by the taxpayer during such year (that is, those for which the option was exercised but also for any remaining balance for which the option has not been exercised) are no longer eligible for the reduction.

It is the taxpayers' responsibility to evaluate, with the help of their own tax advisers, their interest in exercising this flat-rate withholding tax given their particular circumstances.

As from January 1, 2008, the social contributions that apply to dividends paid to shareholders are subject to withholding implemented by the paying establishment.

20.3.2 Dividend policy

The Company's dividend policy is determined by the board of directors, which may consider a number of factors, including in particular the Company's financial performance and net income, as well as the dividends paid by other French and international companies within the same sector.

20.3.3 Period during which dividend payments must be claimed

Dividends that are not claimed within five years from the date on which they are made available for payment revert to the French State.

20.4 LITIGATION

The most significant litigation involving the Company or its subsidiaries is described below. Other than as described below, there are no other current or threatened legal, governmental or arbitral proceedings involving the Company or its subsidiaries which either have had during the past twelve months or may have in the future a material adverse effect on the financial condition or the profitability of the Company or the Group.

The aggregate amount of reserves accrued by Veolia Environnement in respect of all litigation (see paragraph 20.1, note 17 to the consolidated financial statements), including social and tax claims, includes a large number of claims and proceedings that, individually, are not material to Veolia Environnement's business. These reserves include all of the losses that are considered to be likely to occur from any kind of litigation that Veolia Environnement encounters in the conduct of its business. The largest individual reserve accrued in our financial statements as of December 31, 2008 relating to litigation amounted to approximately €14.5 million.

Veolia Eau – Compagnie Générale des Eaux

On February 27, 2001, the French Competition Council (Conseil de la concurrence) notified Compagnie Générale des Eaux of a complaint alleging that several joint ventures that it had formed with other water services companies affected the level of competition in the market. On July 11, 2002, the Council rejected the allegations of anticompetitive collusion (entente anticoncurrentielle) among these water services companies, refusing both to impose monetary sanctions or issue an injunction against these companies. However, the Council found that the joint ventures constituted a "collective dominant position" in the market and requested the French Ministry of the Economy, Finance and Industry to take all necessary measures to modify or terminate this pooling arrangement. Compagnie Générale des Eaux challenged this finding, initially before the Paris Court of Appeals, which confirmed the Council's position. However, the commercial section of the French Supreme Court (Cour de cassation), in a decision dated July 12, 2004, overturned the Paris Court of Appeals' decision, holding that only administrative authorities had jurisdiction over the matter. Accordingly, Compagnie Générale des Eaux challenged the Council's finding before the French Conseil d'Etat, which held that the complaint was inadmissible (decision of November 7, 2005), since the Council's decision was only a preparatory act for the decision of the French Ministry of Economy, Finance and Industry. In connection with the investigation by the Minister of Economy of the measures to be implemented pursuant to the Council's decision, the relevant companies were asked to reach a mutually satisfactory solution. Compagnie Générale des Eaux signed an agreement on December 19, 2008 with Lyonnaise des Eaux France (Suez Group) for the unwinding of the joint ventures within twelve months, subject to monitoring by the relevant European competition authorities.

On February 15, 2006, the company Aquatraitements Energies Services ("AES") brought a complaint before the Commercial Court of Paris (Tribunal de Commerce de Paris) relating to two of Veolia Eau's subsidiaries (Veolia Water and Seureca Overseas). AES is seeking €150 million in damages from Veolia Water and Seureca Overseas, based on the claim that it lost potential consulting fees following Veolia Water's decision not to participate in a public bid tender launched by the authorities of Abu Dhabi for the construction of a seawater treatment facility. On June 2, 2004, Veolia Water and Seureca Overseas had signed two consulting contracts with AES, pursuant to which AES was supposed to provide consulting advice on commercial strategy and public relations. Under the terms of the contracts, AES would receive fees based on the amount of the contract won by either Veolia Water or Seureca Overseas as a result of AES' assistance. In December 2004, Veolia Water and Seureca Overseas terminated these contracts following their discovery of actions taken by the managers of AES that they considered to be fraudulent (dolosives), and that would have affected their ability to consent to the contracts at the time of signing. Veolia Water and Seureca Overseas submitted their defense seeking the rejection of all of AES's claims before the Commercial Court on June 28, 2006. After several months of silence, AES filed its brief in response before the Commercial Court in which, in light of the arguments developed by Veolia Water and Seureca Overseas in their brief of June 28, 2006, AES reduced its damages claim to €15 million. Veolia Water and Seureca Overseas filed another brief in response before the Commercial Court on September 5, 2007, to which AES responded on February 20, 2008 reconfirming its claim. Veolia Water and Seureca Overseas filed a brief in response on May 14, 2008, putting forward the same arguments for rejecting AES's claims and making the same counterclaims. At the four previous procedural hearings (on September 17, 2008, November 26, 2008, January 27, 2009 and February 24, 2009), AES stated its intention to respond to the Veolia Water and Seureca Overseas briefs of May 14, 2008, but has yet to produce any evidence or written arguments. The matter has been delayed to April 7, 2009, either for AES to submit briefs, or for the parties to indicate the next steps. This matter is not expected to be argued on the merits until the fall of 2009. Veolia Environnement is contesting both the legal foundations of and the economic rationale for AES's claims and believes that this matter will not have a significant impact on its condition or results of operation.

Sade

In April 2000, Sade, a subsidiary of Veolia Eau, and 40 other companies received notice from the French Competition Council of a complaint alleging anticompetitive agreements among these companies in respect of 44 public sector construction contracts in the Ile-de-France region (which includes Paris and its suburbs). These companies, including Sade, filed their responses to the complaint in September 2000. The Council filed a supplemental complaint in November 2001, which replaced its original complaint and reduced the number of construction contracts subject to scrutiny. The companies filed responses to the new complaint in January 2002. However, on October 26, 2004, the Council filed a second supplemental complaint, the stated objective of which was to clarify and supplement the information contained in the earlier complaints. In response to a report received in August 2005, Sade filed a response in October 2005 that contested the Council's complaint on the merits as well as based on irregularities in the complaint procedure that undermined its right to a proper defense, as well as the lack of proof of Sade's alleged anti-competitive behavior in certain markets. On March 21, 2006, the Council retained complaints against Sade in respect of two markets, and imposed a fine of €5.4 million relating to this matter. Sade has accrued a reserve in its accounts to cover this litigation, and appealed this decision before the Paris Court of Appeals on June 16, 2006. The Court of Appeals held hearings on March 26 and 27, 2008. On June 24, 2008, the court ruled that there were no grounds for sanctioning Sade. The €5.4 million fine was reimbursed to Sade by the French State on July 29, 2008. As of the date hereof, Sade has not been included in proceedings filed by various companies before the French Supreme Court (Cour de cassation) appealing the June 24, 2008 decision.

WASCO and Aqua Alliance Inc.

