Veolia Environnement
Reference document **2009**

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, 2010 under number D.10-0190, 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 19, 2010, contains substantially all of the information set forth in this reference document and certain additional information not included herein.

VEOLIA
ENVIRONNEMENT

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 2008 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 2008 fiscal year, filed with the *Autorité des marchés financiers* on March 30, 2009 under number D.09-0166, and (ii) 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.

AMF

This reference document was filed with the *Autorité des marchés financiers* on March 30, 2010, 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*. This document has been prepared by the issuer under the liability of the signatories.

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1 Persons assuming responsibility for the reference document

1.1 PERSON ASSUMING RESPONSIBILITY FOR INFORMATION CONTAINED HEREIN

Mr Antoine Frérot, 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. That letter contains no observations.

The chief executive officer

Antoine Frérot

2 Persons responsible for auditing the financial statements

2.1 PRINCIPAL AUDITORS

KPMG SA

Member of KPMG International

Commissaire aux comptes (Auditor), 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 (Auditor), Member of the *Compagnie régionale de Versailles*

A company represented by Messrs. Pierre Hurstel and Nicolas Pfeuty

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 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 [1]

Selected Consolidated financial statement figures presented in accordance with IFRS

	As of and for the year ended December 31,		
(€ million)	**2009**	**2008 (i)**	**2007 (i)**
Revenue	34,551.0	35,764.8	31,574.1
Operating income	2,020.1	1,960.8	2,461.1
Net income attributable to owners of the Company	584.1	405.1	927.9
Net income attributable to owners of the Company per share - Diluted *(in euros)* (ii)	1.24	0.87	2.11
Net income attributable to owners of the Company per share - Basic *(in euros)* (ii)	1.24	0.88	2.13
Dividends paid (iii)	553.8	553.5	419.7
Dividend per share paid during the fiscal year *(in euros)*	1.21	1.21	1.05
Total assets	49,816.7	49,126.1	46,306.9
Total current assets (iv)	20,221.7	19,084.3	17,336.5
Total non-current assets	29,595.0	30,041.8	28,970.4
Equity attributable to owners of the Company	7,460.6	7,001.2	7,612.9
Equity attributable to non-controlling interests	2,670.1	2,530.5	2,577.8
Operating cash flow from operating activities (v)	3,955.8	4,105.4	4,117.8
Recurring operating income	1,932.4	2,275.0	2,433.5
Recurring net income attributable to owners of the Company	538.1	687.2	935.5
Net financial debt	15,127.7	16,528.2	15,124.5

(i) In accordance with IFRS 5, "Non-current assets held for sale and discontinued operations", the Income Statements of the Waste-to-Energy entities in the Environmental Services Division, divested in August 2009, the freight entities in the Transportation Division, divested in December 2009, Renewable Energy activities and Transportation activities in the United Kingdom, are grouped together in a separate line, "Net income from discontinued operations", in the 2009 financial statements and in fiscal years 2008 and 2007 presented for comparative purposes.

(ii) In accordance with IAS 33, the weighted average number of shares outstanding taken into account in the calculation of net income per share for fiscal years 2008 and 2007, was adjusted following the scrip dividend performed in June 2009. The adjusted weighted average number of shares is 462.2 million as of December 31, 2008 and is 434.8 million as of December 31, 2007.

(iii) Dividends paid by the Company.

(iv) Including assets classified as held for sale of €722.6 million as of December 31, 2009, €203.0 million as of December 31, 2008 and €122.5 million as of December 31, 2007.

(v) Operating cash flow from operating activities = cash flow from continued operations before tax and financial items.

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[1] *Definitions of the balances presented in the table (except for Operating cash flow before changes in working capital) are presented in Chapter 9, Section 9.2.1 below.*

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 value of its services. 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.

Within this framework, 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 some contractual terms and conditions, regardless of whether such modifications are contemplated in the contract. These modifications may alter the services provided, required investments or billing terms under the contract.

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. The impact on Company results could be substantial, if the contract does not then 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.

Business operations in some countries may be subject to additional risks

While the Group's operations are concentrated mainly in Europe and the United States (sales generated outside of these regions represented approximately 16.2% of total Group revenue in 2009), the Group conducts business in markets around the world. The risks associated with conducting business in some countries outside of Europe and North America 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 certain countries. The setting of public utility fees and their structure may depend on political decisions that can impede any increase in fees for several years, such that they no longer cover service costs or provide 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.

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

Some of Veolia Environnement's activities could cause damage to persons (including injury or death), business disruption or damage to movable property or real estate. It is the Company's general policy to contractually limit its liability and to take out insurance policies that cover its main accident and operational risks. However, these precautions may prove to be insufficient and this could generate significant costs for the Company.

See Section 4.1.3, below, for more information on 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 size, 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 executed 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 position.

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

Certain of the Company's businesses are subject to seasonal variations. For example, 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 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*). This system, which was set up 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 (apart from 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 that the Group may exceed its allocated emission allowances, and the resulting purchase of additional allowances, could generate significant additional costs compared with those anticipated by the Group.

Finally, in 2009, the European Commission clarified the conditions governing the national grant of allowances for phase 3, commencing January 1, 2013. A portion of the allowances (based on the nature of the installation) required by the Group and its subsidiary Dalkia in particular, will have to be obtained through an auction system that could lead to a substantial additional cost. Whether this cost can be passed on to the customers and, if so, to what degree, have not yet been determined.

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 these 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 require certain formalities or allow revision or amendment of the contract only with the agreement of both parties or of a third party. Accordingly, the Company may not be free to adapt its compensation to reflect changes in the Company's costs or demand, regardless of whether this compensation consists of a price paid by the customer or a fee levied on end users based on an agreed-upon scale. 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 unilaterally and suddenly terminate 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, which are remunerated on a non-revisable fixed price basis. 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-adapted 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 the relevant public authority unilaterally terminate a contract.

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 receiving sufficient compensation or indemnities to cover the cost of its investment. This could arise due to a failure to obtain necessary permits or authorizations, or a failure to obtain approval from antitrust authorities, or because authorizations are granted on the condition that the Company abandon certain of its development projects, for example. These risks increase the overall cost of the Company's activities and, if the cost of such failure is judged to be excessive, could potentially compel the Company to abandon certain projects. Should such situations become more frequent, the scope and profitability of the Company's business could be affected.

Significant litigation

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

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 sanitation-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 below), including specific precautionary and preventative measures, or to advise its customers so that they undertake the necessary compliance work themselves.

The cost of these industrial maintenance actions is included in capital expenditure, which totaled €2,493 million overall in 2009 (compared to €2,893 million in 2008). Capital expenditure includes both maintenance investment of €1,632 million in 2009 and growth investment of €861 million in 2009.

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 applicable scope of environmental, health, safety and other laws and regulations is constantly increasing. These laws and regulations now govern all discharges in the 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.

For information on the management of environmental and health risks, please refer to Section 4.2.2.3, below.

The Company's operations and activities may cause it to incur liability or otherwise compensate damages

The increasingly broad laws and regulations, under which the Company operates, expose it to greater risks of liability, in particular environmental liability, including liability related to 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 for serious environmental damage or threat of damage. This directive was enacted into French law by the Law of August 1, 2008 and 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 take certain measures or 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. In particular, this may concern the development of air or water-borne bacteria, which are increasingly well identified, or the exposure of individuals (Company employees or third parties) to chemical and/or dangerous products or substances.

See also Chapter 6, Section 6.3.3 and Chapter 20, Section 20.1, Note 16 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 "Installations Classified for the Protection of the Environment" (ICPE) 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.

In France, the Group operates installations with characteristics similar to those covered by the Seveso regime (only certain of which are classified as "AS" under the ICPE system). Based on its desire to apply safety protection rules and in anticipation of regulatory changes under consideration, the Company has decided to apply all or part of the Seveso regime at certain sites. This is the case at the hazardous waste incineration facility operated by SARP Industries (Veolia Environmental Services) in Limay in the Yvelines region of France.

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 2009, net financial debt excluding the fair value of hedging instruments was €15,128 million, of which 30.8% was floating-rate and 69.2% was fixed-rate, including 0% at capped floating rates (see Chapter 20, Section 20.1, Note 29.1.1 to the consolidated financial statements below). 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 below and Chapter 20, Section 20.1, Notes 28.1, 28.2 and 29 to the consolidated financial statements.

The Financing and Treasury Department is responsible for the short-term management of liquidity and financing. Similarly, the set-up and management of new major financing is centralized in order to optimize liquidity. For information on liquidity risk please refer to Section 4.2.2.4 below and the description of loan arrangements, as well as the tables in Chapter 20, Section 20.1, Note 29.3 to the consolidated financial statements.

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 price 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. To the extent that the Company is unable to increase its prices sufficiently to cover such additional costs, a sustained increase in supply costs and/or related taxes could undermine the Company's operations by increasing costs and reducing profitability (see Section 6.2.7 below). For information on the management of commodity risk please refer to Chapter 20, Section 20.1, Note 29.1.3 below.

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 operating results.

Changes in certain cogeneration contracts

Through its subsidiary Dalkia, the Group is marginally exposed to volatility in the electricity market, despite being a producer with installed power of approximately 7,151 MW.

Most production installations are operated under a purchase commitment regime (and particularly cogeneration plants in France), or under risk-free contracts (lead group or electrical systems service contract), not involving an open position on the market.

Only 73 MW of installed power (in the United Kingdom and Italy) is directly exposed to price risk on the electricity market.

It should be noted, however, that under certain of these contracts, representing installed power of approximately 2,000 MW (primarily in the United States and Central and Eastern European countries), revenue derived from electricity production may vary significantly year-on-year, as a result of changes in the local electricity market.

In addition, and particularly in France, certain cogeneration plants approaching the end of purchase commitment contracts could be operated market rates (representing installed power of approximately 736 MW between January 2011 and November 2013), which would increase exposure to corresponding risks (contract solutions with counterparties active in the markets will be favored to limit this exposure).

For information on the hedging of risks relating to fluctuations in energy prices, raw materials or commodities, as well as changes in sensitivity, please refer to Chapter 20, Section 20.1, Note 28.3 below.

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. The Group faces this challenge, which is of fundamental importance to its development, by putting coordinated risk prevention and risk management systems into place.

In order to strengthen its ability to foresee, analyze and weigh various risks and to ensure the appropriateness 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 oversight 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;
- *Monitor*: ensure that the structure and resources employed 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 those 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.

Building upon the evaluation of financial internal control procedures, performed pursuant to the Sarbanes-Oxley Act of 2002 (see Section 4.3.3 below), a mapping of major risks was drawn-up beginning 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.

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.

Veolia Environnement interprets the concept of risk broadly, including not only threats but also challenges and even opportunities.

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

Each major risk, identified through this process, was analyzed and ranked. It was then assigned to a "risk pilot", who is 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.

Since 2007, the mapping of major Group risks and related action plans have been validated by the Group Risk Committee and regularly presented to the Group Executive Committee and Accounts and Audit Committee.

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 local 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 regard 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, particularly in the context of multi-service contracts (conducting 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;
- strong momentum resulting from large-scale involvement in this project, which has encouraged the pooling of practices and experience between the Divisions and Veolia Environnement;
- 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 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, enables the implementation of effective reporting methods and creates the necessary conditions for auditing of the mapping process.

In accordance with the 2009 internal audit plan, an audit of risk management within the Group was performed in the second quarter of 2009 by the internal audit department of the Company. The primary aim of this assignment was to ensure that the Group has adequate risk management processes and tools.

The Group Risk Committee met several times in 2009. 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 Critically Important Activity Sectors regulation, the preparation of the Group for the possible outbreak of an H1N1 flu pandemic, the appraisal and management of risks linked to fluctuations in energy prices, the launch of chemical risk mapping procedures and a review of the latest risk management developments (Order of December 8, 2008). Following Veolia Environnement's example, each of the Divisions has its own risk committee to improve its management, control of operational risks and monitor the roll-out of its action plans.

As a result of being firmly grounded in corporate processes and systematically taking into account the fundamental challenges facing the organization (whether operational, legal, regulatory or governance-related), risk management within Veolia Environnement is characterized by steady improvements in the overall risk management process. Action plans to manage or reduce risks are being rolled-out within the Divisions and the Company. The aim is to improve 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 disbursement of Veolia Environnement's employees in the field (in particular, on public roads and at customer sites), as well as difficult working conditions, 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 maintenance of health and safety in the workplace. This agreement, which is the result of over 12-months of work by 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 with 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, rising anti-social behavior and also the link between individual health and health and safety in the workplace. This agreement provides a series of concrete and practical tools for implementation, which are organized around 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 professional development for 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, particularly by strengthening ties between Division prevention, health and safety departments and the network of organizations providing workplace medical services;
- Encouraging career paths that prevent unfitness, in order to match health matters with skills management for the duration of employment;
- Encouraging a better work-life balance.

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, 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 seventy countries and relationships with a variety of representatives and counterparties) has led Veolia Environnement to adopt legal compliance rules to guide its 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 and 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 adhere to 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 application 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 (including compilation of a list of named "insiders" and reporting trades in the Company's shares executed 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 in compliance 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 its products and services, as well as compliance with security and environmental standards (especially relating to air emissions and legionella concentration). The risks facing Veolia Environnement Group are particularly acute when it takes over installations on an "as is" basis, especially given that the Group is not always responsible for the necessary investment and customers have varying levels of 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" based on ISO 14001, which aims to constantly improve its environmental performance throughout the world. In this manner, 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 collaboration with customers when they assume economic responsibility for the installations.

Accordingly, incineration facilities are subject to regular testing of atmospheric emissions and the level of dangerous substances such as 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 regularly carries out renovations on its own facilities and strongly recommends to the owners of facilities that they do the same. The Group has implemented a semi-continuous testing 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 contracts (for example, health studies and checkpoint controls and inspections).

Faced with the systematic risk of being held jointly liable with its customers in the event of serious contamination 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 hygiene and safety committee meetings on industrial customers' sites 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 which is accompanied by a certification and general appraisal approach (in particular ISO 1400, internal etc). Secondly, internal and external audits are conducted regularly to identify and prevent industrial risks (fire, machine breakdown, environmental damage, etc.). Thirdly, the Group has purchased insurance covering third-party tort and general liability resulting from unavoidable 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 compilation 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 to address environmental risks (see Section 4.2.1 above). The process is carried out with the technical directors of the Divisions of 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 in Norway, Liechtenstein and Island, organizes and provides a framework for the registration of chemical substances manufactured, imported, marketed, 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 phased in over the period ending June 1, 2018, under the express condition that the substances concerned be pre-registered between June 1 and November 30, 2008. After the November 30, 2008 deadline, companies which have not pre-registered chemical substances must register them immediately: registration is necessary before a substance may be placed on the market. Where applicable, this requirement could lead to an interruption in manufacturing, importing or use and, as such, the cessation of activities involving the relevant substance, generating immediate costs. In 2008, the affected Veolia Environnement Group subsidiaries implemented this pre-registration phase, adopting as systematic an approach as possible, given the large number of subsidiaries and substances subject to this regulation. Some 394 Group entities individually pre-registered 270 identified substances. In 2009, The Company continued work on preparing the registration of products.

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 implemented management guidelines relating to these uncertainties, in order to ensure better risk control. The Veolia Environnement Treasury Department is directly responsible for implementing 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 headquarters (interest rate/foreign exchange). The Middle and Back Office team in the Financial Services Department controls transactions and monitors limits, which ensures the security of transactions processed. Reports are produced daily, weekly and monthly, thus enabling Company's senior management to stay abreast of market trends and their effect on the Group's liquidity (current and forecast), the value of the Group's derivative portfolio and 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 (see chapter 20, section 20.1, notes 28.1 and 29.1.1, below).

Foreign exchange risk is linked to the international business of the Group, which is conducted in more than seventy 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 debt 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 receivable). For more information regarding foreign exchange risk see chapter 20, section 20.1, notes 28.2 and 29.1.2, below.

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 and the international private placement markets (see chapter 20, section 20.1, note 29.3, below).

Raw materials risk is also covered in chapter 20, section 20.1.1, notes 28.3 (for hedges) and 29.1.3 (for risk management).

See also Chapter 20, Section 20.1, Note 29 to the consolidated financial statements.

4.2.2.5 Railway security 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 undertaken in connection with security and hygiene procedures. In connection with this plan, an inventory of all legal requirements and a study of local management's understanding of regulatory texts were launched in the first quarter of 2005.

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

In 2009, Veolia Transport's Executive Committee decided to implement an extended security policy encompassing all Veolia Transport activities, coordinated by a Head Office Security Director appointed in October.

This policy, which will be communicated widely in 2010, is composed of three elements:

- a network of security officers set-up in each country and led by the Head Office Security Director,
- Security Management System (SMS) standards, consisting of a "fundamental" level and a roll-out objective in each Group business unit between now and the end of 2010;
- performance indicators analyzed regularly by the Executive Committee.

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 and protecting employees. It brings together security professionals and representatives from Group headquarters and the 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 behavior to adopt 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 (the "*Vigipirate*" plan), 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 attacks 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 the 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 decree 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, composed 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 an operator 24 hours a day for one week. This new procedure enables the immediate and permanent reporting of alerts originating from the Divisions. Next, depending on the seriousness of the situation (assessed based on pre-defined criteria), the incident may be handled either at the Division level, with information constantly communicated to Group headquarters, or by a special crisis unit composed of representatives from Group head offices and the Divisions. During any crisis, responses are proposed to the Group Chief Executive Officer and 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 an influenza pandemic through a 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 (see section 4.2.1, above).

Since 2007, new tools have been developed and provided to individuals in charge of the influenza pandemic response through a dedicated extranet site. They now have access throughout the world to the main principles governing the Group's pandemic preparation, to 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.

Following a Group alert received on April 24, 2009, a Group H1N1 Watch Committee was set-up on April 27, 2009 comprising the main Veolia Environnement departments concerned and correspondents appointed by the heads of the Group Divisions.

The primary role of this Watch Committee, which met twenty-two times in 2009, was to coordinate the actions of Group subsidiaries. The guiding principle underpinning all actions and decisions of the Watch Committee was the identical treatment of similar situations, with respect to employee protection. Mask inventories were increased and collective dispensers of hydoalcoholic solution were storedwhich would be installed should level 5B or 6 of the government plan be triggered.

With regard 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.

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 in rolled-out and widely-distributed procedures;
- 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). The Internal Audit Department then conducts a rigorous appraisal of the application of the Group's rules.

All aspects of internal control, and especially financial and operational aspects, are 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 dissemination 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. The roll-out of this system, developed around management and internal control rules, has already commenced in France and Benelux and will be launched in the United Kingdom starting in 2010.

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:

- The implementation of an annual audit program approved by the Company's Accounts and Audit Committee, and;
- 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 report to shareholders in 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-in-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, whenever a company voluntarily refers to a corporate governance code drafted by an outside association that represents corporations, the report must also indicate the provisions of such code which were not been adopted and the reasons for such rejection. 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, 2010, together with the statutory auditors' report prepared in accordance with Article L. 225-235 of the French Commercial Code and is 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 Chief Executive Officer 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 has been repeated each year since then and is based primarily on the roll-out, in over 400 subsidiaries, of an electronic application composed of self-assessment questionnaires and tests, which allow the traceability of controls performed to be documented. Over 1,300 people contribute to this corporate project, while nearly 22,000 key controls are verified annually.

This task, managed by the Internal Audit Department, is implemented in concert with management of the Divisions concerned where necessary and in close collaboration with the statutory auditors, 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, the implementation of action plans was continued in 2009 relating primarily to the segregation of duties in the purchase and sales processes and principally in small-sized entities.

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 seventy countries around the world, Veolia Environnement is particularly attentive to compliance with values and principles relating to human and social rights 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 corporate program seeks to guide the daily behavior of Veolia Environnement employees. In this context, and until 2008, an ethics officer was appointed in each Division. To improve the efficiency of the system, country-delegates now act as liaison officers with the Ethics Committee, which therefore benefits from officers with a strong local presence and a certain authority.

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 within the company and to all stakeholders, social responsibility, risk control, quality information and effective corporate governance and a commitment to sustainable development.

In March 2004, Veolia Environnement set up an Ethics Committee to examine questions relating to the ethics program (see Chapter 16, Section 16.2.3 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. In this way it continued in 2009, the major review of the Group's employee standards commenced in 2008. This involved on-site visits in 2009, primarily in countries where employees have less 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. To improve the efficiency of this procedure, the Committee strengthened an internal communications program in 2009, aimed at increasing awareness of this alert procedure.

The Ethics Committee attended all seminars held to raise awareness of the "Ethics, Commitment and Responsibility" program, organized by the Group Legal Department in France and abroad, in order to gather the reactions and questions of the target audience.

Veolia Environnement continued these actions by developing in 2007 and rolling out from 2008 a training program on compliance with antitrust laws, which was open internationally and targeted several thousand Group managers. This program consists of seminars, training handouts and e-learning. In early 2009, Veolia Environnement published and internally circulated, 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 the Group'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.

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) implement 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 2009 primarily concerned:

- the extension, at equivalent or improved terms and conditions, of insurance programs covering property damage and operating losses,
- the continuation of efforts to identify, prevent and protect against risks, in particular through a rating system corresponding to the "property damage and business interruption" risk profile of Veolia Environnement's most important facilities throughout the world;
- 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 excess coverage over and above the basic coverage of U.S.$50 million in the U.S. and Canada. 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 is included in the general liability program set-up for three years 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, automobile and construction, have their own specific insurance policies.

4.5.3.2 Property damages 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 Group damage insurance program initially set-up on January 1, 2007 for a period of three years, were extended to January 1, 2012 to maintain existing competitive insurance coverage.

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 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.

Since January 1, 2009, the Group self-insurance system is entirely based on its reinsurance subsidiary, Veolia Environnement Services-Ré, which retains self-insured risk of €1.5 million per claim for the coverage of third-party liability risk and €2.5 million per clam for the coverage of property damage risk and resulting financial losses.

For both property damage and third-party liability, Veolia Environnement Services-Ré has set-up reinsurance policies to limit its exposure to frequent 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, when insurance is available on the market and 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 Transport and Veolia Propreté) and Compagnie Générale de Chauffe and Esys-Montenay (which would merge to become Dalkia). It also began significant international expansion.

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

In April 1999, in order to better distinguish the separate existence of its two main businesses, communications and environmental services, Vivendi created "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, by December 2004, held only 5.3% of the Company's shares. 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 aimed at increasing consistency between the Divisions of the Group, the visibility of the Company and 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.

Term 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 INVESTMENT

Total Group capital expenditure, financial investment (equity value) and new operating financial assets amounted to €3,198 million in 2009, compared to €4,376 million in 2008 and €5,029 million in 2007.

In response to the economic climate, the Group adopted a restrictive investment policy in 2009, sharply reducing the level of financial investment, without jeopardizing capital expenditures that are contractually required or necessary to maintain industrial equipment.

A detailed description of investments made in 2009, as well as their financing, is set forth in Chapter 9, Sections 9.1.3 (Acquisitions, divestitures and partnerships) 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 41 (Segment Reporting) to the consolidated financial statements.

Veolia Environnement's investment strategy is focused on environmental activities, primarily in Europe, North America, Northern Asia and the Middle-East. These priority geographic zones have the following common characteristics: high urban concentration, legal stability and high level of client solvency. To these qualitative attributes can be added the quantitative profitability of the Group's investment choices (primarily profitability run rates, return on investment and capital intensity).

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 2009: no major external growth operations were performed
- in 2008: acquisition of Bartin Recycling Group in France for €149 million and Praterm in Poland for €111 million
- In 2007: acquisition of Sulo Group companies for €1,450 million (enterprise value), 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).

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 this reference document, none of these price adjustment clauses is likely to have a material impact at Group level.

As of the date 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[1], 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 95 million people and treats wastewater for 66 million people in the world, processes nearly 61 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 2.8 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 2009 consolidated revenue by geographical market and Division, after elimination of inter-division transactions.

2009 Revenues

(€ million)		**Water**	**Environmental Services**	**Energy Services**	**Transportation**	**Total**
Europe		**8,400.9**	**6,850.4**	**6,469.7**	**4,291.1**	**26,012.1**
Of which:	*France*	4,751.2	3,294.2	3,435.9	2,274.1	13,755.4
	Germany	1,371.8	1,011.3	57.9	526.3	2,967.3
	United Kingdom	640.0	1,446.0	342.4	49.8	2,478.2
	Rest of Europe	1,637.9	1,098.9	2,633.5	1,440.9	6,811.2
United States		**690.5**	**1,142.6**	**261.9**	**858.0**	**2,953.0**
Rest of the world		**3,464.5**	**1,062.8**	**347.0**	**711.6**	**5,585.9**
Of which:	*Middle East*	857.5	75.0	62.5	22.6	1,017.6
	Oceania	255.8	441.4	42.2	560.8	1,300.2
	Asia	1,162.0	209.4	67.7	61.6	1,500.7
	Rest of the world	1,189.2	337.0	174.6	66.6	1,767.4
TOTAL		**12,555.9**	**9,055.8**	**7,078.6**	**5,860.7**	**34,551.0**

(1) *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.*

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. Going forward, its ambition is to become the corporate reference in sustainable development.

Veolia Environnement is the only 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 Group operates both in France and abroad, serving a customer base primarily comprised of public authorities, but also industrial and service sector customers.

The Group 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. Achieving both economic efficiency and environmental performance is time-consuming but the contract term allows performance gains to be integrated into an overall strategy encompassing technical, management and social considerations.

Over the past fifteen years, Veolia Environnement has demonstrated its ability to develop management models adapted to different countries and, as a result the Group now carries out over half of its business abroad. Given the scale of requirements in the environmental services sector, the 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 Europe, the historical home of Group businesses, Veolia Environnement also focuses on the countries of North Asia, particularly China, where there is an important need for service requirements linked to urban growth that meet environmental standards, North America and finally the Middle East and the Persian Gulf.

Over-and-above improving economic and financial performance, essential to a solid balance sheet and creating shareholder value, Veolia Environnement aims to maintain and strengthen its performance with in innovation, helping it stay substantially ahead of the competition and anchor its social performance in the long-term, thanks to which the employability and professional satisfaction of employees can be maintained in a spirit of solidarity as technology evolves. It also aims to improve its contribution to society, by supporting the general interest in territories where the Group operates on behalf of customers.

Veolia Environnement aims to be an exemplary company, adopting a balanced and responsible approach in all areas.

Adaptation of 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 and cost reduction program, maintaining its efforts in the Environmental Services sector, primarily with a view to turning around activities in Germany and Italy and continuing to lighten its asset portfolio through a structured arbitrage policy.

Up until 2007, Group growth was mainly organic and profitable. External growth operations in 2007 and 2008 were financed by the share capital increase performed in 2007 and economic and financial performance. As such, Veolia Environnement currently enjoys a healthy financial structure. Group liquidity as of December 31, 2009 is approximately €10.3 billion and the ratio of net financial debt to operating cash flow plus principal payments on operating financial assets is 3.4 (3.85 after adjustment for IAS 37). Debt as of December 31, 2009 is €15.1 billion. Furthermore, no major debt repayments are due before 2012 and the average maturity of debt is ten years, with 64% of net debt in the form of bonds.

The Company's profitability suffered a mechanical dilution due, on the one hand, to strategic acquisitions focused on providing high quality platforms to strengthen the Group's position, particularly in Germany, and, on the other hand, due to assets with a longer return horizon, which represent an inherent part of the Group's long-term contracts, but which enable the Group to continue its development in growth sectors, particularly in the United States and China. An increase in Group profitability will therefore come from the improved profitability of recent acquisitions and a more balanced split between assets with longer return horizons and other Group assets. In addition, measures already implemented in 2009 and which will be continued in 2010 (reduction in the cost base and lightening of the asset portfolio) will help accelerate a return to higher profitability in the short-term. (see Chapter 9, Section 9.4 and Chapter 13, below).

Achieving the 2010 objective of positive free cash flow after dividends depends primarily on the cost reduction plan, controlling investment levels and implementing the divestiture program.

Consequently, investment activity will be subject to increased vigilance, with the application of more stringent selection criteria. This also explains the Group's decision to emphasize profitable organic growth offering high value-added, by mobilizing our discriminating expertise in complex, global challenges.

Veolia Environnement also continues its asset disposal plan and the disposal of assets with a value of some €3 billion is now scheduled for the period 2009-2011 (compared with nearly €1.291 billion in 2009), in order to internally generate the resources necessary for long-term growth.

Finally, the Group plans to accelerate 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 reach €250 million in 2010. This program to reduce the cost base will be made long-term and will be steered by the newly created Operations Department.

The decentralized structure of the Group enables it to be highly reactive. The success of the measures described above will require substantial efforts at all levels of Veolia Environnement, which will be placed under greater pressure.

This decentralized structure, organized along geographical lines, was strengthened in 2008. It 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 mutualized resources. Coordination within each region will be the responsibility of persons chosen from 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, and take account of the rarity of essential resources such as water, air and energy.

By adapting to 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 demographic 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 30% rise in the population of urban and suburban areas over the next thirty 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.)

Veolia Environnement must build on its strengths to become the corporate reference for sustainable development; these strengths are represented by a presence in markets that are structurally buoyant, supported by a large asset base, as well as its major competitive advantages, its reactivity and its proximity to customers.

Within this framework, the Group aims to restore profitability, giving it the means to achieve profitable organic growth, without increasing its debt, thereby achieving a return to balanced growth and profitability.

6.1.2.2 Veolia Environnement's 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:

- 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 on-going refocusing by industrial customers on their core businesses.

Given this growth potential, Veolia Environnement will continue to adopt a selective approach to optimize the allocation of resources, operating costs and 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 on-going changes in the market. Activity trends in the Water Division are characterized by the continued sustained pace of long-term international development opportunities (despite a recent downturn due to the current economic climate), the maturity 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 Environmental Services Division, Veolia Environnement intends to continue its expansion as the global benchmark in this sector.

Demand in this sector is rising, driven by growing environmental awareness, resulting in increased regulation and higher public expectations in a number of countries, and the dawn of a new age where raw materials and energy are rare, accelerating the transformation of waste treatment and recovery methods. 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, Veolia Propreté will focus its efforts to:

- increase the profitability of its activities by renegotiating fees, maximizing the use of its production tools and reducing structural costs, while seeking, wherever possible, to generate economies of scale with the Group's other businesses.
- enhance its waste processing capabilities, by accompanying the transformation of waste processing methods and developing its recovery technologies;
- strengthen its competitive advantages and the added value offered by its services, while developing the technical content of its businesses and capitalizing on its command of the entire waste management chain, in order to offer industrial and municipal customers comprehensive waste management solutions.

Energy Services

Through its Energy Services Division, Veolia Environnement is a global player in the management of energy services. The Energy Services Division specializes in the provision of energy services and is present in forty-one countries around the world. The opportunities in this sector are significant, due to the increase over a long period of 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. Political and regulatory developments in 2009 further strengthened this favorable context (European Union energy-climate package, global negotiations in preparation of the Copenhagen conference).

Dalkia's development strategy is focused primarily on heating and cooling networks, the energy 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:

- continued growth in Europe across all business sectors,
- the development of large cooling networks in the Middle East, as well as entering the Russian market for heating networks;
- the strengthening of its presence in North America and particularly the United States, by offering management services for networks, industrial utilities, shopping malls and health centers;
- the development of activities in China (networks and industrial utilities).

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 expertise in several areas. The Group also aims to promote its integrated outsourcing services to public customers as well as to service sector and industrial customers, 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 and help make public transportation services a major concern for local authorities and city dwellers. In addition, transportation is linked to the environmental performance of towns and regions, regional competiveness, development and growth, the identity and solidarity of citizens and quality of life.

The major challenges in this sector are related to the ever-increasing need for new transport infrastructure, the growing demand for the customization of mass transportation, the attractiveness of public transport networks, environmental concerns and the direct and indirect costs of car congestion.

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 sustainable development to constantly improve customer satisfaction;
- constant improvement in business expertise in all local land transportation methods;
- geographical priority to a small number of countries based on the attractiveness of markets and the intensity of local competition;
- innovation both in new mobility sectors (e.g. bikes, car-sharing, collective taxis) and in information and energy technologies.

Furthermore, Veolia Environnement is currently discussing a combination of its Transportation business with Transdev, owned by the Caisse des Dépôts et Consignations and the RATP (see section 9.1.3, below).

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[(1)]. 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 95 million people and supplies 66 million people with wastewater services.

As of December 31, 2009, Veolia Eau has 95,789 employees around the world[(2)]. The Water Division is present in sixty-six 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 customers 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 cities of Indianapolis and 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 customers seeking to optimize the management of their existing resources, whether they be public authorities seeking to respond to the trend towards urbanization, or industrial customers. New solutions, such as desalination of seawater, a sector where Veolia Eau recently excelled in the Middle East, or the re-use of treated water, may represent an appropriate 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.

Water*

(€ million)	**2009**	**2008**	**Change 2009/2008**
Revenue	12,555.9	12,557.9	0.0%
Operating income	1,164.3	1,198.5	-2.9%

* *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 ten to twenty years in length and potentially up to fifty 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 customer 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

(1) *Source: Global Water Intelligence (GWI), November 2009 and Pinsent Masons Water Yearbook 2009-2010.*

(2) *Employees managed as of December 31, 2009, including 3,641 Proactiva employees allocated to its water business.*

customers generally have a term of three to ten years, although certain contracts have terms of up to twenty 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.

Key factors

The key factors that may influence the activities of Veolia Eau are of a technical, contractual and economic nature. They mainly concern the following success factors:

- The key factors potentially impacting the "service contracts with public authorities and industrial customers" business are, from an economic point of view, trends in volumes billed and the ability to obtain, within the planned time-period, price increases in line with Group objectives. From a technical point of view, the ability to satisfy service commitments negotiated with the customer or regulator and, from a commercial point of view, the ability to renew existing contracts under satisfactory terms and conditions in a highly completive environment, are also essential ;
- The Engineering and Technological Solutions business is potentially affected, at an economic level, by the rate of projects launched by public authorities and certain major industrial companies, as trends in demand levels have a direct impact on the order book. Continued technological leadership in tender bids and the ability to manage constraints and master technical solutions in the performance of contracts, are determining factors. Finally, at a contractual level, rigor in the negotiation and performance of contracts are also key in this sector (particularly the ability to meet deadlines and cost budgets).

Description of Activities in 2009

Veolia Eau activity levels remained relatively stable overall in 2009, compared to 2008 and were marked by strong growth in China and the weakness of the construction sector, both in France and abroad. Veolia Eau revenue was not affected by the loss of any major contracts in 2009.

In 2008, the city of Paris announced its decision not to renew the delegated management contracts expiring at the end of 2009. The Paris contract represented revenue of €143 million in 2009 for Veolia Eau.

In France, Veolia Eau provides approximately 25 million inhabitants with drinking water and 16 million with wastewater services. Public service delegated management contracts renewed in 2009 represent expected total cumulative revenue of almost €614 million. In France, despite a highly competitive environment, Veolia Eau enjoyed several commercial successes. These included a new contract for the management of water and wastewater services for the town of Chaumont and concession arrangements for the City of Chartres wastewater treatment plant and the Roquebrune Cap Martin wastewater treatment plant. Except for the return to local public authority control of Paris water services, Veolia Eau renewed all major contracts which expired during the year. In the drinking water sector, the Roche-sur-Yon, Garrigues Campagne, Bergerac and La Vallette public authorities renewed their confidence in Veolia. In the wastewater treatment sector, the contracts with the Val Maubuée Authority in the Paris region and in the City of Nantes were successfully renewed.

Veolia also continued its sustainable development policy launched in recent years, refining its contractual model with the help of specific offerings, in order to satisfy customer wishes and enable them to meet their sustainable development objectives (biodiversity, carbon footprint, etc.). Finally, as in 2008, the fall in unit consumption continued (0.6% fall in billed volume on 2008), despite relatively favorable weather conditions.

Activity contracted slightly in Europe (0.9% fall in revenue at constant exchange rates), due mainly to a decrease in activity on completion of construction work at sites in the Hague and Belfast.

In Asia, 2009 was marked by the ramp-up of the Tianjin Shibei contract, further organic growth in Shenzhen and robust construction activity in Shanghai in the run-up to the 2010 Universal Exhibition in China, while the Gold Coast and Sydney Desalination construction contracts came to an end in Australia.

Major contracts

Public authority or company and location thereof	Month of signature of contract	New contract or renewal	Contract term	Estimated cumulative revenue *(in euros)*	Services provided
France					
Chartres	June	New	20 years	156 million	Concession arrangement to build and operate a wastewater treatment plant
Roquebrune Cap Martin	June	New	20 years	50 million	Concession arrangement to build and operate a wastewater treatment plant
Europe (excl. France)					
Görlitz (Germany)	January	Renewal	20 years / 7 years	310 million	Distribution of electricity and gas (20 years) and heat (7 years)
Burg (Germany)	January	New	15 years	20 million	Management of water and wastewater services
Madrid (Spain)	March	New	4 years	16 million	Operation of a wastewater treatment plant
Asia					
Chiba (Japan)	March	New	3 years	35 million	Operation of a wastewater treatment plant
Sydney (Australia)	May	Renewal	4 years (plus 3 years at the customer's option)	28 million (excl. option) 51 million (incl. option)	Network maintenance
South America					
Petrobras (Brazil)	September	New	2 years	123 million	Design and construction of a water treatment and reuse plant at Ipojuca
Middle-East					
Doha – Ashghal (Qatar)	May	New	7 years (plus 3 years at the customer's option)	44 million (excl. option) 61 million (incl. option)	Operation and maintenance of two wastewater treatment plants
Tyr Sour (Lebanon)	August	New	5 years	31 million	Construction and operation of a wastewater treatment plant
North America					
Duke Energy (USA)	August	New	3 years	29 million	Construction of a wastewater treatment plant for an electrical power plant

Main acquisitions and divestitures in 2009

The main acquisition and divestitures during the year include:

- In France, the acquisition of Homerider, a specialist in radio meter reading;
- In Europe, the buyout in Italy of the minority interest held by EMIT in SIBA, and the buyout (in April and June 2009) of a 51% stake in Stirling Water Seafield Holding (Edinburgh), increasing the Group's holding in this project to 100%. In addition, the EBRD acquired an additional interest (6.88%) in the share capital of Veolia Voda, the holding company for water activities in Central and Eastern Europe, increasing its 10% stake in this company held since 2007 to 16.88%;
- In Asia, the acquisition in China by Shenzhen Water Group (in which the Group holds a total direct and indirect interest of 25%) of five companies which manage drinking water services for a Shenzhen administrative district (Baoan);
- In the Middle East, Azaliya (which groups together operating activities in North Africa and the Middle East) is now proportionately consolidated in the amount of 51% (previously fully consolidated), following a change in the governance structure leading to joint control by Veolia Eau-CGE and Mubadala Development Company;
- In Morocco, sale of an additional 5% stake in Veolia Environmental Services Morocco to AAIF;
- In the United States, sale of three Enerserve entities operating in the Caribbean by Veolia Water North America.

Following the creation, acquisition or consolidation of thirty-six companies in 2009 and the liquidation, divestiture or transfer of nineteen companies, the Water Division (excluding Proactiva) is composed of 728 companies as of December 31, 2009 compared to 711 in 2008. The main movements in the scope of consolidation include the acquisition or creation of companies carrying operating contacts that came into effect in 2009.

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, 2009, Veolia Propreté employed 85,600 people[(1)] around the world, in approximately thirty-three countries.

Veolia Propreté is a partner of over 750,000 industrial and service-sector customers[(2)] and serves more than 73 million inhabitants on behalf of public authorities.

In 2009, Veolia Propreté estimates that it collected nearly 43 million tons of waste and processed nearly 62 million tons of waste. As of December 31, 2009, Veolia Propreté managed approximately 861 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 one to five years, while waste processing contracts can range from one year (for services provided on sites belonging to Veolia Propreté) to thirty 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.

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* *Sources: internal studies and Eurostat.*

(1) *Employees managed as of December 31, 2009, including 7,015 Proactiva employees allocated to its environmental services business.*

(2) *The commercial figures appearing in chapter 6.1.3.2 (in terms of customers, number of inhabitants served, tonnages, etc.) do not include Proactiva, unless otherwise indicated.*

Environmental Services*

(€ million)	**2009**	**2008 ****	**Change 2009/2008**
Revenue	9,055.8	9,972.5	-9.2%
Operating income	453.8	265.2	+71.1%

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

** *In accordance with IFRS 5, Non-current assets held for sale and discontinued operations, the Income Statements of the Waste-to-Energy entities in the Environmental Services Division, divested in August 2009, are grouped together in a separate line, Net income from discontinued operations, in 2009 and in fiscal year 2008 presented for comparative purposes.*

Overview of Environmental Services

Veolia Propreté furnishes waste management and logistical services, which include waste collection, waste processing, cleaning of public spaces, 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 eliminate pollutants 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;
- processes waste in the least damaging way possible, through landfill sites or incineration;
- produces electricity or heat using waste in landfill sites or incineration, otherwise referred to as waste-to-energy recovery.

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.

The key factors that may influence the activities of Veolia Propreté are of a technical, contractual and economic nature. They mainly concern the following success factors:

- A presence at all points of the waste value chain, from pre-collection through to processing and recovery, in an appropriate range of geographical areas at different stages of maturity, enabling the identification and control of innovative, tailored solutions for proposal to customers and setting the Company apart from the competition in the market;
- The management of risks relating to the protection of the environment and the safety of individuals and installations (see Sections 4.1.3, 4.2.2.1 and 4.2.2.3. above);
- The quality of employee management in sectors which are often labor-intensive (limiting absenteeism and industrial action, developing skills and training);
- The ability to innovate using new technologies (processing, rolling stock) and processes (sorting-recycling), founded on an effective technology, regulatory and competition watch system;
- Operating efficiency (purchases, sales, logistics, maintenance management) enabling the optimization of unit costs and the utilization rate of equipment, while ensuring the high level of quality required for products and services delivered;
- Investment management in certain capital-intensive activities (selectivity, risk analysis, installation size);
- The quality of contractual management for long-term contracts (major clauses, price review formulae, guarantees and deposits, etc.) (see Section 4.1.2. above);
- Management of economic and financial risks: volatility of raw material prices (fuel, materials sold such as paper and metals), customer risk, foreign exchange and interest rate risk (see Section 4.1.4. above).

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 facade 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 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 petrochemical 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 2009, Veolia Propreté collected approximately 43 million tons of waste from private individuals, local authorities and commercial and industrial sites. More than 73 million people around the world benefited from Veolia Propreté's waste collection services. Veolia Propreté collects household waste through door-to-door pickup or through pickup at designated drop-off sites, and collects commercial and non-hazardous industrial waste. It maintains the cleanliness of green areas and carries away "green" waste and also collects hazardous waste on behalf of its service sector and industrial customers, including hospital waste, laboratory waste and oil residue (ships, gas stations and drilling platforms) and diffused hazardous waste.

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

Transfer and Regrouping of Materials

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

Veolia Propreté received approximately 10.3 million tons of solid waste at its 352 sorting and recycling units in 2009, of which 7.7 million tons were recovered. 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 the Group'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 2009, Veolia Propreté processed nearly 62 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. At its 122 composting units, Veolia Propreté processes urban and industrial sludge, part of which is then reintroduced into the agricultural cycle through land spreading, with a related tracking service.

Incineration and Waste-to-Energy Recovery

Veolia Propreté operates seventy-nine waste-to-energy recovery and incineration plants, which process non-hazardous solid waste (mainly urban waste).

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 2009, Veolia Propreté had 147 non-hazardous waste landfill sites. Veolia Propreté has developed the expertise to process waste through methods that reduce emissions of liquid and gas pollutants. Eighty-five landfill sites have recovery systems to transform biogas emissions into alternative energies.

Processing of Hazardous Waste

In 2009, Veolia Propreté had twenty-four incineration units for specialized industrial waste, seventy processing units using physico-chemical and stabilization methods, fourteen class 1 landfill sites and thirty-six 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 recovery hazardous waste.

Description of Activities in 2009

In 2009, at constant exchange rates and consolidation scope, the Environmental Services Division reported a fall in revenue of 7.8% on 2008. Approximately half of this decrease is attributable to a fall in the volume and price of materials sold (mainly paper, cardboard and metals). Prices had reached an all-time high in the second quarter of 2008, before collapsing at the end of 2008, after which they commenced a partial and progressive recovery (except metal). In addition, the economic crisis hit industry-related activities hard (collection and processing of industrial waste, industrial services), with activity levels stabilizing but not recovering in the final months of 2009. In this context, Veolia Propreté rapidly implemented a tailored plan to adjust costs to activity levels and introduce efficiency measures.

In France, revenue fell 10.8%. In addition to the negative impact of the fall in the price of materials sold (paper, cardboard and metal), the drop in revenue is mainly due to the decrease in non-hazardous and hazardous waste volumes collected and processed. In the incineration business, the kiln void-filling policy and the good performance of incinerators enabled revenue growth, further driven by the recent Cenon contract signed at the end of 2008. Moderate price increases were achieved in a low-inflation context, marked by a fall in fuel prices. In the sorting-recycling business, the Ludres high-performance materials recovery facility opened in June 2009, gradually ramped-up activity. Finally, at the end of 2009, the first French pilot unit for the production of biofuel from biogas produced by non-hazardous waste in landfill sites, commenced activity in the Greater Paris region.

In the United Kingdom, revenue fell 3.7% overall and 8% excluding Private Finance Initiative (PFI) contracts, due to a decrease in industrial and commercial waste collection and landfill volumes, a downturn in industrial services and the loss of local authority waste collection contracts (such as the Liverpool contract at the end of 2008). Price increases in the collection and landfill sector helped limit this decrease in revenue. Internal growth also benefited from the new 20-year PFI contract signed in May 2009 with the Merseyside Waste Disposal Authority and the full year impact of the recently signed Southwark and West Berkshire contracts.

Revenue fell 11.3% on the basis of a fixed consolidation scope in Germany, mainly due to the fall in paper and cardboard prices and the decrease in non-hazardous industrial waste volumes collected.

In the rest of Europe, the fall in revenue was more limited at 6.9% at constant exchange rates and consolidation scope. In Italy, incinerated waste mainly comes from towns and cities. The contracts won in Denmark and Czech Republic also helped limit the drop in revenue.

In North America, revenue fell 9.1% at constant exchange rates and consolidation scope, due to the decrease in industrial and commercial waste collection and landfill volumes, partially offset by the efficiency of price increase measures. Revenue was also affected by the impact of the economic crisis on the industrial services and hazardous waste sectors.

Major contracts lost in 2009 include the waste collection and processing contracts for the boroughs of Manhattan and Queens in New York, the contract for the maintenance of green areas in Birmingham and the Airbus industrial services contract in the United Kingdom. These contracts represented total estimated annual revenue of €26 million.

Major Contracts in 2009

The following table show the major contracts signed in 2009 with either public authorities or industrial or service sector companies[(1)] :

Public authority or company and location thereof	Month of signature of contract	New contract or renewal	Contract term	Estimated cumulative revenue *(in euros)*	Services provided
France					
COBAN Atlantique (Arcachon basin)	May	New	5 years	18 million	Collection of household waste and equivalent
Chevreuse Valley SIOM	November	Renewal	8 years	72 million	Collection of household waste and equivalent
Limoges City Conurbation	June	Renewal	6 years	37 million	Collection of household waste and equivalent
Rouen Conurbation	October	Renewal	6 years	29 million	Collection of household waste and equivalent
Val de France Conurbation	November	Renewal	8 years	24.5 million	Collection of household waste and equivalent
Azur Provence Conurbation	October	Renewal	5 years	23 million	Collection of household waste and equivalent
Nevers Conurbation	February	New	20 years	17.5 million	Construction and operation of a drop-off center for professionals
Europe (excl. France)					
Merseyside Waste Disposal Authority (United Kingdom)	May	New	20 years	720 million	Integrated comprehensive waste management contract

(1) *Revenues expected under the contracts won in 2009 have been converted into euros at the closing exchange rate as of December 31, 2009 and represent the portion due to Veolia Propreté under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier Group press releases.*

Public authority or company and location thereof	Month of signature of contract	New contract or renewal	Contract term	Estimated cumulative revenue *(in euros)*	Services provided
North America					
Seminole County (Florida)	November	New	8 years	16 million	Collection of household waste and equivalent
Asia – Pacific					
Hong-Kong Special Administrative Region	November	Renewal	10 years	174 million	Operation and maintenance of a hazardous waste treatment facility
North Africa					
Nador (Morocco)	February	New	7 years	18 million	Collection of household waste and equivalent and urban cleaning services

Main acquisitions and divestitures in 2008

In July 2009, an agreement was signed with Coventa Holding Corporation for the sale of Montenay International, the portfolio of North American incineration contracts. This divestiture encompasses the management and maintenance contracts for seven sites. The transaction was finalized in 2009, with the exception of one site, the sale of which was completed in February 2010.

In August 2009, Veolia Propreté Nettoyage et Multiservices (VPNM) was sold to the TFN Group. VPNM provides site cleaning services and waste sorting and collection services at sites mainly located in France.

These transactions form part of the multi-year divestiture program announced by the Group on March 6, 2009.

Following the creation, acquisition or consolidation of twenty companies in 2009 and the liquidation, divestiture or transfer of ninety-four companies, the Environmental Services Division (excluding Proactiva) was composed of 692 companies as of December 31, 2009, compared to 766 in 2008.

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, 2009, Dalkia had 52,557 employees in forty-two 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)	2009	2008 **	Change 2009/2008
Revenue	7,078.6	7,446.3	-4.9%
Operating income	415.5	434.4	-4.4%

* *Including the share in revenue and operating income of industrial multi-service entities*

** *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.*

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, and 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 thirty years, while contracts for the operation of thermal and multi-technical installations for public or private customers may have terms of up to sixteen years. Contracts to provide industrial utilities services generally have shorter terms (six to seven years on average), while contracts in the facilities management sector generally have terms of three to five 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 2009, thanks to the innovative services offered to local authorities.

Heating and Cooling Networks

Dalkia is one of Europe's leading operators of large urban heating and cooling networks. Dalkia currently manages 810 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. 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 services to satisfy demands for improved energy efficiency. It manages more than 115,000 energy plants throughout the world.

Industrial Utilities, Installation and Maintenance of Production Equipment

Dalkia is 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.

Dalkia provides services at approximately 4,100 industrial sites.

Integrated Facilities Management

Facilities management contracts combine a comprehensive 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.), covering a total surface areas of over 100 million square meters.

Street lighting services

Citélum, a subsidiary of Dalkia, has earned a worldwide reputation for the management of urban street lighting, urban traffic signal lights, 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 and cooperative housing customers through Proxiserve, a joint subsidiary (energy/water services), including the maintenance of heating systems, plumbing and renewable energy, and meter-reading services.

The activities of the Energy Services Division may be influenced by the following key factors, which are primarily of a technical, contractual or economic origin:

- contract management, enabling the identification of risks borne by the company and those borne by our customers: Contract management takes account of necessary regulatory developments, which are monitored by the Division, and the implementation of a research and development programs, enabling further improvements to our performance and competitive advantage (see Section 4.1.2 above);
- procurement management: primarily purchases of raw materials, to optimize costs and secure fuel supplies for the installations we manage (see Section 4.1.4 above);
- environmental protection: optimization of energy efficiency, control of atmospheric emissions and a renewable energies-based offering (See Sections 4.1.3 and 4.2.2.3. above).

Description of Activities in 2009

In 2009, the Energy Services Division reported a slight fall in revenue of 2.2%, on a constant basis compared to 2008. This decrease was mainly due to a fall in energy prices.

2009 was marked by the on-going refocusing of division activities on its core business, that is, the production and distribution of energy and the management of energy services: this led to the divestiture of the facilities management business in the United Kingdom (see "Main acquisitions and divestitures in 2009" below).

In France, despite the commercial slowdown, Dalkia France renewed close to 86% of the contracts that expired during the year.

The large number of new contracts and the development of contracts in portfolio, at a rate over twice that of erosion, enabled the division to report substantial revenue growth in excess of €66 million on an annualized basis. Overall, contracts not renewed in 2009 represent less than 1% of Dalkia revenue in France.

Major contracts lost in 2009 include the contract with Alstom Power Turbomachines DTV in Belfort. In addition, following the closure of its Etang de Berre site, Cabot France terminated its thermoelectric power plant management contract early, representing cumulative lost revenue for Dalkia over the contract term of approximately €80 million.

2009 was also marked by the commissioning of the largest biomass power plant connected to a heating network in Cergy Pontoise (Val d'Oise) and the significant development of the heat distribution network business (creation, extension and renewal activities). Furthermore, the first generation of cogeneration installations reached the end of their life and numerous contract renewals were recorded after complete overhaul of the equipment.

Finally, Dalkia signed its first energy performance contract, following the implementation of the "Grenelle 1[(1)]" recommendations.

In Central Europe, commercial activities performed well. New contracts signed during the year (representing approximately €51 million) enabled Dalkia to maintain activity at 2008 levels and offset the negative impacts of the economic crisis and exchange rates. Some 80% of contracts expiring during the year were renewed, representing revenue of €24 million on an annualized basis.

Major contracts were also signed during the year in the health sector under public private partnerships, in Mexico, Italy and Portugal. Conversely, the incineration business suffered the full effects of the economic crisis in Spain, Portugal, Italy and Israel, reporting a significant slowdown.

The main developments in North America concerned the acquisition of the Portland cooling network and the acquisition of NFL (National Football League) assets.

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(1) *Grenelle de l'Environnement (France): talks between* the French government and a wide variety of organizations *in October 2007 to establish a roadmap for sustainable ecology, development and construction.*

Major Contracts in 2009

The following table shows the major contracts signed in 2009 with either public authorities or industrial or service sector companies*:

Public authority or company and location thereof	Month of signature of contract	New contract or renewal	Contract term	Estimated cumulative revenue *(in euros)*	Services provided
France					
Marne La Vallée/ Val Maubuée (77)	May	Renewal	24 years	82 million	Heating network using geothermal energy
City of Plaisir (78)	February	Extension	15 years	69 million	Heating network
City of Roubaix (59)	July	Renewal	24 years	196 million	Heating network
City of Belfort (90)	May	Renewal	12 years	22 million	Glacis du Château district heating network in Belfort
City of Ales (30)	October	New	20 years	44 million	Heating network
City of Lyon (69)	June	Renewal	12 years	30 million	La Duchère heating network
City of Poitiers (86)	July	Renewal	15 years	72 million	Couronneries, Touffenet and St Eloi district heating networks. Construction of a biomass-powered heating plant
City of Limoges (87)	February	Extension	10 years	154 million	Construction of a biomass-powered heating plant
SFR	July	Renewal	3 years	105 million	"Network life" maintenance contract – geographical extension
Europe (excl. France)					
TERSA Tractament i Seleccio de Residus SA (Spain)	December	New	30 years	492 million	Heating and cooling network for the Marina district, Barcelona – Multi-energy (gas, biomass, photovoltaic)
City of Madrid (Spain)	December	New	4 years	22 million	Public lighting maintenance
City of Hamburg (Germany)	September	New	10 years	83 million	Production and distribution of heat generated using renewable energies for the HafenCity district
Azienda Ospedaliero Universitaria Santa Maria della misericordia di Udine (Italy)	October	New	30 years	394 million	Heating network and facilities management and thermal and multi-technical services – hospital PPP
Latin America					
Secretario de Salud del Estado de Mexico Zumpango (Mexico)	July	New	23 years	68 million	Facilities management – hospital PPP
North America					
Venetian Group (USA)	February	Renewal	10 years	30 million	O&M of the Venetian Casino in Las Vegas

* *Revenues expected under the contracts won in 2009 have been converted into euros at the closing exchange rate as of December 31, 2009 and represent the portion due to Dalkia, including Veolia Energy North America Holding, under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier Group press releases.*

Main acquisitions and divestitures in 2009

In 2009, Dalkia continued its expansion in France and abroad, through acquisitions and major projects and, in particular, the acquisition of the entire share capital of Digismart in Estonia in the first quarter.

In addition, activity in the United Kingdom was refocused on energy businesses, with the divestiture of the Facilities Management businesses of DETS and Pakersell. This transaction was completed in August 2009.

In total, over the course of 2009, the Energy Services Division consolidated or purchased forty-seven companies, and sold, liquidated or merged twenty-nine companies. As a result, it held 547 consolidated companies, including 328 foreign companies, as of December 31, 2009, compared to a total of 528 consolidated 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[1]. Veolia Transport operates passenger transportation services on behalf of national, regional and local authorities.

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

Veolia Transport estimates that the worldwide transportation market currently represents revenue of €340 billion, of which only 31%, or approximately €105 billion, is currently open to competition, with expected global growth of approximately 4% per annum over the next five years. Europe and North America will account for nearly two-thirds of this growth, with the creation of an additional market worth €35 billion between 2010 and 2015. Asia and particularly China, accounts for a substantial portion of new emerging markets, with the current opening of markets evidenced by a recent wave of calls for tender.

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, 2009, Veolia Transport had 77,591 employees around the world. It has a presence in more than twenty-seven countries and conducts its business mainly in Europe, North America and Asia. 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 2009, Veolia Transport continued its growth in North America, Asia and Europe.

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)	**2009**	**2008**	**Change 2009/2008**
Revenue	5,860.7	5,788.1	+1.3%
Operating income[1]	152.9	170.5	-10.3%

* *In accordance with IFRS 5, Non-current assets held for sale and discontinued operations, the Income Statements of the Freight business entities in the Transportation Division, divested in December 2009, are grouped together in a separate line, Net income from discontinued operations, in 2009 and in fiscal year 2008 presented for comparative purposes.*

(1) *Recuring operating income (see Chapter 9) equalled €158.3 million as of December 31, 2009 compared to €137 million as of December 31, 2008.*

[1] *Sources: annual reports of main competitors and internal studies.*

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 two to twelve years, with the exception of "operating concessions," which have an average term of thirty years.

Veolia Transport's activities fall into four main categories:

- urban mass transportation (urban transport, urban beltway and other specific transportation services);
- Intercity and Regional Transportation;
- infrastructure management and airport services;
- transportation management (passenger information services, clearing-houses, call centers).

The activities of the Transportation Division are influenced by key factors of a technical, contractual and economic nature, primarily by:

- managing contractual risks: the Company carries on its activity under long-term contracts, which may hinder its ability to react rapidly and appropriately to new financially negative situations (see Section 4.1.2 above);
- managing the various sustainable development aspects, which are increasingly included in transportation authority requirements (see Sections 4.1.3, 4.2.2.1 and 4.2.2.3, above);
- the ability to control contractual changes (see Section 4.1.2 above);
- the ability to carry out activities in dense, vast and increasingly complex territories: increasing operating complexity and greater inter-modality in particular.

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 Norway, the Netherlands and Sweden.

Urban and Suburban Transportation

In France, Veolia Transport operates the tramway, bus and light rail networks in Rouen, Saint-Etienne, Nancy and Nice. In addition, during 2009, Veolia Transport was awarded the contract for the operation of the existing network in Valenciennes, comprising a tramway line, with the planned construction of a second public transport line (such as a trolleybus). The contract for the operation of the suburban network in the Aix area was also renewed. Veolia Transport also manages bus networks in some forty 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 (Sweden). It also operates bus routes in Scandinavia, Switzerland, Belgium, the Czech Republic and several cities in Poland. In the Netherlands, Veolia Transport operates the regional transport in the Hague and the bus network serving this city’s suburbs since 2009. Veolia Transport also operates all integrated (inter-modal) public transport networks in Limburg province (bus, transportation-on-demand, suburban rail transportation).

In Southern Europe, via its subsidiary FCC-Connex, a joint venture with the Spanish group FCC, Veolia Transport operates the Bilbao network and manages urban transportation services in several other cities, including the Barcelona tramway. In Morocco, the delegated bus service concession arrangement covering the towns of Rabat, Sale and Temara was signed on February 26, 2009 and came into effect in November 2009. The operation of this fifteen-year contract was entrusted to STAREO, a subsidiary of Veolia Transport.

In the United States, Veolia Transport provides bus transportation services principally in California, Arizona, Colorado, Texas and Maryland and in Las Vegas, New Orleans and Seattle, as well as in the Washington DC region. Veolia Transport also manages suburban train services in Boston, San Diego and Miami. In Austin (Texas), it is also operates rail freight services.

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

In Asia, Veolia Transport operates the bus network of five cities in the Jiangsu and Anhui Chinese provinces, as well as the Hong Kong tramway.

In Korea, Veolia Transport has operated the Seoul metro line 9 since July 2009. 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) and a network of bus lines in Santiago, Chile. In Israel, in addition to the three urban bus networks and inter-city bus lines already managed, Veolia Transport won the contract for the Lod urban network in March 2009. This contract came into operation on January 1, 2010.

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, the Greater Paris region and Fairfax (United States).

Several contract wins in 2009, including all transportation-on demand services to Raleigh-Durham airport (North Carolina, start-up March 1), student transportation to the Stanford University campus (start-up September 1) and the transportation of Continental Airlines employees to Newark airport (start-up October 1), further strengthened transportation-on-demand services in the Unites States.

Veolia Transport manages taxi services in the United States, in particular in Baltimore, Denver, Kansas City and Pittsburg and in the Netherlands, France and Sweden. It provides transport for persons with reduced mobility in Bordeaux and other regions of France and in the United States (para-transit), and particularly California, Arizona, Nevada, Texas, Maryland, South Carolina, New Orleans and the Washington DC area.

In addition, via its specialized subsidiary, Veloway, Veolia Transport operates self-service bike rental systems in the city of Vannes and Greater Nice.

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. Veolia Transport is present in all regions and saw the renewal of intercity and school transportation contracts in the Gard, Moselle, Var, Sarthe, Orne and Cher regions.

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 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 Sweden, Veolia Transport operates a rail network between Stockholm and Malmö since the opening of this market to competition in 2009.

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 and the Miami suburban network (Tri-Rail).

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), which manages passenger and freight maritime transportation services between Marseille, Nice, Corsica and North Africa.

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.

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 is 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, a solar energy farm project in Lille, and diversification of access methods (shuttle bus, transportation-on-demand, etc.).

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.

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 2009

In 2009, the Transportation Division reported a increase in revenue of 1.3% compared to 2008 at current exchange rates and 1.9% at constant exchange rates.

In the urban transportation sector, Veolia Transport strengthened its presence by winning, during 2009, the contract for the operation of the existing Valenciennes network comprising one tramway line and the planned construction of a future second public transport line, such as a trolleybus. Veolia Transport also won the contracts for the operation of the Montceau-Le-Creusot and Louviers-Val de Reuil networks.

Veolia Transport was also awarded the public service delegation contract for the construction and operation of the infrastructure and shuttle service to Mont Saint Michel, as well as the Mobility Center set-up by the Alsace Regional Council.

Veolia Transport has a significant presence in across all regions. In the framework of the intercity and school transportation sector Veolia Transport renewed transportation contracts in the Gard, Moselle, Var, Sarthe, Orne and Cher regions.

Finally, Veloway, a subsidiary of Veolia Transport was awarded a contract to set-up and manage a self-service bike rental system by the City of Nice in January 2009. This market comprises several firm and optional tranches and concerns the set-up of 120 bike stations and the supply of nearly 1,200 bikes.

Veolia Transport strengthened its presence in the United States by winning and renewing several contracts, including the operating contract for all urban transportation systems in New Orleans.

In the Netherlands, Veolia Transport has operated the Hague suburb bus network since 2009, using environmentally-friendly vehicles (CNG buses).

Veolia Transport continues its expansion in Asia with, in particular, the operation of the Seoul metro line 9 in Korea since July 2009.

Among these key events, it should also be noted the loss by Veolia Transport of the operating contracts for the Melbourne train service, the Stockholm metro and the Bordeaux urban network, which represented total annual revenue of €791 million.

Veolia Transport renewed 74% of major contracts ending in 2009, representing renewed average annual revenue of €260 million.

Major Contracts in 2009

The following table shows the major contracts signed in 2009 with either public authorities or industrial or service sector companies[1] :

Public authority or company and location thereof	Month of signature of contract	New contract or renewal	Contract term	Estimated cumulative revenue *(in euros)*	Services provided
France					
Gard Department	July	Renewal	10 years	160 million	Management and operation of all regular lines and school routes in the Gard Department
Moselle Department	August	Renewal	10 years	177 million	Regular coach passenger transport routes in the Moselle Department
Mont Saint Michel	October	New	13 years	91 million	Construction and operation of infrastructure and welcome facilities and passenger transport by shuttle bus between Mont Saint Michel and the bus station
Valenciennes	November	New	8 years	404.8 million	Operation of the Valenciennes urban network (tramway and construction of a future trolleybus line)
Europe (excl. France)					
Landskrona / Relleborg (Sweden)	June	New	8 years (plus 2 years at the customer's option)	94.1 million	Operation of the City of Landskrona urban transportation network
Boräs (Sweden)	October	New	8 years (plus 2 years at the customer's option)	67.7 million	Operation of the Sjuhärad region urban transportation network
Troms Ferries (Norway)	March	New	10 years	115 million	Maritime transportation of passengers by ferry
Regiotaxi West-Brabant (Netherlands)	July	Renewal	4 years (plus 2 years at the customer's option)	72 million	Operation of the urban transportation network of Brabant province and neighboring communes
North America					
Tempe	April	Renewal	4 years and 2 months (plus 4 years at the customer's option)	94.7 million	Operation of regular bus passenger transportation routes and maintenance services
New Orleans	July	New	5 years (plus 5 years at the customer's option)	202.4 million	Management, operation and maintenance of all urban passenger transportation systems of the city of New Orleans (turnkey contract)
North Africa					
Rabat (Morocco)	February	New	15 years (plus 7 years at the customer's option)	1,095.7 million	Operation of suburban bus routes around the city of Rabat

(1) *Revenues expected under the contracts won in 2009 have been converted into euros at the closing exchange rate as of December 31, 2009 and represent the portion due to Veolia Transport under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier Group press releases.*

Main acquisitions and divestitures in 2009

In France, Veolia Transport sold all its shares in its specialist freight rail-transport subsidiary, Veolia Cargo (and through this company, its foreign subsidiaries), to TFH (Geodis Group) on November 30, 2009. At the same time, Veolia Cargo sold ts French subsidiaries to Eurotunnel Group. Veolia Transport received a total consideration for these transactions of €103 million.

In addition, SNCM, a subsidiary of Veolia Transport, sold its 45% stake in CMN on December 1, 2009 for a total consideration of €45 million.

Veolia Transport strengthened its activities in Asia, primarily through its joint venture with RATP Développement, which is active in China, Korea and India. In Hong Kong, Veolia Transport acquired a 50% stake in Hong Kong Tramways in April 2009 and commenced operating the sole Hong Kong tramway.

In addition, in the United Kingdom, Veolia Transport rationalized its structure by grouping together in two single entities all transportation activities in England (Veolia Transport England plc) and Wales (Veolia Transport Cymru plc).

Finally, Veolia Environnement continued its discussions with Caisse des Dépôts et Consignations regarding the merger of Veolia Transport and Transdev, to create a global leader in collective passenger transportation and sustainable mobility.

As of December 31, 2009, Veolia Transport comprised 521 consolidated companies, compared to 549 as of December 31, 2008. During the year, twenty-nine companies were consolidated for the first time, twenty-nine companies were merged and twenty-eight 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 is primarily driven by the expansion of outsourcing, as industrial companies seek to confer the management of certain activities ancillary to their core businesses 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 and on-site logistics management. 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 entrusting Veolia Environnement with such a broad range of activities, 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 assumption of management activities that were previously subcontracted, and the implementation of a new energy policy. In 2005, the economic and operational success of this partnership led the PSA group to seek the same scope of services from Veolia Environnement at its new facility in Trnava (Slovakia).

Veolia Environnement Organizational Structure for the Provision of Multi-services

In order to develop this multi-service activity, the Group set up a special purpose entity 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 submitted to the customer.

The contract is then performed by an *ad hoc* entity managed in part by the Divisions involved in the project, especially when personnel is outsourced to the customer.

Multi-services Business Activity

The Group's activities in the multi-service market primarily consist of approximately fifteen major contracts, which together generate average annual revenue of more than €420 million and are expected to generate cumulative revenue over their term of around €2.6 billion. The average contract term is ten years.

Multi-service activities have a strong international dimension, particularly when industrial customers invest in the construction of new factories abroad (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).

Through its subsidiary VEI, Veolia Environnement signed a cooperation agreement with DCNS Group in March 2009 which takes the form of a joint venture, Défense Environnement Services (DES), in which it holds a 51% stake. DES will manage outsourcing contracts for the provision of support services at Defense sites, set-up by the French State as part of the General Public Policy Review. The first project in this sector concerns the Creil defense base and DES made the final three candidate short-list for the competitive tender organized by the Defense Ministry. DES also signed a multi-service contract with DCNS in 2009 covering support services for its sites. This contract kicked-off in April of 2009 on a limited basis in Brest and then in June 2009 in Lorient and Indret. This activity has generated revenue of approximately €2 million, representing annualized revenue of approximately €3.5 million. In the long run, activity at the DCNS sites is estimated to generate annual revenue of €15 million.

In 2009, PSA Peugeot Citroën awarded the Eolfi Sense partnership a contract for the construction of a car park at the Sochaux site, including equipping the site with solar panels. The parking lot, contains 801 spaces and will be delivered in September 2010 for use by PSA Peugeot Citroën employees at the Sochaux site. 4,800 solar panels will be installed on the canopy roofs, feeding approximately 1.2 million kilowatts per annum into the French electricity network, which is the equivalent of the annual consumption of 377 households or 1,550 individuals. This parking lot is a major industrial project and forms part of the customer's sustainable development strategy. It represents an integrated approach, from the design of the installations to the operation over the next twenty years, including construction of the infrastructure. The construction work represents a cost of €5 million and will be completed in mid-2010. The installation will generate annual revenue under the established scheme of approximately €150,000. This contract is also the first to be won based on a team effort involving Veolia, *via* its dedicated subsidiary Eolfi, and the Sense Studies and Development team.

Veolia Environnement and Syngenta, the world leader in agrochemicals, kicked off a partnership entrusting Veolia Environnement with the multi-service operations of several Syngenta sites in Europe. Two French product formulation and distribution sites in Saint-Pierre in Haute-Normandy (Eure) and Aigues-vives in Languedoc-Roussillon (Gard), kicked-off this partnership, with operations commencing in July 2008 and January 2009, respectively. Services performed by Veolia Environnement cover a very broad scope**,** including utilities supervision and maintenance (energy and water), maintenance of buildings and outside areas, storehouse logistics, comprehensive waste management, cleaning and various services for building occupants (safety, management of work uniforms, archiving, etc.). Improving the environmental performance of the sites is an integral part of the services provided. The operation of these two sites over the planned five-year period represents estimated total cumulative revenue in excess of €15 million.

Under a multi-service contract renewed for seven years in December 2007 with Novartis and relating to the pharmaceutical group's site in Basel (Switzerland), in 2008 Veolia Environnement renovated and took over the operation of what is today the largest waste incinerator in Switzerland. A twenty-year contract was signed in December 2008 with the industrial departments of the City of Basle (IWB) for the recovery of inevitable energy produced by the incinerator to feed a heating network for a neighboring shopping mall. Based on the agreed plan, this contract should generate annual revenue in excess of €230,000 starting in 2012.

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, in Portugal. Veolia Environnement constructs and will operate a production plant covering 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 2011. The operation of this plant will involve optimization of the environmental impact, in particular through the use of 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 contract is set to last fifteen years and to generate cumulative revenue estimated at €730 million.