Several present and former indirect subsidiaries of Veolia Eau in the United States[32] are defendants in lawsuits in the United States in which the plaintiffs seek to recover for personal injury and other damages for alleged exposure to asbestos, silica and other potentially harmful substances. With respect to the lawsuits against Veolia Eau's former subsidiaries, certain of Veolia Eau's current subsidiaries remain liable and at times must manage the outcomes of such claims. In addition, the acquirors of Veolia Eau's former subsidiaries in certain instances benefit from guarantees given by Veolia Eau or by Veolia Environnement in respect of such lawsuits. These lawsuits typically allege that the plaintiffs' injuries resulted from the use of products manufactured or sold by Veolia Eau's present or former subsidiaries or their predecessors. There are generally numerous other defendants, in addition to Veolia Eau's present or former subsidiaries, which are accused of having contributed to the injuries. Reserves have been accrued by Veolia Eau's current subsidiaries for their estimated liability in these cases based on, among other things, the nexus between the injuries claimed and the products manufactured or sold by Veolia Eau's subsidiaries or their predecessors, the extent of the injuries allegedly sustained by the plaintiffs, the involvement of other defendants and the settlement history in similar cases. These reserves are accrued at the time such liabilities become probable and reasonably estimable, and do not include reserves for possible liabilities in respect of unasserted claims.

A number of such claims have been resolved to date either through settlement or dismissal. To date, none of the claims has been tried to a verdict.

During the five-year period ended December 31, 2008, the average annual costs relating to these claims, including amounts paid to plaintiffs and legal fees, have been approximately US$2.1 million, after reimbursements by insurance companies. Although it is possible that these expenses may increase in the future, the Company currently has no reason to believe that any material increase is likely to occur, nor does it expect these claims to have a material adverse effect on its business, financial condition or results of operations.

32 Subsidiaries of the Aqua Alliance group, or of WASCO (formerly named Water Applications & Systems Corporation and United States Filter Corporation), the leading company of the former U.S. Filter group, the major businesses of which were sold to various acquirors in 2003 and 2004.

Veolia Water North America Operating Services

In 2002, Veolia Water North America Operating Services ("VWNAOS"), a Company's subsidiary, entered into a ten-year contract with the city of Atlanta, representing annual revenues of US$10 million. This contract involves the operation of various slurry and effluent treatment plants for the city, the maintenance and renovation of equipment and the design and planning of a construction program for plant renovation. On June 19, 2006, VWNAOS brought an action against the city of Atlanta before the United States District Court, alleging the city's failure to respect its investment obligations, reimburse additional costs of operation and pay bills issued in consideration for services provided. VWNAOS estimates its damages to be at least US$25 million, excluding damages resulting from further adjustments which may arise over the course of the procedure. On July 10, 2006, the city of Atlanta unilaterally cancelled the contract and, in turn, brought an action against VWNAOS, alleging VWNAOS' failure to fulfill certain of its obligations during the execution of the contract. The city is seeking indemnities of approximately US$35 million against VWNAOS and has also brought an action against Veolia Environnement directly in its capacity as VWNAOS's guarantor under the contract. In connection with this dispute, the city has drawn on the US$9.5 million letter of credit issued to VWNAOS at the start of the contract. Following pre-trial discovery and motions by both sides seeking summary judgment, on December 8, 2008, the court ruled in favor of the city of Atlanta. The two parties have asked for a rehearing but no hearing date has been set. The Company disputes the city's claims and intends to defend vigorously. At this point in the procedure, it believes that this matter will not have a significant impact on its financial situation.

In April 2008, two of the Company's subsidiaries, Veolia Water North America Operating Services and Veolia Water Indianapolis (VWI), were named as defendants in two putative class action lawsuits filed in Indiana state courts, which have since been consolidated, in which the plaintiffs have alleged that the meter-reading practices used by VWI for Indianapolis customers were inconsistent with VWI's contract with the local water authority and state consumer protection law. The plaintiffs have claimed that VWI billed customers on the basis of estimates of water usage, rather than actual usage, more frequently than the contract permitted, resulting in overcharges that, while later credited to the customers, deprived the customers of their money for a period of time. They have also claimed that the methodology used to estimate water usage was flawed and not approved under relevant regulations. The plaintiffs are seeking to certify a class of similarly situated residential water customers. VWI believes that its billing and meter reading practices complied with its contract and relevant laws and regulations, and that the claims of the plaintiffs are without merit. It intends to defend its interests vigorously. On January 13, 2009, the court granted without prejudice a motion to dismiss filed by Veolia Water North America Operating Services and VWI. On January 23, 2009, the plaintiffs filed an amended complaint against Veolia Water North America Operating Services and VWI, and also named the water authority of the city of Indianapolis as defendant. The Company believes that these lawsuits will not materially and adversely affect its financial position or results.

Veolia Transport

In 1998, the DGCCRF (a French administrative body with competition oversight) conducted an inspection and performed seizures on the premises of the Company's transportation subsidiary Connex (now Veolia Transport) and other companies in the public transportation market, with the purpose of obtaining proof relating to possible anti-competitive practices in this market. In September 2003, the French Competition Council notified Veolia Transport of two grievances that suggested collusion among operators which might have had the effect of limiting competition at the local and national level in the public transportation market relating to urban, inter-urban and school services between 1994 and 1999. In September 2004, the French Competition Council notified Veolia Transport of additional grievances alleging the existence of an anticompetitive agreement (entente anticoncurrentielle) at the European Union level. On July 5, 2005, the French Competition Council issued a decision in which it partially validated the findings of the public authorities, and ordered Veolia Transport to pay a fine of approximately €5 million. Veolia Transport paid this fine and filed an appeal, which the Paris Court of Appeals rejected on February 7, 2006. On March 7, 2006, Veolia Transport filed an appeal with the French Supreme Court. The French Supreme Court approved certain arguments advanced by Veolia Transport and, in its decision dated October 9, 2007, overturned the decision of the Court of Appeals of Paris and resubmitted the claim to the same court. Because this decision has not yet been served to the parties, Veolia Transport has two years from the date of the decision (until the end of October 2009) to file an appeal.

On September 12, 2008, a suburban train operated by Connex Railroad LLC, a Veolia Transport subsidiary, on behalf of the Southern California Regional Rail Authority (the "SCRRA"), collided with a Union Pacific freight train in Chatsworth, California. This accident resulted in 25 fatalities and a significant number of injuries. The National Transportation Safety Board (the "NTSB") and related California agencies are undertaking an investigation into the circumstances surrounding this accident. Connex Railroad is cooperating fully with this investigation, which is continuing. In addition to investigating the causes of this accident, Connex Railroad continues to work with the SCRRA and investigatory agencies to find ways to make rail transportation safer. A number of civil lawsuits relating to the accident, seeking unspecified amounts of damages, have been filed in state and federal courts in California against several parties, including Connex Railroad and other Group companies. A U.S. statute limits the total amount of damages that may be awarded to railroad passengers for injury, death, and property damage against passenger rail operators arising from a single accident to U.S.$200 million. Given the early stage of these proceedings and the ongoing NTSB investigation, the Group is currently unable to determine whether the financial consequences of this accident could materially and adversely affect its financial condition or results of operations.

Société Nationale Maritime Corse Méditerranée (SNCM)

On September 19, 2006, Compagnie Méridionale de Navigation (CMN) and Corsica Ferries filed a complaint before the Competition Council alleging anti-competitive practices by SNCM (a subsidiary of Veolia Transport), the Corsican Regional Authority (Collectivité Territoriale Corse) and the Corsican Transportation Bureau (l'Office des Transports Corse), allegedly intended to restrict or eliminate competition during the call for tenders for the Marseille-Corsica public transport delegation contract. In December 2006, the Competition Council held that the cartel claim against the Corsican Regional Authority, the Corsican Transportation Bureau and SNCM was inadmissible, and rejected claims regarding the excessive subsidies and crossed subsidies raised by Corsica Ferries. On the other hand, the Competition Council found that the global and indivisible offer of the SNCM was likely to constitute an abuse of dominant position. Although it relates to a call for tenders which was cancelled by a decision of the Conseil d'Etat in December 2006, the Competition Council investigated the case and a hearing was held on December 9, 2008. In a decision dated February 27, 2009, the Competition Council ruled against SNCM and levied a fine of €300,000 for abuse of dominant position. SNCM has appealed this decision.