Following the signature of a fifteen-year multi-service contract with ArcelorMittal in 2002 in Vega do Sul (Brazil), Veolia Environnement was involved in the expansion of the plant. An initial construction contract representing annual revenue of US$8 million was awarded to Veolia for the design and construction of utilities production technical units. The work was accepted in November 2009.

Multi-service contracts signed in 2009[1]

Company	**Location**	**Month of signature of contract**	**New contract or renewal**	**Contract term**	**Estimated cumulative revenue** *(in euros)*	**Services provided**
DCNS	Lorient, Indret and Brest	April to June	New	10 years	35 million	Multi-services – military base support services
PSA	Sochaux	May	New	20 years	8 million	Construction and maintenance of roof solar panels
Syngenta	France (and then Europe)	October	New	5 years	15 million	Supply of utilities and maintenance of related equipment. Maintenance of buildings and outside areas, storehouse logistics and waste management Services à l'occupant

6.2 MARKET OVERVIEW

6.2.1 The market for environmental management services

Environmental management services, which include drinking-water treatment and distribution, wastewater treatment and collection, waste management, energy services (excluding the production, trading, and sale of electricity), and transportation, are now recognized as a separate business sector. For private customers, the corresponding services are similar and they seek the expertise of a service provider able to supply comprehensive service. Awareness of the emergence of this new market and the benefits of grouping together these services can also be seen among public sector customers, however, such customers are restricted by their administrative and budget structure or by regulatory recommendations regarding the allotment of contracts, and are often required to contract for these services separately. The need to take action to prevent further damage to the environment has nonetheless 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 the aim of 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.

(1) *Revenues expected under the contracts won in 2009 have been converted into euros at the closing exchange rate as of December 31, 2009 Accordingly, these amounts may differ from the amounts announced in earlier Group press releases.*

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 that sets Veolia Environnement apart from the competition.
- In addition, public demand, which now widely reflects a concern for sustainable development, must keep 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 a portion 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, who is able to commit to performance levels. This presents numerous opportunities for companies that are able to propose a wide range of integrated environmental management services. Increasingly, these customers expect service offers that both reflect their specific requirements, 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 high-quality services at 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 (which are often small local authorities, that increasingly pool their 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 remains as relevant as ever, in that it gives the Company the ability to provide services tied to performance obligations and to design, build, and even finance necessary investments, depending on customer needs. This 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 operating rights are transferred and the extent of operating risks assumed by the Company and depending on whether the contract focuses on the service to be provided or the construction of infrastructure.

Since the mid-19th century, French 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 retain the label 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, while 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 of contracts have emerged, which, together, are often qualified as PPPs. The first case includes contracts belonging to the market category and the resources intended to cover the cost and financing of infrastructure are similar to a price paid or guaranteed by the public authority; in this case, the service is provided to the public authority using the completed infrastructures. The second case includes contracts that are the equivalent of concessions as defined by the European Union and the resources are obtained through the commercial operation of the public service (i.e. the public or general-interest service whose operation has been delegated) that is the main object of the contract, whereas the construction of infrastructure provides only 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 can also 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, the public authorities decided to encourage this type of global PPP contract in favor of authorities that settle the price, and to this end, the Order of June 17, 2004 created a new category of contracts classified as partnerships. In this way, it resolved the regulatory problem whereby public bodies were no longer authorized to enter into contracts governed by French common law comprising both construction and operating components or contracts including financing, where there is no concession or delegation of the operation of public interest services paid by users.

At the EU level, on November 19, 2009, the Commission published a major communication recommending the development of public private partnerships (PPP). According to the Commission, this term encompasses all long-term contracts for the provision of construction, operating and financing services by a company, irrespective of whether it takes the legal form of a concession or a contract. It highlights the advantages, primarily economic, of PPPs which should provide a solution to current and future requirements for investment in public services.

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, as well as 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 all 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, despite the merger of Cofathech (GDF) and Elyo (Suez) to form Cofely. 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. 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 seek to expand their activities to become integrated environmental management service providers, in the coming years. This change has been prompted by the desire of potential customers to outsource a larger portion of their business. The development of companies with worldwide capabilities focusing on multi-site and international calls for tenders has therefore been observed, such as Johnson Controls or 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 PPPs 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 regard 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, public entities (*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 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 end of a contract.

Water

Veolia Eau confirmed its role as leader in the water and wastewater treatment sectors[(1)], where its main competitor across all markets 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 Environnement), Saur (Séché Environnement) and local public authorities. 2009 was also marked by the increase in Gelsenwasser's investment in Nantaise des Eaux Services to 100% and the arrival of new competitors from the environmental services sector (Derichebourg, Pizzorno).

In Spain, the Company's main competitors are Suez Environnement (via Aguas de Barcelona; Suez Environnement acquired control of this company in October 2009 after several years as a major shareholder) and construction and public works companies such as Aqualia-FCC, ACS, Sacyr and Acciona, which also has an international development strategy.

In the rest of Europe, aside from Suez Environnement, the Company's main competitors include Acea in Italy, companies such as Gelsenwasser in Germany and Remondis which has gained marketshare in Russia.

In the United States, American Water (which is looking for a new start after completing its demerger from RWE), United Water (Suez) and Aqua America are the main purely-American players.

In the North African and Middle East markets, as well as in Latin America, Veolia Eau is in competition with Spanish companies (Acciona, Aqualia-FCC, ACS) and is facing the growth of Japanese trading companies (Mitsui, Marubeni, Mitsubishi, Sumitomo, etc.), which are seeking to establish a position in stable, long-term activities.

China is also a strategic development region for Suez Environnement and Asian companies (with increased competition from local companies, such as the new entrant Beijing Enterprises, as well as Japanese, Malaysian and Singaporean companies, AsiaEnv and Hyflux, which are also present in the Middle East and North Africa (MENA) region). This market is also of interest to technology providers such as General Electric and Siemens, which are also betting on India with a specific focus on the desalination and wastewater recycling sectors, as well as Doosan (South Korea), Keppel (Singapore), VA Tech Wabag (India) and IDE Technologies (Israel). The latter have emphasized their ambitions for international expansion and extending their areas of expertise, in a manner similar to VWS&T and Degrémont.

Environmental Services

Veolia Environnement's main competitors in this 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. The North American market is highly concentrated, with only two major competitors, Waste Management Inc. and Republic Services Inc. (the new entity formed by the merger of Allied Waste Industries and Republic Services at the end of 2008).

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 players. 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, primarily with Cofely, 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. Cofely represents a major competitor, mastering a range of expertise similar to that of Dalkia. Competition was intense in 2009, particularly in France, with a clear policy to win market share.

[(1)] *Sources: Global Water Intelligence (GWI) of November 2009 and Pinsent Masons Water Yearbook 2009/2010.*

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 historical but 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, who are primarily French, American and British but also Asian, and public companies (national or local) that operate public monopolies.

The main private competitors on the global stage are the British groups Firstgroup, Arriva, National Express and Stagecoach, the French groups Keolis and Transdev[1], and the Hong Kong company, MTR Corporation.

With regard to French private groups, Keolis' main industrial shareholder is SNCF. The Caisse des Dépôts et Consignations, the majority shareholder in Transdev, is in negotiations with Veolia Environnement regarding the merger of their two Transportation subsidiaries. These decisions are taken in the context of a planned stock market listing of the Group's Transport business.

With the current trend towards consolidation in the mass transportation market, SNCF, Keolis and Effia announced a merger project and already work together in a number of areas. In addition, SNCF Proximités, a specialist in local and regional mobility, is positioning itself in several business segments to export its know-how.

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

In Asia, two players with growing international ambitions represent new competitors in the European and Asian markets. Of particular note is the Hong Kong suburb metro and train operator, MTR Corporation. This group, which merged with Kowloon-Canton Railway in 2007, has won a number of contracts including the concession for the Dexing metro line in Beijing, the operation of the Stockholm metro, and the Melbourne suburban rail network. In addition, MTR is present in numerous rail-bidding processes in China and Europe. The second largest Asian competitor is ComfortDelgro, the operator of the Singapore transportation network.

In the United States, Amtrak's persistent budget difficulties have opened the rail market to delegated private management. The competitive environment in the United States has changed with the arrival of new competitors such as Keolis, RATP Développement, and Go-Ahead.

In conclusion, Veolia Transport is operating in an environment marked by increasingly intense competition between the major international groups and a move towards consolidation, leading to the formation of a few extremely large local passenger transportation groups.

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 operate public services ("direct" or "internal" management) with its own resources or resources transferred to an in-house company over which it exercises control similar to that exercised over its own departments;
- 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;

[1] *See Section 12.2, Recent Developments.*

- the public authority may prefer to transfer responsibility for providing the public services to a company, to which it delegates or transfers (under the terms of a contract comprising technical performance commitments) the right and the obligation to operate the service, provide the human resources, equipment and financing necessary and, where appropriate, finance and build the infrastructure. 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 providing the 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 for which it pays a contractually-agreed price. It therefore enters into a variety of contracts for the supply of construction work and services;
- 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 providing 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 and financial departments of Veolia Environnement's Divisions are involved in the negotiation and preparation of tender bids and then 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 risks inherent in 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 mainly 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 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 has 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 any one or several of these patents nor on any contract covering one or more intellectual property right(s). 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

Given Veolia Environnement’s business activites (Water, Environmental Services, Energy and Transportation), changes in the price of raw materials (mainly fuel and natural gas prices) and recycled materials (paper, cardboard, iron and non-ferous metals) can have an effect on its different Divisions.

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 crude nearly tripled from its low in January 2007 (US$49.00) to its high in the summer of 2008 (US$145), spurred by fears of potential supply problems in light of geopolitical tensions within the major oil producing countries (Nigeria, Venezuela) and the reluctance of OPEC (Organization of the Petroleum Exporting Countries) to raise 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. In 2009, despite a twofold increase in the price of crude oil (US$78.30 as of December 31, 2009) compared to its low in February 2009 (US$39.50), the average price of North Sea Brent crude oil in 2009 (US$61.90) remained below that of 2008 (US$97.20). This change in the price of Brent crude oil not only had an effect on fuel prices, but also on gas prices (particularly in France, where changes in STS gas prices track petroleum prices with a three month lag). Thus average 2009 French gas prices also went down by about €9/MW compared to 2008, which represents a decreased of 27%.

The general consensus 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 any event, as in 2008 and 2009, energy prices should remain volatile in 2010.

In this context of volatile raw materials commodity markets, 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 to manage fluctuations in fuel costs. The Group uses derivative instruments for this purpose, whose characteristics (notional amounts and 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 through the prices charged. Approximately 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, the fall in fuel prices in 2009 compared to 2008 had a positive impact on fuel expenses of approximately €67 million in 2009, including the cost of swap hedging arrangements.

In the Energy Services Division, given the long-term nature of the contract terms and terms of supply agreements, the changes in energy prices may have different affects depending on the zones in which Dalkia intervenes. At the Energy Services Division level, it has an overall negative impact on revenue of €140 million; this translates, however, to a negative effect in France and the United States, but a positive impact in Central Europe and the Baltic States.

A 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, cardboard, ferrous and non-ferrous metal). The economic crisis in 2009 impacted demand for recycled materials, and the average annual price of these secondary materials fell substantially compared to 2008, despite a progressive rise in paper and cardboard prices from the third quarter of 2009. The results of the Environmental Services Division were therefore impacted in 2009 by the substantial fall in the price of secondary raw materials compared to 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 is 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 may also purchase financial instruments to hedge against increases in the price of nickel and copper notably. For further information, please refer to our Consolidated Financial Statements, particularly Note 29.1.3 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, enacted into French law by Law n°2008-757 of August 1, 2008 on environmental liability, extends the scope of strict liability 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. It implies in particular for the Group as a user of such substances, the strengthening of cooperation and exchange of information with suppliers and customers. It is involves improving risk management at all stages of the life cycle of chemical substances and strengthening the prevention of chemical risks concerning Group employees.

The Classification, Labeling, Packaging (CLP) regulation, which has the same end purpose as the REACH regulation, came into effect on January 20, 2009. This regulation makes certain amendments to existing provisions concerning the classification, labeling and packaging of dangerous substances.

In addition, European MPs adopted the "climate-energy" package at the end of 2008, which seeks to ensure compliance within the European Union of climate objectives by 2020: 20% reduction 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: an effort-sharing decision on greenhouse gas emissions, (outside ETS), a directive on renewable energies, a directive on the emission trading scheme (ETS), a directive on the capture and storage of CO_2 adopted on April 23, 2009 and currently being enacted by the Member States, 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 composed of objectives aimed at halting the decline in biodiversity and measures enabling the achievement of objectives by the end of 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. In October 2009, the Conference of the Parties (COP) revised the strategic action plan of the Convention, setting new objectives for the period 2010-2020 which include primarily analyzing the services rendered by ecosystems to human well-being.

Water

Water and wastewater treatment activities are highly sensitive to regulation. In Europe and the United States, governments have enacted significant environmental laws at European, national, and local level in response to public environmental protection expectations. 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 various provisions incorporated into the French Public Health Code. In addition to quality control measures, this directive introduces the concept of evaluating risks on an on-going 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 in 2007, 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 water to 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", which imposes new restrictions on the oversight and management of bathing water and information provided to the general public.

Public authorities also impose strict regulations concerning industrial wastewater likely to enter collection systems, as well as wastewater and sludge originating from urban 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. In addition to measures to preserve the quality and quantity of resources, the Planning Law n°2009-967 of August 3, 2009 aimed at implementing the *Grenelle de l'environnement*(1) decisions, known as the "Grenelle 1 Law", provides for the implementation of a blueprint to preserve the ecological continuity of surface water masses; such blueprint must be taken into account in territorial planning, via "urbanism" and "water" planning documents. With regard to health aspects, measures must be taken to protect drinking water catchment areas of strategic supply importance and water emissions of certain toxic substances must be reduced by 2013. In the wastewater treatment sector, treatment plants must be brought up to standard by 2012 at the latest and autonomous wastewater treatment is subject to strict regulation to protect the quality of the receiving environment, sanitary conditions and public health.

The violation of these texts is punishable 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 permit 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 lead). Moreover, the NFU 44-095 standard, implemented in 2002 and applicable in France since March 18, 2004, strictly regulates the composting of material produced by the treatment of wastewater.

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(1) *Grenelle de l'Environnement (France): talks between* the French government and a wide variety of organizations *in October 2007 to establish a roadmap for sustainable ecology, development and construction.*

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 hazardous and non-hazardous waste. These orders govern the design and construction of waste processing centers, among other things. Hazardous waste is subject to strict monitoring at all stages of the processing cycle. Hazardous waste is tracked using a waste monitoring slip (*bordereau 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 NO_X in particular.

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 for 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".

Following the repeal of European Regulation 2037/2000/EC, a new European regulation 1005/2009/EC of September 16, 2009 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/EC of December 19, 2007) and fire protection systems (European Regulation1497/2007/EC of December 18, 2007).

Energy services are concerned by European Directive 2003/87/EC of October 13, 2003 on greenhouse gases emission allowances, as amended by European Directive 2009/29/EC of April 26, 2009, 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.

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 manufacture of such equipment, and requires an inspection of the compliance of the units housing such equipment.

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 and by the increasingly systematic application of "best available techniques".

Finally, with respect to its production of sanitary hot water, Dalkia is directly affected by European Directive 98/83/EC of November 3, 1998, as enacted in numerous national texts, which addresses the quality of water intended for human consumption. Eighteen 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 the production and distribution of hot and cold water.

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 of May 17, 2006 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 legionnaire's 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 range of descriptive procedures set the action and liability framework. 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 applicable in full and largely inspired similar procedures applicable in Flanders (Belgium), the Netherlands, Ireland and at EWGL.

Similarly, regulations exist in Asia and the Pacific region and were inspired by texts in New Zealand and Australia.

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, that limit, amongst other things, emission levels from heat engines. A series of European regulations have also been drafted setting EURO standards. These impose maximum polluting emission levels for thermal engines. All new vehicles currently manufactured in the European Union comply with "EURO 5" standards since September 1, 2009. Since this date, the Veolia Transport network vehicle pool is gradually being brought into compliance with the "EURO 5" standard as vehicles are replaced. This standard imposes even stricter requirements with respect to reducing polluting emissions than the "EURO 4" standard, applicable since 2006. Further, Veolia Transport is committed, as part of its environmental management system, to lowering its polluting emissions on a like-for-like basis and is preparing for new standards by testing and experimenting emission reduction systems (polluting emissions and greenhouse gases) which will subsequently be marketed, thereby reaffirming its role as expert and advisor to customer public authorities.

Veolia Transport signed a Sustainable Development Charter which includes eight commitments. This Charter has been distributed in eighteen languages to all Veolia Transport operations. Three articles concern resource management and the management of environmental risks and comprise indicators to be attained by 2011. The "Eco-Efficient Travel"™ indicator implemented across a group of benchmark sites, comprises a commitment to achieving a given percentage of green vehicles and vehicles washed with recycled water. The third commitment involves encouraging the preservation of resources and "eco-friendly actions", by our employees and passenger customers, primarily by training drivers how to drive in a smooth and fuel-efficient manner.

In addition, 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, all Veolia Transport priority sites are subject to environmental regulation audits every five years, as well as interim follow-up audits.

6.3.2 Environmental policies

Veolia Environnement strives to help enhance the quality of life and the environmental 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 Annual Report and 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 international level, the Kyoto Protocol came into force in February 2005 and gave the European Union the objective of reducing greenhouse gas emissions in the European Union by 8% over the period 2008-2012, compared with 1990 emission levels. 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) for an initial period (2005-2007) followed by a second period (2008-2012), corresponding to the Kyoto Protocol commitment period. European Directive 2009/29/EC of April 26, 2009 amended the ETS Directive and extended the allowance trading system to cover a third period (2013-2020), which provides for a progressive reduction in allowances granted and new grant procedures (see Section 6.3.1 above).

The Group is 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, Section 1.25, below).

- 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 80,000 combustion installations in Europe, including nearly 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, in order to minimize the cost of carbon restrictions 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 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 six projects classified as Clean Development Mechanisms (CDM) by the CDM Executive Council: two in Brazil and one each in Egypt, Mexico, Argentina and Colombia. 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 on-going in Asia and Africa. Veolia-Energy has a joint project currently in progress in Hungry. Veolia Propreté assesses CDM project opportunities, primarily in Asia, while Dalkia assesses opportunities in China, South America, the Middle East, Israel and North Africa concerning heating networks, renewable energies and energy efficiency.
- 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 (Entreprise pour l'Environnement) and ADEME (Agence De l'Environnement et de la Maîtrise de l'Energie). Veolia Transport is also involved in international climate negotiations. At the time of the United Nations Climate Change Conference (UNCCC) in Copenhagen in December 2009, Veolia Transport launched the "Bridging the gap: pathways for transport in the post Kyoto process" initiative with GTZ (an international cooperation enterprise for sustainable development), the German Technical Cooperation Agency, TRL (Transport Research Laboratory) and UITP (International Association of Public Transport). A series of three seminars was organized in 2009 to place transportation on the agenda of international climate negotiations.
- At 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. In this area, the Group pays particularly close attention to regulations governing the capture and sequestration of CO_2, the legal framework for which is set at European level by the Directive of April 23, 2009.

Direct and indirect greenhouse gas emissions (electricity and heat) at sites that the Group managed in 2009 totaled 49.4 million tons of CO_2 (carbon dioxide) equivalents (compared to 47.2 million tons in 2008).

Overall, the Group contributed to reducing 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) in the amount of 23.4 million CO_2 equivalent tons in 2009, compared to 26.9 million CO_2 equivalent tons in 2008.

The Group 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 discharge or optimizing energy consumption in connection with water distribution and treatment activities, using alternative energies across all businesses, 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 actively involved in the main environmental challenges currently facing our planet, applying its know-how and technological and innovative capabilities. Veolia Environnement contributes to enhancing the 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 legionnaire's disease 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. The environmental services business helps accelerate 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 2009, Veolia Environnement continued its strategy of forming partnerships with international institutions, reflecting its active participation in the United Nation's Global Compact. Projects are focused on themed initiatives and involve Veolia Environnement working alongside UN agencies, local authorities and civil society.

Thus, work on drafting public/private partnership guidelines covering "access to essential services" to which Veolia Environnement has contributed its expertise over a number of years, reached a decisive milestone when presented to the United Nations Economic and Social Council (ECOSOC) meeting held in Geneva in July 2009.

Veolia Environnement remains a member of the group of experts responsible for "operational aspects" and one of its contracts will be used as a "test" area. This approach is particularly important to the definition of principles of non-discrimination and will provide the poorest in society with access to basic services (water, wastewater treatment, cleanliness, energy services and transportation).

As part of the International Water Forum held in Istanbul (Turkey), Veolia Environnement took part in the launch of a multi-partner initiative including the Prince Albert II of Monaco Foundation and the United Nations Environment Programme (UNEP) Blue Plan, seeking to set-up a Water Think Tank to consider water management in the Mediterranean and focusing on the regulation of disputes over use. The principle of sharing best practice was continued, thanks to the participation of the Mayor of Guayaquil (Ecuador), who presented his approach to the integrated management of urban and port water.

In Asia, a joint project with the Asian Development Bank enabled the distribution of a guide comprising considerable wastewater treatment data, for use by towns in the region, at the time of the Annual Congress of Citynet, an association of Asian regional authorities, of which Veolia is a partner member (Yokohama-Japan-September 2009).

In addition, Veolia Environnement continued to participate in the UNITAR program for strengthening local governance, which brought together over 500 public authority managers in 2009 from Asia, Africa, South America and Central Europe.

In preparation of the Copenhagen Conference (December 2009), Veolia Environnement entered into a partnership with the United Nations Development Programme (UNDP) to participate in an original "Territorial Climate Plan" approach undertaken by the twenty largest territories worldwide (federal states such as California, Spanish and Italian provinces, French regions). Veolia Environnement's expertise in clean development mechanisms will form a cornerstone of this new partnership.

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. The Foundation was initially created for a period of five years and was extended in 2009 for a further five years. Since its creation, the Veolia Environnement Foundation has supported over 800 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 2009, the Foundation launched 145 new projects while continuing those initiated in previous years. The larger projects include a number of major importance. In Moldavia, for example, at the request of UNICEF, the Foundation provides 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). 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. In Romania, the Foundation is assisting the association *Atelier sans frontières* (Workshops Without Borders) create a computer hardware maintenance, repackaging and recycling workshop in Bucharest, offering job training to individuals facing extreme hardship and a way back to work. In Senegal, the Foundation supports the *Samu social International* (an NGO), which is building an accommodation centre in Dakar for street children. In France, the Foundation will assist the development of *Petite Reine*, a back-to-work company specializing in the "cargocycle" transportation of goods in urban areas (using electrically-powered three-wheelers). In the biodiversity sector the Foundation will support Tara Océan, a three-year oceanographic expedition organized by the Tara Foundation and an international scientific consortium to model the impact of climate warming on the oceans. The Foundation contributes financial support to this project, together with the skills of Veoliaforce experts.

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 network of Veoliaforce volunteer employees, which joined the Foundation in 2008, took part in several emergency humanitarian operations in 2009. The following operations this year involved volunteers from France and abroad. Following the violent earthquake in Indonesia, which lay waste to the Island of Sumatra, Veoliaforce volunteers assessed equipment needs and provided technical support for the rebuilding of damaged water infrastructures. Veoliaforce volunteers got involved in refugees camps hosting escapees of ethnic conflicts in the Central African Republic and in the North of Congo Brazzaville. In Mali, they supported a program to convey drinking water to nine villages. In Sri Lanka they aided in supplying drinking water to a camp of 90,000 refugees. They got involved in Zimbabwe following a cholera epidemic and in Latin America to improve reaction speeds in the event of disasters by setting up an emergency equipment hub. For the first time, with the assistance of Veolia Propreté volunteers, Veolia Waterforce also went to the Philippines, where its assistance was requested by UNICEF and the Metropolitan Waterworks and Sewerage System to provide expertise and training. The aim of the mission was to organize the clean-up, clearing and collection of debris, rubbish and other waste produced by the recent cyclones which ravaged the country. 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. Finally, the Foundation created the Environmental Book Prize (Prix du Livre sur l'Environnement) in 2006. In its fourth year, this prize was awarded to the "*The Green Economy – How to save our planet*" by Philippe Jurgensen. The Foundation also created a student solidarity prize open to school and university associations.

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

Human management of the environment represents a major challenge that requires the mobilization of a large number of resources and the commitment of all stakeholders at local, national and international level. This strong conviction led Veolia Environnement to create the Veolia Environnement Institute (VEI) in 2001, to encourage forward-looking analysis of central themes: economic dimension of the environment, the link between health and the environment, climate change and lifestyles and the challenges of urban growth, society and the environment. 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 challenges that will mark the provision of environmental services over the coming decades.

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. In 2009, the VEI strengthened its international network of academic partners, notably in emerging countries and developed its program of forward-looking studies. Its work with the College of Europe (Belgium), the Wuppertal Institute (Germany) and the Veolia Environnement delegation to European Institutions focuses on the "comparison of carbon inventory tools of European cities" and seeks to establish a unified framework. This study will subsequently be presented to the World Bank "Urban environment and climate change" working group, to contribute to work carried out with other international players (World Bank, UNEP, UN-Habitat, IDDRI) on defining a standard greenhouse indicator for cities. At the same time, the VIE continued its innovative scientific publication policy with two new e-journals: SAPIENS (*Surveys and Perspectives Integrating Environment and Society*), a multidisciplinary review publishing articles from top specialists in order to set forth recent advances in the field of sustainable development and FACTS Reports, a journal dedicated to field work, which seeks to collect, circulate and capitalize on the knowledge and good practices of people in the field (NGOs, international organizations, etc.).

VEI also organizes conferences on prospective tools for the environment in France and abroad. In October 2009, the fifth conference on "Trade, Urbanization and the Environment" was held in Beijing. This subject is central to the problems facing China due to its accelerated economic development, its growing urbanization and the fragile nature and unequal distribution of international resources. This international event was 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 also benefited from the support of official Chinese organizations (Ministry for the Environment, Ministry of Commerce, National Commission for Development and Reform) ensuring it good visibility among scientists, decision-makers and the media. The conference offered a forum for exchange between representatives of the academic world, public authorities, industry and civil society to discuss the interaction of trade and the environment and urbanism and the environment, as well as more specific aspects such as "green trade policies", trade and climate change, sustainable cities, health and the urban environment. Conference speakers from China (Zhou Qifeng, President of Beijing University, Qiu Baoxing, Vice-Minister of Construction and Pan Jiahua, Academy of Science) and around the world (Ra Jin-Goo, Deputy Mayor of Seoul, Armatya Sen, Nobel Economics prize laureate, Manfred Fischedick, Vice-President of the Wuppertal Institute for Climate, Environment and Energy) shared their analyses of Chinese realities and priorities and contributed their insight to provide a comprehensive assessment of these challenges.

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.

At the date of filing of this Reference Document, the VEI Foresight Committee had seven members: Hélène Ahrweiler, historian, President of the University of Europe and a social and human sciences expert advisor to UNESCO, Harvey Fineberg, President of the United States Institute of Medecine, Philippe Kourilsky, biologist, member of the Academy of Sciences and professor at the Collège de France, Pierre Marc Johnson, lawyer and physician and former prime minister of Quebec, a specialist in major environment challenges, Rajendra K. Pachauri, President of GIEC, 2007 Nobel Peace prize laureate and Director-General of TERI, Mamphela Ramphele, physician and anthropologist, former President of the University of Cape Town and former Director-General of the World Bank and Amartya Sen, economist,1998 Nobel prize laureate and professor of economics and philosophy at Harvard University.

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 (law n°2001-420 of May 15, 2001) 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 2009 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 541.7 million cubic meters in 2009. 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's landfill sites are equipped with treatment stations for leachate (water that percolates through stored waste).

Wastewater

Our wastewater treatment efficiency, measured at biological treatment stations with a capacity greater than 50,000 inhabitant equivalents, reached 91.6% in 2009.

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 118,000, 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 enhanced passenger comfort and reduced polluting emissions, but also significant fuel savings.

Veolia Environnement's total energy consumption amounted to 171.89 million MWh in 2009, 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 1,293.6 thousand tons of compost in 2009. 54% of sludge produced was used in agricultural activities. 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, as amended by directive 2009/29/EC dated April 26, 2009. 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 2009 amounted to 49.4 million tons of CO_2 (carbon dioxide) equivalent, due to the development of the Group's businesses (see Chapter 6, Section 6.3.2 above).

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. Ninety-four waste landfill sites for which the Group controls investment are equipped with biogas collection and processing systems. In 2009, Group efforts contributed to a total decrease in emissions of 23.4 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 SO_X from waste incineration units (hazardous and non-hazardous waste) amounted to approximately 91 grams per ton of incinerated waste in 2009 as a result of our growth by acquisition of new installations whose performance is still in the process if being optimized.

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 2009 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 2009, the percentage of employees having received training increased to 61%.

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.). The relative stability of this indicator compared to 2008 is based on the fact that it is now measured on a three-year basis, rather than the five-year basis used previously. Moreover, the three years used have experienced relatively low growth.

Veolia Propreté developed a semi-permanent dioxin emission control method during waste incineration, allowing for 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 management measures aimed at raising employee awareness and promoting 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 appropriate action plans.

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 some 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 85% 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 21,826 Veolia Environnement sites are currently ISO 14001 certified. The change inthe number of site covered by the ISO 140001 certification results from the non-renewal of certain contracts that cover sites that were ISO 14000 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 attaining, between now and 2011, 95% regulatory compliance in "priority installations" audited in the preceding five years. As of December 31, 2009, increased by 6% and the rate of regulatory compliance audits carried out reached 87%.

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 €2,493 million in 2009 (see Chapter 9, Section 9.3.3, below) and includes growth and maintenance investments. The Company invested in employee training, certification programs and the implementation of the environmental management system. Its Research and Development budget was also renewed (see note 19 to the consolidated financial statements). Given the current economic environment, Veolia Environnement is implementing a restrictive investment policy which will sharply reduce its financial investments without jepordizing industrial investments or investments called for by contractual commitments. The decrease in investments primarily concerns Veolia Propreté.

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, 2009, provisions for site closure and post-closure costs (encompassing provisions for site restoration, the dismantling of installations and environmental risks) totaled €686.3 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 2009 totaled €88.5 million, including all types of litigation (tax, employment and other litigation).

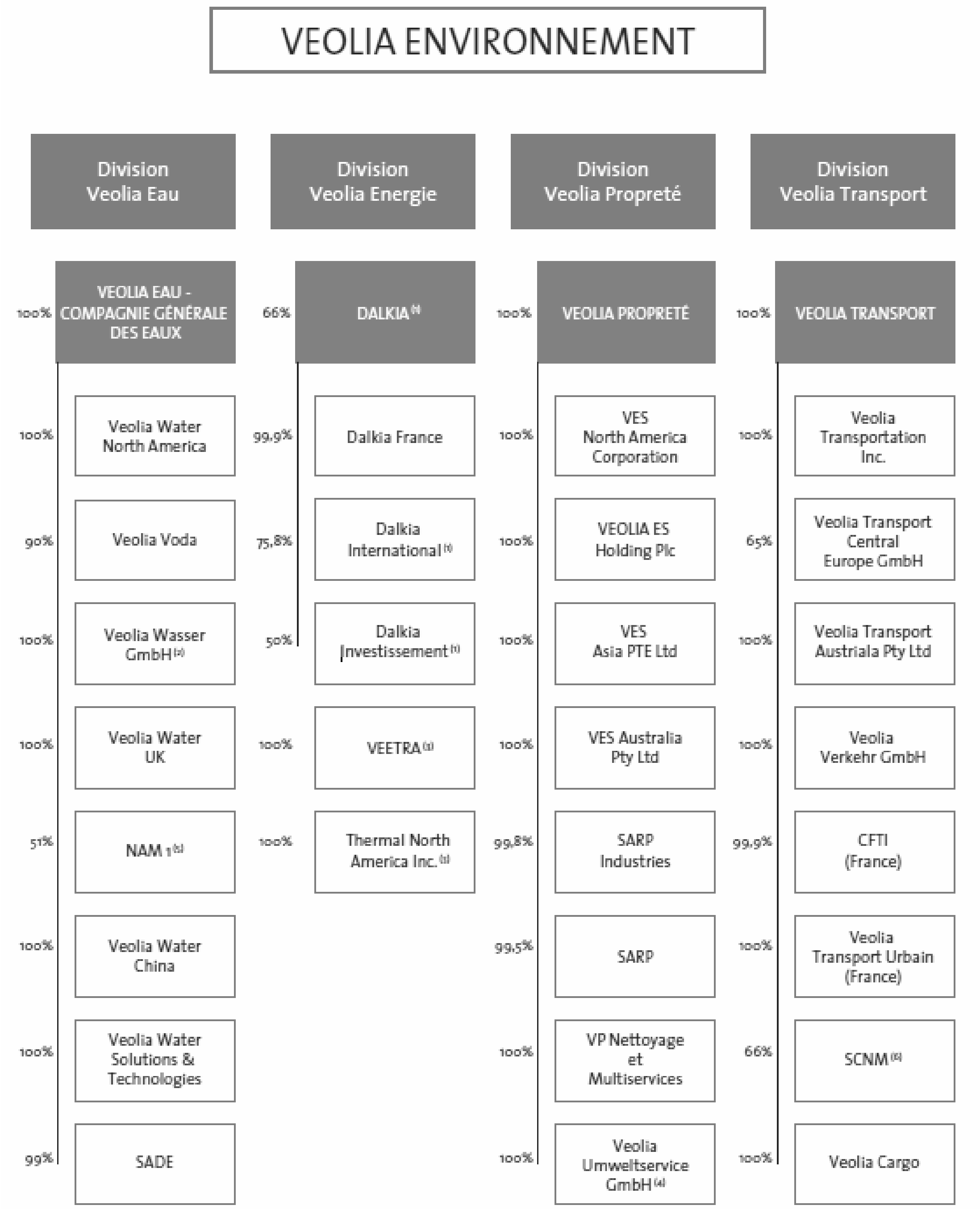
International environmental targets

The roll-out of the Environmental Management System described above continued in 2009 and now covers 78% 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, 2009. 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 2009 appears in Chapter 20, paragraph 20.1, note 43 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) Joint venture held by Veolia Eau-Compagnie Générale des Eaux (51%) and Mubadala Development Company (49%).

(5) 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.

Veolia Environnement primarily finances its Divisions through loans and current accounts (net position of €6.7 billion as of December 31, 2009) and through equity; as a result it received €237.9 million in interest and €815.7 million in dividends in 2009. The Company has set up a system to centralize cash management in the main countries in which it operates and uses hedging, mainly at the Group level, in accordance with its risk management policy (see Chapter 20, paragraph 20.1, note 29 of the consolidated financial statements).

For the main financial flows between Veolia Environnement and the Divisions concerning operations, Veolia Environnement charged the Divisions a total of €204.7 million, mainly corresponding to the provision of services and trademark royalties and temporary out-placement of personnel. 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 €207.2 million in renewal indemnities and paid to the Water and Energy subsidiaries €211.4 million in 2009.

In connection with operating activities, Veolia Environnement granted financial and operational guarantees worth €2,396 million as of December 31, 2009.

The EDF group directly 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 of certain line items from the balance sheet (non-current assets, financial debt, cash and cash equivalents), of net cash flows from operating activities and of the amount of dividends paid in 2009 and recovered by the Company, as of December 31, 2009, broken down between Veolia Environnement and its four Divisions.

Informations as of December 31, 2009

(in € million)	**Veolia Eau**	**Veolia Propreté**	**Dalkia[1]**	**Veolia Transport**	**Other subsidiaires[4]**	**Veolia Environnement**	**Total consolidated amount**
Non-current assets	4,892.3	5,832.2	3,714.5	1,800.5	-3,563.5	16,919.0	29,595.0
Non-group financial debt[2]	-3,726.0	-1,091.3	-997.4	-183.2	-69.5	-14,219.9	-20,287.3
Cash and cash equivalents less bank overdrafts[3]	403.4	129.9	273.9	141.1	233.9	3,977.3	5,159.5
Net cash flow from operating activities	1,587.1	990.5	828.6	335.5	78.4	142.1	3,962.2
Dividends paid during the period and attributable to Veolia Environnement	396.8	140.1	103.3	-	175.5	-	

(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.