Before the Competition Council, Corsica Ferries also contended that the CMN / SNCM grouping formed an anti-competitive cartel based on an unlawful pooling arrangement, that the grouping formed an abuse of a dominant position and that the size of the subsidy requested by the grouping in its tender suggested the existence of cross-subsidies and constituted an abuse of a dominant position. The Competition Council dismissed Corsica Ferries' claims concerning the grouping and pooling arrangements on April 6, 2007. Proceedings with respect to the claim of excessive subsidy are underway, but the Competition Council has not yet made a formal complaint.

The initial bid process was delayed by administrative court proceedings, ending in a decision by the Conseil d'Etat in December 2006. Following this decision, the Corsican Regional Authority launched a second bid process. Following a new complaint of Corsica Ferries with respect to this second bid process, its request for the cancellation of the decision awarding the contract to the CMN / SNCM group for the 2007 to 2013 period was dismissed by a decision of the administrative court of Bastia on January 24, 2008. Corsica Ferry has appealed this decision.

Finally, the acquisition of the share capital of SNCM by Veolia Transport was conditioned upon the approval by the European Commission of the privatization conditions with respect to state aids. The French State was responsible for this process and filed its conclusions with the Commission on November 16, 2006 and April 27, 2007. The European Commission ruled on July 8, 2008 that the amounts paid by the French State in connection with the privatization process did not constitute state aids. Although the decision of the Commission has not been published as of the date hereof, Corsica Ferries and the STIM d'Orbigny (Stef Tfe group) have each appealed the decision before the European Court of First Instance (Tribunal de Première Instance des Communautés Européennes).

Veolia Propreté

On April 16, 2008, Termo Energia Calabria S.p.a. (TEC), a company specialized in waste incineration and a 90% subsidiary of Veolia Servizi Ambientali Tecnitalia S.p.a. (VSAT), which is in turn a 99% subsidiary of Veolia Propreté, filed a claim with the administrative court of the Calabria region in Italy for the payment of subsidies corresponding to an adjusted amount of €26.9 million due under the concession agreement entered into on October 17, 2000 with such region. On August 11, 2008, the administrative court ordered the region to respond to this claim. At the end of November 2008, the region announced its refusal to pay the subsidies claimed. In addition, on May 16, 2008, TEC filed a claim with an Italian arbitral tribunal against the Extraordinary Commissioner of Calabria for the reimbursement of €58.56 million corresponding to various additional operating fees and costs incurred since 2005 and claiming a breach of the price indexation provision included in the concession agreement. The arbitration proceedings began and, on October 24, 2008, the Extraordinary Commissioner of Calabria filed a counter-claim against TEC seeking the termination of the concession agreement and the payment of the sum of €62.3 million as compensation for construction delays. The Company considers the Commissioner's claims to be groundless and therefore has not accrued any provisions for this dispute.

In addition, VSAT has been suspected of manipulation of software that monitors carbon monoxide emissions in incineration facilities in Falascaia, Vercelli and Brindisi. In all three cases, VSAT filed a "John Doe" complaint in June 2008, August 2008, and February 2009, respectively, which are currently being investigated.

For all of these reasons, in early 2009 Veolia Propreté decided to undertake negotiations with the Italian company Termomeccanica Ecologia S.p.a. pursuant to the indemnity clauses contained in the agreement under which VSAT was sold to Veolia Propreté in 2007.

As of the date hereof, the Company is not in a position to predict whether the outcome of these actions will have a significant impact on its financial condition or results of operations.

20.5 MATERIAL CHANGES IN FINANCIAL CONDITION OR COMMERCIAL POSITION

There has been no material change in the financial condition or commercial position of the Company since the close of its 2008 fiscal year. The events or circumstances that could reasonably have a material effect on the Company's outlook for the current fiscal year are described in chapter 6 and in chapter 9 above and were communicated by the Company during the presentation of 2008 annual results on March 6, 2009.

21 COMPLEMENTARY INFORMATION CONCERNING THE SHARE CAPITAL AND THE PROVISIONS OF THE BYLAWS

21.1 INFORMATION CONCERNING THE SHARE CAPITAL

21.1.1 Share capital

At December 31, 2008, Veolia Environnement's share capital amounted to €2,362,682,240 divided into 472,536,448 shares.

As of the filing date of this reference document, the Company's capital was €2,362,883,330 divided into 472,576,666 fully paid-up shares, all in the same class, with a par value of €5 each (cf. the table that sets out the changes in capital, in paragraph 21.1.6 *infra*). [33]

21.1.2 Market for the Company's securities

The Company's shares have been admitted to trading on the Euronext Paris market (Compartment A) since July 20, 2000, under ISIN code FR 0000124141-VIE, Reuters code VIE. PA and Bloomberg code VIE. FP. Veolia Environnement securities are eligible for the *Service de règlement différé* (deferred settlement service or "SRD"). Company shares have also been listed on the New York Stock Exchange in the form of American Depositary Receipts (ADR) under the symbol "VE" since October 5, 2001.

Company shares have been included in the CAC 40, the main share index published by Euronext, since August 8, 2001.

The tables below describe the highest and lowest listed prices and the volume of Veolia Environnement securities traded on the Euronext Paris market and the New York Stock Exchange, over the past 18 months.

Euronext Paris

Year (month/quarter)	Price (in euros)		Volume of securities traded
	Highest	Lowest	
2009			
February	19.22	15.08	43,795,105
January	23.09	15.34	56,929,909
2008			
Fourth quarter	29.86	16.55	204,040,593
December	22.48	17.11	40,369,311
November	20.98	17.36	57,657,493
October	29.86	16.55	106,013,789
Third quarter	37.94	28	153,059,989
September	36.85	28	58,047,976
August	37.94	32.73	39,549,087
July	35.80	30.65	55,462,926
Second quarter	47.90	34.70	184,364,200
June	47.90	34.70	78,399,989

[33] On March 5, 2009, the Veolia Environnement board of directors recorded the increase in the Company's capital following the exercise of share subscription options within the scope of the stock option plans implemented by the Company.

May	47.49	42.90	51,776,076
April	47.68	42.70	54,188,135
First quarter	63.89	42.00	183,500,344
March	58.29	42.00	85,760,030
February	59.84	53.29	41,083,180
January	63.89	48.81	56,657,134
2007			
Fourth quarter	66.25	59.19	114,698,053
December	65.85	60.07	35,155,979
November	66.25	59.88	47,353,819
October	62.95	59.19	32,188,255
Third quarter	60.96	50.62	141,437,296
September	60.96	53.33	42,107,800

Source: Euronext Paris.

New York Stock Exchange

Year (month/quarter)	**Price** *(in USD)*		**Volume of securities traded**[1]
	Highest	**Lowest**	
2009			
February	25.08	19.14	3,041,336
January	31.83	20.68	4,704,267
2008			
Fourth quarter	41.50	20.83	16,805,689
December	31.78	21.75	5,674,953
November	27.44	21.57	4,427,471
October	41.50	20.83	6,703,265
Third quarter	56.09	39.10	10,256,268
September	53.53	39.10	4,096,321
August	56.09	51.00	2,564,866
July	55.47	49.00	3,595,081
Second quarter	74.08	54.16	12,758,488
June	72.54	54.16	5,439,325
May	72.14	66.60	3,652,867
April	74.08	68.25	3,666,296

First quarter	94.42	64.85	12,454,400
March	86.98	64.85	6,087,300
February	90.27	77.56	2,919,100
January	94.42	72.88	3,448,000
2007			
Fourth quarter	96.61	84.25	5,382,300
December	96.61	86.15	1,553,200
November	96.07	88.15	1,996,700
October	91.02	84.25	1,832,400
Third quarter	86.64	67.11	6,771,700
September	86.64	73.76	2,594,200

Source: NYSE.