(4) Including Proactiva and Artelia

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, 2009 was €30,824.3 million (net value of €18,659 million as of December 31, 2009, representing 38% of total consolidated assets), compared to €30,239 million as of December 31, 2008 (net value of €18,816 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 return 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 the assets used to perform such collective services. Concession arrangements are characterized by the transfer of operating rights for a fixed term, under the supervision of a public authority and are performed using special-purpose installations built by Veolia Environment or that are 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 for in 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 by the type of public service rendered by the different Group businesses.

Under outsourcing contracts with industrial clients, BOT (Build, Operate, Transfer) contracts, or incineration or cogeneration 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 these 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 leases fall into all three asset categories detailed above and represented a net amount of €795 million as of December 31, 2009 (see Chapter 20, Section 20.1, Note 17 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 2009

9.1.1 General context

As was the case in the second half of 2008, 2009 was marked by the financial crisis and its economic repercussions, and specifically:

- significant exchange rate fluctuations, which modified the contribution of businesses from outside the euro zone, particularly in Eastern Europe, and in the U.S. dollar;
- the volatility in energy prices and the decrease in CO_2 emission rights;
- the fall, followed by the stagnation or rise in the price of certain recycled raw materials (particularly paper and cardboard);
- the slowdown in activity, affecting volumes in the Environmental Services business lines, and, to a lesser extent, new construction orders in the Water and Energy Services Division;
- the difficult financial situation of industry economic players and, to a lesser extent, public players which weighed on the performance of certain growth projects and the solvency of some customers.

The first signs of stabilization of the economic environment began to appear, nonetheless, during the second half of 2009.

This difficult economic climate affected the Environmental Services business in particular and, to a lesser extent, the businesses of the other divisions, in terms of their construction activities and sales of solutions to industrial customers.

Overall, revenue for the year ended December 31, 2009 fell 3.4% (-2.7% at constant consolidation scope and exchange rates). The decrease in operating cash flow from operating activities of 3.6% was mainly attributable to the Environmental Services Division (down 10.3% compared to December 31, 2008), despite the implementation of a tailored cost-cutting plan.

Following the appointment of Mr. Henri Proglio as Chairman and Chief Executive Officer of EDF by the Council of Ministers' Decree of November 25, 2009, the governance structure of Veolia was modified to establish the separate roles of Chairman and Chief Executive Officer. Since November 27, 2009 (publication of the above Decree), the governance structure is as follows:

- Mr. Henri Proglio exercises the duties of Chairman of the Board of Directors;
- Mr. Louis Schweitzer was appointed Vice-Chairman of the Board of Directors and is primarily responsible, along the Anglo-American model, for ensuring the proper governance of the Company;
- Mr. Antoine Frérot was appointed Chief Executive Officer.

9.1.2 Commercial overview

- On January 21, 2009, Veolia Transport and RATP Développement formed a 50/50 joint venture to boost growth potential in Asia, primarily targeting China, South Korea and India. The joint venture was formed for an initial period of twenty years and will generate annual revenue of approximately €100 million (on an annualized basis), with a business objective of €500 million in 2013.
- On March 26, 2009, the consortium comprising Veolia Transport and its Moroccan partners won a fifteen-year contract to operate the collective transportation service for the Greater Rabat region, comprising fourteen communes. This contract commenced in August 2009. The contract represents estimated total revenue of approximately € 1,096 million.
- On April 21, 2009, Veolia Water announced that Canal Isabel II, the public company in charge of water services in the Madrid area, awarded a contract for the management of Spain's biggest wastewater treatment plant (in terms of daily flows treated) to a consortium headed by Veolia Water. This four-year contract, which has a two-year extension clause, covers the operation and maintenance of the main treatment plant for Madrid. The contract represents estimated total revenue of approximately €16 million for Veolia Water.
- On May 19, 2009, Veolia Environmental Services announced the win by its subsidiary, Veolia Environmental Services (UK), of a twenty-year waste management and recycling contract, following a public tender launched by the Merseyside Waste Disposal Authority (MWDA). MWDA is a public body representing five Merseyside district councils located in the northwest of England and including the city of Liverpool. The contract, which commenced in June 2009, includes the development of a flagship materials recovery facility (MRF) at Gilmoss, Liverpool, with an annual capacity of 100,000 metric tons and a refurbishment program for existing infrastructure including improvements to the efficiency and yield of the Bidston MRF and the renovation and management of a network of sixteen household waste recycling centers. The contract represents estimated total revenue of £640 million (approximately €720 million).
- On May 28, 2009, Veolia Water announced the signature with the public works authority of the city of Doha, the capital of Qatar, of a seven-year contract (with a three-year extension clause) for the operation and maintenance of two wastewater treatment plants with respective daily waste capacities of 112,000 cubic meters and 12,000 cubic meters. Once recycled, the wastewater will be reused for irrigation and agricultural purposes. This contract represents estimated total revenue of approximately €44 million.
- On June 23, 2009, Veolia Water announced the award by the Joint District Authority of the city of Chartres of a contract to build and operate the city's new wastewater treatment plant. When the plant comes into service (thirty-four months after the launch of studies), it will have a treatment capacity of 164,000 population equivalent, which may be extended to a 200,000 population equivalent by the end of the contract. The design and construction of the plant will be contracted-out by Veolia Water to a consortium comprising OTV/Veolia Eau Solutions & Technologies (a subsidiary of Veolia Water and the lead company) and Ternois. This contract represents estimated total revenue of €156 million, including €54 million for construction activities and €102 million for the 20-year concession contract.
- In July 2009, Veolia Transport was informed of the decision not to renew the Melbourne train network contract. This contract represented annual revenue of approximately €410 million.
- On July 7, 2009, the Group announced the signature by Veolia Transport of a ten-year contract (initial term of five years, with renewal for a further five years based upon performance goals) with the New Orleans Regional Transit Authority (RTA). Veolia Transportation, the U.S. subsidiary of Veolia Transport, will be responsible for all aspects of public transportation in New Orleans under a delegated management contract, including operations, safety, maintenance, customer care, routes and schedules, capital planning and grant administration. The contract represents estimated total revenue of approximately €202 million for Veolia.
- On July 17, 2009, Veolia Transportation, the U.S. subsidiary of Veolia Transport, was awarded the operations and maintenance contract by the Metropolitan Transit Authority of Harris County (METRO) for its light rail expansion project in Houston, Texas. The work will take place through a joint venture company, Houston Operation and Maintenance (HOM), which will be owned by Veolia Transportation and Parsons. The operating term of this contract, requiring no investment is thirty-five years and pricing terms will be renegotiated every five years. The contract represents estimated total revenue of U.S.$1.5 billion (€1.1 billion).
- On September 15, 2009, Veolia Water announced that the Brazilian oil company Petrobras had awarded its subsidiary Veolia Water Solutions & Technologies, under a 50/50 joint venture with Enfil, a Brazilian water treatment engineering company, a contract for the design and construction of a water treatment and recycling plant at the Abreu e Lima Refinery, in Ipojuca, Pernambuco State, Brazil. Veolia Water's portion of this contract represents an estimated €123 million.

- On September 24, 2009, Veolia Transport announced it had won the bus operating contract for the Västra Götaland Region, west of Göteborg, Sweden. This eight-year contract will commence in June 2010 and represents annual revenues estimated at approximately €30 million.
- On October 7, 2009, Veolia Transport announced it had won the public service delegation and transport contract for Mont Saint Michel. The joint authority with responsibility for the Bay of Mont Saint Michel selected Veolia Transport to operate public services to welcome and transport visitors to the site. The contract is for thirteen years, three of which will be spent on the construction of the off-site parking lots and commercial buildings. It will generate cumulative revenue of approximately €91 million.
- In October 2009 Dalkia announced the signature of a contract with the Santa Maria della Misericordia University Hospital in Udine, Italy for the management of a heating network, integrated facilities management and thermal and multi-technical services. This thirty-year contract represents estimated total revenue of €394 million.
- On November 9, 2009, the Group announced the signature of a partnership between Dalkia and CEZ, the number-one electricity producer in the Czech Republic, to develop an industrial cooperation and potentially leading to asset transfers. As a first step, the Group will transfer 15% of Dalkia Czech Republic to CEZ for a consideration of €123 million (100% value), subject to obtaining the necessary antitrust authorizations. This transaction had not been completed as of December 31, 2009.
- On November 30, 2009, the Group announced that Veolia Environmental Services, via its subsidiary Ecospace Limited, had renewed the operating and maintenance contract for the hazardous waste treatment plant in Hong Kong, for a period of 10 years beginning December 1, 2009. This contract strengthened Veolia Environmental Services' position as a major player in the waste management and recovery market serving the Hong Kong community. The contract represents estimated total revenue of approximately €174 million.
- In December 2009, Dalkia announced the signature of a contract with Tersa Tractament y Seleccio de Residus SA in Spain for the management of a heating and cooling network in the Marina district of Barcelona. This thirty-year contract represents estimated total revenue of €492 million.
- The public service delegation contract between SEDIF (the Great Paris Water Authority) and Veolia Water in France expires at the end of 2010. A call for tenders is in progress for the renewal of this contract, which currently represents annual revenue of approximately €360 million. SEDIF announced on January 22, 2010 that it had short-listed Veolia and Suez Environnement to negotiate the renewal of this contract. A final decision is expected from SEDIF in June 2010 and the future contract will take effect on January 1, 2011.

9.1.3 Acquisitions, divestitures and partnerships

No major acquisitions were performed during 2009.

As part of its divestiture program, the Group undertook the following divestitures in 2009:

- On June 24, 2009, Veolia Environmental Services announced that it had entered into exclusive discussions with TFN Group with respect to the sale of Veolia Propreté Nettoyage et Multiservices (VPNM). The sale was completed on August, 26, 2009 for an enterprise value of €111 million;
- On July 6, 2009, Veolia Environmental Services announced the signature of an agreement relating to the sale of the U.S. incineration business (Montenay International): the partial sale of activities provided for in the agreement was completed in August 2009 for an enterprise value of €220 million;
- On August 12, 2009, Dalkia announced the signature of an agreement for the sale of its Facilities Management activities in the United Kingdom for a total amount of €90 million (Group share) as of December 31, 2009;
- On December 1, 2009, Veolia Environnement announced that its subsidiary Veolia Transport had completed the sale of Veolia Cargo to Transport Ferroviaire Holding (SNCF Group) and Europorte (Eurotunnel Group). Europorte purchased Veolia Cargo's activities in France, while Transport Ferroviaire Holding purchased Veolia Cargo's activities in Germany, the Netherlands and Italy. The divestiture of Veolia Cargo was completed in December for an enterprise value of €94 million;
- On December 22, 2009, Veolia Water reviewed certain economic aspects (financial restructuring) and the governance rules of its partnership with Mubadala Development Company. This operation resulted in a €189 million reduction in Group debt as of December 31, 2009;
- In the fourth quarter of 2009, the Group finalized the sale of a minority interest in Compagnie Méridionale de Navigation for €45 million;

- In December 2009, the EBRD acquired an additional 6.88% interest in Veolia Voda (through a reserved share capital increase), the entity grouping together all Water Division operating activities in Central Europe, for €70 million;
- Finally, the Group has decided to sell its transportation activities in the United Kingdom and its Renewable Energies business in the Energy Services Division during 2010. These activities correspond to a cash-generating unit and have been therefore reclassified in discontinued operations in the Group financial statements as of December 31, 2009.

Overall, industrial and financial divestitures, including share capital increases subscribed by minority interests, totalled €1,291 million in fiscal year 2009.

In addition:

- The Group continued its strategic development and discussions with Caisse des Dépôts aimed at merging its Transportation activities with Transdev in accordance with the proposal announced at the beginning of August 2009. In December 2009, Caisse des Dépôts and Veolia Environnement reached a framework agreement for the merger, which primarily covers the financial structure of the new group, with a view to the signature of a final agreement in 2010. The proposed merger of Veolia Transport and Transdev would be carried out by way of the contribution of Veolia Transport and Transdev to a new entity, held 50% by Veolia Environnement, acting as the industrial operator so as to retain transportation as a key component of its environmental services, and 50% by Caisse des Dépôts, acting as a long-term strategic shareholder. In order to contribute to the buy out of the RATP's 25.6% shareholding in Trandev RATP, the Group would divest certain Transport activities outside of France, as well as a limited number of Transport division contracts in France as part of the merger with Transdev, in line with the project announced in August 2009. These discussions form part of the planned future listing of the Group's Transportation business;
- Pursuant to the reciprocal purchase and sales agreement signed on December 19, 2008 between Suez Environnement and Veolia Environnement, which was to come into effect in 2009, certain assets jointly held with Suez Environnement were also reclassified in the balance sheet in assets and liabilities classified as held for sale. This agreement was still in effect as of December 31, 2009 and the corresponding assets and liabilities therefore remain classified as held for sale. These transactions were completed on March 22, 2010.

9.2 ACCOUNTING AND FINANCIAL INFORMATION

9.2.1 Definitions and accounting context

The consolidated financial statements for the year ended December 31, 2009 are prepared in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union and IFRS as published by the International Accounting Standards Board (IASB).

Comparative financial statements for fiscal years 2008 and 2007 are presented on the same basis.

GAAP (Generally Accepted Accounting Principles) indicators:

Operating cash flow before changes in working capital, as presented in the Cash Flow Statement, is composed of three components: operating cash flow from operating activities consisting of operating income and expenses received and paid ("cash"), operating cash flow from financing activities including cash financial items relating to other financial income and expenses and operating cash flow from discontinued operations composed of cash operating and financial income and expense items classified in net income from discontinued operations pursuant to IFRS 5.

The operating income margin is defined as the operating income as a percentage of revenue from continued operations.

Net finance costs represent the cost of gross debt, including related gains and losses on interest rate and currency 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.

Non-GAAP indicators

In addition, the Group uses non-GAAP indicators for management purposes. These are relevant indicators of the Group's operating and financial performance and can be defined as follows:

- The term "internal growth" (or "at constant consolidation scope and exchange rates") includes growth resulting from:
  - the expansion of an existing contract, primarily resulting from an increase in prices and/or volumes distributed or processed;
  - new contracts;
  - the acquisition of operating assets allocated 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;
- The term "change at constant exchange rates" represents the change resulting from the application of exchange rates of the prior period to the current period, all other things being equal;
- 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;
- The financing rate is 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;
- The terms recurring operating income and recurring net income attributable to owners of the Company correspond respectively to operating income and net income attributable to owners of the Company adjusted for impairment of goodwill, negative goodwill recognized in net income and certain other items defined as non-recurring. 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;
- The operating margin is defined as the ratio of Operating cash flow from operating activities to revenue from continued operations;

- The recurring operating income margin is defined as the recurring operating income as a percentage of revenue from continued operations;
- Free Cash Flow represents cash generated (sum of operating cash flow before changes in working capital and principal payments on operating financial assets) net of the cash component of the following items: (i) changes in working capital for operations, (ii) operations involving equity (share capital movements, dividends paid and received), (iii) investments net of disposals (including the change in receivables and other financial assets), (iv) net financial interest paid and (v) tax paid;
- The term net investment, as presented in the statement of change in net financial debt, includes capital expenditure net of industrial asset disposals (purchases of intangible assets and property, plant and equipment net of disposals), financial investment net of financial disposals (purchases of financial assets net of disposals, including the net debt of companies entering or leaving the scope of consolidation), new operating financial assets and principal payments on operating financial assets. The net investment concept also takes into account share capital increases subscribed by minority interests;
- The Group considers growth investments, which generate additional cash flows, separately from maintenance-related investments, which reflect the replacement of equipment and installations used by the Group;
- The indicator operating cash flow from operating activities less net investments is defined as follows: operating cash flow from operating activities including operating cash flow from discontinued operations, less net investments (as defined above);
- The return on capital employed is defined as the ratio of:
  - net income from operations after tax, plus the share of net income from associates, less net operational income, after tax, from operating financial assets (return on operating financial assets net of tax allocated to this activity), to
  - average capital employed during the year,
  - capital employed excludes operating financial assets and net income from operations excludes the related income.

Accounting context

The accounting policies adopted for the preparation of the 2009 financial statements are unchanged from the 2008 financial statements.

Pursuant to IFRS 5 :

- The 2008 and 2007 Income Statements were re-presented to include on the line "Net income from discontinued operations" the impact of:
  - the divestiture of Clemessy and Crystal in the Energy Services Division in December 2008;
  - the divestiture of Freight activities in the Transportation Division;
  - the divestiture of Waste-to-Energy incineration activities in the United States in the Environmental Services Division;
  - the reclassification to discontinued operations of UK transportation activities in the Transportation Division and Renewable energy activities in the Energy Services Division;
- All assets and liabilities of the following balance sheet items were reclassified in assets and liabilities held for sale as of December 31, 2009:
  - transportation activities in Switzerland and the United Kingdom,
  - VES activities in Ireland and incineration activities in the United States in the Environmental Services Division,
  - assets held jointly with Suez Environnement in France in the Water Division,
  - renewable energy activities in the Energy Services Division,
  - and all cogeneration activities in the Czech Republic in the Energy Services Division.

Replacement costs

Replacement costs included in cost of sales totalled €360.9 million in 2009, compared to €390.3 million in 2008.

All replacement costs for concession assets in the context of public service delegation contracts in France are considered in the Consolidated 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.

Starting on January 1, 2010 pursuant to the amendment to IAS 7, replacement costs will no longer be eliminated from operating depreciation, amortization, provisions and impairment losses. They will be deducted from operating cash flow from operating activities and reduce the amount of maintenance-related investments presented in the statement of changes in Net Financial Debt. This amendment does not impact net financial debt, net income or equity.

Due to the change in the presentation rules for replacement costs in the Cash Flow Statement, the ratio of net financial debt to operating cash flow before changes in working capital plus principal payments on operating financial assets will be amended from 2010, resulting in a mandatory coverage ratio of between 3.85 and 4.35 (instead of 3.5 to 4 using 2009 accounting context).

9.2.2 Revenue

9.2.2.1 Overview

Year ended December 31, 2009 *(€ million)*	**Year ended December 31, 2008 re-presented (*)** *(€ million)*	**% Change 2009/2008**	**Internal growth**	**External growth**	**Foreign exchange impact**
34,551.0	35,764.8	-3.4%	-2.7%	0.2%	-0.9%

(*) A reconciliation schedule is presented in the appendix giving the 2008 published consolidated revenue versus 2008 re-presented consolidated revenue.

Group consolidated revenue totalled €34,551.0 million compared to €35,764.8 million for the year ended December 31, 2008 (re-presented), representing a fall of 3.4% on 2008 (-2.5% at constant exchange rates).

The fall in revenue at constant exchange rates was mainly due to:

- a drop in volumes in the Environmental Services Division (volumes collected and placed in landfill sites), which accounted for approximately 1.6% of the decrease in revenue at Group level;
- the decline in the price of recycled materials in the Environmental Services Division, which accounted for approximately 0.8% of the decrease in revenue at Group level;
- a fall in energy prices, which accounted for approximately 0.4% of the decrease in revenue at Group level;
- a reduction in construction work in the Water Division. Growth in engineering-construction activity in the Water Division slowed in 2009, which was marked by the wrapping up of certain significant construction contracts outside France.

For the first time since the start of the crisis, activity levels stabilized in the fourth quarter of 2009 in the Environmental Services Division, at constant consolidation scope and exchange rates, compared with the fourth quarter of 2008.

External growth was 0.2% (€87.9 million) and was mainly attributable to acquisitions in 2008 and divestitures in 2009.

Revenue from outside France totaled €20,795.6 million, representing 60.2% of total revenue compared with 59.6% in 2008 (re-presented).

The negative impact of the fluctuation in average foreign exchange rates between 2008 and 2009 (totalling -€326.9 million) mainly reflects the depreciation against the euro of the pound sterling (-€238.3 million), central European currencies in the Czech Republic and Poland (-€173.8 million), and Northern European currencies in Norway and Sweden (-€87.5 million), which was partially offset by the appreciation of the U.S. dollar (€162 million).

Overall, revenue fell 2.7% at constant consolidation scope and exchange rates, mainly due to the decrease in activity in the Environmental Services Division (drop of 7.8% at constant consolidation scope and exchange rates).

9.2.2.2 Revenue by business

(€ million)	**Year ended December 31, 2009**	**Year ended December 31, 2008 re-presented**	**% Change 2009/2008**
Water	12,555.9	12,557.9	0.0%
Environmental Services	9,055.8	9,972.5	-9.2%
Energy Services	7,078.6	7,446.3	-4.9%
Transportation	5,860.7	5,788.1	1.3%
Revenue	34,551.0	35,764.8	-3.4%
REVENUE AT 2008 EXCHANGE RATE	**34,877.9**	**35,764.8**	**-2.5%**

Water

Year ended December 31, 2009 *(€ million)*	**Year ended December 31, 2008** ***(€ million)***	**% Change 2009/2008**	**Internal growth**	**External growth**	**Foreign exchange impact**
12,555.9	12,557.9	0.0%	-0.4%	0.6%	-0.2%

- In France, activity levels remained stable (+0.1% on a current basis and -0.3% at constant consolidation scope), despite a 0.2% fall in volumes distributed compared to 2008 and a slight decrease in engineering activity (-2% at constant consolidation scope).
- Outside France, and excluding Veolia Water Solutions & Technologies, revenue increased by 0.4% (+0.2% at constant consolidation scope and exchange rates) despite several major BOT (Build Operate & Transfer) contracts in Europe and the Middle East and DBO (Design Build & Operate) contracts in Australia reaching the end of the construction phase. The fall of 3.7% in Europe (-0.4% at constant consolidation scope and exchange rates) reflects the completion of construction work on BOT contracts in the United Kingdom and Brussels and a slight decrease in volumes. The 20.4% increase in revenue in Asia (12% at constant consolidation scope and exchange rates) is mainly due to engineering work and scope extensions in certain Chinese urban areas (primarily Shanghai, Shenzhen and Tianjin Shibei).
- Veolia Water Solutions & Technologies reported a 2.2% decrease in revenue to €2,469.9 million (-1.8% at constant consolidation scope and exchange rates). Activity was affected by the completion of certain major contracts outside France and the slowdown in the overall industrial economic environment.

Environmental Services

Year ended December 31, 2009 *(€ million)*	**Year ended December 31, 2008 re-presented** *(€ million)*	**% Change 2009/2008**	**Internal growth**	**External growth**	**Foreign exchange impact**
9,055.8	9,972.5	-9.2%	-7.8%	-0.1%	-1.3%

The economic crisis affected volumes of solid and hazardous waste collected and treated on behalf of industrial customers to varying degrees depending on the country and activity sector, and also, to a lesser extent, municipal customers.

Revenue from sales of recycled materials (which contribute approximately 7% to Division revenue) remained down: average annual prices of recycled materials (paper, cardboard, ferrous and non-ferrous metal) remained significantly lower than in 2008, with the price of paper and cardboard reporting a progressive rise. The price of ferrous metal and certain non-ferrous metals remains significantly below 2008 levels, however.

At constant consolidation scope and exchange rates, revenue was stable in the fourth quarter of 2009 compared to the fourth quarter of 2008, reflecting the stabilization of economic conditions in the second half of 2009.

- In France, revenue slumped 10.8% (-9.3% at constant consolidation scope) due to a drop in industrial and commercial volumes linked to the economic slowdown and the decline in recycled material prices.
- Outside France, activity reported a downturn of 8.6% (-7.4% at constant consolidation scope and exchange rates). The majority of geographical areas were affected by the economic context. The 8.9% fall in revenue in Germany (-11.3% at constant consolidation scope), was due to a reduction in volumes and prices in the paper business and a decrease in industrial waste volumes. Revenue in the United Kingdom (down 12.9% on a current basis and down 3.7% at constant consolidation scope and exchange rates) was affected by a decrease in industrial waste and volumes placed in landfill sites, although the positive contribution of integrated contracts helped limit this impact. In North America (down 4.2% on a current basis and down 9.1% at constant consolidation scope and exchange rates), a decrease in volumes collected affected all businesses but was offset in certain cases by price increases. The Asia-Pacific region (down 7.8% on a current basis and down 8.6% at constant consolidation scope and exchange rates) primarily suffered from a decrease in the level of services and industrial waste.

Energy Services

Year ended December 31, 2009 *(€ million)*	**Year ended December 31, 2008 re-presented** *(€ million)*	**% Change 2009/2008**	**Internal growth**	**External growth**	**Foreign exchange impact**
7,078.6	7,446.3	-4.9%	-2.2%	-0.8%	-1.9%

Energy Services Division revenue fell 4.9% (-2.2% at constant consolidation scope and exchange rates). This decrease was mainly due to a slowdown in construction work and service activities on behalf of industrial customers and the negative effect of energy prices (-€139.5 million compared to 2008). Overall, the impact of weather conditions was stable in 2009 compared to 2008. The negative foreign exchange impact of €139.5 million is mainly attributable to Central European currencies.

- In France, revenue fell 5.1% (-5.0% at constant consolidation scope) due to a negative price impact in the second half of the year and a slight contraction in the services business.
- Outside France, activity growth of 0.6% at constant consolidation scope and exchange rates (fall of 5% on a current basis) was due to the increase in energy prices in Central Europe and the Baltic States. Construction work and service activities on behalf of industrial customers fell in Europe and particularly Southern Europe.

Transportation

Year ended December 31, 2009 *(€ million)*	**Year ended December 31, 2008 re-presented** *(€ million)*	**% Change 2009/2008**	**Internal growth**	**External growth**	**Foreign exchange impact**
5,860.7	5,788.1	1.3%	0.4%	1.5%	-0.6%

- Passenger transport revenue rose 0.5% in France (fall of 0.9% at constant consolidation scope). Price adjustments and new contract wins (TPMR Toulouse, Louviers Urban, "Fil Vert de Touraine") offset the impact of the loss of the Bordeaux contract in May 2009. Revenue was also negatively impacted by a decline in the airport and tourism businesses, in particular due to the economic environment.
- Outside France, revenue increased 1.7% (1.0% at constant consolidation scope and exchange rates), reflecting the full impact of developments in North America and Germany, and despite the loss of the Melbourne contract in December and the Stockholm contract in November (negative impact of €34 million in 2009 compared to 2008) which had limited impact on 2009.
- External growth of 1.5% reflects the expansion of the partnership with RATP in Asia (Hong Kong and Nanjing Zhongbei tramways in China) and limited acquisitions in France and the United States.

9.2.2.3 Revenue by geographical area

Breakdown of revenue by geographical area

Year ended December 31, 2009 (*€ million*)	France	Germany	United-Kingdom	Other European countries	United-States	Oceania	Asia	Middle-East	Rest of the world	Total
Water	4,751.2	1,371.8	640.0	1,637.9	690.5	255.8	1,162.0	857.5	1,189.2	12,555.9
Environmental Services	3,294.2	1,011.3	1,446.0	1,098.9	1,142.6	441.4	209.4	75.0	337.0	9,055.8
Energy Services	3,435.9	57.9	342.4	2,633.5	261.9	42.2	67.7	62.5	174.6	7,078.6
Transportation	2,274.1	526.3	49.8	1,440.9	858.0	560.8	61.6	22.6	66.6	5,860.7
Revenue	**13,755.4**	**2,967.3**	**2,478.2**	**6,811.2**	**2,953.0**	**1,300.2**	**1,500.7**	**1,017.6**	**1,767.4**	**34,551.0**

Year ended December 31, 2008 (*€ million*)	France	Germany	United-Kingdom	Other European countries	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
Environmental Services	3,693.9	1,108.8	1,667.7	1,195.6	1,178.8	479.3	226.7	79.9	341.8	9,972.5
Energy Services	3,625.1	57.8	487.9	2,595.1	322.0	53.4	56.0	60.6	188.4	7,446.3
Transportation	2,262.5	514.0	49.8	1,559.1	760.4	546.5	10.3	24.2	61.3	5,788.1
Revenue	**14,465.0**	**3,057.3**	**2,876.9**	**7,029.5**	**2,873.4**	**1,437.7**	**1,269.9**	**1,026.8**	**1,728.3**	**35,764.8**

Change (*€ million*)	France	Germany	United-Kingdom	Other European countries	United-States	Oceania	Asia	Middle-East	Rest of the world	Total
Water	(132.3)	(4.9)	(31.5)	(41.8)	78.3	(102.7)	185.1	(4.6)	52.4	(2.0)
Environmental Services	(399.7)	(97.5)	(221.7)	(96.7)	(36.2)	(37.9)	(17.3)	(4.9)	(4.8)	(916.7)
Energy Services	(189.2)	0.1	(145.5)	38.4	(60.1)	(11.2)	11.7	1.9	(13.8	(367.7)
Transportation	11.6	12.3	0.0	(118.2)	97.6	14.3	51.3	(1.6)	5.3	72.6
Revenue	**(709.6)**	**(90.0)**	**(398.7)**	**(218.3)**	**79.6**	**(137.5)**	**230.8**	**(9.2)**	**39.1**	**(1,213.8)**
% Change	**-4.9%**	**-2.9%**	**-13.9%**	**-3.1%**	**2.8%**	**-9.6%**	**18.2%**	**-0.9%**	**2.3%**	**-3.4%**
% Change (at constant exchange rates)	**-4.9%**	**-2.9%**	**-5.5%**	**1.1%**	**-2.8%**	**-8.6%**	**11.7%**	**-1.4%**	**3.7%**	**-2.5%**

Revenue trends have been affected by the fallout from the economic crisis, which is nonetheless variable between geographical areas and depends in particular on the mix of different Group businesses and the relative weight of the Environmental Services Division.

France

Revenue fell 4.9% in 2009; the Environmental Services business reported a slump of 10.8% in France (-9.3% at constant consolidation scope) due to a fall in industrial and commercial volumes associated with the economic slowdown and a decrease in the price of recycled materials.

The Water business also contracted primarily due to a 0.2% fall in volumes distributed compared to 2008. Finally, the Energy Services Division was affected by an unfavorable price effect in the second half of the year and a slight decrease in the services business.

Germany

The 2.9% fall in revenue was due to the marked decrease in activities in the Environmental Services Division (fall in the price of recycled raw materials, particularly paper, and decrease in industrial and commercial waste collection volumes). Water Division activities were relatively stable and in particular the Braunschweig contract and activities in the Transportation Division enjoyed good organic growth.

United Kingdom

Revenue fell 5.5% in the United Kingdom, excluding exchange rate effects. Activity levels benefited from the ramp-up of new integrated contracts in the Environmental Services Division, despite a fall in volumes of close to 14% (collection and landfill sites). The decrease reported by the Water Division businesses was mainly due to the completion of a construction worksite in the non-regulated operations sector. Revenue in the Energy Services Division fell following the sale of Facilities Management activities in the United Kingdom.

Other European countries

Revenue growth at constant exchange rates was 1.1%.

This was achieved thanks to the development of Energy Services businesses in the Baltic States and Central Europe (positive price and weather effects). Conversely, growth was dampened by the fall in volumes and prices of recycled materials in the majority of countries where the Environmental Services Division is present (in particular Norway), and the fall in activity in the Transportation (termination of Stockholm and Warsaw contracts) and Water (completion of work on the Brussels contract) Divisions.

United-States

The fall of 2.8% at constant exchange rates was the result of the slump in activities in the Environmental Services Division due to the economic context (decrease in volumes across all businesses, partially offset by price increases). Activity in the Energy Services Division was penalized by the negative impact of the fall in the price of gas. Growth in the other sectors was achieved due to new contracts in the Transportation Division, good resistance of construction activities and the start-up of the Milwaukee water-treatment contract, as well as increasing activity in Indianapolis in the Water Division.

Oceania

The slump of 8.6% at constant exchange rates was due to a fall in activities in the Environmental Services Division in Australia (mainly present in the services and industrial waste sectors) and the completion of construction work on the Gold Coast desalinization plant in the Water Division.

Asia

The growth of 11.7% at constant exchange rates in Asia was mainly acheived by the Water Division, resulting from recent developments in China, and, to a lesser extent, by the Transportation and Energy Services Divisions with the start-up of new contracts, mainly in China and Korea (new subway line in Seoul in the Transportation Division).

Rest of the world (including the Middle-East)

The growth of 1.8% at constant exchange rates was mainly due to growth in construction activities in the Water Division in the Middle-East and the development of Proactiva in South America (in particular the new concession contract in the Water Division in Guayaquil).

9.2.3 Other income statement items

9.2.3.1 Operating income and cash flow from operating activities before changes in working capital

Operating cash flow from operating activities for the year ended December 31, 2009 was €3,955.8 million compared to €4,105.4 million for the year ended December 31, 2008. This limited fall (-1.7% at constant exchange rates and -3.6% at current exchange rates) in operating cash flow from operating activities in a difficult economic climate demonstrates the Group's ability to adapt its cost structure to a drop in volumes and prices. This slight decline in operating cash flow from operating activities resulted primarily from lower results in the Environmental Services division (volumes, prices of recycled raw materials sold). For the Group, this contraction was almost entirely offset by a major effort to reduce costs, which led to total savings in excess of €380 million, and by the greater resilience of Veolia's other business activities to the business environment.

Operating cash flow from operating activities increased 6.3% at current exchange rates in the fourth quarter of 2009 compared to the same period in 2008, mainly resulting from the cost-cutting measures and the stabilization of the economic environment in the Environmental Services Division.

In this way, the Group successfully maintained its operating margin between 2008 and 2009 at 11.5%, despite the difficult economic environment.

The total negative exchange rate impact on operating cash flow from operating activities of €78.4 million was primarily due to the depreciation of the pound sterling in the amount of €44.1 million, mainly impacting the Water and Environmental Services Divisions and the depreciation of Central European currencies in the amount of €33.1 million, mainly impacting the Energy Services Division. Downward movements in other currencies were offset by the appreciation of the U.S. dollar in the amount of €19.1 million, mainly relating to the Environmental Services Division.

Movements in operating cash flow were as follows:

	Operating cash flow before changes in working capital			
			Change	
	December 31, 2009	December 31, 2008*	Current exchange rates	Constant exchange rates
Water	1,836.6	1,821.3	0.8%	2.6%
Environmental Services	1,194.1	1,331.4	-10.3%	-8.8%
Energy Services	740.1	758.8	-2.5%	0.8%
Transportation	327.0	287.4	13.8%	14.7%
Holding companies	(142.0)	(93.5)		
Operating cash flow from operating activities	**3,955.8**	**4,105.4**	**-3.6%**	
Operating cash flow from operating activities at 2008 exchange rates	**4,034.2**	**4,105.4**		**-1.7%**
Operating cash flow from financing activities	(3.0)	22.8		
Operating cash flow from discontinued operations	(14.2)	50.2		
Operating cash flow before changes in working capital	**3,938.6**	**4,178.4**	**-5.7%**	

* *A reconciliation schedule of 2008 published operating cash flow from operating activities and 2008 re-presented operating cash flow from operating activities is presented in the appendix.*

Operating income for the year ended December 31, 2009 was €2,020.1 million, compared to €1,960.8 million for the year ended December 31, 2008, representing an increase of 3.0% at current exchange rates (+6.1% at constant exchange rates). This takes into account:

- the change in operating cash flow from operating activities;
- a €35 million impairment charge on operating financial assets in Italy in the Environmental Services Division following a review of the business plan incorporating the expected outcome of contractual negotiations still in progress as of December 31, 2009;
- net charges to operating provisions in 2009, primarily encompassing asset risks, operating risks and litigation risks in relation to certain contracts;
- impairment losses on Veolia Environmental Services Germany of €405.6 million in 2008;
- the negative impact of a €56 million accrual in provisions due to a decrease in discount rates on site rehabilitation provisions, compared to a release of €21 million as at December 31, 2008 in the Environmental Services Division;
- capital gains on disposals of €213.6 million in 2009 compared to €114.1 million in 2008.