(1) For the information relating to the number of securities exchanged, the Company's source, since September 2006, has been the data published by the New York Stock Exchange (accessible on the NYSE website at www.nyse.com).

21.1.3 Purchase of treasury shares by the Company [34]

21.1.3.1 Repurchase program in force as of the date of filing of this reference document (plan authorized by the combined general meeting of May 7, 2008)

During the combined general meeting of May 7, 2008, the Company's shareholders authorized a share repurchase plan that allows the Company to purchase, sell or transfer its shares at any time, except during a public offer, within the limits authorized by the provisions of the law and regulations in force, and by any means, on the market or over the counter, including through block sales or purchases, via public purchase, sale or exchange offers, or by the use of options or other derivative financial instruments that are traded on a market or over the counter or by the delivery of shares following the issue of securities that grant access to the Company's capital by means of conversion, exchange, redemption, exercise of warrants or in any other way, either directly or indirectly via the intermediary of an investment services provider.

The share purchases may be for a number of shares such that the number of shares that the Company purchases throughout the term of the repurchase plan does not exceed 10% of the shares that make up the Company capital and such that the number of shares that the Company holds at any given time does not exceed 10% of the shares that make up the Company's capital.

This authorization allows the Company to trade in its own securities with the following objectives: (i) implementing all Company stock option plans, (ii) awarding free shares, (iii) awarding or selling shares to employees in respect of their association with the benefits of the Company's expansion and the implementation of any company savings plan, (iv) delivering shares when rights are exercised that are attached to securities that grant access to the capital via redemption, conversion, exchange, presentation of a warrant or in any other way, (v) delivering shares within the scope of external growth transactions, mergers, spin-offs or contributions; (vi) stimulating the secondary market for or the liquidity of Veolia Environnement shares through an investment services provider, within the scope of a liquidity contract that complies with the ethics charter recognized by the AMF, or, lastly, (vii) canceling all or part of the shares thus repurchased.

The maximum purchase price under the program was set at the general meeting of May 7, 2008 at €90 per share, and the maximum amount that the Company may allocate to the share repurchase plan was set at €1.5 billion. The general meeting granted full powers to the board of directors, with the option of sub-delegation under the conditions laid down by law, in order to decide on and implement this authorization.

The authorization described above, which is in force on the filing date of this reference document, will expire at the latest within 18 months as from the combined general meeting of May 7, 2008, i.e. on November 7, 2009, unless a new plan is authorized by the general meeting of May 7, 2009.

[34] This section contains the information that must be included in the plan description, pursuant to Article 241-2 of the Autorité des marchés financiers General Regulations and the information required pursuant to the provisions of Article L. 225-211 of the French Commercial Code.

21.1.3.2 Summary of transactions completed by Veolia Environnement on its own securities during the 2008 fiscal year

Percentage of capital held as treasury shares at December 31, 2008	3.17 %
Number of treasury shares held at December 31, 2008	14,980,034
Book value* of the portfolio at December 31, 2008	€457,574,927
Market value of the portfolio at December 31, 2008* (	€332,556,755
Number of shares cancelled over the last 24 months	0

* Not including provisions.

** On the basis of the closing price at December 31, 2008, i.e. €22.20.

The table below details the transactions performed by the Company on its own shares during the 2008 fiscal year as part of the plans authorized by the combined general meetings of May 10, 2007 and May 7, 2008:

	Total gross flows at December 31, 2008		Net positions at December 31, 2008			
	Purchases	**Sales/ Transfers**	**Net long positions**		**Net short positions**	
			Call options purchased	Forward purchases	Call options sold	Forward sales
Number of securities	155,661	296,281	none	none	1,400,000*	none
Average price of transactions *(in euros)*	35.03	36.90				
Average exercise price *(in euros)*			NA	NA	43.48	NA
Amounts *(in euros)*	5,452,591	10,934,104				

NA: not applicable.

* Call options with maturity dates ranging from August 5, 2009 to September 24, 2009 sold by the Company to Calyon in August and September 2006 as part of the implementation of the secured formula of its capital increase reserved for employees, the completion of which was recorded on December 15, 2006.

The Company paid total trading fees of €7,122.30 in the 2008 fiscal year for the transactions performed as part of the plan authorized by the general meeting of May 7, 2008.

21.1.3.3 Objectives of transactions performed during the 2008 fiscal year and allocation of the treasury shares held

The transactions involving Veolia Environnement shares that were carried out during the 2008 fiscal year were performed:

- in order to fulfill the aim of implementing the share purchase option schemes; accordingly, the Company transferred a total of 296,281 shares following the exercise of share purchase options awarded to employees under the first share purchase option plan implemented by Veolia Environnement in 2000, which expired on June 23, 2008 (cf. § 17.3.3 *supra*); and
- as part of the external growth objective, pursuant to which Veolia Environnement acquired a total of 155,661 shares.

At March 1, 2009, Veolia Environnement held a total of 14,980,034 treasury shares, representing 3.17% of the Company's share capital, and no shares were held directly or indirectly by subsidiaries of Veolia Environnement. On this date, the portfolio of treasury shares was allocated as follows:

- 6,278,845 shares were allocated to cover stock option programs or other share awards to Group employees;
- 8,701,189 shares were allocated to external growth transactions.

21.1.3.4 Description of the program submitted for the authorization of the general meeting of May 7, 2009

The authorization for share repurchases described in section 21.1.3.1 above will expire at the latest on November 7, 2009, unless the combined general meeting of May 7, 2009 adopts the resolution set out below.

This resolution authorizes the Company to implement a new plan to repurchase shares under the following conditions:

- This authorization would be intended to allow the Company to trade in its own securities with the following objectives: (i) implementing all Company stock option plans within the scope of the provisions of Articles L.225-177 et seq. of the French Commercial Code or any similar plan; (ii) awarding free shares within the scope of the provisions of Articles L.225-197-1 et seq. of the French Commercial Code; (iii) awarding or selling shares to employees in respect of their association with the benefits of the Company's expansion and the implementation of any company savings plan under the conditions provided for by law, in particular Articles L.3332-1 et seq. of the French Labor Code; (iv) delivering shares when rights are exercised that are attached to securities that grant access to the capital via redemption, conversion, exchange, presentation of a warrant or in any other way; (v) delivering shares (as exchange, payment or otherwise) within the scope of external growth transactions, mergers, spin-offs or contributions; (vi) stimulating the secondary market for or the liquidity of Veolia Environnement shares through an investment services provider, within the scope of a liquidity contract that complies with the ethics charter recognized by the AMF; (vii) canceling all or part of the shares thus repurchased. This program would also be intended to allow the Company to proceed with any other objective authorized under the laws or regulations in force, or which could be authorized in the future under such laws or regulations. In such a case, the Company would inform its shareholders by way of press release.
- The purchases of Company shares could be for a number of shares such that: (i) the number of shares that the Company purchases throughout the term of the share repurchase plan, at any time whatsoever, does not exceed 10% of the shares that make up the Company's capital, i.e. approximately 47,253,645 shares as of December 31, 2008 (this percentage will apply to the capital, as adjusted in light of transactions that affect it after the combined general meeting of May 7, 2009); (ii) the number of shares acquired with a view to being retained and subsequently delivered as part of a merger, spin-off, or contribution does not exceed 5% of the Company's capital; (iii) the number of shares that the Company holds at any given time whatsoever does not exceed 10% of the shares that make up the Company's capital on the date in question.
- Shares may be sold, bought or transferred at any time, except during a public offer, within the limits authorized by the legal and regulatory provisions in force, by any means, on the market or over the counter, including by block purchases or sales (with no limit as to the proportion of the share repurchase plan that may be implemented by this method), by public offers to purchase, sell or exchange shares, or through the use of options or other derivative financial instruments traded on a regulated market or a multilateral trading facility, through systematic internalizers or over the counter, or through delivery of shares following the issue of securities that grant access to the Company's capital through conversion, exchange, redemption, exercise of a warrant or otherwise. Transactions may be conducted either directly or indirectly through an investment services provider.
- The maximum purchase price of the shares under this resolution would be €50 (35) per share. The total amount allocated to the share repurchase plan authorized above may not exceed €1 billion. This authorization would cancel any prior authorization granted to the board of directors to trade in the Company's shares, effective from May 7, 2009, for the value of the unused portion of such prior authorization. It would be granted for a period of eighteen months from the date of this meeting.
- The general meeting would grant the board of directors the power to adjust the maximum purchase price in order to take into account, if required, the impact on the share value of transactions that affect the Company capital or shares, and would grant full powers to the board of directors, including the option of sub-delegation under the conditions provided for by law, to decide on and implement this authorization, to specify, if necessary, the terms thereof and decide on the conditions thereof and, in general, to carry out the purchase plan authorized by the meeting.

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[35] This maximum purchase price (or the equivalent value at the same date in all other currencies) is only applicable to acquisitions decided after the date of the combined general meeting of May 7, 2009 and not to transactions concluded before this meeting that provide for share acquisitions to be realized after the date of this meeting.

21.1.4 Capital authorized but not issued

21.1.4.1 Authorizations adopted by the general meetings of May 10, 2007 and May 7, 2008

Status of the authorizations adopted by the combined general meeting of May 10, 2007 [36]

Securities concerned	Term of the authorization and expiration date	Maximum nominal amount of the capital increase *(in million of euros)*	Use of the authorizations *(in million of euros)*
Issuances reserved for employees Free awards of future shares (or existing shares)*	26 months July 10, 2009	0.5% of the capital (This maximum amount is subject to the total nominal cap on capital increases of 1,651*)	1.7**

* Total amount of capital increases authorized by the combined general meeting of May 7, 2008.

** Pursuant to this authorization, the Company board of directors implemented a plan for the award of free shares on July 17, 2007 and awarded a total amount of 333,700 free shares to be issued, representing 0.07% of the Company's capital on the date of its decision (cf. chapter 17, §17.4 supra).

Status of the authorizations adopted by the combined general meeting of May 7, 2008 [37]

Securities concerned	Term of the authorization and expiration date	Maximum nominal amount of the capital increase *(in million of euros)*	Use of the authorizations *(in million of euros)*
Share repurchase program	18 months November 7, 2009	1,500 or 10% of the share capital	5.45
Issuances with preferential subscription rights (PSR)* Capital increase through all types of securities	26 months July 7, 2010	40% of the share capital (This maximum amount is subject to the total nominal cap on capital increases of 1,651)	none
Issuances without preferential subscription rights (PSR) * Capital increase through all types of securities	26 months July 7, 2010	15% of the share capital (This maximum amount is subject to the total nominal cap on capital increases of 1,651)	none
Issuances of securities as payment for contributions in kind*	26 months July 7, 2010	10% of the capital (This maximum amount is subject to the total nominal cap on capital increases without PSR and to the total nominal cap of 1,651)	none
Increase in capital through the capitalization of premiums, reserves, profits or other items *	26 months July 7, 2010	400 (This maximum amount is subject to the total nominal cap on capital increases of 1,651)	none
Increase in the number of securities in the event of capital increases, without or without preferential subscription rights (green shoe option)*	26 months July 7, 2010	+ 15 % of a capital increase (This maximum amount is subject to the total nominal cap on capital increases of, 1,651 and to the total nominal cap on capital increases with or without PSR)	none

[36] Only authorizations that are still in force as of the date of filing of this reference document are listed.

[37] Only authorizations that are still in force as of the date of filing of this reference document are listed.

Issuances reserved for employees* Members of savings plans	26 months July 7, 2010	2% of the capital (This maximum amount is subject to the total nominal cap on capital increases of 1,651)	none
Issuances reserved for employees */** Capital increase for a particular category of beneficiaries	18 months November 7, 2009	0.2% of the capital (This maximum amount is subject to the total nominal cap on capital increases of 1,651)	none
Issuances reserved for employees* Stock options	26 months July 7, 2010	1% of the capital (This maximum amount is subject to the total nominal cap on capital increases of 1,651)	none
Issuances of stock warrants during a public offer	18 months November 7, 2009	25% of the capital	none

* The total amount of capital increases that may occur pursuant to the authorizations adopted by the combined general meeting of May 7, 2008 may not exceed the total cap of €1.651 billion authorized by this meeting.

** Capital increase in favor of a company held by a credit institution intervening on behalf of Veolia Environnement for the implementation of a structured share offer to employees and corporate officers of affiliated companies that have their registered office in countries in which employees, for regulatory or other reasons, cannot benefit from traditional employee shareholder packages (issuances reserved for employees who are members of savings plans).

21.1.4.2 Authorizations put to the vote at the combined general meeting of May 7, 2009

Securities concerned	Term of the authorization and expiration date	Maximum nominal amount of the capital increase *(in million of euros and/or as a percentage)*
Share repurchase plan	18 months November 7, 2010	1,000 or 10% of the share capital
Issuances without preferential subscription rights (PSR) by private placement** Capital increase through all types of securities	14 months July 7, 2010	15% of the share capital* (This maximum amount is subject to the total nominal cap on capital increases of 1,651)
Issuances reserved for employees* Members of savings plans	14 months July 7, 2010	2% of the capital (This maximum amount is subject to the total nominal cap on capital increases of 1,651)
Issuances of stock warrants during a public offer	18 months November 7, 2010	25% of the capital

* The total amount of capital increases that may occur pursuant to this authorization cannot exceed the nominal cap on capital increases without preferential subscription rights authorized by the meeting of May 7, 2008.

** The total amount of capital increases that may occur pursuant to this authorization cannot exceed the total cap of €1.651 billion authorized by the meeting of May 7, 2008.

21.1.5 Other securities that grant access to the capital

Potential dilutive effect of options and stock warrants[38]

At December 31, 2008, the Company had granted a total of 22,944,535 subscription options that conferred the right to subscribe to 12,488,527 Company shares after adjustments and exercise (cf. chapter 17, § 17.3.3 *supra*).

On December 12, 2007, the Company's chairman and chief executive officer, with the authorization of the board of directors, itself acting pursuant to the eleventh resolution adopted by the combined general meeting of May 10, 2007, decided to grant the Sequoia Plus Deutschland 2007 company savings plan ("FCPE"), free of charge, 52,747 Veolia Environment stock warrants (BSA) attached to the to shares subscribed for by this FCPE within the scope of the implementation of the leveraged secured formula of the capital increase that was reserved for employees and completed in 2007. These BSAs were granted in exchange for a 20% discount on the shares subscribed for by FCPE Sequoia Plus Deutschland 2007, in the name and on behalf of the beneficiaries of the companies that are members of the international group savings plan and based in Germany, to take into account the local tax constraints within this country. Each stock warrant grants the right to subscribe for one Veolia Environnement share at the price of €60.23. The warrants can be exercised at any time until December 31, 2012 inclusive. After midnight on December 31, 2012, the non-exercised BSAs will be cancelled.