The main non-recurring items are:

- in fiscal year 2008, the impairment of Veolia Environmental Services Germany's goodwill in the amount of €343 million;
- in fiscal year 2009, the capital gain realized on the sale of VPNM in the Environmental Services Division of €99 million.

Recurring operating income was therefore €1,932.4 million for the year ended December 31, 2009, compared to €2,275.0 million for the year ended December 31, 2008, representing a drop of 15.1% (-12.4% at constant exchange rates).

At Group level, net charges to operating provisions totaled €23.7 million for the year ended December 31, 2009, compared to a reversal of €119.9 for the year ended December 31, 2008.

Net charges to operating depreciation and amortization totaled €1,790.1 million for the year ended December 31, 2009, compared to €1,663.9 million for the year ended December 31, 2008.

Cost of sales totaled €28,786.2 million for the year ended December 31, 2009 (i.e. 83.3% of total revenue), compared to €30,013.4 million for the year ended December 31, 2008, or 83.9% of total revenue.

Replacement costs

Replacement costs included in cost of sales totaled €360.9 million in 2009, compared to €390.3 million in 2008.

All replacement costs for concession assets in the context of public service delegation contracts in France are considered in the Consolidated 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.

Starting on January 1, 2010 pursuant to the amendment to IAS 7, replacement costs will no longer be eliminated from operating depreciation, amortization, provisions and impairment losses. They will be deducted from operating cash flow from operating activities and reduce the amount of maintenance-related investments presented in the statement of changes in Net Financial Debt. This amendment does not impact net financial debt, net income or equity.

Selling costs and general and administrative expenses for the year ended December 31, 2009 totaled €602.6 million and €3,338.1 million respectively, compared to €621.4 million and €3,218.6 million for the year ended December 31, 2008. Selling costs and general and administrative expenses represented 11.4% of revenue in 2009, compared to 10.7% in 2008.

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

	Operating income				**Recurring operating income**			
	Year ended December 31, 2009	**Year ended December 31, 2008 re-presented(*)**	**% change**	**% change at constant exchange rates**	**Year ended December 31, 2009**	**Year ended December 31, 2008 re-presented**	**% change**	**% change at constant exchange rates**
Water	1,164.3	1,198.5	-2.9	-0.3	1,164.3	1,196.2	-2.7	-0.1
Environmental Services	453.8	265.2	71.1	75.5	359.8	620.2	-42.0	-40.1
Energy Services	415.5	434.4	-4.4	-0.3	416.4	429.4	-3.0	1.0
Transportation	152.9	170.5	-10.3	-9.8	158.3	137.0	15.6	16.2
Holding companies	(166.4)	(107.8)			(166.4)	(107.8)		
Total	**2,020.1**	**1,960.8**	**3.0**	**6.1**	**1,932.4**	**2,275.0**	**-15.1**	**-12.4**
Total at 2008 exchange rates	**2,080.7**	**1,960.8**			**1,993.0**	**2,275.0**		

* *A reconciliation schedule of 2008 published operating income versus 2008 re-presented operating income is presented in the appendix.*

Operating income for the years ended December 31, 2009 and 2008 breaks down as follows:

Year ended December 31, 2009 *(€ million)*	**Recurring**	**Non-recurring**		**Total** *(€ million)*
		Impairment losses	**Other***	
Water	1,164.3	-	-	1,164.3
Environmental Services	359.8	-	94.0	453.8
Energy Services	416.4	(0.9)	-	415.5
Transportation	158.3	(5.4)	-	152.9
Holding companies	(166.4)	-	-	(166.4)
Total	**1,932.4**	**(6.3)**	**94.0**	**2,020.1**

* *Mainly capital gains realized on the disposal of Veolia Propreté Nettoyage et Multi-Services.*

Year ended December 31, 2008 re-presented *(€ million)*	**Recurring**	**Non-recurring**		**Total** *(€ million)*
		Impairment losses	**Other**	
Water	1,196.2	-	2.3	1,198.5
Environmental Services	620.2	(343.0)	(12.0)	265.2
Energy Services	429.4	-	5.0	434.4
Transportation	137.0	(37.7)	71.2	170.5
Holding companies	(107.8)	-		(107.8)
Total	**2,275.0**	**(380.7)**	**66.5**	**1,960.8**

Water Division

The Water Division reported operating cash flow from operating activities of €1,836.6 million for the year ended December 31, 2009, compared to €1,821.3 million for the year ended December 31, 2008, representing an increase of 2.6% at constant exchange rates (0.8% at current exchange rates).

The operating margin (operating cash flow from operating activities / revenue) increased from 14.5% in 2008 to 14.6% in 2009, reflecting an increase in the margin on operating activities and a decrease in the margin on construction activities.

- In France, operating cash flow from operating activities was affected by the decrease in volumes compared to 2008 and the slowdown in construction work associated with the current economic environment; it nonetheless benefited from further productivity gains and a positive indexing effect.
- Outside France, the increase in operating cash flow from operating activities was significant, particularly in Asia due to tight control on overhead and development costs.
- In Europe the good resistance of activities offset the negative foreign exchange impact (particularly in the United Kingdom), despite a decrease in volumes delivered in 2009 and the one-off positive impact of the provisional acceptance of the Brussels plant in 2008.
- The Africa/Middle-East region reported an increase in operating cash flow from operating activities, mainly due to an increase in volumes and prices.
- Finally, Veolia Water Solutions Technologies reported a decrease in operating cash flow from operating activities, due to a slowdown in business.

The Efficiency Plan had a positive impact of €87 million in 2009.

Operating income was €1,164.3 million for the year ended December 31, 2009, compared to €1,198.5 million for the year ended December 31, 2008.

Recurring operating income remained stable at constant exchange rates, at €1,164.3 million for the year ended December 31, 2009, compared to €1,196.2 million for the year ended December 31, 2008 (decrease of 2.7% at current exchange rates).

In addition to the increase in operating cash flow from operating activities, Water Division operating income was affected by an increase in operating depreciation and amortization charges between 2008 and 2009 and a decrease in net gains on disposals of industrial and financial assets.

Net charges to operating provisions totaled €9.5 million for the year ended December 31, 2009, compared to €51.4 million for the year ended December 31, 2008.

Net charges to depreciation and amortization totaled €498.0 million for the year ended December 31, 2009, compared to €468.3 million for the year ended December 31, 2008.

Overall, the operating income margin (operating income as a percentage of revenue) and the recurring operating income margin (recurring operating income as a percentage of revenue) fell from 9.5% in 2008 to 9.3% in 2009.

Environmental Services Division

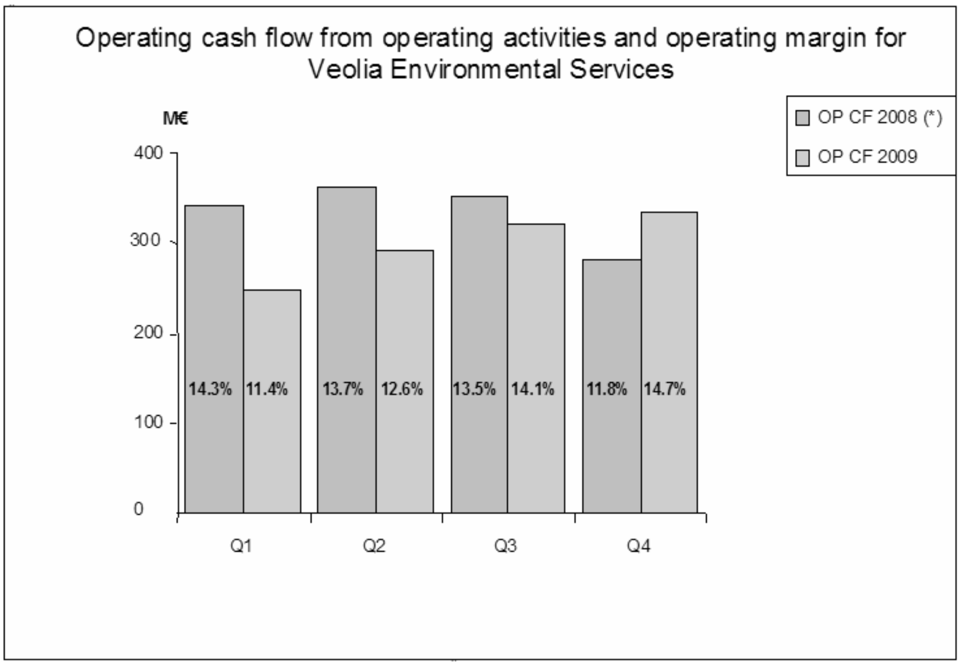
The Environmental Services Division reported operating cash flow from operating activities of €1,194.1 million for the year ended December 31, 2009, compared to €1,331.4 million for the year ended December 31, 2008, representing a decrease of 10.3% (-8.8% at constant exchange rates).

The fall in waste volumes and primarily industrial and hazardous waste volumes and the slump in the price of recycled materials (paper and non-ferrous metal) compared to 2008, had a major impact on operating performance in this sector in all major countries (France, United Kingdom, Germany, Australia and the United States).

The positive impact of the cost-cutting plan (€126 million in 2009) and the Efficiency Plan (€72 million) and the favorable impact of the fall in fuel prices progressively enabled a turnaround in trends which became positive at the year-end as economic conditions stabilized.

The operating margin decreased from 13.4% in 2008 to 13.2% in 2009.

The improvement in the operating margin rate in the fourth quarter of 2009 compared to the same period in 2008 was substantial, increasing from 11.8% in the 4th quarter of 2008 to 14.7% in the fourth quarter of 2009.



(*): Pursuant to IFRS 5, the 2008 financial statements were re-presented for comparison purposes, with the reclassification of Waste-to-Energy incineration activities in the United States to discontinued operations in the Environmental Services Division.

Operating income was €453.8 million for the year ended December 31, 2009, compared to €265.2 million for the year ended December 31, 2008, representing an increase of 71.1% (+75.5% at constant exchange rates). This balance includes the capital gain of €99 million realized on the sale of Veolia Propreté Nettoyage et Multi-Services in 2009, compared to substantial impairment losses recognized in Germany (€405.6 million) in 2008.

Recurring operating income was €359.8 million for the year ended December 31, 2009 (excluding the capital gain realized on the sale of Veolia Propreté Nettoyage et Multi-Services), compared to €620.2 million for the year ended December 31, 2008 (excluding the substantial impairment losses in Germany), representing a decrease of 42% (-40.1% at constant exchange rates).

In addition to the decrease in operating cash flow from operating activities, the recurring operating income of the Environmental Services Division for the year ended December 31, 2009 includes a €35 million impairment charge for operating financial assets in Italy, following a review of the business plan incorporating the expected outcome of ongoing contractual negotiations. In 2008, this recurring operating income included an impairment of €62.6 million on intangible assets recognized upon the acquisition of Sulo.

The fall in recurring operating income also includes a negative impact of €77 million compared to 2008, associated with the decrease in discount rates used as of December 31 each year to calculate site rehabilitation provisions.

Net charges to operating provisions totaled €54.2 million for the year ended December 31, 2009, compared to €14.6 million for the year ended December 31, 2008.

Net charges to operating depreciation and amortization totaled €807.2 million for the year ended December 31, 2009, compared to €723.5 million for the year ended December 31, 2008.

Overall, the operating income margin (operating income as a percentage of revenue) increased from 2.7% in 2008 to 5.0% in 2009.

The recurring operating income margin (recurring operating income as a percentage of revenue) fell from 6.2% in 2008 to 4.0% in 2009.

Energy Services Division

The Energy Services Division reported operating cash flow from operating activities of €740.1 million for the year ended December 31, 2009, compared to €758.8 million for the year ended December 31, 2008, representing a decrease of 2.5% (increase of 0.8% at constant exchange rates):

- The Division's operating cash flow from operating activities benefited from the increase in energy prices in Central European countries (coal and electricity) and the Baltic States. Sales of CO_2 allowances contributed less than in 2008. Finally, the decline in construction work activities impacted the performance of certain entities, particularly in Southern Europe.
- In France, operating cash flow from operating activities was affected by the decrease in sales of CO_2 allowances, the negative impact of energy prices and the slowdown in the industrial services business, despite the effects of the Efficiency Plan.

The Efficiency Plan had a positive impact of €56 million in 2009.

The operating margin increased from 10.2% in 2008 to 10.5% in 2009.

Operating income was €415.5 million for the year ended December 31, 2009, compared to €434.4 million for the year ended December 31, 2008, representing a decrease of 4.4% at current exchange rates (-0.3% at constant exchange rates).

Recurring operating income was €416.4 million for the year ended December 31, 2009, compared to €429.4 million for the year ended December 31, 2008, representing a decrease of 3% at current exchange rates (increase of 1.0% at constant exchange rates).

Net charges to operating provisions totaled €22.8 million for the year ended December 31, 2009, compared to a net reversal of €13.2 million for the year ended December 31, 2008.

Net charges to operating depreciation and amortization totaled €229.6 million for the year ended December 31, 2009, compared to €222.5 million for the year ended December 31, 2008.

Overall, the operating income margin (operating income / revenue) increased from 5.8% in 2008 to 5.9% in 2009.

The recurring operating income margin (recurring operating income / revenue) increased from 5.8% in 2008 to 5.9% in 2009.

Transportation Division

The Transportation Division reported operating cash flow from operating activities of €327.0 million for the year ended December 31, 2009, compared to €287.4 million for the year ended December 31, 2008, representing an increase of 13.8% (+14.7% at constant exchange rates).

The increase in operating cash flow from operating activities is attributable to the improved performance of operations generating insufficient profits as well as productivity gains, particularly in France, Northern Europe and North America, which offset the fall in airport and tourist activities.

The positive impact, net of hedging arrangements, of the fall in fuel prices is estimated at approximately €22 million for the year ended December 31, 2009 compared to the year ended December 31, 2008.

The Efficiency Plan had a positive impact of €40 million in 2009.

The operating margin increased from 5.0% in 2008 to 5.6% in 2009.

Operating income was €152.9 million for the year ended December 31, 2009, compared to €170.5 million for the year ended December 31, 2008, representing a decrease of 10.3% (-9.8% at constant exchange rates).

Recurring operating income was €158.3 million for the year ended December 31, 2009, compared to €137 million for the year ended December 31, 2008, representing an increase of 15.6% (+16.2% at constant exchange rates).

Net reversals of operating provisions totaled €52.1 million for the year ended December 31, 2009, compared to €71.1 million for the year ended December 31, 2008.

Net charges to operating depreciation and amortization totaled €242.4 million for the year ended December 31, 2009, compared to €238.3 million for the year ended December 31, 2008.

Overall, the operating income margin (operating income as a percentage of revenue) fell from 2.9% in 2008 to 2.6% in 2009.

The recurring operating income margin (recurring operating income as a percentage of revenue) increased from 2.3% in 2008 to 2.7% in 2009.

Holdings companies

The operating cash flow from operating activities of holding companies fell from negative €93.5 million in the year ended December 31, 2008 to negative €142.0 million in the year ended December 31, 2009.

The increase in costs for the year is mainly due to a rise in mutual insurance costs following an increase in the claims rate and the cost of transactions in progress at the year-end and particularly the merger of Veolia Transport and Transdev.

9.2.3.2 Net finance costs

(€ million)	**Year ended December 31, 2009**	**Year ended December 31, 2008 re-presented**
Income	96.1	202.2
Expenses	(880.4)	(1,111.2)
Net finance costs	**(784.3)**	**(909.0)**
Other financial expenses	**(110.3)**	**(39.2)**

Net finance costs decreased whereas the average financial debt rose from €16,142 million in 2008 to €16,466 million in 2009. This decline was attributable to the reduction in 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) from 5.61% in 2008 to 4.76% in 2009.

This decrease of approximately 1% was primarily due to:

- the decline in short-term rates for the floating-rate portion of debt (particularly GBP and USD Eonia, Euribor and Libor);
- partially offset by the cost of liquid assets (cash arising from the €2 billion bond issue on April 24, 2009) invested in short-term low risk instruments offering a return comparable to Eonia.

Other financial expenses increased from €39.2 million for the year ended December 31, 2008 to €110.3 million for the year ended December 31, 2009.

This was mainly due to:

- the €29.4 million decrease in net gains and losses on loans and receivables;
- changes in fair value in the negative amount of €58 million, of which €60 million relate to the indexation clauses in Water Division contracts.

9.2.3.3 Income tax expense

The consolidated income tax expense of the Group for the year ended December 31, 2009 was €242.2 million compared to €462.0 million for the year ended December 31, 2008.

As a percentage of net income from continuing operations restated for this income tax expense and the net income of associates, the effective tax rate was 21.5% for 2009, compared to 45.6% for 2008.

The decline in this rate was mainly attributable to:

- the inclusion in the 2008 effective tax rate of the impacts of unfavorable changes in tax legislation, asset impairments with no tax savings and the contribution of loss-making subsidiaries which have no prospects of recovery (inventory effect);
- whereas the 2009 tax rate includes the positive impacts arising from lowly taxed disposal gains.

9.2.3.4 Share of net income of associates

The share of net income from associates decreased from €19.4 million in 2008 to €1.4 million in 2009, mainly due to the divestiture in 2009 of Compagnie Méridionale de Navigation in the Transportation Division.

9.2.3.5 Net income (loss) from discontinued operations

The net loss from discontinued operations totaled €42.8 million in 2009, compared to a net income of €139.2 million in 2008. The 2009 net loss was mainly due to the gains and losses arising from the divestiture of Freight activities (Veolia Cargo) in the Transportation Division in December 2009 and the incineration business in the United States within the Environmental Services Division in August 2009. It also includes the net income or loss from activities in the United Kingdom in the Transportation Division and Renewable Energy activities in the Energy Services Division in the process of being sold at year-end. In 2008, the net income mainly included the capital gain arising from the disposal of Clemessy and Crystal in the Energy Services Division for a net amount of €176.5 million, with a share attributable to non-controlling interests of €60 million.

9.2.3.6 Net income (loss) attributable to non-controlling interests

Net income attributable to non-controlling interests was €304.1 million in 2009, compared to €257.8 million in the previous year. In 2008, this income included the capital gain of €60 million realized on the divestiture of Clemessy and Crystal in the Energy Services Division.

9.2.3.7 Net income attributable to owners of the Company

Net income for the year attributable to owners of the Company totaled €584.1 million in 2009, compared to €405.1 million in 2008. Recurring net income attributable to owners of the Company was €538.1 million in 2009, compared to €687.2 million in 2008 (re-presented for discontinued operations).

Given the weighted average number of shares outstanding of 471.7 million in 2009 and 462.2 million in 2008 (adjusted for the share dividend distribution performed in 2009), earnings per share attributable to owners of the Company (basic) was €1.24 in 2009, compared to €0.88 in 2008. Recurring net income per share attributable to owners of the Company (basic) was €1.14 in 2009, compared to €1.49 in 2008.

Recurring net income for the year ended December 31, 2009 breaks down as follows:

Year ended December 31, 2009 *(€ million)*	**Recurring**	**Non-recurring**	**Total**
Operating income	1,932.4	87.7	2,020.1
Net finance costs	(784.3)	-	(784.3)
Other financial income and expenses	(110.3)	-	(110.3)
Income tax expense	(242.2)	-	(242.2)
Share of net income of associates	1.4	-	1.4
Net income from discontinued operations	-	(42.8)	(42.8)
Non-controlling interests	(258.9)	1.1	(257.8)
Net income attributable to owners of the Company	**538.1**	**46.0**	**584.1**

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

Year ended December 31, 2008 re-presented *(€ million)*	**Recurring**	**Non-recurring**	**Total**
Operating income	2,275.0	(314.2)	1,960.8
Net finance costs	(909.0)	-	(909.0)
Other financial income and expenses	(39.2)	-	(39.2)
Income tax expense	(420.1)	(41.9)	(462.0)
Share of net income of associates	19.4	-	19.4
Net income from discontinued operations	-	139.2	139.2
Non-controlling interests	(238.9)	(65.2)	(304.1)
Net income attributable to owners of the Company	**687.2**	**(282.1)**	**405.1**
Published net income attributable to owners of the Company	**658.6**	**(253.5)**	**405.1**

9.2.4 VEOLIA ENVIRONNEMENT SA COMPANY FINANCIAL STATEMENTS

Please refer to Note 20.2 of this reference document.

9.3 FINANCING

The following table summarizes the change in net financial debt and the cash flow statement and the reconciled amounts between both statements for 2009 and 2008.

Year ended December 31, 2009:

(€ million)	**Statement of change in net financial debt**	**Reconciled items**	**Consolidated cash flow statement**	**Notes**
Operating cash flow before changes in working capital	3,939	-	3,939	Note 3.1
Income taxes paid	(408)	-	(408)	
Changes in working capital	432	-	432	Note 3.3
Net cash from operating activities	**3,963**	**-**	**3,963**	
New operating financial assets (1)	(500)	17	(483)	Note 3.2.1 (iii)
Capital expenditure net of grants (1)	(2,493)	27	(2,466)	Note 3.2.1 (i)
Financial investments (2)	(338)	151	(187)	Note 3.2.1 (ii)
Industrial and financial divestitures (2)	1,153	(312)	841	Note 3.2.1 (iv)
Principal payments on operating financial assets	455	-	455	Note 3.2.1 (v)
Net cash used in investing activities (in the statement of change in net financial debt)	**(1,723)**	**(117)**	**N/A(a)**	Note 3.2
Dividends received	15	-	15	
(Increase) / Decrease in receivables and other financial assets	163	-	163	Note 3.5.2
Net cash used in investing activities (in the consolidated cash flow statement)	**N/A(a)**	**(117)**	**(1,662)**	Note 3.2.1
Net increase/(decrease) in current borrowings	-	(1,324)	(1,324)	Note 3.4
New non-current borrowings and other debt	-	3,301	3,301	Note 3.4
Principal payments on non-current borrowings and other debt	-	(1,515)	(1,515)	Note 3.4
Issue of share capital by the non-controlling interests (4)	138	19	157	Note 3.4
Other share capital changes (4)	24	(19)	5	Note 3.4
Dividends paid	(434)	-	(434)	Note 3.5.2
Interest paid (3)	(802)	72	(730)	Note 3.4
Net cash from (used) in financing activities	**(1,074)**	**534**	**(540)**	
Effect of foreign exchange rate changes and other	57	(43)	14	
Change	**1,401**	**374**	**1,775**	
Net financial debt/Net cash at the beginning of the year	**(16,528)**	**-**	**3,384**	
Net financial debt/Net cash at the end of the year	**(15,127)**	**-**	**5,159**	

(a) The symbol N/A denotes that this figure in the table does not correspond to the definition of net cash flow from (used in) investing activities in the cash flow statement or the statement of change in net financial debt. In 2009, net cash used in investing activities in the cash flow statement and the statement of change in net financial debt totaled €(1,662) million and €(1,723) million, respectively.

(1) The reconciled items correspond to assets purchased under finance leases not included in investments in the Cash Flow Statement pursuant to IAS 7.

(2) Amounts shown in the "Change in financial debt" and the "value of shares, including cash" items in the cash flow statement column correspond to the enterprise value (Net Financial Debt of companies acquired or divested).

(3) The reconciled items correspond to accrued interest on current and non-current borrowings.

(4) The cash flow statement includes all the capital increases subscribed by non-controlling interests or the parent company Veolia Environnement, whereas the statement of change in net financial debt only includes the portion of increases subscribed by non-controlling interests.

Year ended December 31, 2008:

(€ million)	**Statement of change in net financial debt**	**Reconciled items**	**Consolidated cash flow statement**
Cash flow from operations before changes in working capital	4,178	-	4,178
Income taxes paid	(347)	-	(347)
Changes in working capital	(81)	-	(81)
Net cash from operating activities	**3,750**	**-**	**3,750**
New operating financial assets (1)	(529)	22	(507)
Capital expenditure net of grants (1)	(2,893)	113	(2,781)
Financial investments (2)	(1,280)	479	(801)
Industrial and financial divestitures (2)	762	(71)	691
Principal payments on operating financial assets	358	-	358
Net cash used in investing activities (in the statement of change in net financial debt)	**(3,582)**	**543**	**N/A[(a)]**
Dividends received	16	-	16
(Increase) / Decrease in receivables and other financial assets	(312)	-	(312)
Net cash used in investing activities (in the consolidated cash flow statement)	**N/A[(a)]**	**543**	**(3,335)**
Net increase/(decrease) in current borrowings	-	(1,437)	(1,437)
New non-current borrowings and other debt	-	3,590	3,590
Principal payments on non-current borrowings and other debt	-	(185)	(185)
Issue of share capital by the non-controlling interests (4)	(104)	24	(80)
Other share capital changes (4)	27	(24)	3
Dividends paid	(754)	-	(754)
Interest paid (3)	(848)	1	(847)
Net cash from (used) in financing activities	**(1,679)**	**2,512**	**290**
Effect of foreign exchange rate changes and other	404	(381)	23
Change	**(1,403)**	**-**	**(728)**
Net financial debt/Net cash at the beginning of the year	**(15,125)**	**-**	**(2,656)**
Net financial debt/Net cash at the end of the year	**(16,528)**	**-**	**(3,384)**

(a) The symbol N/A denotes that this figure in the table does not correspond to the definition of net cash flow from (used in) investing activities in the cash flow statement or the statement of change in net financial debt. In 2008, net cash used in investing activities in the cash flow statement and the statement of change in net financial debt totaled €(3,335) million and €(3,582) million, respectively.

(1) The reconciled items correspond to assets purchased under finance leases not included in investments in the Cash Flow Statement pursuant to IAS 7.

(2) Amounts shown in the "Change in financial debt" and the "value of shares, including cash" items in the cash flow statement column correspond to the enterprise value (Net Financial Debt of companies acquired or divested).

(3) The reconciled items correspond to accrued interest on current and non-current borrowings.

(4) The cash flow statement includes all the capital increases subscribed by non-controlling interests or the parent company Veolia Environnement, whereas the statement of change in net financial debt only includes the portion of increases subscribed by non-controlling interests.

9.3.1 Cash flow from operations before changes in working capital

Cash flow from operations before changes in working capital totaled €3,938.6 million in 2009 (see Section 2.3.1), including €3,955.8 million from operating activities (compared to €4,105.4 million in 2008, adjusted), negative €(3.0) million from financing activities (compared to €22.8 million in 2008) and negative €(14.2) million from discontinued operations (compared to €50.2 million in 2008, re-presented).

9.3.2 Net investment flows

Net investment flows for year ended December 31, 2009 and year ended December 31, 2008, break down as follows:

(€ million)	**Year ended December 31, 2009**	**Year ended December 31, 2008**
Net cash flow from / (used) in investing activities in the cash flow statement	**(1,662)**	**(3,335)**
New operating financial assets	(17)	(22)
Capital expenditure net of grants	(27)	(113)
Financial investments	(151)	(479)
Industrial and financial divestitures	312	71
Dividends received	(15)	(16)
(Increase) / decrease in receivables and other financial assets	(163)	312
Net cash flow from / (used) in investing activities in the statement of change in net financial debt	**(1,723)**	**(3,582)**
Issue of share capital by the non-controlling interests (*)	138	27
Total net investments	**(1,585)**	**(3,555)**

* *In 2008, the issue of share capital by the non-controlling interests does not include the Berlin capital reduction of €131 million in the Water Division.*

9.3.2.1 Net investments

Year ended December 31, 2009:

(€ million)	**Water**	**Environmental Services**	**Energy Services**	**Transportation**	**Other**	**TOTAL**
Capital expenditure (1)	835	626	531	445	56	**2,493**
Financial investments (2)	160	9	99	62	8	**338**
New operating financial assets	279	74	121	26	0	**500**
Total Gross Investments	**1,274**	**709**	**751**	**533**	**64**	**3,331**
Industrial divestitures	(45)	(40)	(14)	(158)	(2)	**(259)**
Financial divestitures (3)	(244)	(366)	(121)	(163)	-	**(894)**
Principal payments on operating financial assets	(204)	(71)	(150)	(30)	-	**(455)**
Issue of share capital by the non-controlling interests (5)	(97)	(5)	(12)	(24)	-	**(138)**
Total Net Investments	**684**	**227**	**454**	**158**	**62**	**1,585**

(1) *Including assets purchased under finance leases.*
(2) *Excluding cash and cash equivalents of companies acquired.*
(3) *Excluding cash and cash equivalents of companies divested.*
(4) *Excluding the Berlin capital reduction for €131 million in the Water Division.*
(5) *Including the divestiture of 6.88% of Veolia VODA's capital to the EBRD for €70 million in the Water Division.*

Year ended December 31 2008:

(€ million)	Water	Environmental Services	Energy Services	Transportation	Other	TOTAL
Capital expenditure [(1)]	950	990	539	342	72	**2,893**
Financial investments [(2)]	332	389	324	218	17	**1,280**
New operating financial assets	332	55	133	11	(2)	**529**
Total Gross Investments	**1,614**	**1,434**	**996**	**571**	**87**	**4,702**
Industrial divestitures	(70)	(45)	(14)	(201)	-	**(330)**
Financial divestitures [(3)]	(164)	(17)	(248)	(1)	(2)	**(432)**
Principal payments on operating financial assets	(161)	(48)	(133)	(16)	-	**(358)**
Issue of share capital by the non-controlling interests [(4)]	(11)	(1)	(15)	0	-	**(27)**
Total Net Investments	**1,208**	**1,323**	**586**	**353**	**85**	**3,555**

(1) Including assets purchased under finance leases.
(2) Excluding cash and cash equivalents of companies acquired.
(3) Excluding cash and cash equivalents of companies divested.
(4) Excluding the Berlin capital reduction for €131 million in the Water Division.
(5) Including the divestiture of 6.88% of Veolia VODA's capital to the EBRD for €70 million in the Water Division.

Given the economic context, the Group has adopted a restrictive investment policy substantially reducing financial investments, but without putting into question capital expenditure of a contractual nature or necessary for industrial activities. The decline primarily involves Environmental Services.

(i) Capital expenditure

Capital expenditure (including assets purchased under finance leases) amounted to €2,493 million in 2009, compared to €2,893 million in 2008 , which breaks down as follows:

- €835 million in the Water Division (down 12.1% on 2008), including €336 million in growth investments and €499 million in maintenance-related investments (€538 million in 2008). Growth investments in 2009 mainly concerned concession assets in France, China and Morocco;
- €626 million in the Environmental Services Division (down 36.8% on 2008), including €130 million in growth investments and €496 million in maintenance-related investments (€745 million in 2008). The decrease in capital expenditure was due to the adaptation of the Environmental Services Division to the economic crisis;
- €531 million in the Energy Services Division (down 1.5% on 2008), including €296 million in growth investments and €235 million in maintenance-related investments (€278 million in 2008);
- €445 million in the Transportation Division (up 30.1% on 2008), including €68 million in growth investments and €377 million in maintenance-related investments (€294 million in 2008). The amount of capital expenditure takes into account the greater reliance on operating leases.

Maintenance-related investments totaled €1,632 million in 2009 (4.7% of total revenue), compared to €1,860 million in 2008 (5.2% of total revenue).

(ii) Financial investments

Financial investments totaled €338 million in 2009, compared to €1,280 million in 2008. The main financial investment was the acquisition of a cogeneration plant in Estonia (Digismart) in the Energy Services Division for €72 million.

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

New operating financial assets totaled €500 million in 2009, compared to €529 million in 2008, which breaks down as follows:

- €279 million in the Water Division, mainly comprising new operating financial assets under the Berlin contract and certain investments in Asia (China and Korea) and the Middle East (Oman Sur);
- €74 million in the Environmental Services Division, representing an increase of €19 million and comprising various investments in Europe;
- €121 million in the Energy Services Division, representing a decrease of €12 million compared to 2008;
- €26 million in the Transportation Division.

(iv) Divestitures

Divestitures amounted to €1,153 million, compared to €762 million in 2008, and break down as follows:

- industrial divestitures of €259 million, including €158 million in the Transportation Division (Cargo activity for €94 million);
- financial divestitures of €894 million, including:
  - Incineration activity in the United States in Environmental Services for €220 million,
  - Veolia Propreté Nettoyage Multiservices for €111 million in the Environmental Services Division,
  - Facilities Management activities in the United Kingdom in the Energy Services Division for €90 million,
  - Water activities in North Africa and the Middle East for €189 million.

(v) Principal payments on operating financial assets

Principal payments on operating financial assets amounted to €455 million in 2009 (including €204 million in the Water Division and €150 million in the Energy Services Division), compared to €358 million in 2008.

(vi) Issue of share capital by the non-controlling interests (minority interests)

The issue of share capital by the non-controlling interests totaled €138 million in 2009, compared to €27 million in 2008. It mainly concerns the Water Division for €97 million in 2009 and corresponds to a 6.88% capital increase by Veolia Voda reserved for the ERBD in the amount of €70 million.

9.3.2.2 Operating cash flow from operating activities – Net investment (including non-controlling interests share capital increases)

In order to better monitor its operating and financial performance, the Group monitors operating cash from operating activities less net investment as defined in Note 2.1. The changes in this indicator are as follows:

Operating cash flow from operating activities including cash flow of discontinued operations – Net investment *(€ million)*	**As of December 31, 2009**	**As of December 31, 2008 re-presented**
Water	1,152	613
Environmental Services	977	40
Energy Services	279	185
Transportation	153	(58)
Other	(204)	(179)
Operating cash flow from operating activities including cash flow of discontinued operations – Net investment	**2,357**	**601**

9.3.3 Working capital

The increase in working capital requirement totaled €432 million in 2009, which was due to:

- targeted action plans for trade receivables in certain countries,
- the reduction in activity or prices mainly in the Environmental Services and Energy Services Divisions,
- temporary factors mainly relating to a delay in the collection of fees and taxes.

9.3.4 Net cash from (used in) financing activities

Net financing cash flows in statement of change in net financial debt in 2009 and 2008 break down as follows:

(€ million)	**December 31, 2009**	**December 31, 2008**	**Change**
Issue of share capital by the non-controlling interests	138	(104)	242
Other movements in equity	24	27	(3)
Dividends paid	(434)	(754)	320
Interest paid	(802)	(848)	46
Net cash from (used in) financing activities in the statement of change in net financial debt	**(1,074)**	**(1,679)**	**605**

Cash flow used in financing activities in statement of change in net financial debt totaled €1,074 million in 2009, compared to cash flow from financing activities of €1,679 million in 2008.

These changes were mainly due to:

- a €320 million decrease of the dividends paid in cash between 2008 and 2009 (share dividend distribution of €322 million in 2009);
- an increase of €242 million in the issue of share capital by the non-controlling interests:
  - As of December 31, 2009, issue of share capital by the non-controlling interests included primarily the capital increase of €70 million by Veolia Voda reserved for the ERBD,
  - As of December 31, 2008, issue of share capital by the non-controlling interests included primarily the capital reduction of the city of Berlin in the Water Division for €131 million.

Net financing cash flows in the cash flow statement in 2009 and 2008 break down as follows:

(€ million)	**December 31, 2009**	**December 31, 2008**	**Change**
Net increase/(decrease) in current borrowings	(1,324)	(1,437)	113
New non-current borrowings and other debts	3,301	3,590	(289)
Principal payments on non-current borrowings and other debt	(1,515)	(185)	(1,330)
Issue of share capital by the non-controlling interests	157	(80)	237
Other movements in equity	5	3	2
Dividends paid	(434)	(754)	320
Interest paid	(730)	(847)	117
Net cash from (used in) financing activities in the cash flow statement	**(540)**	**290**	**(830)**

Cash flow used in financing activities in the cash flow statement totaled -€540 million in 2009, compared to cash flow from financing activities of €290 million in 2008.