At December 31, 2008, the Company had 472,536,448 shares. On this date, if all the BSAs and all the subscription options (plans 2 to 7) had been exercised, 12,541,274 new shares would have been created, representing a dilution ratio of 2.65%.

21.1.6 Table of changes in capital at December 31, 2008

The table below shows the changes in the Veolia Environnement share capital since the start of the 2003 fiscal year:

Meeting date	Transaction	Number of shares issued	Par value of the shares *(in euros)*	Nominal amount of the capital increase *(in euros)*	Issue or contribution premium *(in euros)*	Total amount of the capital	Total number of shares
6/21/00 (management board meeting of 3/24/03)	Exercise of stock warrants	13	13.5	175.5	539.5	5,468,451,196.5	405,070,459
4/30/03	Reduction in capital (by reduction in the par value)	NA	5	NA	3,443,098,901.5	2,025,352,295	405,070,459
6/21/00 (recorded by the chairman and chief executive officer on 6/30/03)	Exercise of stock warrants	9	5	45	448.06	2,025,352,340	405,070,468
6/21/00 (recorded by the chairman and chief executive officer on 2/17/04)	Exercise of stock warrants	47	5	235	2,341.99	2,025,352,575	405,070,515
5/12/2004 (recorded by the chairman and chief executive officer on 12/6/2004)	Capital increase reserved for employees (Group Savings Plan)	1,351,468	5	6,757,340	18,528,626.28	2,032,109,915	406,421,983
6/21/2000 (recorded by the board of directors on 9/15/2005)	Exercise of stock options	94,772	5	473,860	1,875,890.52	2,032,583,775	406,516,755

38 As the performance conditions were not met, the awardees of free shares under plan no. 1 lost all their rights (cf. chapter 17, § 17.4 supra).

5/12/2005 (recorded by the chairman and chief executive officer on 12/6/2005)	Capital increase reserved for employees (Group Savings Plan)	1,281,928	5	6,409,640	29,625,356.08	2,038,993,415	407,798,683
6/21/2000 4/25/2002 5/12/2004 (recorded by the board of directors on 3/9/2006)	Exercise of stock warrants and of stock options	73,923	5	369,615	1,456,335	2,039,363,030	407,872,606
6/21/2000 4/25/2002 5/12/2004 (recorded by the board of directors on 9/14/2006)	Exercise of stock warrants and of stock options	991,894	5	4,959,470	29,011,377	2,044,322,500	408,864,500
5/11/2006 (recorded by the chairman and chief executive officer on 12/15/2006)	Capital increase reserved for employees (Group Savings Plan)	1,931,340	5	9,656,700	62,807,177	2,053,979,200	410,795,840
6/21/2000 4/25/2002 5/12/2004 5/12/2005 (recorded by the board of directors on 3/7/2007)	Exercise of stock options	1,830,710	5	9,153,550	52,109,661	2,063,132,750	412,626,550
6/21/2000 4/25/2002 (recorded by the board of directors on 6/10/2007)	Exercise of stock options	2,722,082	5	13,610,410	68,869,237.01	2,076,743,160	415,348,632
6/21/2000 4/25/2002 (recorded by the chairman and chief executive officer on 7/10/2007)	Exercise of stock options	179,688	5	898,440	4,229,969	2,077,641,600	415,528,320
5/11/2006 (recorded by the chairman and chief executive officer on 7/10/2007)	Capital increase in cash with maintenance of preferential subscription rights	51,941,040	5	259,705,200	2,321,764,488	2,337,346,800	467,469,360
5/10/2006 (recorded by the chairman and chief executive officer on 12/12/2007)	Capital increase reserved for employees (Group Savings Plan)	3,061,675	5	15,308,375	132,948,611.80	2,352,655,175	470,531,035
5/10/2006 (recorded by the chairman and chief executive officer on 12/12/2007)	Capital increase reserved for a category of beneficiaries	188,771	5	943,855	8,151,131.78	2,353,599,030	470,719,806
6/21/2000 4/25/2002 12/05/2004 (recorded by the board of directors on 3/6/2008)	Exercise of stock options	1,042,950	5	5,214,750	26,877,494.36	2,358,813,780	471,762,756

6/21/2000 4/25/2002 5/12/2004 (recorded by the board of directors on 8/6/2008)	Exercise of stock options	773,693	5	3,868,465	17,875,554.98	2,362,682,245	472,536,449
8/6/08 (record by the board of directors)	Correction of a clerical error: cancellation of a share	-1	5	-5	-21.18	2,362,682,240	472,536,448
4/25/2002 5/12/2004 (recorded by the board of directors on 3/5/2009)	Exercise of stock options	40,218	5	201,090	707,064.28	2,362,883,330	472,576,666

NA: Not applicable.

21.1.7 Non-equity securities

EMTN program

In June 2001, a Euro Medium Term Note (EMTN) program was implemented for a maximum amount of €4 billion. On June 26, 2002, this limit was raised to €8 billion, and then to €12 billion on June 9, 2006.

The main issuances that make up the outstanding amounts of this program at December 31, 2008 are as follows:

Issue date	Nominal issue amount	Complementary issues	Nominal amount outstanding at December 31, 2008	Yield	Maturity
February 1, 2002	€1 billion		€1 billion	5.875%	February 1, 2012
May 28, 2003	€1 billion		€1 billion	4.875%	May 28, 2013
May 28, 2003	€750 million		€750 million	5.375%	May 28, 2018
November 25, 2003	€700 million		€700 million	6,125 %	November 25, 2033
June 17, 2005	€600 million		€875 million	1.75 % inflation rate in the euro zone (excluding tobacco)	June 17, 2015
April 1, 2008		€275 million			
December 12, 2005	€900 million		€900 million	4%	February 12, 2016
December 12, 2005	€600 million		€600 million	4.375%	December 11, 2020
November 24, 2006	€1 billion		€1.140 billion	4.375%	January 16, 2017
March 14, 2008		€140 million			
May 24, 2007	€1 billion		€1 billion	5.125%	May 24, 2022
October 29, 2007	GBP 500 million		GBP 650 million	6.125%	October 29, 2037
January 7, 2008		GBP 150 million			

During the 2008 fiscal year, Veolia Environnement made new issues for a nominal equivalent amount of €572 million at December 31, 2008, broken down as follows:

- On January 7, 2008, Veolia Environnement reopened the sterling series that matures in 2037 for an amount of GBP 150 million, bringing the total amount of the series to GBP 650 million;
- On March 14, 2008, Veolia Environnement reopened the euro series that matures in 2017 for an amount of €140 million, bringing the total amount of the series to €1,140 million;
- On April 1, 2008, Veolia Environnement reopened the euro series that matures in 2015, which is indexed to European inflation for an amount of €275 million, bringing the total amount of the series to €875 million.

Moreover, during the 2008 fiscal year, the Company made the following reimbursements:

- The issue of €300 million at the Euribor 3-month rate + 0.06% made on February 15, 2006 was reimbursed in full when it matured on February 15, 2008.
- The issue of €2 billion at the rate of 5.875% made on June 27, 2001, which was the subject of several partial redemptions (at the start of 2004, for €150 million and in December 2005, for €1.15 billion), was reimbursed in full when it matured on June 27, 2008.
- The issue of €200 million at the Euribor 3-month rate + 0.50% made on February 26, 2007 was reimbursed in full when it matured on August 26, 2008.

At December 31, 2008, the nominal amount outstanding on the EMTN program was €8,750 million, of which €8,706 million will mature in more than one year.

US Private placement (USPP)

In 2003 the Company issued bonds that were privately placed with investors located primarily in the United States, broken down as follows:

Tranches	Nominal amount of the issue	Rate	Maturity
Tranche A	€33 million	fixed rate of 5.84%	January 30, 2013
Tranche B	GBP 7 million	fixed rate of 6.22%	January 30, 2013
Tranche C	USD 147 million	fixed rate of 5.78%	January 30, 2013
Tranche D	USD 125 million	fixed rate of 6.02%	January 30, 2015
Tranche E	USD 85 million	fixed rate of 6.31%	January 30, 2018

At December 31, 2008, the nominal outstanding amount of this loan was €297 million, all of which will mature in more than one year (cf. chapter 20, paragraph 20.1, note 18 to the consolidated financial statements).

Public issuance on the US market

On May 28, 2008 Veolia Environnement issued bonds registered with the US Securities and Exchange Commission for an amount of USD 1.8 billion, at a fixed rate and in three tranches:

Issue date	Nominal amount of the issue	Rate	Maturity	Amount outstanding at December 31, 2008
May 21, 2008	USD 700 million	5.25 %	June 3, 2013	USD 700 million
May 21, 2008	USD 700 million	6.00 %	June 1, 2018	USD 700 million
May 21, 2008	USD 400 million	6.75 %	June 1, 2038	USD 400 million

At December 31, 2008 the outstanding amount of this loan was €1,293 million, all of which will mature in more than one year.

Commercial paper *(billets de trésorerie)*

At December 31, 2008 the outstanding amount of the commercial paper issued by the Company was €922 million, the average maturity of which is one month.

21.2 PROVISIONS OF THE BYLAWS

Please refer also to the information set out in Chapter 5, paragraph 5.1.2 (General information concerning the Company).

21.2.1 Corporate purpose

Pursuant to article 3 of the Company bylaws, Veolia Environnement's corporate purpose, directly and indirectly, in France and in all other countries, is:

- conducting all service activities, for private, professional and public customers, that are related to the environment, in particular, water, wastewater, energy, transportation and waste management;
- the acquisition, use and exploitation of all patents, licenses, trademarks and models that are directly or indirectly related to corporate activities;
- the acquisition of all participating interests, in the form of subscriptions, purchases, contributions, exchanges or by any other means, and the acquisition of shares, bonds and all other securities in existing or future enterprises, groupings or companies, and the option of disposing of such interests; and
- in general, all commercial, industrial, financial or non-trading transactions, whether in personal or real property, that are directly or indirectly related to the aforementioned corporate purpose, and, in particular, the issue of all guarantees, first-demand guarantees, sureties and other security interests, in particular for the benefit of all groupings, enterprises or companies in which the Company holds a participating interest within the scope of its business activities, as well as the financing or refinancing of its business activities.

21.2.2 Fiscal year

The Company's fiscal year starts on January 1 and closes on December 31 of each calendar year.

21.2.3 Profit allocation under the bylaws

Each share grants entitlement to an amount of the profit in proportion to the percentage of the capital that such share represents.

The distributable profit is made up of the net profit for the fiscal year, minus any deferred losses and the various deductions provided for by law, plus the deferred profit.

The general meeting may decide to distribute amounts drawn from the reserves of which it may freely dispose, by expressly stating the reserve items from which the amounts are drawn.

After approving the financial statements and recording the existence of amounts that are eligible for distribution (including the distributable profit and the amounts drawn from reserves referred to above, if any), the general meeting may decide to distribute all or part of such amounts to the shareholders as dividends, to allocate them to reserve items, or to carry them forward.

The general meeting has the option of granting the shareholders, for all or part of the dividends paid out or interim dividends, an option of payment in cash or payment in shares under the conditions laid down by the law. Furthermore, the general meeting may decide, for all or part of the dividend, interim dividends, distributed reserves or premiums, or for any capital reduction, that such distribution or such capital reduction will be effected in kind by delivery of Company assets.

The board of directors has the option of distributing interim dividends prior to the approval of the annual financial statements, under the conditions provided for by law.

21.2.4 Changes to the bylaws, the capital and the rights attached to shares

All changes to the bylaws, the capital or the voting rights attached to the securities that make up the capital are subject to the requirements of the law, as the bylaws do not contain any specific provisions.

21.2.5 General meetings

21.2.5.1 Convening notices to meetings

General meetings are convened and deliberate under the conditions provided for by law. Meetings are held at the Company's registered office or at any another location stated in the convening notice.

Shareholder's decisions are taken in ordinary, extraordinary, special or combined meetings, depending on the nature of the decisions that shareholders are called upon to make.

21.2.5.2 Participation in meetings

All shareholders may attend general meetings and participate in deliberations, either in person or by proxy. The right of shareholders to participate in ordinary or extraordinary meetings is contingent on the securities being registered in the accounts in the shareholder's name or the name of the intermediary registered as acting on the shareholder's behalf at the latest on the third business day prior to the meeting at midnight, Paris time, either in the registered securities accounts held by the Company, or in bearer securities accounts held by the authorized intermediary.

The recording or accounting recognition of the securities in the bearer securities accounts held by the authorized intermediary is evidenced by a participation certificate delivered by such intermediary, which is annexed to the postal voting form or proxy form or to the admission card request drawn up in the name of the shareholder or on behalf of the shareholder represented by the registered intermediary. A certificate is also delivered to shareholders who wish to attend the meeting in person who have not yet received their admission card by midnight, Paris time, of the third business day preceding the meeting.

All shareholders who are unable to attend the meeting in person may choose one of the following three voting methods:

- provide a written proxy to their husband or spouse or another shareholder;
- vote by post; or
- send a blank proxy to the Company, under the conditions provided for by the provisions of the law and regulations in force.

The forms for voting by proxy and postal votes are prepared and made available to shareholders in accordance with the legislation in force. Shareholders may, under conditions laid down by law and regulations, submit their proxies and postal votes either on paper, or, subject to a decision by the board of directors published in the meeting notice or in the convening notice, in electronic form in accordance with the procedures set forth in said notice.

Pursuant to a decision of the board of directors to have recourse to such means of telecommunication that is published in the meeting notice or in the convening notice, shareholders who participate in the meeting by videoconference or by means of telecommunication that allow them to be identified under the conditions provided for by the law and regulations, shall be deemed to be present for the purposes of the quorum and majority calculations.

Minutes of the meetings are prepared, and copies thereof are certified and issued in accordance with law.

21.2.5.3 Quorum

French Law no. 2005-842 of July 26, 2005 on confidence in and modernization of the economy lowered the quorum required for general meetings of *sociétés anonymes* to deliberate validly. The quorum required for extraordinary general meetings is one-quarter of the shares that have voting rights following the first convening notice, and one-fifth following the second convening notice (Article L.225-96 paragraph 2 of the French Commercial Code). The quorum required for ordinary general meetings is one-fifth of the shares that have voting rights following the first convening notice, while no quorum is required after the second convening notice (Article L.225-98 paragraph 2 of the French Commercial Code).