These changes were mainly due to:

- a €289 million decrease over the period in new non-current borrowings and other debts in the cash flow statement:
  - in 2009, the Group performed new bond issues in the amount of €2,250 million,
  - in 2008, the Group performed new bond issues under its EMTN (Euro Medium Term Notes) program in the amount of €572 million; the Group 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); it reopened the EUR-denominated series 21 bond issue maturing in 2017 in the amount of €140 million; then opened the series 15 corporate bond issue maturing in 2015, in the amount of €275 million; to which Veolia Environnement performed on May 21, 2008 an inaugural fixed rate bond-issue on the US market for an amount of EUR 1,293.3 billion (euro equivalent of USD 1.8 billion);
- Principal payments on non-current borrowings and other debt totaled -€1,515 million as of December 31,2009 compared to -€185 million as of December 31,2008, representing an increase of €1,330 million during the period:
  - In 2009, principal payments on non-current borrowings and other debt related to transactions on the multi-currency syndicated loans, including essentially the repayment of €800 million on the euro syndicated loan,
  - In 2008, principal payments on non-current borrowings and other debt related to the repayment of the Berlin acquisition debt of €600 million maturing January 15, 2008 and redemption of the EMTN series 20 bond issue of €300 million, maturing February 15, 2008;
- a €117 million decrease over the period in interest paid in line with the decrease in the Group financing rate;
- finally, a €113 million decrease in current borrowings.

For more details on the Group's financial policy, refer to Section 3.6 "External financing."

9.3.5 Other changes

9.3.5.1 Change in receivables and other financial assets

The decrease of €163 million is mainly due to the reduction in the non-group share of loans to Dalkia International and its subsidiaries granted by the Group in 2009.

9.3.5.2 Dividends paid

Dividends paid include dividends paid by the parent company of €231 million (€553 million net of the share dividend distribution of €322 million) and dividends paid to non-controlling interests.

9.3.6 External financing

9.3.6.1 Rating agencies

As of December 31, 2009, Moody's and Standard & Poor's rated Veolia Environnement SA as follows:

	Short-term	Long-term	Outlook	Recent events
Moody's	P-2	A3	Negative	On March 26, 2009, Moody's confirmed the ratings assigned to Veolia Environnement on June 27, 2005, but downgraded the outlook from stable to negative.
Standard and Poor's	A-2	BBB+	Negative	On March 25, 2009, Standard and Poor's confirmed the ratings assigned to Veolia Environnement on October 3, 2005, but downgraded the outlook from stable to negative. On January 4, 2010, these ratings were confirmed by Standard and Poor's.

9.3.6.2 Main events

In 2009, Veolia Environnement continued to implement an active refinancing policy.

The main borrowings maturing in 2009 that were repaid or refinanced are as follows:

- €800 million draw-down on the syndicated loan repaid on April 17, 2009;
- CZK660 million EMTN Series 8 bond issuance (€22.1 million euro equivalent at historical rates), which matured on April 29, 2009;
- U.S.$27 million EMTN Series 13 bond issuance (€22.2 million euro equivalent at historical rates), which matured on March 4, 2009.

In addition, Veolia Environnement issued the following new bonds under its EMTN (Euro Medium Term Notes) program in the amount of €2,250 million:

- On April 24, 2009, Veolia Environnement issued the following bonds:
  - a bond issuance of €1,250 million, bearing fixed-rate interest at 5.25% per annum and maturing on April 24, 2014 (series 25),
  - a bond issuance of €750 million, bearing fixed-rate interest at 6.75% per annum and maturing on April 24, 2019 (series 26);
- On June 29, 2009, Veolia Environnement issued bonds worth €250 million, bearing fixed-rate interest at 5.70% per annum and maturing on June 29, 2017 (series 27).

9.3.6.3 Liquidity position

Liquid assets of the Group as of December 31, 2009 break down as follows:

(€ million)	**As of December 31, 2009**	**As of December 31, 2008**
Veolia Environnement:		
Undrawn MT syndicated loan	3,694.6	2,890.3
Undrawn MT credit lines	400.0	575.0
Undrawn ST credit lines	575.0	350.0
Cash & cash equivalents	4,091.2	2,283.6
Subsidiaries:		
Cash & cash equivalents	1,523.2	1,566.0
Total liquid assets	**10,284.0**	**7,664.9**
Current debts and bank overdrafts and other cash position items		
Current debts	2,983.1	3,219.7
Bank overdrafts and other cash position items	454.9	465.7
Total current debts and bank overdrafts and other cash position items	**3,438.0**	**3,685.4**
Total liquid assets net of current debts and bank overdrafts and other cash position items	**6,846.0**	**3,979.5**

Veolia Environnement SA cash surpluses (€4,090.6 million as of December 31, 2009) 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 investment supports are mainly UCITS, negotiable debt securities (bank certificates of deposit and treasury notes) and related instruments.

Undrawn credit lines as of December 31, 2009 are as follows:

Bank	**Amount** *in € million*	**Maturity**
NATIXIS	150	March 31, 2012
BNP Paribas	150	March 2, 2012
HSBC	100	June 30, 2011
RBS formerly ABN	100	December 29, 2010
SG	150	December 23, 2010
RBS	125	December 20, 2010
CIC / BFCM	100	November 15, 2010
CACIB	100	March 4, 2010
Total	**975**	

The €150 million line of credit with BNP Paribas which matured on March 3, 2009 was renewed in the same amount, with a new maturity of March 2, 2012.

The €200 million line of credit with Natixis which matured on February 9, 2009 was renewed in the amount of €150 million, with a new maturity of March 31, 2012.

A new €100 million line of credit was negotiated with HSBC, with a maturity of June 30, 2011.

Veolia Environnement may draw on the multi-currency syndicated credit facility and all credit lines at any time.

9.3.6.4 Information on early debt repayment clauses

Debt of Veolia Environnement SA

Bank financing

The legal documentation for syndicated loans (particularly the syndicated loan of €4 billion) and bilateral credit lines contracted by Veolia Environnement SA does not contain any financial covenants, i.e. obligations to comply with a debt payout ratio or interest ratio or a minimum credit rating which, in the event of non-compliance, could lead to the early repayment of the relevant financing.

Bond financing

The private placement performed in the United States in January 2003 (outstanding of €299.1 million as of December 31, 2009) is the only source of bond financing that contains financial covenants (debt hedging ratio < 5.3 and interest hedging ratio > 3.2). These covenants were complied with as of December 31, 2009.

The legal documentation for the notes issued by the Company under its EMTN program (outstanding of €11.2 billion as of December 31, 2009) does not contain any financial covenants.

Debt of subsidiaries

The project financing borne by specific companies or the financing granted by multilateral development banks to the Group's subsidiaries may contain financial covenants.

As of December 31, 2009, the financing agreements containing such covenants and amounting to more than €100 million (Group share) were as follows:

Financing *(€ million)*	**Outstanding as of December 31, 2009**	**Type of covenant**
Aquiris (Water Division - Belgium)	179.1	DPR[1] and deadline for obtaining final acceptance for the plant
Delfluent (Water Division – Netherlands)	112.4	DPR, forecast DPR and duration of financing
Shenzhen (Water Division – China)	100.9	Minimum reserve account
Redal (Water Division - Morocco)	103.6	Working capital, equity/share capital and DPR

(1) DPR (Debt Payout Ratio) = Net financial debt hedging ratio/EBITDA for which the defined aggregates may vary according to the financing.

As of December 31, 2009, the Group had complied with all the covenants included in the documentation of these significant financing agreements.

With regard to the Aquiris project (Brussels wastewater treatment plant), the lenders waived their right as of January 29, 2010 to demand early repayment of the financing until June 30, 2010. At the same time, a demand guarantee, exercisable as of June 30, 2010 and maturing on August 31, 2010, was granted by Veolia Eau-CGE to the lenders.

Financing for a project with an outstanding of €81 million as of December 31, 2009 contains a covenant that has yet to be complied with.

9.3.6.5 Net financial debt structure

The net financial debt structure as of December 31, 2009 is as follows:

(€ million)	**As of December 31, 2009**	**As of December 31, 2008**
Non-current borrowings	17,647.3	17,063.9
Current borrowings	2,983.1	3,219.7
Bank overdrafts and other cash position items	454.9	465.7
Sub-total borrowings	21,085.3	20,749.3
Cash and cash equivalents	(5,614.4)	(3,849.6)
Fair value gains/losses on hedge derivatives	(343.2)	(371.5)
Net financial debt	15,127.7	16,528.2

9.3.6.6 Maturity of non-current borrowings

Group non-current borrowings fall due as follows as of December 31, 2009:

		Maturing in		
(€ million)	**Amount**	**2 to 3 years**	**4 to 5 years**	**More than 5 years**
Bond issues	**13,264.5**	1,045.2	2,951.7	9,267.6
Bank borrowings	**4,382.8**	1,511.1	779.7	2,092.0
Non-current borrowings	**17,647.3**	**2,556.3**	**3,731.4**	**11,359.6**

9.3.6.7 Market risk

Refer to Note 29 to the 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 in Section 2.1 above.

Net income from operations is calculated as follows:

(€ million)	**As of December 31, 2009**	**As of December 31, 2008 re-presented**
Recurring operating income	1,932.4	2,275.0
+ Share of net income of associates	1.4	19.4
- Income tax expense (1) (2)	(213.2)	(411.4)
- Revenue from operating financial assets	(394.4)	(397.9)
+ Income tax expense allocated to operating financial assets	77.1	75.4
Net income from operations	**1,403.3**	**1,560.5**

(1) In 2004, the financial restructuring operations that followed 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 2009 generated charges of €8.7 million and €29.0 million respectively, which were similarly eliminated from the calculation of ROCE.

(2) 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.

Capital employed in 2009 includes the assets of companies classified as assets held for sale as of

December 31, 2009.

Capital employed is calculated as follows:

(€ million)	As of December 31, 2009	As of December 31, 2008 re-presented	As of December 31, 2007 re-presented
Intangible assets and property, plant and equipment, net (1)	14,628.9	14,434.2	13,869.8
Goodwill, net of impairment	6,720.6	6,674.2	6,782.0
Investments in associates	268.5	306.8	290.3
Operating and non-operating working capital requirements, net (2)	(182.1)	92.3	3.8
Net derivative instruments and other (3)	(70.6)	51.0	79.0
Provisions	(3,063.9)	(2,937.8)	(2,915.9)
Other non-current debt	-	-	
Capital employed	**18,301.4**	**18,620.7**	**18,109.0**
Clemessy & Crystal (Energy Services Division)	**-**	**-**	**35.1**
Transportation United Kingdom	**-**	**54.5**	**94.3**
Waste-to-Energy (Environmental Services Division)	**-**	**53.0**	**48.1**
Veolia Freight (Transportation Division)	**-**	**125.0**	**118.1**
Renewable Energies	**-**	**58.8**	**-**
Capital employed published in 2008	**-**	**18,912.0**	**18,404.6**
Average capital employed	**18,461.0**	**18,364.8**	

(1) Including the investment in Tianjin Shibei (Water Division) for €219 million in 2007.

(2) Including net deferred assets but excluding deferred taxes relating to U.S. divestitures and associated restructuring (€23.1 million in 2009, €52.0 million in 2008 and €60.7 million in 2007).

(3) Excluding debt fair value hedging derivatives for €343.2 million in 2009, €371.5 million in 2008 and €(27.7) million in 2007.

The Group’s return on capital employed (ROCE) is as follows:

(€ million)	Net income from operations	Average capital employed	ROCE
2009	**1,403.3**	**18,461.0**	**7.6%**
2008	1,560.5	18,364.8	**8.5%**

Capital employed breaks down by Division and country as follows:

As of December 31, 2009 *(€ million)*	**France**	**Germany**	**United Kingdom**	**Rest of Europe**	**United States**	**Oceania**	**Asia**	**Middle East**	**Rest of the world**	**Total**
Water	1,141.2	604.2	1,184.3	1,296.3	170.7	12.7	1,399.9	8.7	377.1	**6,195.2**
Environmental Services	1,656.5	734.3	1,058.6	808.5	1,194.1	282.9	162.5	55.4	152.0	**6,104.9**
Energy Services	1,044.4	86.3	80.1	2,007.0	589.0	10.6	108.1	16.0	75.8	**4,017.3**
Transportation	657.9	37.9	(1.0)	468.7	229.2	50.4	43.5	17.0	58.7	**1,562.2**
Unallocated amounts (1)	(26.4)	-	(67.6)	161.9	275.0	-	-	(0.5)	79.4	**421.7**
Segment assets	**4,473.5**	**1,462.8**	**2,254.4**	**4,742.3**	**2,458.1**	**356.6**	**1,714.0**	**96.6**	**743.0**	**18,301.3**

(1) Including holding companies, other central entities and Proactiva.

As of December 31, 2008 *(€ million)*	**France**	**Germany**	**United Kingdom**	**Rest of Europe**	**United States**	**Oceania**	**Asia**	**Middle East**	**Rest of the world**	**Total**
Water	1,263.0	594.6	1,001.0	1,177.1	200.7	(0.7)	1,393.7	(31.1)	650.0	**6,248.3**
Environmental Services	1,742.6	804.5	1,032.6	836.7	1,299.6	218.1	173.5	62.7	159.6	**6,329.9**
Energy Services	1,042.4	92.2	103.7	1,977.3	580.6	9.4	104.0	23.1	66.1	**3,998.8**
Transportation	586.8	73.6	(0.9)	521.4	251.5	1.5	(4.4)	14.9	44.8	**1,489.2**
Unallocated amounts (1)	14.2	-	(72.7)	240.4	310.6	-	-	-	62.0	**554.5**
Segment assets	**4,649.0**	**1,564.8**	**2,063.8**	**4,752.9**	**2,643.0**	**228.4**	**1,666.8**	**69.6**	**982.5**	**18,620.7**

(1) Including holding companies, other central entities and Proactiva.

Change *(€ million)*	**France**	**Germany**	**United Kingdom**	**Rest of Europe**	**United States**	**Oceania**	**Asia**	**Middle East**	**Rest of the world**	**Total**
Water	(121.8)	9.7	183.3	119.2	(30.0)	13.3	6.2	39.8	(272.9)	**(53.1)**
Environmental Services	(86.1)	(70.1)	26.0	(28.2)	(105.5)	64.8	(11.0)	(7.3)	(7.6)	**(225.0)**
Energy Services	2.0	(5.9)	(23.6)	29.7	8.4	1.2	4.1	(7.1)	9.8	**18.6**
Transportation	71.1	(35.7)	(0.2)	(52.7)	(22.3)	48.9	47.9	2.1	13.9	**73.0**
Unallocated amounts (1)	(40.6)	-	5.1	(78.5)	(35.6)	-	-	(0.5)	17.4	**(132.8)**
Segment assets	**(175.4)**	**(102.1)**	**190.7**	**(10.6)**	**(184.9)**	**128.3**	**47.2**	**27.0**	**(239.4)**	**(319.3)**

(1) Including holding companies, other central entities and Proactiva.

9.5 STATUTORY AUDITORS FEES

In 2008 and 2009, 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	
	2009	2008	2009	2008	2009	2008	2009	2008
Statutory audit, certification, audit of company and consolidated accounts (1)	14.8	14.2	82.7%	78.0%	14.9	16.1	77.2%	76.3%
- Veolia Environnement	1.2	1.2	6.7%	6.6%	1.0	1.0	5.2%	4.7%
- Fully consolidated company	13.6	13.0	76.0%	71.4%	13.9	15.1	72.0%	71.6%
Other diligences and services directly related to the statutory audit engagement (2)	3.1	4.0	17.3%	22.0%	4.4	5.0	22.8%	23.7%
- Veolia Environnement	0.7	0.9	3.9%	4.9%	1.4	1.0	7.3%	4.7%
- Fully consolidated company	2.4	3.1	13.4%	17.1%	3.0	4.0	15.5%	19.0%
Sub-total 1	**17.9**	**18.2**	**100%**	**100%**	**19.3**	**21.1**	**100%**	**100%**
Other services rendered by the network to fully consolidated subsidiaries (3)			0.0%	0.0%			0.0%	0.0%
- Legal, tax, employee-related			0.0%	0.0%			0.0%	0.0%
- Other			0.0%	0.0%			0.0%	0.0%
Sub-total 2			**0.0%**	**0.0%**			**0.0%**	**0.0%**
Total (1+2)	**17.9**	**18.2**	**100%**	**100%**	**19.3**	**21.1**	**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.

9.7 APPENDICES TO THE MANAGEMENT REPORT

Reconciliation of 2008 consolidated revenue published and 2008 re-presented revenue (€ million)

2008 revenue published	**36,205.5**
Divestiture of the Incineration activity in the United States (Montenay International) in the Environmental Services Division (August 2009)	(171.6)
Divestiture of the Freight activity within the Transportation Division (December 2009)	(187.6)
Reclassification to net loss from discontinued operations of activities in the United Kingdom in the Transportation Division	(78.4)
Reclassification to net loss from discontinued operations of Renewable Energy activities in the Energy Services Division	(3.1)
Pro forma subtotal	(440.7)
2008 revenue re-presented	**35,764.8**

Reconciliation of 2008 consolidated operating cash flow before changes in working capital published and 2008 consolidated operating cash flow before changes in working capital re-presented (€ million):

2008 consolidated operating cash flow before changes in working capital published	**4,137.3**
Divestiture of the Incineration activity in the United States (Montenay International) in the Environmental Services Division (August 2009)	(30.8)
Divestiture of the Freight activity within the Transportation Division (December 2009)	(2.4)
Reclassification to net loss from discontinued operations of activities in the United Kingdom in the Transportation Division	(2.2)
Reclassification to net loss from discontinued operations of Renewable Energy activities in the Energy Services Division	3.5
Pro forma subtotal	**(31.9)**
2008 consolidated operating cash flow before changes in working capital re-presented	**4,105.4**

Reconciliation of 2008 consolidated operating income published and 2008 consolidated operating income re-presented (€ million):

2008 operating income published	**1,951.3**
Divestiture of the Incineration activity in the United States (Montenay International) in the Environmental Services Division (August 2009)	(20.3)
Divestiture of the Freight activity within the Transportation Division (December 2009)	2.7
Reclassification to net loss from discontinued operations of activities in the United Kingdom in the Transportation Division	22.4
Reclassification to net loss from discontinued operations of Renewable Energy activities in the Energy Services Division	4.7
Pro forma subtotal	9.5
2008 operating income re-presented	1,960.8

10 Cash flow and capital

Information on cash flows, working capital requirements and investments is set forth in Chapter 9, Sections 9.3.1 to 9.3.5 of this reference document and in Chapter 20, Section 20.1, Notes 13, 14 and 31 to the consolidated financial statements.

Information on borrowing terms and conditions and Veolia Environnement's financing structure is set forth in this reference document in Chapter 9, Section 9.3.6 and Chapter 20, Section 20.1, Notes 14, 17, 20 and 21 to the consolidated financial statements.

The legal terms and conditions of the syndicated loans (particularly the €4 billion syndicated loan) and bilateral agreements entered into by Veolia Environnement SA do not include financial debt covenants, i.e. undertakings to comply with debt or financial costs hedges ratio or a minimum credit rating, where failure to do so could lead to a call for early repayment of the financing concerned.

Of the bond issuances undertaken by Veolia Environnement SA, the private placement performed in the United States in January 2003 (outstandings of €299.1 million as of December 31, 2009; see Chapter 20, Section 20.1, Note 17 to the consolidated financial statements) is the only Veolia Environnement SA financing to contain financial covenants (debt coverage ratio < 5.3 and interest coverage ratio > 3.2). The Company complied with these ratios as of December 31, 2009 (see Chapter 20, Section 20.1, Note 29.3.4 to the consolidated financial statements).

Project financing carried by special purpose entities and financing granted by multilateral development organizations to certain Group subsidiaries may contain financial covenants.

As of December 31, 2009, the Group complied with the covenants included in the terms and conditions of these material financing arrangements.

The lenders financing the Aquiris project (Brussels wastewater treatment plant) waived their right on January 29, 2010 to call the early repayment of this financing, for a period to June 30, 2010. Concomitantly, a first-demand guarantee was issued by Veolia Eau-CGE to the lenders, exercisable from June 30, 2010 to August 31, 2010.

Project financing with an outstanding amount of €81 million as of December 31, 2009, includes a covenant which is not complied with at that date.

11 Research and innovation, patents and licenses

11.1 RESEARCH AND INNOVATION

11.1.1 Research and Innovation: a priority for Veolia Environnement

Veolia Environnement's activities are at the crossroads of several major challenges facing the modern world: demographic explosion and urbanization, access to water, fighting climatic change. The solution to these challenges requires a global industrial and technological approach. This transversal approach lies at the core of Veolia Environnement's Research and Innovation (R&I) strategy.

With today's technologies, these challenges are already lost. It is therefore by focusing fully on the inventive-capacity of its research teams that the Group plans to rise to the environmental challenge, by proposing innovative solutions at an affordable cost.

The four-pronged approach of the R&I 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 also occupies a leading place in this framework. Research efforts are concentrated on optimizing energy consumption at Group installations, developing alternative energy sources (bioenergies, biomass, waste-to-energy, alternative fuels), the desalination of sea water and the improvement of treatment processes, the prevention of legionnaires disease, the recycling of urban waste, the capture and storage of carbon dioxide and the optimization of urban transportation.

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 legionnaires disease 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.

11.1.2 The Reorganization of Research and Innovation activities

To accompany its R&I ambitions, the Veolia Environnement Research and Innovation Department decided to adopt a new operating approach in July 2009, based on a matrix structure founded on seven departments (life sciences, environment and health, analysis, modeling / process implementation and information technology, process engineering, energy and processes and design and engineering) and nine programs (bioresources, waste collection, sorting and beneficial re-use, drinking water, wastewater, energy production and efficiency, sustainable building and city management, transportation, new activities, and environmental and health standards). This new structure seeks to redeploy R&I efforts in order to break down barriers between research units and pool resources across transversal subjects. The scientific and technical teams of the four Divisions now report directly to a single management structure comprising seven departments representing the Group's main disciplines. Therefore, water and waste biologists will now work together directly. By organizing its teams by area of expertise, the R&I Department will encourage new synergies and be better placed to develop outside partnerships.

In addition, to give our experts sufficient time to concentrate on scientific aspects, a programs department is now responsible for defining lines of research and ensuring the budget monitoring and management of each project and the roll-out of innovations in the field.

The research system was strengthened upstream at the same time, with the creation of a Watch and Innovation Department. This department is primarily charged with identifying new inventions in each business and promoting them within the Group. More generally, it is responsible for identifying innovations around the world, likely to be developed and integrated into Veolia Environnement's activities.

11.1.3 Research and Innovation Resources

Veolia Environnement's research activities are overseen by Veolia Environnement Recherche et Innovation (VERI). In 2009, these R&I activities comprised nearly 850 experts worldwide (including 425 researchers and 425 on-site developers), with a total budget of approximately €89,8 million[1].

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, Germany, United States and Australia).

In 2003, Veolia Environnement set up an international network of Research and Innovation 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 the Group's activities in Australia have become a benchmark for the reuse of waste water.

11.1.4 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&I is carried out as part of 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 that enables the Group to foresee future needs and launch new research programs as quickly as possible.
- Laboratory or field tests to verify the feasibility of the research. At this stage, analytical modeling[2] 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&I 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&I department and keeps it informed of recent developments, it also provides effective outlets for scientific progress and feedback to our partners. R&I teams 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.

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(1) *Research and development expenditure totaled €89.8 million for the fiscal year ended December 31, 2009 (see Chapter 20, Section 20.1, Note 19 below) and represents, together with other operational development costs, a total budget estimated at approximately €150 million.*

(2) *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.*

11.1.5 Main Research & Innovation Areas for Veolia Environnement

The four areas at the core of Veolia Environnement's current Research and Innovation are:

Managing and preserving natural resources

The sector that will be most affected by climate change is water. Research into sea water desalination processes, collection of rain water and the re-use of wastewater after treatment, is aimed at meeting the expected increase in water requirements. In order to preserve natural resources, it is also essential to find solutions to decrease consumption. 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 in this way the re-use and recovery 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. Current 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.

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 and address the depletion of fossil fuel reserves by replacing them with clean energies.

Over 70% of Veolia Environnement's research programs thereby contribute to reducing greenhouse gas emissions, bearing witness to the Group's strong commitment to fighting climate change. Current processes seek to eliminate greenhouse gas emissions or, where this is not possible, reduce emission levels. To this end, R&I activities focus primarily on reducing emissions, improving processes and energetic efficiency and exploiting more renewable energy sources. At the same time, the Group is striving to implement processes to capture, store and recover greenhouse gases and foresee future constraints relating to climate change.

11.1.6 Progress in 2009

Veolia Environnement partnership with the Cleantech network

Veolia Environnement, highly reputed for its ability to integrate technology solutions beneficial to the environment, decided to join forces with the *Cleantech Group* for two years as a preferred partner.

Cleantech (abbreviation of clean technology) is a term used to describe technologies providing environmental added-value, primarily in terms of the ecological footprint and eco-design, but also with respect to energy efficiency. Currently, numerous start-ups founded on the development of cleantech have emerged across the globe and particularly in the United States in Silicon Valley. While these young companies sometimes harbor extremely innovative approaches and solutions, they are not always able to complete the innovation process and roll-out their solutions, due to a lack of resources and contacts.

Cleantech Group is a global network of over 2,000 start-ups and investors working on innovative environmental technologies. The network comes together several times a year in all continents to share major advances in green technologies. In 2010, Veolia Environnement participated in particular in the San Francisco Forum from February 24 to February 26 and will participate in the Paris Forum from April 26 to April 28. In this way, the Group intends to bolster its technology watch system and further strengthen its innovation process.

Development of tools to identify and capture odorant components in tap water

The "bad taste" of tap water is not an indication of sanitary risk but is a deterrent to consumption. An exceedingly minute quantity of odorant components is sufficient to produce a bad smell or an unusual taste.

As a water specialist, Veolia Environnement decided to attack these problems head on. After defining the problems and the challenges, the research teams successfully perfected three tools (based on Twister technology) to detect, extract and identify the components responsible for the taste and/or smell problems of drinking water:

- ARISTOT (Advanced and Relevant Investigation Sampler for Taste & Odor at Tap): initially called "Twister Tap", this tool captures organic components and particularly odorant components directly at the consumer's tap.
- PLATON (Programmable and Local Analysis of Taste & Odor in Networks): initially called "Twister Network" or "Integrator", this tool traps organic components in network water.
- ISOCRATE (In Situ Off-flavors Capture by Recurring and Automated Twister Extractions): this tool extracts molecules in a network or reservoir (surface water, plant, etc).

Hydrogen doping system for cogeneration engines

With primary energy savings of 40% and a decrease in greenhouse gas emissions of up to 30%, the energy efficiency performance of cogeneration is excellent. Cogeneration power plants are generally used to supply heating networks for public and private buildings, such as hospitals, schools or office or residential buildings.

Today, a country like Denmark produces over 50% of its electricity by cogeneration, compared to only 3% in France, at a time when the optimal performance of power plants would appear to have hit a ceiling.

In order to improve the attraction and efficiency of cogeneration engines, Veolia Environnement V&I perfected and patented a procedure to dope the engines by injecting hydrogen. Thanks to the local production of hydrogen by catalysis, the research teams successfully increased gas-engine combustion efficiency, to produce more electrical and thermal energy from the same quantity of nature gas.

This procedure is highly accessible, as it requires only limited investment and can be implemented without a fundamental change to existing installations.

Development of an ecodriving assistant to optimize fuel consumption and CO_2 emissions of Veolia fleet vehicles

Veolia Transport has always sought to minimize its impact on the environment. This has led to the use of exclusive measurement tools (such as the Eco-Efficient Travel[*] indicator) and produced concrete and quantifiable results: 4.1 million metric tons of CO_2 equivalents avoided in 2009.

In a bid to reduce even further the fuel consumption and CO_2 emissions of Veolia fleet vehicles, the experts looked for new action mechanisms and noted substantial differences in fuel consumption between two extreme methods of driving – very environmentally-friendly and extremely sporty – of close to 35%. Based on this observation, and after three years of research, the experts produced an ecodriving assistant, which enables a further reduction in the fuel consumption and CO_2 emissions of the Veolia fleet.

The ecodriving assistant uses pre-recorded algorithms to process a range of parameters, model changes in the vehicle and calculate real-time the optimal speed and acceleration. The man-machine interface then reports a simple and intuitive instruction to the driver using a system of diodes. Green lights indicate that the driver is appropriately controlling his/her speed and acceleration. Conversely, when the driver drives too fast or accelerates or breaks too hard, the green lights disappear and are replaced by red lights, or even flashing red lights.

Initial operating tests produced promising results, with fuel consumption savings of 4% and suggest a potential gain of 7% with the provision of individual training to drivers.

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[*] *This indicator measures the performance of public transportation, per passenger, compared to private cars in terms of avoiding $C0_2$ emissions, reducing vehicle density and lowering accident risk.*

Developing a mobile-phone ticketing service for the Nice Côte d'Azur Agglomeration (CANCA)

The experts all agree: in order to reduce the use of private vehicles and thereby transport-related greenhouse gas emissions, it is essential to encourage the development of public transportation. However, public transportation is sometimes considered complicated to use and unreliable and does not always enjoy universal approval. To win over those who remain reticent, free-up traffic and reduce travel time, Veolia Environnement experts have been considering for some time a new system based on mobile-phone technology.

Today, 80% of French people own a mobile phone. In the near future, these phones will have a NFC (Near Field Communication) interface, enabling "touch" communication. This NFC interface enables the exchange of data with a terminal located a few centimeters away. Using this NFC technology, Veolia Environnement developed a unified and user-friendly ticketing service, which turns the mobile phone into a passenger information service, a payment means and a transport ticket. This mobile-phone ticketing service is operational and ready to be launched in the Nice Côte d'Azur Agglomeration.

Strengthening expertise in biodiversity with the launch of the "Mathematical Biodiversity Modeling" Chair

Veolia Environnement is fully committed to programs to preserve biodiversity, particularly in regions where it operates, and therefore wished to strengthen its expertise by joining forces with the prestigious French Engineering School, École Polytechnique, the French National Museum of Natural History and the École Polytechnique Foundation, to create the international "Mathematical Biodiversity Modeling" teaching and research chair.

The chair was created on June 17, 2009 by a public-private partnership in which the Museum and École Polytechnique will supply outstanding teams of researchers and teachers. Veolia Environnement will contribute funding and technical expertise, and the École Polytechnique Foundation will provide its experience in industrial relations and assistance in project management. Working from an international perspective, the aim of the chair is to develop a synergy between applied mathematics, ecology, biodiversity and evolution in both research and teaching.

Ultimately, the goal is to put in place and support an innovative, topical project with a strong scientific, social and economic impact. Taking a multidisciplinary approach to modeling ecosystems, such a project will address key environmental issues, such as adaptive evolution, spatial colonization and ecological niches, as well as analyze the dynamics of communities and build biodiversity scenarios.

For this approach, suitable new mathematical tools will have to be created. One of the main objectives is to develop new probabilistic models of evolution along with the relevant statistical tools to better take into account the interactions and diversity of the scales of the different ecosystems and make it possible to predict their dynamics. The impact of spatial or temporal variability in the environment on the growth and survival of a population will be studied, and random models for species abundance and displacement will be developed. Collaboration between the French National Museum of Natural History and Veolia Environnement will enable these models to be compared with the scientific literature and field data, as well as with more operational situations.

Development of an automated sorting system

Sorting is a strategic stage in waste management, particularly 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&I activities focus on automating sorting centers, whether for waste presorted by households or bulk non-hazardous industrial waste. By improving the quality of sorting activities, automation increases material recycling opportunities.

In 2007, Veolia Propreté developed and patented an innovative procedure, the Self-Adapting Sequential Sorting process (*Tri Séquentiel Auto Adaptif*, TSA). Thanks primarily to an algorithm which guides the sorting machine based on the waste flow composition, this process enables several categories of objects to be sorted by a single sorting machine. As the feasibility of this system had been demonstrated, industrial pilot studies were launched in April 2008.

Following validation in 2009, the TSA 2 system can now be rolled-out and twenty installations are already planned for 2011. It enables multi-task sorting machines allowing more efficient, detailed and extensive sorting of plastic materials in particular. The process therefore enables the recovery of more used materials and increases the efficiency of sorting centers by close to 10%. Overall, TSA 2 therefore enables a reduction in recycling costs, which is fundamental to developing new competitive recovery outlets.

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.

Waste-to-energy biomethane production

With strong demographic growth and the concentration of populations in urban areas, waste recycling is an environmental priority which Veolia Environnement Group has decided to tackle. Currently, with the increase in energy needs and the decrease in fossil fuels, Veolia Propreté is searching for solutions to replace fossils with new fuels produced from waste, thereby contributing to reducing greenhouse gas emissions.

In an energy production context, performance optimization and the diversification of biogas recovery methods at non-hazardous waste landfill sites form part of the research programs undertaken by Veolia Environnement.

In 2009, Veolia Propreté Ile-de-France successfully brought online the first French biomethane fuel production plant using biogas produced at the Claye-Souilly non-hazardous waste landfill site (Seine et Marne).

Eight light vehicles and a household refuse collection truck, fitted with NGV (Natural Gas Vehicle) engines, now fuel up on Méth'OD® (100 methane of waste origin) directly at the Veolia Propreté Claye-Souilly site.

This new waste-to-energy process for biogas produced at non-hazardous waste landfill sites complements the existing waste-to-energy installations at the Claye-Souilly site, which produce electricity equivalent to the electricity consumption (excluding heating) of a town with a population of 228,000.

The development opportunities for this research program are substantial, given the quantity of methane produced by installations operated by Veolia Environnement around the world. This project enables the direct recovery of biogas, either as fuel for use by vehicles offloading their waste, or by Veolia Transport bus fleets, or as biomethane for reinjection into the natural gas transportation and distribution network.

Improving living conditions and the quality of indoor air

Improving the health and living conditions of populations is one of the major challenges underpinning Veolia Environnement R&I activities. According to the World Health Organization, 30% of diseases are due to air and water pollution.

With the concentration of populations and activities in urban areas, the Veolia Environnement research teams are focusing increasingly on the problems associated with the quality of inside air. Numerous pollutants exist in the air inside residential accommodation, where the air is often more polluted than outside.

In 2009, R&I activities produced, in particular, more reliable tools to measure air quality. The Limay research center developed a special-purpose metering system (measurement model) which pushed forward advances achieved in 2008 by optimizing and validating the "Inside Air Quality" pilot study. Researchers thereby improved their ability to measure the efficiency of certain air treatment filters.

11.2 PATENTS AND LICENSES

See Chapter 6, Section 6.2.5 above (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 2009 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 its 2009 annual results on March 5, 2010 (see Section 12.2 below).

12.2 RECENT DEVELOPMENTS

Veolia Environnement

The Company published a press release presenting its annual results for 2009 on March 5, 2010.

On March 12, 2010, the Groupe Industriel Marcel Dassault (GIMD) disclosed in accordance with articles L.233-7 and L.233-9 I 4° of the French Commercial Code (*Code de Commerce*) that, on March 11, 2010, it surpassed the threshold of 5% of the stock and voting rights of Veolia Environnement, directly and indirectly *via* the company DBA that it controls. It also now holds, directly or indirectly, 24,712,654 shares in Veolia Environnement representing the same amount of voting rights, *i.e*. 5.01% of the stock and voting rights of the Company.

The Group's post-closure events can be found in note 42 to the consolidated financial statements and address the Group's recent developments regarding Veolia Propreté, Veolia Eau and Dalkia (see below), as well as preliminary notice of payment of back taxes from the American tax authorities.

On March 24, 2010, the Company published press releases about the changes to its Board of Directors that will be proposed at the general shareholders' meeting to be held on May 7, 2010. The Board of Directors decided to seek approval for the appointment of new Directors: Antoine Frérot, Chief Executive Officer of Veolia Environnement, and GIMD represented by its Vice-Chief Executive Officer, Olivier Costa de Beauregard. It will further be proposed to create a censor office, to be entrusted to Thierry Dassault.