21.2.5.4 Voting rights

The voting rights attached to shares are proportional to the percentage of share capital that such shares represent, and each share carries the right to cast one vote. There are no double voting rights.

The voting right attached to shares subject to usufruct is exercised by the income beneficiary (*usufruitier*) in ordinary general meetings and by the bare title owner (*nu-propriétaire*) in extraordinary general meetings.

21.2.6 Identification of shareholders

When shares are fully paid up, they may be in registered or bearer form, at the discretion of the shareholder, subject to provisions of the laws and regulations in force and the Company bylaws. Until the shares are fully paid up, they must be in registered form.

Company shares are registered in an account under the conditions and in accordance with the terms provided for by the law and regulations in force. However, when the owner of the shares is not domiciled on French territory, within the meaning of Article 102 of the French Civil Code, any intermediary may be registered on behalf of such owner, in accordance with the provisions of Article L.228-1 of the French Commercial Code.

Furthermore, the Company's bylaws provide that the Company may seek to identify all holders of securities that grant an immediate or deferred right to vote in its meetings, in accordance with the procedures set forth in Articles L.228-2 et seq. of the French Commercial Code. Pursuant to these provisions, the Company reviews its share ownership four times a year in average.

Failure by the holders of securities or their intermediaries to comply with their data disclosure obligations that result from Articles L.228-2 et seq. of the French Commercial Code causes, under the conditions provided for by law, the temporary deprival of voting rights and under certain circumstances the suspension of the dividend attached to the shares.

21.2.7 Threshold exceeding

Pursuant to the provisions of the French Commercial Code, all individuals or legal entities, acting alone or in concert with others, that enter into possession of a number of shares that represents more than 5%, 10%, 15%, 20%, 25%, 33 1/3%, 50% or 66 2/3%, 90% and 95% of the existing shares or voting rights of the Company, must notify the Company and the AMF thereof by letter, within five stock market trading days of the date they cross such thresholds, of the number of shares and voting rights they hold. The AMF will publicly disclose this information. This information must also be provided, within the same timeframes and under the same conditions, when the capital or voting rights held fall below the thresholds referred to above.

If they are not compliantly declared, the shares that exceed the threshold that should have been declared in accordance with the provisions of the law set out above, are deprived of voting rights for all shareholders' meetings that are held until the expiration of a two-year period following the date on which the notification is brought into compliance.

In addition, the Company bylaws provide that all individuals or legal entities, acting alone or in concert with others, that enter into possession or that no longer hold, either directly or indirectly, a fraction of the capital, voting rights or securities that grants future access to the Company's capital equal to or more than 1% or any multiple of 1%, must inform the Company, by registered letter with return receipt requested, within fifteen days of exceeding one of such thresholds, of their identity, the identity of the person(s) with whom they are acting in concert, as well as the total number of shares, voting rights and securities that grant future access to the capital they hold on their own, directly or indirectly, or in concert with others.

Failure to comply with the above provisions is penalized by the deprival of voting rights for the shares that exceed the threshold that should have been declared, for all shareholders' meetings that are held until the expiration of a two-year period following the date on which the notice referred to above is brought into compliance, if the application of this penalty is requested by one or more shareholders who together hold at least 1% of the Company's capital. This request is recorded in the minutes of the general meeting.

22 SIGNIFICANT CONTRACTS

IMPACT OF A CHANGE IN CONTROL OF VEOLIA ENVIRONNEMENT[39]

In many countries, including France, not only can local authorities terminate contracts entered into with subsidiaries of the Veolia Environnement Group (see chapter 4, § 4.1.2 above), and a change of control of Veolia Environnement could also affect certain contracts of the Group that include change of control clauses.

This is the case for several important contracts concluded with public and private clients, particularly abroad, including the water contract in Berlin and the transportation contract in Melbourne, which allow for a specific termination rights in favor of the clients and/or the financial partners associated with the client, in the event of a change of control of Veolia Environnement.

Furthermore, under the partnership agreements with EDF signed in December 2000, if a competitor of EDF takes over the Company, EDF has the right to purchase all of the Dalkia shares held by the Company[40] (see chapter 20, § 20.1, note 38 and 40.3 of the consolidated financial statements).

Finally, the stock-option plans implemented by the Company which are currently in force (see chapter 17, § 17.3.3 above) provide that options are immediately exercisable without condition in case a public tender offer is launched on the Company.

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[39] Article L.225-100-3 of the French Code de commerce.

[40] Dalkia is held 66.0% by Veolia Environnement and at 34.0% by EDF. Dalkia's business is conducted in France by Dalkia France, a 99.9% subsidiary of Dalkia. Dalkia's business abroad is conducted by Dalkia International, 75.8% held by Dalkia and 24.2% by EDF. As part of the partnership agreements signed in December 2000, EDF benefited from a purchase option allowing it to raise its participation in the share capital of Dalkia to 50%, provided that a certain number of conditions were satisfied. The terms of this option were defined in an amendment signed by EDF and Veolia Environnement on April 19, 2005. This amendment specified, in particular, that EDF had until July 31, 2005 to exercise the option and that the option would not be considered to be finally exercised until the date on which a formal agreement would be included among the parties relating, in particular, to the reorganization of their relations, as a result of the industrial and commercial agreement, and their rights and obligations under the partnership agreements, including rules of governance. This formal agreement was to be concluded by September 30, 2005, at the latest.

In this context, EDF exercised its purchase option, on a conservatory basis, on July 28, 2005. However, since there was no formal agreement concerning the reorganization of the industrial and commercial agreement or the partnership agreement, the option became invalid and was effectively cancelled as from October 1, 2005. Today, EDF no longer holds purchase options for Dalkia or its subsidiaries, except in the event that a competitor of EDF should take over the Company. Similarly, EDF granted a purchase option to Veolia Environnement concerning all of its Dalkia shares in case the status of EDF were to change or a competitor of Veolia Environnement, acting alone or in concert, should take over EDF. If there is no agreement concerning the sale price of the shares, it will be fixed by an expert.

23 THIRD PARTY INFORMATION, EXPERT STATEMENTS AND DECLARATION OF INTERESTS

Not applicable.

24 DOCUMENTS AVAILABLE TO THE PUBLIC

The Company's press releases, annual reports (including historical financial information relating to the Company) and any related updates filed with the AMF, as well as the Company's Form 20-F filed with the U.S. Securities and Exchange Commission, are available on the Company's website: http://www.veolia-finance.com. Copies of these documents may also be obtained at the Company's registered office at 36/38, avenue Kléber in Paris.

The Company is required, pursuant to directive 2003/71/EC to publish an annual information document that contains or mentions all of the information disclosed to the public by the Company during the preceding twelve months in France, other EU member states, and in the United States pursuant to any securities regulation applicable to the Company. This document is available on the Company's website at the address indicated above, as well as on the AMF's website: www.amf-france.org.

All of the regulated information published by the Company, pursuant to article 221-1 et seq., in the AMF's general regulation, is available on Veolia Environnement's website at the following address: http://www.veolia-finance.com in the "Regulated Information" section.

Finally, the Company's articles of association, as well as the minutes of general shareholders' meetings, the statutory auditors' reports and all other corporate documents, may be viewed at the Company's registered office.

25 INFORMATION REGARDING COMPANY INTERESTS

Information concerning companies in which Veolia Environnement holds a portion of the share capital likely to have a material impact on its assets, financial condition or results of operations is set forth in Chapter 6, paragraph 6.1.4 above and in Chapter 20, paragraph 20.1, note 45 to the consolidated financial statements.

INVESTORS RELATIONS

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