Veolia Environnement welcomes the entry of GIMD to its capital, which strengthens its long-term shareholder base and constitutes a responsible and involved commitment to support the Company in the implementation of it strategy.

At its meeting held on March 24, 2010, the Board of Directors noted GIMD's undertaking to maintain its shareholding stake at 5% of the stock and voting rights of Veolia Environnement for a five-year period.

As a consequence, it decided to seek approval at the general shareholders' meeting for the appointment of a Director and a censor among the candidates proposed by GIMD. It was further decided to appoint GIMD as a member of the Nominations and Compensation Committee and the Audit Committee of Veolia Environnement, subject to its appointment as a Director of the Company at the general shareholders' meeting.

GIMD's undertaking to maintain its stake in Veolia Environnement will end if it ceases to hold the corporate governance roles detailed above.

The Board of Directors will further propose at the general shareholders' meeting to be held on May 7, 2010 to renew Daniel Bouton, Jean-François Dehecq, Paul-Louis Girardot, Serge Michel et Georges Ralli in their term of office as Directors, as well as the appointment of Antoine Frérot, Chief Executive Officer of the Company, the ratification of the co-option of Esther Koplowitz and her appointment as Director of the Company.

Finally, Henri Proglio has informed the Board of his intention to retire from his office as Chairman of the Board by the end of the year.

Veolia Eau

On February 3, 2010, the protocol signed with Lyonnaise des Eaux on December 19, 2008 was amended to organize the redistribution of the joint subsidiaries of Veolia Eau-CGE and Lyonnaise des Eaux France. As a result, Veolia Eau increased its control of the Société des Eaux de Marseille and of the Société des Eaux d'Arles. The redistribution of the joint subsidiaries was completed on March 22, 2010. In 2009, the entities redistributed to Lyonnaise des Eaux contributed €150 million to the income of ordinary activities of the Group and the entities redistributed to Veolia Eau contributed €136 million.

Veolia Propreté

The operating contract for the Miami-Dade incineration plan was transferred in February 2010 to Covanta Holding Corporation, completing the sale of Veolia Propreté's portfolio of North American incineration contracts performed in July 2009 and encompassing management and maintenance contracts for seven sites.

In February 2010, following a call for tenders, Veolia Propreté renewed its recycling and waste management contract with the City of Westminster in London. This seven-year contract will commence in September 2010 and includes an extension option for a further seven years. It will generate cumulated revenue over seven years of approximately €298 million.

Dalkia

In line with its development strategy focusing on the biomass sector in France, Dalkia was selected at the end of January 2010 for seven projects for combined heating and electrical power plants fired by biomass (CR3).

As part of the strategic repositioning of Dalkia in the Czech republic, Dalkia signed an agreement on January 5, 2010 for the acquisition of the entire share capital of Energy.As, which manages the industrial utilities of the OKD mining group. This transaction is currently awaiting approval by the anti-trust authorities.

Veolia Transport

In the French overseas departments and territories, the Tram'Tiss consortium, comprising the Colas, Bouygues and Veolia Transport groups and various financial partners, was awarded the contract for the financing, construction and operation of the future Reunion Island tram-train. The partnership contract was signed in December 2009 for a period of forty-five years. The planned 40-kilometer line will link the East of the Saint-Denis conurbation and Saint-Paul, for a total estimated cost of €1.5 billion. The entry into effect of the contract is contingent on the presentation by the local authority of its forward-looking financial analyses, integrating any additional resources from the French State. Veolia Environnement is still carrying on discussions regarding the merger of its Transportation Division with Transdev, owned by the Caisse des Dépôts et Consignations and by the RATP (see section 9.1.3 above).

13 Objectives and outlook

In the current economic climate, Veolia Environnement is assuming economic conditions will remain stable compared to the last quarter of 2009.

In this context, the Group plans to continue its profitability improvement policy in 2010, placing once again the priority on generating cash. The Group reaffirms its commitment to generating positive free cash flow after payment of the dividend in 2010 (see Chapter 9, Section 9.2.1 above) and furthermore forecasts an increase in recurring operating income.

In order to attain this objective, the Group confirms the €3 billion asset disposal objective for the period 2009-2011 and will continue its cost-cutting program, increasing it to €250 million for 2010.

Within a period of three to five years, thanks to the turnaround of recent acquisitions, the Group aims to see a greater contribution from assets with a longer payback. Through improving productivity and the asset base, the Group also seeks to increase recurring operating income by an average annual rate of 4% to 8%, depending on the economic situation, with a target after-tax ROCE (return on capital employed) of between 9% and 10%. (see Chapter 9, Section 9.4 above).

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 fifteen members.

The corporate offices held by directors, as shown in the list below, are current as of January 31, 2010.

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Henri Proglio Age: 60 Date of first appointment: April 30, 2003 Reappointed: May 7, 2009 Term of office expires: 2013 GM ***Principal position held within the Company:*** Chairman of the Board of Directors of Veolia Environnement since 11/27/2009	***In France:*** • Chairman and Chief Executive Office of Electricité de France (EDF) (since November 25, 2009); • Director of Natixis; • Director of CNP Assurances; • Director of Dassault Aviation; • 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; • Member of the Supervisory Board of Veolia Eau; • Member of the Atomic Energy Committee; • Member of the National Committee on Business Sectors of Vital Importance • Member of the High Committee for Transparency and Information on Nuclear Safety. ***Outside France:*** • Director of Veolia Environnement North America Operations; • Director of Edison; • Chairman of the Board of Directors of Transalpina di Energia.	• Chairman and Chief Executive Officer of Veolia Environnement (until November 27, 2009); • Director and Chairman of the Board of Directors of Veolia Water until 11/27/2009; • Director of Veolia Environnement UK (United Kingdom) until 11/27/2009; • Director of Veolia Environmental Services North America until 10/19/2009; • Director of Veolia Environmental Services Australia until 11/27/2009; • Director of Veolia Transport Australasia until 10/19/2009; • Director of Veolia Transport Northern Europe until 09/02/2009; • Director of Veolia Environmental Services UK until 11/27/2009; • Chairman of Campus Veolia Environnement until 11/27/2009; • Member and Chairman of the Supervisory Board of Eolfi from 04//06/2009 to 11/27/2009; • Member of the Supervisory Board of Lagardère until 11/16/2009; • Censor of the Supervisory Board of the Caisse Nationale des Caisses d'Épargne until 07/31/2009; • Manager of Veolia Eau – Compagnie Générale des Eaux until 11/27/2009; • Director of Siram until 11/27/2009; • Director of SARP Industries until 10/19/2009; • Director of Société des Eaux de Marseille until 11/27/2009; • Chairman of the Supervisory Board of Dalkia France until 11/27/2009; • Director of Dalkia International until 11/27/2009; • Member of the Supervisory Board of Natixis; • Director of Thales; • Director of EDF International; • 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 SARP; • Director of B 1998 SL and FCC (Spain);

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
		• Director of Onyx UK Holdings (United Kingdom); • Director of SAFISE; • Director of WASCO (formerly US Filter, United States); • Director of Casino, Guichard-Perrachon; • Member of the supervisory board of CNP Assurances.
Louis Schweitzer Age: 67 Date of first appointment: April 30, 2003 Reappointed: May 7, 2009 Term of office expires: 2011 GM* ***Principal position held within the Company:*** Director of Veolia Environnement; Vice-Chairman of the Board of Directors since November 27, 2009; Member of the nominations and compensation committee since April 30, 2003	***Principal position held outside the Company:*** • Chairman of the Board of Directors of Astra Zeneca (United Kingdom). ***Other corporate offices and positions held in any company:*** **In France:** • Chairman of the National Authority against Discrimination and for Equality ("HALDE") until March 8, 2010; • Director of BNP Paribas and 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 Quai Branly Museum, the National Political Science Foundation and the IFRI; • Chairman of the Board of Directors: Société des Amis du Musée du Quai Branly, Festival d'Avignon, maison de la culture M.C 93. ***Outside France:*** • Chairman of the Board of Directors of AB Volvo (Sweden); • Member of the advisor board of Allianz (Germany).	• Chairman and Chief Executive Officer of Renault until 2005 then Chairman of the Board of Directors of Renault until May 6, 2009; • Chairman of Medef International; • Chairman of the management board of Renault-Nissan BV; • Director of Renault Crédit International Banque; • Director of Électricité de France; • Vice Chairman of the Supervisory Board of Philips (The Netherlands); • Member of the Board of Directors of the Musée du Louvre.
Jean Azéma Age: 57 Date of first appointment: April 30, 2003 Reappointed: May 7, 2009 Term of office expires: 2011 GM* ***Principal position held within the Company:*** Director of Veolia Environnement	***Principal position held outside the Company:*** • Chief Executive Officer of Groupama SA. ***Other corporate offices and positions held in 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; • Vice-Chairman of the Board of Directors of Banque Postale Assurances IARD; • Chairman of the Fédération Française des Sociétés d'Assurance Mutuelle (FFSAM); • Deputy 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 Groupama SA to SCI Groupama les Massues; • Member of the supervisory board of Mediobianca.

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Daniel Bouton Age: 59 Date of first appointment: April 30, 2003 Reappointed: 05/11/2006 Term of office expires: 2010 GM ***Principal position held within the Company:*** Director of Veolia Environnement; Member of the nominations and compensation committee since April 1, 2005; Member of the accounts and audit committee since November 2, 2009 and Chairman of this Committee since January 1, 2010.	***Principal position held outside the Company:*** • Chairman of DMJB Conseil; • Senior Advisor of Rothschild & Cie Banque. ***Other offices and positions held with any company:*** • Director of Total SA.	• Chief Executive Officer and Chairman of the Board of Directors of Société Générale; • Member of the supervisory board of Vivendi Environnement; • Director of Arcelor; • Director of Schneider Electric SA.
Jean-François Dehecq Age: 70 Date of first appointment: May 11, 2006 Term of office expires: 2010 GM ***Principal position held within the Company:*** Director 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 Strategic Investment Fund Orientation Committee; • Director of Air France-KLM; • Director of the National Research Agency; • Chairman of the National Technical Research Association; • Member of the French Epilepsy Research Foundation; • Chairman of the Board of ENSAM (Ecole Nationale Supérieure des Arts et Métiers); • Chairman of the General Assemblies of Industry. ***Outside France:*** • Board member of the 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); • Member of the French Board of INSEAD; • Vice Chairman and Chief Executive Officer of Sanofi-Aventis; • Director of Finance et Management; • Director of Société Financière des Laboratoires de Cosmétologie Yves Rocher; • Member of the supervisory board of the Industrial Innovation Agency; • Governor of the Board of the American Hospital in Paris.

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Pierre-André de Chalendar Age: 51 Date of first appointment: May 7, 2009 Term of office expires: 2011 GM* ***Principal position held within the Company:*** Director of Veolia Environnement; Member of the accounts and audit committee since May 7, 2009	***Principal position held outside the Company:*** • Chief Executive Officer of Compagnie de Saint-Gobain. ***Other offices and positions held with any company:*** **In France**: none **Outside France:** • Director of Saint-Gobain Corporation; • Director of SG Distribution Nordic AB (Saint-Gobain Group).	• Assistant Chief Executive Officer of Compagnie de Saint-Gobain; • Director of SG Aldwych and of BPB.
Augustin de Romanet de Beaune Age: 48 Date of first appointment: March 29, 2007 Reappointed: May 7, 2009 Term of office expires: 2013 GM ***Principal position held within the Company:*** Director 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; • Permanent representative of Caisse des dépôts et consignations; • Director of CNP and Icade; • Director of CDC Entreprises SAS and FSI PME-Portefeuille; • Member of the CNP Strategy Committee and Compensation and Appointments Committee. **Outside France:** • Director, member of the Dexia Strategy Committee and member of the Dexia Compensation and Appointments Committee.	• Deputy finance and strategy manager and member of the executive committee of the Crédit Agricole SA Group (October 2006-March 2007); • Deputy secretary general of the Presidency of the Republic under Jacques Chirac (2005-2006); • Deputy chief of staff for Prime Minister Jean-Pierre Raffarin (2004-2005); • Permanent representative of CDC, member of the supervisory board of CNP (March-July 2007); • Permanent representative of CDC, director of Icade (April-November 2007); • Director, Member of the Accor Strategy Committee and Compensation and Appointments Committee (May 2007 to February 2009).
Jean-Marc Espalioux Age: 58 Date of first appointment: April 30, 2003 Reappointed: May 11, 2006 Term of office expires: 2010 GM ***Principal position held within the Company:*** • Director of Veolia Environnement • Member of the accounts and audit committee since April 30, 2003; • Member of the strategy, 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; • Advisor to Permira (investment fund). ***Other offices and positions held with any company:*** • Director of Air France – KLM; • Member of the supervisory board of Homair Vacances; • Member 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 the Accor Group; • Chairman of the supervisory board of Lyparis (Go Voyages).

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Paul-Louis Girardot Age: 76 Date of first appointment: April 30, 2003 Reappointed: May 11, 2006 Term of office expires: 2010 GM ***Principal position held within the Company:*** Director of Veolia Environnement Member of the accounts and audit committee since April 1, 2005 Member of the strategy, 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 Société des Eaux de Marseille; • Member of the supervisory board of Compagnie des Eaux et de l'Ozone; • Deputy 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).
Esther Koplowitz First appointment: January 1, 2010 (to replace Murray Stuart, pursuant to a decision of the Board of Directors on December 17, 2009 and subject to ratification by the OGM) Term of office expires: 2010 GM ***Principal position held within the Company:*** Director of Veolia Environnement	***Principal position held outside the Company:*** • President of the Esther Koplowitz Foundation. • Vice Chairman of the Board of Directors of F.C.C (representing B-1998, SL); ***Other offices and positions held with any company:*** • Chairman of the strategic committee of F.C.C; • Chairman of the Board of Directors of B-1998, SL (company owning 53,9% of the F.C.C.'s share capital); • Vice Chairman of the Board of Directors of Portland Valderrivas Cement (Spain); • Member of Board of Directors of Waste Recycling Group (United Kingdom); • Member of the supervisory board of ASA Abfall Service AG (Austria); • Member of the supervisory board of Alpine Holding GmbH (Austria).	• Member of the supervisory board of Giant Cement Holding Inc. (United States) until September 2008.
Philippe Kourilsky Age: 67 Date of first appointment: 4/30/2003 Reappointed: May 7, 2009 Term of office expires: 2013 GM ***Principal position held within the Company:*** Director of Veolia Environnement; Chairman of the strategy, research, innovation and sustainable development committee since September 14, 2006	***Principal position held outside the Company:*** • Professor at the Collège de France; • Member of the Science Academy. ***Other offices and positions held with any company:*** • Chairman of the Singapore Immunology Network.	• Managing director of Institut Pasteur; • Director of Institut Curie; • Director of Institut Pasteur of Lille; • Director of 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 the International College of Philosophy

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Serge Michel Age: 83 Date of first appointment: April 30, 2003 Reappointed: May 11, 2006 Term of office expires: 2010 GM ***Principal position held within the Company:*** Director 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 SAS CIAM; • Chairman of SAS Carré des Champs-Élysées; • Chairman of SAS Gastronomique de l'Étoile; • Chairman of SAS Groupe Epicure; • 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 1, Eiffage SA, LCC SA and Infonet Services.	• Director of VINCI until February 2007; • Director of SOGEA; • Director of STBB; • Member of the supervisory board of G+H Montage (Germany); • Chairman of the supervisory board of SEGEX.
Baudouin Prot Age 58 Date of first appointment: April 30, 2003 Reappointment: May 7, 2009 Term of office expires: 2011 GM* ***Principal position held within the Company:*** Director 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.

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Georges Ralli Age 61 Date of first appointment: April 30, 2003 Reappointed: May 11, 2006 Term of office expires: 2010 GM ***Principal position held within the Company:*** Director of Veolia Environnement	***Principal positions held outside the Company:*** • Deputy Chairman and member of Lazard Group LLC (United States); • Co-chairman of the European Investment Banking Committee of Lazard Group LLC (United States); • Member of the European Advisory Board of Lazard (United States); • Chief Executive of European Investment Banking Business of Lazard Group LLC (United States); • Chairman of Maison Lazard; • Executive Vice-President and managing partner of Lazard Frères SAS; • Managing Partner of Compagnie Financière Lazard Frères SAS and of Lazard Frères SAS. ***Other offices and positions held with any company:*** ***In France:*** • Director of VLGI; • Director of Chargeurs; • Director of Silic; • Censor of Eurazeo; • Member of the supervisory board of Bazile Telecom (as from December 2009). ***Outside France:*** • Member of the executive committee of Lazard Strategic Coordination Company LLC (United States); • Director of Lazard & Co. Srl (Italy); • Director of Lazard Investments Srl (Italy).	***In France:*** • Vice President and Executive Director of Compagnie Financière Lazard Frères SAS (until 10/01/2009); • Vice President and Executive Director of Lazard Frères SAS (until 10/01/2009); • Chairman, Chief Executive Officer and Director of Lazard Frères Banque (until 10/14/2009); • Director of Fonds Partenaires Gestion (until 09/30/2009); • Managing general partner (associé commandité gérant) of Partena (SCS); • Managing Partner of Maison Lazard SAS. ***Outside France:*** • Director of Crédit Agricole Lazard Financial Products Limited (United Kingdom). • Director of Crédit Agricole Lazard Financial Products Bank (United Kingdom).
Paolo Scaroni Age 63 Date of first appointment: 12/12/2006 Reappointed: May 7, 2009 Term of office expires: 2013 GM ***Principal position held within the Company:*** Director 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).

GM = general shareholders' meeting convened to vote on the financial statements for the past year.

** As part of the implementation of the reduction to four years of the directors' term of office, Baudouin Prot, Pierre-André de Chalendar, Jean Azéma and Louis Schweitzer, were appointed or reappointed for a term of four years during the general meeting of May 7, 2009, then selected randomly for resignation upon expiration of a term of office of only two years, i.e. until the close of the annual general meeting that votes on the financial statements for the 2010 fiscal year.*

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 1972 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 was Chief Executive Officer from April 2003 to November 27, 2009, on which date he was appointed Chairman of the Board of Directors of Véolia Environnement following his appointment as Chairman and Managing Director of Electricité de France (EDF) by decree of the President of France issued during the Ministerial Council meeting of November 25, 2009.

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. Louis Schweitzer did not wish to seek the renewal of his term of office as Director of Renault during the annual general meeting held on May 6, 2009. He was appointed Vice Chairman of the Veolia Environnement Board of Directors on November 27, 2009.

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. He was appointed to the position of Chairman of the Board of Directors of Société Générale in May 2008, then resigned from his duties of Director and President of the bank in May 2009. In November 2009, Daniel Bouton incorporated a consulting company, DMJB Conseil, of which he is the President.

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, organized the Sanofi-Aventis merger. Since 2007, Jean-François Dehecq is the Chairman of the Board of Directors of Sanofi-Aventis.

Pierre-André de Chalendar as a graduate of ESSEC and the École nationale d'administration (ENA). He holds the rank of Government Finance Inspector. In November 1989 he joined Compagnie de Saint Gobain where he held various positions, before being appointed Deputy Chief Executive Officer in May 2005, Director in June 2006 then Chief Executive Officer of Compagnie de Saint Gobain since June 2007.

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 the Economy and Finance, and then 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 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 Veolia Environnement'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.

Esther Koplowitz (Marquise de Casa Peñalver) is the President of the Esther Koplowitz Foundation, which she created herself. Exclusively financed by contributions from its founder, the Esther Koplowitz Foundation is intended, firstly, to provide social and healthcare assistance to seniors, to the physically and mentally handicapped, to minors, and to people with problems of social integration or threatened with exclusion for physical, social or cultural reasons and, secondly, to support research. Since the time of its creation, the Esther Koplowitz Foundation has donated more than €100 million, mainly devoted to building and fitting out homes for the elderly and underprivileged suffering from severe physical or mental handicaps (seven centers) and to the creation of a the Esther Koplowitz Biomedical Research Center (CIBEK by its French acronym), which aspires to set the standard in its field in Spain. In recognition of her commitment to the social and humanitarian sectors and to research funding, Mrs. Koplowitz, a Spanish business leader, has won numerous awards, including the Grand Cross of Civil Merit from the Spanish government, the Golden Cross of the Civil Order of Social Solidarity, from Her Majesty the Queen of Spain, the Blanquerna Prize, from the regional government of Catalonia, the Arms of the City of Barcelona, the title of Honorary Citizen of the City of Valencia; the Silver Medal of the Valencian Council of Culture; the Gold Medal of the Regional Community of Madrid; the Grand Cross of Health of Madrid; the *Imserso Infante Cristina* Prize for Social Merit in 2008; the Gold and Diamond Insignia of the Foundation of the Orphans of the Spanish National Police Force; the Montblanc Prize for the best company manager of 2004; and, finally, the *Business Leader of the Year* Award, granted by the US-Spain Chamber of Commerce in 2007. Member of the supervisory board of Veolia Environnement from 2000 to 2002, Mrs. Koplowitz is also vice-Chairman of the board of directors, Chairman of the strategic committee and majority shareholder of the Spanish company Fomento de Construcciones y Contratas (FCC) specializing in environmental services, renewable energies, infrastructures and cement. She is also Vice-Chairman of the board of directors of Cementos Portland Valderrivas, member of the board of directors of WRG (U.K.), ASA (Austria) and Alpine (Austria), as well as Chairman of the board of directors of B-1998, S.L. For several years now, Veolia Environnement and F.C.C. have jointly held a subsidiary, Proactiva Medio Ambiente S.A., present in Latin America.

Philippe Kourilsky is a graduate of the École Polytechnique, and holds a doctorate in sciences from the University of Paris. He has devoted his career to life sciences research. He has held numerous management positions in the public and private research sectors, and in particular was the Director of Research at the CNRS and Director General of the Institut Pasteur from 2000 to 2005. Philippe Kourilsky is currently a professor at the Collège de France, a member of the Académie des Sciences and holds honorary doctorates from several 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.

Baudouin 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 to the prefect of the Franche-Comté region, financial controller in the Treasury department and deputy to the energy and raw materials director general in 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). Since 2006, he has been the Co-Chairman of the European Investment Banking Committee of the Lazard Group LLC (United States) and a member of the European Advisory Board. He was head of the Maison française from 2006 to 2009. He currently manages the European M&A activities (Chairman of Maison Lazard) and Asset Management activities (President of Lazard Frères Gestion).

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.

14.2 CHIEF EXECUTIVE OFFICER

Duties exercised

	Main duties exercised outside of the Company – Other mandates	Other professional references and activities during the past five years
Antoine Frérot 51 years old First appointed: 27 November 2009 Term office expires: 2013 General Meeting ***Main duties exercised in the Company:*** Chief Executive Officer of Veolia Environnement (non-director)	***In France :*** • Manager of Veolia Eau – Compagnie Générale des Eaux; • Chairman of the Board of Directors of Veolia Water since 11/27/2009; • Member and Chairman of the supervisory board of Eolfi; • Director of Veolia Propreté; • Director of Veolia Transport; • Member of the supervisory board of Dalkia France; • Member and Chairman of the supervisory board of SETDN; • Director of SARP; • Director of Sade CGTH; • Director of Société Monégasque des Eaux; • Member and Chairman of the supervisory board of CEO; • Director of CEP Ports; • Standing representative of Veolia Eau-Compagnie Générale des Eaux on the board of directors of Société des Eaux of Marseille; • Standing representative of Veolia Eau-Compagnie Générale des Eaux to the board of directors of Proxiserve Holding; • Chairman of Campus Veolia Environnement. ***Outside France:*** • Director of Veolia Environmental Services North America.	• Director of Wasco (ex US Filter); • Director of Sede Environnement; • Director and Chairman of the board of directors of VWST until 12/07/2009; • Member of the supervisory board of SARP; • Standing representative of Sud Cars to the board of directors of VE Airport; • Chief Executive Officer of Veolia Water until 11/27/2009.

Personal information about the Chief Executive Officer

Born on 3 June 1958 in Fontainebleau, France, Antoine Frérot graduated from the engineering institute École polytechnique in 1977, as an engineer of the "Corps des Ponts et Chaussées" with a Ph.D in Engineering from the "École nationale des ponts and chaussées".

He started his career in 1981 as an engineering researcher at the Central Research Office for French Overseas Departments and Territories. In 1983, he joined the Center of Study and Research of the École nationale des ponts and chaussées as project manager and then become assistant director from 1984 to 1988. From 1988 to 1990, he was in charge of financial operations at Crédit National. In 1990, Antoine Frérot joined Compagnie Générale des Eaux as an official representative and, in 1995, became Chief Executive Officer of CGEA Transport. In 2000, he was appointed Chief Executive Officer of CONNEX, the Transportation Division of Vivendi Environnement, and member of the executive committee of Vivendi Environnement. In January 2003, Antoine Frérot was appointed Chief Executive Officer of Veolia Eau, the Water Division of Veolia Environnement, and executive vice president of Veolia Environnement. Since November 2009, he has been the Chief Executive Officer of Veolia Environnement.

14.3 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 interest 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*) concerning regulated agreements, the Board of Directors' internal rules and regulations provide that directors must inform the Board of Directors of any existing or potential conflict of interests and abstain from voting in any situation where such a conflict of interest exists. No service contract providing for benefits to be granted in the event such contract is terminated exists between a director or the Chief Executive Officer and the Company or its subsidiaries.

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 EXECUTIVE CORPORATE OFFICERS

Total compensation paid in the 2009 fiscal year to Executive Corporate Officers and other corporate officers by the Company and by controlled companies, within the meaning of Article L. 233-16 of the French Commercial Code, is detailed hereinafter.

At its meeting of January 7, 2009, the Board of Directors of Veolia Environnement became aware of the consolidated version of the AFEP-MEDEF code of December 2008 concerning *inter alia* the compensation of Executive Corporate Officers of listed companies. It confirmed that Veolia Environnement uses that corporate governance code as a reference. The 2009 reference document and, specifically, the tables in section 15.1 hereinafter and in Chapter 17, sections 17.3 and 17.4 below (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. Rules and Principles Adopted by the Board to determine Compensation paid to Executive Corporate Officers

Principles and criteria used to determine fixed and variable components of the compensation of the Chairman and Chief Executive Officer before the separation of the offices of Chairman of the Board and Chief Executive Officer (on November 27, 2009)

In accordance with the recommendation of the nominations and compensation committee, at its meeting held on March 24, 2010, the Board of Directors decided to keep the fixed portion of the compensation paid for the 2009 fiscal year to Mr. Henri Proglio, in his capacity as the Company's Chairman and Chief Executive Officer, at the same level as for 2008 and 2007, i.e., €992,000.

In accordance with the recommendation of the nominations and compensation committee, at its meeting held on December 17, 2009, the Board of Directors decided (i) that the fixed portion of the compensation paid to Mr. Henri Proglio for the performance of his duties as the Company's Chairman and Chief Executive Officer, would be prorated until the effective date of his appointment as Chairman of the Board of Directors, but (ii) that the variable portion of his compensation for the performance of his duties as the Company's Chairman and Chief Executive Officer would be calculated over the entire 2009 fiscal year.

The method adopted for calculating the variable portion of the compensation of the Company's Chairman and Chief Executive Officer for the 2009 fiscal year is in accordance with a proposal made by the nominations and compensation committee. Accordingly, since the 2003 fiscal year, the variable portion of the Chairman and Chief Executive Officer's compensation has been divided into a quantitative portion of 70%, based on the satisfaction of various performance criteria set beforehand by the Board of Directors, and a qualitative portion of 30% determined by the Board of Directors.

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.

Variable compensation for 2009: In accordance with the proposals of the nominations and compensation committee, at its meeting held on March 24, 2009, the Board of Directors decided to modify the criteria that had been used in 2008 to determine the quantitative portion of the Chairman and Chief Executive Officer's variable compensation in order to take into account the Group's objectives and the economic climate. In line with the Group's objectives announced to the market, which were positive free cash flow and operating cash flow after deduction of net investments of €2 billion in 2009, the sole criteria retained was the Group's level of operating cash flow after investments, net of sales.

Applying these criteria, and in light of the fact that the objectives set for the 2009 fiscal year had been exceeded, at its meeting of March 24, 2010, the Board of Directors decided to award Mr. Henri Proglio an amount of €1,202,216 for the quantitative and qualitative portions of his variable compensation for 2009.

Principles applied to determine the compensation of Executive Corporate Officers after the separation of the offices of Chairman of the Board of Directors and Chief Executive Officer (since November 27, 2009)

The policy for determining the compensation of Executive Corporate Officers was changed during the 2009 fiscal year in order to take into account the separation of the offices of Chairman of the Board of Directors and Chief Executive Officer, which occurred on November 27, 2009.

In accordance with a proposal of the nominations and compensation committee, at its meetings held on December 17, 2009 and March 24, 2010, the Veolia Environnement Board of Directors adopted the following compensation principles and provisions:

Chairman of the Board of Directors

In accordance with the recommendation of the nominations and compensation committee, at its meeting held on December 17, 2009, the Board of Directors decided to pay the Chairman of the Board of Directors fixed annual compensation (without a variable component) in the amount of €450,000, as of the time of his appointment, i.e., November 27, 2009. At that meeting, Mr. Henri Proglio decided to waive the directors' fees to which he was entitled as a director.

On January 21, 2010, Mr. Henri Proglio stated that he would henceforth also waive payment of his fixed annual compensation.

Chief Executive Officer

Fixed compensation and benefits

Pursuant to a recommendation of the nominations and compensation committee, at its meeting held on December 17, 2009, the Board of Directors decided to set the Chief Executive Officer's annual fixed compensation at €750,000 as of November 27, 2009, the effective date of his appointment (without any variable portion in that capacity for 2009).

In addition to this compensation, the Chief Executive Officer is entitled to a company car and to social security benefits equivalent to those of employees (sickness, disability). Furthermore, he is eligible for the supplementary defined benefits group pension plan set up in 2006 for category 9 management employees and senior executive management of Veolia Environnement.

Variable compensation for the 2009 and 2010 fiscal years

Pursuant to a recommendation of the nominations and compensation committee, at its meeting held on December 17, 2009, the Board of Directors decided that the variable portion of the Chief Executive Officer's compensation for the 2009 fiscal year would be the variable compensation in connection with his previous position as Chief Executive Officer of the Water Division, calculated over the entire 2009 fiscal year.

The methods used to calculate the variable portion of the Chief Executive Officer's compensation for the 2010 fiscal year, which were adopted by the Board of Directors on March 24, 2010, are discussed at the end of this section 15.1.1.

Total compensation paid to Mr. Henri Proglio for his positions as Chairman and Chief Executive Officer and as Chairman of the Board of Directors

In the 2009 fiscal year, Mr. Henri Proglio was paid compensation totaling €1,509,477. Mr. Proglio received the pro rata share of the fixed portion of his compensation for 2009 for his position as Chairman and Chief Executive Officer (€892,077), as well as the variable portion of his compensation for his position as Chairman and Chief Executive Officer for the 2008 fiscal year, which was paid in 2009 pursuant to a decision adopted by the Board of Directors on March 24, 2009 (€519,188). Lastly, he received in-kind benefits and directors' fees for positions held with the Company and with other companies of the Group.

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, §§ 17.3.2 and 17.4 below.

Table Summarizing Compensation, Options and Shares Granted to Mr. Henri Proglio for the 2008 and 2009 Fiscal Years

(in euros)	**2008 Fiscal Year**	**2009 fiscal year**
Compensation owed for the fiscal year	1,617,207	2,231,790
Value of options granted during the fiscal year	0	0
Value of performance shares granted during the fiscal year	0	0
TOTAL	1,617,207	2,231,790

Table Summarizing Compensation Paid to Mr. Henri Proglio

	2008 Fiscal Year		**2009 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 (for his position as Chairman and Chief Executive Officer)	992,000	992,000	892,077	892,077
Variable compensation (for his position as Chairman and Chief Executive Officer)	519,188 (1)	1,423,020 (2)	1,202,216 (3)	519,188
Fixed compensation (for his position as Chairman of the Board of Directors)	N/A	N/A	39 285	0
Extraordinary compensation	0	0	0	0
Directors' fees				
• Paid by Veolia Environnement	40,000	40,000 (4)	40,000 (4)	40,000 (4)
• Paid by controlled companies (5)	62,969	62,969	55,417	55,417
In-kind benefits (6)	3,050	3,050	2,795	2,795
TOTAL	**1,617,207**	**2,521,039**	**2,231,790**	**1,509,477**

(1) Variable portion for 2008, paid in 2009.
(2) Variable portion for 2007, paid in 2008.
(3) Variable portion for 2009, to be paid in 2010.
(4) Directors' fees paid for his position as director for the fourth quarter of the 2008 fiscal year and the first three quarters of the 2009 fiscal year. Fees for the fourth quarter of the 2009 fiscal year were paid in January 2010.
(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.

Total compensation paid to Mr. Antoine Frérot for his positions as Chief Executive Officer of the Water Division and, as of November 27, 2009, Chief Executive Officer of Veolia Environnement (after separation of the offices of Chairman and Chief Executive Officer)

Pursuant to the principles and criteria adopted by the Board of Directors on December 17, 2009, the Chief Executive Officer's annual fixed compensation was set at €750,000 as of November 27, 2009, the effective date of Mr. Antoine Frérot's appointment (including €68,453 for 2009 paid in 2010).

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, §§ 17.3.2 and 17.4 below.

Table Summarizing Total Compensation, Options and Shares Granted to Mr. Antoine Frérot for the 2009 Fiscal Year

(in euros)	**2009 Fiscal Year**
Total compensation owed for the fiscal year	858,970
Value of options granted during the fiscal year	0
Value of performance shares granted during the fiscal year	0
TOTAL	858,970

Table Summarizing Compensation Paid to Mr. Antoine Frérot

	2009 Fiscal Year	
	Amounts owed for the fiscal year	**Amounts paid during the fiscal year**
Fixed compensation (for his position as Chief Executive Officer of the Water Division)	389,193 (1)	425,000
Variable compensation (for his position as Chief Executive Officer of the Water Division)	369,200 (4)	184,500 (2)
Fixed compensation for his position as Chief Executive Officer of the Company (as of November 27, 2009)	68,453 (5)	0 (5)
Extraordinary compensation	0	0
Directors' fees		
• Paid by Veolia Environnement	0	0
• Paid by controlled companies (6)	30,144	30,144
In-kind benefits (7)	1,980	1,980
TOTAL	**858,970**	**641 624**

(1) For the period between January 1 and November 26, 2009 inclusive.
(2) Variable portion for 2008, paid in 2009.
(3) Variable portion for 2007, paid in 2008.
(4) Variable portion for 2009, to be paid in 2010.
(5) For the period between November 27 and December 31, 2009.
(6) Directors' fees received for director's positions held with other companies of the Veolia Environnement Group, in France and outside France.
(7) Company car provided.

Compensation of the Chief Executive Officer and Objectives for 2010

In accordance with the recommendation of the nominations and compensation committee, at its meeting held on March 24, 2010, the Board of Directors decided to maintain, for the 2010 fiscal year, the fixed portion of Mr. Antoine Frérot's compensation at the level set in December 2009, i.e., €750,000.

To determine the variable portion of the Chief Executive Officer's compensation for the 2010 fiscal year, the Board of Directors decided to retain the allocation of a quantitative portion of 70% and a qualitative portion of 30%.

In line with the Group's objectives, which were a positive free cash flow after payment of the dividend and increased operating income in 2009, the criteria applied to determine the quantitative portion of the Chief Executive Officer's variable compensation are meeting budgetary objectives concerning (i) first, operating cash flow after deducting net investments, adjusted by the positive or negative change in working capital requirements (weighted at 35%) and (ii) second, the gain in recurring operating income (weighted at 35%).

Details concerning stock subscription or purchase options that may have been granted to and exercised by the Chief Executive Officer during the 2009 fiscal year, as well as the Chief Executive Officer's obligation to keep the shares obtained by exercising the subscription or purchase options, are described in Chapter 17, section 17.3 below.

15.1.2 Total Compensation Paid to Directors[1]

The table below shows the amount of directors' fees paid in 2008 and 2009 to the members of Veolia Environnement's Board of Directors by the Company and by controlled companies.

With the exception of those directors who also hold management positions, 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-management directors)

	Amounts paid during the 2008 fiscal year		**Amounts paid during the 2009 fiscal year**	
Director	**Paid by the Company**	**Paid by controlled companies**	**Paid by the Company**	**Paid by controlled companies**
Jean Azema ***	36,660 *	0	36,660 *	0
Daniel Bouton	50,000	0	50,000	0
Pierre-André de Chalendar	N/A	N/A	20,055 *	0
Jean-François Dehecq	40,000	0	40,000	0
Augustin de Romanet de Beaune ***	40,000	0	40,000	0
Jean-Marc Espalioux	60,000	0	53,320 *	0
Paul-Louis Girardot	60,000	48,337	60,000	48,337
Philippe Kourilsky	60,000	0	60,000	0
Serge Michel	80,000	6,955	80,000	6,763
Baudoin Prot	40,000	0	30,000	0
Georges Ralli	40,000	0	36,660 *	0
Paolo Scaroni	30,500 **	0	40,000	0
Louis Schweitzer	50,000	0	50,000	0
Murray Stuart	91,500 **	0	120,000	0

N/A: Not applicable

* *Net of amounts withheld pursuant to the attendance rules adopted by the Board of Directors (see below).*

** *Net amounts paid after tax withholding. Mr. Murray Stuart resigned from his position as director effective December 31, 2009. He was replaced by Esther Koplowitz, who was temporarily appointed to that position by the Board of Directors on December 17, 2009, effective January 1, 2010.*

*** *At the request of the beneficiaries, the entire amount of directors' fees was paid directly to Caisse des Dépôts et Consignations and to Groupama SA.*

[1] *Non-management directors (mandataires sociaux non dirigeants).*

Total Amount and Distribution of Directors' Fees

Pursuant to a proposal of the Board of Directors, the general shareholders' meeting of May 7, 2009 increased the total amount of directors' fees to €825,000 (amount calculated on the basis of 15 directors) for the 2009 fiscal year. The increase was intended to take into account the specific duties incumbent upon the Board's advisory committees (in particular, the accounts and audit committee), the appointment of an additional director 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. The total amount of directors' fees for the previous year was €770,000.

At its meeting of March 28, 2006, for the 2006 fiscal year, the Board of Directors decided to distribute the total amount as follows: €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, for the 2007 fiscal year, the Board of Directors decided to distribute the amount of directors' fees for the fiscal year, set at €770,000, 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 24, 2009, the Board of Directors decided to maintain this distribution. Therefore, the directors' fees for the 2009 fiscal year were 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, 2010, the Board of Directors decided to maintain the distribution rules described above for the 2010 fiscal year. This distribution arrangement will be reviewed after the general shareholders' meeting of May 7, 2010 based on changes made to the composition of the Board of Directors.

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.

In accordance with a proposal of the nominations and compensation committee, at its meeting held on December 17, 2009, the Board of Directors decided to modify the rules for withholding payment of directors' fees based on the directors' attendance at Board meetings. The new rules apply as of January 1, 2010.

This new system, which is now applied by nearly all CAC 40 companies instead of the system whereby directors' fees are withheld, consists of paying an "attendance bonus". Under the system adopted, each director is paid a fixed portion, equal to one-half of the amount of directors' fees per director, and a variable portion in proportion to actual attendance at Board meetings. Henceforth, the bonus for attendance at each meeting will be calculated by dividing this variable component by the actual number of Board meetings held during the year (participation via means of telecommunication counts as attendance).

15.2 COMPENSATION OF EXECUTIVE MANAGERS WHO ARE CORPORATE OFFICERS (EXECUTIVE COMMITTEE MEMBERS)

All members of the executive committee in office on December 31, 2009 (see Chapter 16, section 16.1.2 below), including Antoine Frérot, in his capacity as Chief Executive Officer of the Water Division (with the exception of Henri Proglio, in his capacity as Chairman and Chief Executive Officer), received aggregate gross compensation of €4,746,062, compared with €5,664,246 in 2008.

The table below shows the aggregate gross compensation paid to the members of the Company's executive committee in 2007, 2008 and 2009, 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.

(in euros)	**Total fixed compensation**	**Total variable compensation**	**Directors' fees paid by Group companies**	**In-kind benefits**	**Total compensation**
Compensation paid in 2007	2,160,041	2,109,478 (1)	203,308	13,910	4,486,737
Compensation paid in 2008	2,860,052	2,576,131(2)	208,545	19,518	5,664,246
Compensation paid in 2009	3,326,648	1,238,406 (3)	158,600	22,408	4,746,062

(1) Variable portion for the 2006 fiscal year, paid in 2007.
(2) Variable portion for the 2007 fiscal year, paid in 2008.
(3) Variable portion for the 2008 fiscal year, paid in 2009.

Contrary to the previous fiscal year, in which profit sharing of €38,416 for 2007 was paid in 2008, no profit sharing for 2008 was paid in 2009.

15.3 RETIREMENT PENSIONS 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 consolidated corporate governance code of December 2008, the Company's Board of Directors at its meeting of December 17, 2009 took note that, effective January 1, 2010, Mr. Antoine Frérot's employment contract, which was suspended on November 27, 2009 when he was appointed Chief Executive Officer of Veolia Environnement, would be terminated. It should be noted that the termination of Mr. Antoine Frérot's employment contract causes him to lose the right under the collective bargaining agreement to receive compensation for his seniority within the Group (over 19 years).

Pursuant to a proposal of the nominations and compensation committee, at its meeting held on December 17, 2009, the Board of Directors decided to award Mr. Antoine Frérot compensation in the event of his termination as Chief Executive Officer, in accordance with the provisions of the "TEPA" Act (Article L. 225-42-1 of the French Commercial Code). Such compensation is conditioned on compliance with performance requirements, and is excluded if he is entitled to **a retirement pension under** the supplementary defined benefits group pension plan set up for the members of the Company's executive committee or if he accepts another position **within the Veolia Environnement Group**. Payment of this compensation is limited to situations of dismissal, non-renewal of his position or "forced departure in connection with a change of control or strategy". In accordance with the AFEP-MEDEF consolidated corporate governance code, the maximum amount of this termination compensation is twice the amount of total annual gross compensation (excluding directors' fees and in-kind benefits), including the fixed portion of compensation for the last fiscal year ("Fixed Portion") and the average variable portion of compensation ("Variable Portion") paid for the last three fiscal years ended before the termination of the Chief Executive Officer ("Reference Compensation"). The amount and the fixed and variable components of this termination compensation both depend on meeting the performance objectives applied to calculate his annual variable compensation. The amount of this termination compensation is equal to twice the sum of (1) the Variable Portion of his Reference Compensation (the average of the last three fiscal years) and (2) the Fixed Portion of his Reference Compensation (last fiscal year), adjusted by a "Performance Rate" equal to the average percentage of the target bonus (also called "base bonus" or meeting 100% of annual objectives) met over the last three fiscal years ended before the termination of his position. In the event that Mr. Antoine Frérot is terminated as Chief Executive Officer before it is possible to calculate the Reference Compensation or the average Performance Rate over the last three fiscal years ended, these indicators will be calculated over the last one or two fiscal years, as the case may be, ended before the date of Mr. Antoine Frérot's termination as Chief Executive Officer.

Moreover, the Company and its subsidiaries do not book provisions or record any amount for purposes of paying pensions, retirement or other benefits to the members of the Board of Directors listed in section 14.1, with the exception of the Chairman of the Board of Directors in connection with his former position as Chairman and Chief Executive Officer.

Supplementary defined premiums group pension plan

In the 2009 fiscal year, Mr. Henri Proglio, in his capacity as Chairman and Chief Executive Officer, and Mr. Antoine Frérot, in his capacity as Chief Executive Officer, were beneficiaries of the supplementary defined premiums group pension plan that covers all of the Group's executive managers. In connection with the change in his position as Chairman and Chief Executive Officer, Mr. Henri Proglio ceased to be a member of this plan during the 2009 fiscal year. As a result of the termination of Mr. Antoine Frérot's employment contract effective January 1, 2010, Mr. Frérot ceased being a member of the plan on that date.

In 2009, under this supplementary defined premiums group pension plan, Veolia Environnement paid a premium of €8,005 on behalf of the Chairman and Chief Executive Officer and a premium of €9,606 on behalf of the Chief Executive Officer.

Supplementary defined benefits group pension plan

Starting in the 2006 fiscal year, the Company set up a supplementary defined benefits group pension plan for the members of the Company's executive committee (salaried category 9 management employees, including corporate officers who are parties to a suspended employment contract), 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 loss of 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 (a 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);
- Salaried management employees and senior executive management acquire a potential right to an annual retirement pension calculated as a percentage of their reference compensation up to an amount equal to 60 times the annual Social Security maximum;
- In accordance with legal requirements, the benefits of this supplementary group pension plan are conditioned on the member's completion of his career, whether he is a salaried management employee or holds a senior executive management position with Veolia Environnement.

In March 2009 (approved by the general shareholders' meeting of May 7, 2009), the rules and regulations of this plan were amended following the Company's adoption of provisions bringing it into conformity with the provisions of the AFEP-MEDEF consolidated corporate governance code recommending the termination of the employment contract of the Chairman and Chief Executive Officer. To ensure that the termination of the employment contracts of senior executive management was not detrimental to them, it was decided to amend the rules and regulations governing this plan in order to clarify the eligibility requirements of this supplementary defined benefits group pension plan for senior executive management, whether or not parties to an employment contract.

After obtaining the opinion of the nominations and compensation committee, at its meetings held on October 21 and December 17, 2009, the Board of Directors decided to make additional amendments to the rules and regulations governing the supplementary defined benefits group pension plan in order *inter alia* to include as beneficiaries members who permanently end their professional career after the age of 55 without subsequently engaging in other professional activity in accordance with legal requirements, and to entitle the beneficiaries to choose to defer the payment date of their retirement pension after exercising their retirement rights and to choose between the payment of a survivor's pension to the surviving spouse and the payment of guaranteed annuities to any person of their choice. Lastly, the annual reference compensation is now based on the average of the three highest years of gross annual compensation from among the last ten years. However, this reference compensation is limited to 60 times the annual Social Security maximum.

In accordance with the provisions of Articles L. 225-38 and L. 225-40 of the French Commercial Code, on the basis of a special report prepared by the statutory auditors, the general shareholders' meeting to be held on May 7, 2010 will be asked to approve these changes to the extent they concern senior executive management.

The amount booked as provisions (cost of services rendered) for this supplementary group pension plan for 2009 is equal to the amount shown as post-employment benefits in note 39 of the notes to the consolidated financial statements (see below).

Mr. Henri Proglio, the Chairman of the Board of Directors, is no longer a member of this group plan. He chose to exercise his retirement rights on November 1, 2009 after having acquired more than 37 years of seniority within the Group. Due to Henri Proglio's very lengthy period of service to the Company and the rights acquired as a result of this seniority, as of this date, the annual amount of his lifetime annuity is estimated to be 37% of his annual reference compensation.

In accordance with the recommendations of the AFEP-MEDEF consolidated corporate governance code, the value of the benefits provided by the supplementary pension plan is taken into account when setting the Chief Executive Officer's total compensation. Furthermore, the group of potential beneficiaries is not limited only to senior executive management, but also includes salaried 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. Thus, in the case of the "specific" plan, which takes into account seniority acquired until December 31, 2002 with the company's principal shareholder (Compagnie Générale des Eaux, which became Vivendi Universal and was thereafter renamed Vivendi), potential rights represent 0.4% of the beneficiary's reference compensation per year of seniority. In the case of the "additional" plan, which takes into account seniority acquired after December 31, 2002, potential rights represent 10% of the beneficiary's reference compensation after five years' seniority, including at least two years' seniority as a member of the Company's executive committee, and then 0.75% of his reference compensation per additional year of seniority. The reference period used to calculate benefits is average compensation calculated over several years and excludes compensation paid at the time of employment termination or retirement, as well as any other type of extraordinary compensation. Lastly, provided he is still with the Company at the time of his departure or retirement in accordance with legal requirements, based on his seniority (over 19 years), at the end of December 2009 the hypothetical annual amount of the lifetime annuity of Mr. Antoine Frérot, the Chief Executive Officer, is equal to 30% of his annual reference compensation.

Summary of the Situation as of December 31, 2009

	Employment contract (1)		**Supplementary pension plan**		**Compensation or benefits owed or likely to be owed in the event of termination or a change of position**		**Compensation pursuant to a covenant not to compete**	
Senior Executive Management	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
Henri Proglio, Chairman Start date of term office: 2009 ordinary general shareholders' meeting - November 27, 2009 End date of term office: 2013 ordinary general shareholders' meeting		X	X (1)			X		X
Antoine Frérot, Chief Executive Officer Start date of term office: November 27, 2009 End date of term office: 2013 ordinary general shareholders' meeting		X (2)	X (3)		X (4)			X

(1) Mr. Henri Proglio is no longer a member, but is still a beneficiary, of the supplementary defined benefits group pension plan set up for the members of Veolia Environnement's executive committee (see Chapter 15.3 above).

(2) Pursuant to a decision adopted by the Board of Directors on December 17, 2009, the employment contract of the Chief Executive Officer, Mr. Antoine Frérot, was terminated effective January 1, 2010.

(3) Mr. Antoine Frérot is a member of the supplementary defined benefits group pension plan set up for the members of Veolia Environnement's executive committee (see Chapter 15.3 above).

(4) Pursuant to a decision adopted by the Board of Directors on December 17, 2009, Mr. Antoine Frérot is entitled to compensation in the event of termination as Chief Executive Officer, in accordance with the provisions of the "TEPA" Act (Article L 225-42-1 of the French Commercial Code) and the AFEP-MEDEF consolidated corporate governance code (see Chapter 15.3 above).

16. Operation of management and supervisory bodies

16.1 OPERATION OF THE BOARD OF DIRECTORS

16.1.1 Composition of the board of directors and Executive Management

Composition of the Board of Directors

As of the date this reference document was filed, the Board of Directors has fifteen members. The list of directors, the expiration date of their terms of office and other personal information about them is set forth in Chapter 14, § 14.1 above.

A change in the composition of the Board of Directors will be proposed to the general shareholders' meeting on May 7, 2010 (see Chapter 12, § 12.2 above)

From among the directors who are individuals, the Board elects a Chairman and, if required, a Deputy Chairman, 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. Each director must own at least 750 registered shares of the Company.

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.

Executive Management

A French *société anonyme* (corporation) with a Board of Directors may choose to separate the duties of the Chairman and the Chief Executive Officer or to have a single person hold these 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.

Since the articles of incorporation were amended on April 30, 2003, thereby converting the Company into a company with a Board of Directors, the Board of Directors had decided that the duties of the Company's Chief Executive Officer would be performed by the Chairman of the Board of Directors. However, on November 2, 2009, the Board of Directors decided, effective November 27, 2009, to separate the positions of Chief Executive Officer and Chairman of the Board of Directors.

The appointment of Mr. Henri Proglio as Chairman and Chief Executive Officer of EDF led the Board to conduct an in-depth review of changes to be made to the Company's governance from October to November 2009. The Board decided that it was in the interest of the Company and its shareholders to maintain continuity and stability vis-à-vis its customers and employees by retaining Mr. Henri Proglio as Chairman of Veolia Environnement.

Deputy Chairman of the Board of Directors (Senior independent director)

On October 21, 2009, the Board of Directors decided to create the position of Deputy Chairman to assist the Chairman in carrying out his duties of ensuring the proper functioning of the Company's governance bodies, along the lines of a British senior independent director. In accordance with the Board's internal rules and regulations, the Deputy Chairman is appointed from among the directors considered to be independent, for the duration of his term of office as an independent director. The Board appointed Louis Schweitzer, an independent director, to this position of Deputy Chairman, effective November 27, 2009.

16.1.2 Corporate governance code

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 committee and the nominations and compensation committee, 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 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 of December 8, 2008 that transposed the eighth directive on statutory audits of corporate financial statements into French law (see § 16.1.7.1 below).

At its meeting of January 7, 2009, the Board of Directors of Veolia Environnement became aware of the consolidated version of the AFEP-MEDEF code of December 2008 (available on the MEDEF website www.medef.fr under "corporate governance"). 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 with the recommendations of the corporate governance code that it uses as a reference and that it has complied with all the provisions of that code.

Duration of Directors' Term of Office

In accordance with the recommendations of the AFEP-MEDEF corporate governance code of December 2008, the combined general shareholders' meeting held on May 7, 2009 set the duration of the directors' term of office at four years and amended Article 11 of the Company's articles of incorporation to provide for the renewal of one-fourth of the directors each year.

The combined general shareholders' meeting held on May 7, 2009 renewed the terms of office of seven directors (Henri Proglio, Jean Azéma, Baudouin Prot, Philippe Kourilsky, Augustin de Romanet de Beaune, Paolo Scaroni and Louis Schweitzer) and appointed a new director, Pierre-André de Chalendar, bringing the number of directors to fifteen. At its meeting of December 17, 2009, the Board temporarily appointed Esther Koplowitz to replace Murray Stuart for the remaining duration of his term of office, subject to ratification by the next ordinary general shareholders' meeting. The terms of office of seven directors (Daniel Bouton, Jean-François Dehecq, Jean-Marc Espalioux, Paul-Louis Girardot, Esther Koplowitz, Serge Michel and Georges Ralli) will expire at the end of the general shareholders' meeting to be held on May 7, 2010 convened to approve the financial statements for the 2009 fiscal year. The terms of office of four other directors, Jean Azéma, Pierre-André de Chalendar, Baudouin Prot and Louis Schweitzer, will expire at the end of the general shareholders' meeting convened to vote on the financial statements for the 2010 fiscal year, in accordance with a drawing held by the Board at the end of the general shareholders' meeting held on May 7, 2009. Furthermore, at the end of the general shareholders' meeting held on May 7, 2010, the Board will decide by drawing that the office of three or four of the directors will terminate early after a period of two years. Therefore, starting with the general shareholders' meeting convened to vote on the financial statements for the 2010 fiscal year, one-fourth of the directors' terms of office will expire each year.

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 in accordance 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 evaluate 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 meeting of March 24, 2010, the Board of Directors conducted its annual evaluation of the directors' independence. Based on this evaluation, the Board considered Jean Azéma, Daniel Bouton, Pierre-André de Chalendar, Jean-François Dehecq, Augustin de Romanet de Beaune, Jean-Marc Espalioux, Paul-Louis Girardot, Baudouin Prot, Paolo Scaroni and Louis Schweitzer and Esther Koplowitz to be independent directors.

With regard to the banking relationships between Veolia Environnement and BNP Paribas, of which Baudouin Prot is a director 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 that bank's business activities enabled it to consider that Baudouin Prot is an independent director on the Company's Board. Augustin 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, Paul-Louis 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 what is now 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.

Therefore, as of the date this reference document was filed, the Company's Board of Directors has eleven independent members.

16.1.3 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 impose 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.

Operation and Activity in 2009

Directors may participate in Board deliberations by videoconference or other means of telecommunications, in accordance with the requirements of Articles L. 225-37 and R. 225-21 of the French Commercial Code and as provided by the internal rules and regulations of the Board of Directors. In such case, directors 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 and by the Board's internal rules (in particular, the preparation of the annual financial statements, the management report and the consolidated financial statements). This option was used at ten Board meetings in 2009 (compared with four meetings in 2008).

According to its internal rules and regulations, the Company's Board of Directors is required to meet at least four times per year. During the 2009 fiscal year, the Board met fourteen times (compared to seven times in 2008). On average, Board meetings lasted two hours, thereby allowing for a thorough examination and discussion of the matters of business on the agenda. The average attendance rate at Board meetings in 2009 was 85.9% (compared to 80.6% in 2008).

In 2009, the Board of Directors was regularly informed of the Group's liquidity situation and monitored the sale of assets program and the efficiency plan set up notably as a result of the deterioration of the position of the Environmental Services Division at the end of the 2008 fiscal year. Furthermore, during the second six months of the year, the Board met regularly in order to conduct an in-depth review of changes to be made to the Company's governance in light of the appointment of Mr. Henri Proglio as Chairman and Chief Executive Officer of EDF and to discuss his replacement as the Company's Chief Executive Officer. On issues of corporate governance, the Board's work focused, in particular, on the adoption and implementation of the AFEP-MEDEF code, as amended in 2008, the termination of the employment contract of the Chairman and Chief Executive Officer and then of the Chief Executive Officer, the separation of the positions of Chairman and Chief Executive Officer and providing termination compensation to the Chief Executive Officer, the creation of the position of Deputy Chairman, setting the compensation of the Chairman and Chief Executive Officer and, then, of the Chairman and of the Chief Executive Officer individually after this position was separated into two positions, the corporate officer's compensation policy and the examination of that of the executive committee, evaluating the independence of directors, evaluating internal controls and approving the Chairman's report, distributing directors' fees to directors and revising the rules for distributing the variable portion of directors' fees and revising the internal rules and regulations of the Board and of its committees.

In 2009, the Board of Directors' other activities also focused on the following matters: the budget, the annual and semi-annual financial statements, obtaining information on the financial statements for the first and third quarters, the Group's financing policy, the resolutions to be submitted to the annual combined general shareholders' meeting, giving its opinion on 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, granting financial and legal authorizations to the Chairman and Chief Executive Officer and to the Chief Executive Officer and the renewal thereof. The Board examined the Group's significant transactions and, when necessary, granted the required authorizations.

Evaluation of the Board and of the Actions of Executive Management

Once a year, the Board is required to include a matter of business on its agenda providing for an evaluation of its operations prepared by the nominations and compensation committee and a 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 be carried out every three years by an outside organization, under the direction of the nominations and compensation committee 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.

Each year, the nominations and compensation committee provides the Board of Directors with a report evaluating the performances of the Chairman and of the directors, as well as the actions of executive management, which the Board discusses.

In 2009, an informal evaluation of the operations of the Board and its committees was carried out under the direction of the chairman of the nominations and compensation committee by sending directors a detailed questionnaire. The responses were analyzed and then presented to the Board of Directors at its meeting of December 17, 2009. The Board adopted the following conclusions:

The directors considered that they had the information necessary for effective participation. Nevertheless, possible improvements were suggested: providing a view of future outlook through more frequent forecasts and focusing on the quality of financial information concerning expected results; providing better summaries of financial information, focusing on essential points and/or questions asked or issues to be resolved; ensuring better communication in terms of frequency and content between meetings; improved reports to the Board on oversight of decisions made; and extend the duration of one or two meetings a year to deepen the strategy.

The organization and operations of the Board (frequency of meetings, attendance of Board members, scheduling, minutes) were deemed satisfactory.

On the whole, the directors considered the composition of the Board to be satisfactory, provided an independent female director was found (it should be noted that Esther Koplowitz was appointed to the Board after this evaluation was carried out) and the balance between financial and industrial directors on the Board was maintained. The distribution of directors' fees was deemed satisfactory and required no particular comment.

All directors considered that the committees fulfill their duties. The operation of the committees (information provided, frequency of meetings, access to executive management) was deemed satisfactory. It was nevertheless requested that the accounts and audit committee make a specific presentation concerning risks and the control thereof.

Lastly, the composition of the committees was deemed satisfactory (expertise, number, independence). Nevertheless, it was suggested that an additional member be appointed to the accounts and audit committee and to the nominations and compensation committee.

The Board will be provided with a report on progress made on these points.

16.1.4 Information about the Board of Directors

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 training 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.

After the separation of the positions of Chairman and Chief Executive Officer, the Board's internal rules and regulations provide that the non-director Chief Executive Officer is automatically invited to all Board meetings, except if the Chairman or the Board decides otherwise. The Chief Finance Officer and the Secretary General attended Board meetings in 2009. At the request of the Chairman or of a director, the heads of the Group's divisions may be invited to any Board meeting that discusses the prospects and strategy of their business sector.

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 any request made by the directors in 2005 during the Board evaluation procedure.

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.

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 votes 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. The members of the Board of Directors and the Chief Executive Officer are required to promptly inform the Chairman of the Board of all agreements made by the Company in which they have a direct or indirect interest or that is made on their behalf by an intermediary.

Each director receives a "Director's Guidebook", which is updated periodically, and which includes the following principal documents: the Company's articles of incorporation and bylaws, a summary of the powers of the 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 rules regarding directors' obligations to report transactions involving the Company's securities, and the "Ethics, Belief and Responsibility" charter.

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, in particular, to comply with the provisions of Article L. 621-18-2 of the French Monetary and Financial Code (*Code Monétaire et Financier*) (see § 17.5 below).

Compensation

The rules for distributing directors' fees and the amounts paid in 2009 are set forth in Chapter 15, § 15.1.2 above.

16.1.5 Limits on the Powers of the 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.

In accordance with 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's internal rules and regulations, as amended on May 7, 2009, 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 if the transaction is carried out in a single installment and €2.5 billion if the transaction is carried out in more than one installment;
- Transactions in the Company shares involving more than 1% of the total number of the Company's shares.

16.1.6 Roles of the Chairman and Deputy Chairman of the Board of Directors

The Board's internal rules and regulations describe the roles of the Chairman and Deputy Chairman of the Board of Directors.

Role of the Chairman

The Chairman of the Board of Directors organizes and directs the work of the Board and reports thereon to general shareholders' meetings. He is responsible for preparing reports on the organization of the Board's work, internal controls and risk management. He chairs general shareholders' meetings.

In general, the Chairman of the Board of Directors ensures the proper operation of the Company's management bodies and compliance with good governance principles and practices, in particular regarding the committees created within the Board. He ensures that the directors are in a position to perform their duties and that they are adequately informed. He devotes the time necessary to issues concerning the Group's future and, in particular, issues concerning the Group's strategy.

In accordance with the internal rules and regulations, the directors and the Chief Executive Officer are required to promptly inform the Chairman of the Board of all conflicts of interest, including potential conflicts of interest, and of all proposed agreements that may be made by the Company in which they may have a direct or indirect interest.

The Chairman of the Board chairs Board meetings and prepares and coordinates the Board's work. In this regard, he:

- Convenes Board meetings in accordance with the schedule of meetings agreed upon with the directors and decides if it is necessary to convene Board meetings at any other time;
- Prepares the agenda for meetings, supervises the preparation of documentation to be provided to the directors and ensures that the information therein is complete;
- Ensures that certain subjects are discussed by the committees in preparation for Board meetings and ensures that the committees perform their duties of making recommendations to the Board;
- Leads and directs the Board's discussions;
- Ensures the directors' compliance with the provisions of the internal rules and regulations of the Board and of the committees;
- Monitors implementation of the Board's decisions;
- In conjunction with the nominations and compensation committee, prepares and organizes the Board's periodic evaluation work.

In conjunction with the Chief Executive Officer, the Chairman may promote the Company, in particular vis-à-vis the public authorities, major customers and principal investors and partners, both in France and outside France. As the primary contact on the Board for major shareholders, the Chairman is responsible for communicating their point of view and concerns to the Board and the other directors. The Chairman promotes the values and image of the Company in all circumstances. The Chairman speaks to third parties in the name of the Board of Directors, except if specific authority to do so has been granted to another director.

The Chief Executive Officer regularly informs the Chairman of the Board of Directors of all significant events and issues concerning the activities of the Group and the Chairman may request that the Chief Executive Officer provide him with any additional information required to enlighten the Board and its committees.

The Chairman has at his disposal all resources necessary to perform his duties.

Role of the Deputy Chairman

a) In addition to the role conferred on him by the Company's articles of incorporation and bylaws, the duties of the Deputy Chairman are to assist the Chairman in carrying out his duties of ensuring the proper functioning of the Company's governance bodies.

In this regard, the Deputy Chairman examines, in particular, conflicts of interest, including potential conflicts of interest, that may involve the Chairman of the Board and the interests of the Company, whether they arise in connection with operational projects, strategic policies or specific agreements. The Deputy Chairman submits his recommendations to the Chairman and the Board after any necessary consultation with the other independent directors.

b) The Deputy Chairman is informed of the concerns of major shareholders not represented on the Board regarding governance issues and ensures that such concerns are addressed. If necessary, and in agreement with the Chairman of the Board, the Deputy Chairman may also himself respond to questions of major shareholders or meet with them if the ordinary avenues for doing so (i.e., the Chairman of the Board of Directors, the Chief Executive Officer or the Chief Finance Officer) have been unable to handle such concern or if the nature itself of the matter renders these ordinary avenues inadequate or inappropriate.

c) In connection with the evaluation of the Board's operations pursuant to its internal rules and regulations, the Deputy Chairman assists the nominations and compensation committee in its work of evaluating the performance of the Chairman of the Board.

16.1.7 The Committees of the Board of Directors

After the Company was converted into a *société anonyme* with a Board of Directors on April 30, 2003, the accounts and audit committee and the nominations and compensation committee, and their respective internal rules and regulations, were retained and modified 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 strategy, research, innovation and sustainable development committee.

16.1.7.1 The Accounts and Audit Committee

The duties of the accounts and audit committee, which take into account changes in U.S. laws and regulations concerning the assessment of internal controls of financial and accounting information, were changed by the Board of Directors at its meeting of March 24, 2009 to take into account the Order of December 8, 2008 that transposed the eighth directive on statutory audits of corporate financial statements into French law (Directive 2006/43/EC), which will apply to 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. The Board appoints the committee chairman.

As of the date this reference document was filed, this committee has four independent members in accordance with the requirements of the Board's internal rules and regulations: Daniel Bouton (chairman), Pierre-André de Chalendar, Jean-Marc Espalioux and Paul-Louis Girardot.

The Board of Directors appointed Pierre-André de Chalendar as a member of the accounts and audit committee effective May 7, 2009. Daniel Bouton was appointed a member of the accounts and audit committee effective November 2, 2009, and he was appointed chairman effective January 1, 2010, to replace Murray Stuart, who resigned his office as director effective December 31, 2009.

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 at least one committee member must have specific financial or accounting expertise and be independent under the criteria specified in the Board's internal rules and regulations. The Board of Directors deemed Jean-Marc Espalioux and Paul-Louis Girardot 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. All of the committee's members are considered to be independent under the criteria set forth in the New York Stock Exchange Manual.

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 2009, the accounts and audit committee met seven times (the same number of times as in 2008). In 2009, its members' average attendance rate was 92.0% (compared to 85.7% in 2008).

Duties

In general, the accounts and audit committee is responsible for monitoring issues concerning the preparation and control of accounting and financial information and, in particular, for monitoring the integrity of the Group's financial statements and the process for preparing financial information, as well as the effectiveness of internal control and risk management systems concerning financial and accounting information. In this regard, more specifically, the duties of the 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 corporate and consolidated financial statements, examines whether major transactions are adequately reported on a Group-wide level and reviews the procedures for collecting financial and accounting information; (ii) gives an opinion on the draft semi-annual and annual corporate and consolidated 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 auditing, internal controls and risk management, the committee (i) reviews the Group's internal audit plan and, from time to time, receives a summary of the Group's internal audit reports; (ii) with respect to its evaluation of internal control procedures (see 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; (iii) interviews with the internal audit and internal control managers and it gives its opinion on the manner in which this work is organized; and (iv) receives an annual report from the ethics committee regarding the operation of the financial and accounting whistleblowing system and, in conjunction with the ethics committee, ensures oversight of significant matters.

Lastly, with respect to the statutory auditors, the committee (i) reviews on an annual basis the statutory auditors' 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 procedure for choosing statutory auditors and makes recommendations thereon; (iv) gives its opinion regarding the amount of fees requested by the statutory auditors; (v) gives its prior approval to activities of the statutory auditors that are strictly ancillary or directly complementary to their audit of the financial statements; and (vi) is informed of the fees that the Company and the Group pays to the statutory auditor firm and network, ensures that the amount of these payments does not call into question the independence of the statutory auditors and, if necessary, reviews measures taken to reduce threats to the statutory auditors' independence.

Activities in 2009

In 2009, as in previous years, 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, the reference document and the quarterly business reports, the committee periodically reviewed the action plans regarding internal controls set up in 2009 and the progress of the work undertaken by the Company in 2009 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 the first half of 2009 and approved the internal audit program for 2010. In addition, together with the Company's managers, the committee reviewed the key processes relevant to its duties: cash position and financing, off-balance sheet commitments, taxes, lawyers' reports concerning major disputes and IT systems. The committee was also regularly informed of the progress of the deployment of the SAP management and internal control software. The committee approved the duties of the statutory auditors for the 2009 fiscal year and the amount budgeted for their fees. The committee performed a financial review of the Environmental Services Division, and examined the tests for depreciating assets, fraud reports and the report on the work of the ethics committee. Financial management made a presentation to the committee regarding changes in accounting regulations, the control and investment planning processes and the Group's financing policy. The committee examined possible changes to its duties following the regulation ("*ordonnance*") dated December 8, 2008. The committee proposed to the Board of Directors to amend its internal rules and regulations and examined the Group's updated whistleblowing procedure.

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. It may also interview the Company's financial officers or the statutory auditors without the presence of the 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 Chief Finance Officer, the manager of the finance department, the financial control manager, the risks and markets manager, the financing and cash position manager, the internal controls manager, the Group's internal audit manager, the Secretary General, the legal director, the risk management manager and the statutory auditors. The committee did not use outside consultants in 2009.

16.1.7.2 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 committee members are appointed from among the directors who do not hold management positions. 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 set forth in the Board's internal rules and regulations: 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 2009, the nominations and compensation committee met eight times (compared to two times in 2008). 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 recommendations regarding the total compensation of corporate managers that are directors and, in particular, ensures that the rules and criteria governing the variable portion of compensation are consistent with the annual evaluation of their performances and the medium-term strategy and performance of the Company and the Group, as well as regarding the granting of in-kind corporate benefits, stock purchase or subscription options and free shares, pension plans, termination compensation and any other benefits to corporate managers that are directors, ensuring that all of these components are taken into account in evaluating and setting their overall compensation; (ii) proposes a total amount of directors' fees to be paid to the Board of Directors, as well as the rules for the distribution thereof; (iii) gives the Board of Directors its opinion regarding the general policy and terms and conditions for granting stock purchase or subscription options, granting free shares and setting up employee stock ownership plans, as well as the provisions for sharing the performances of the Company or Group with employees; (iv) makes recommendations to the Board concerning the granting of stock options and, if applicable, free shares to corporate officers, as well as with respect to the performance conditions applicable thereto; (v) makes recommendations to the Board concerning the obligation of corporate managers that are directors to keep shares obtained by exercising stock purchase or subscription options or, if applicable, free shares granted to them; and (vi) gives its opinion regarding the compensation paid to the Company's principal managers who are not also directors of the Company or of other companies of the Group.

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 of the Board, 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 committee gives its opinion on the succession plan for the Company's principal managers who are not directors. 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 in advance of the Board's review of the situation of each director (see § 16.1.2 above).

The nominations and compensation committee assists the Board in its periodic evaluation work. It prepares the Board's annual evaluation of its organization and operations and conducts the formal evaluation of the Board that is carried out every three years by an outside organization. Each year, the committee provides the Board of Directors with a report evaluating the performances of the Chairman and of the directors, as well as the actions of executive management, which the Board discusses. Lastly, each year, the principal corporate managers that are not directors have a meeting with each member of the committee.

Activities in 2009

In 2009, the work of the nominations and compensation committee was devoted to: the adoption by the Board of the AFEP-MEDEF code, as amended in 2008, and the implementation thereof; the reduction in the duration of the term of office of directors; the termination of the employment contract of the Chairman and Chief Executive Officer and, then, of the Chief Executive Officer; the separation of the positions of the Chairman and Chief Executive Officer and the granting of termination compensation to the Chief Executive Officer; amendments to the rules and regulations of the complementary defined benefits pension plan (corporate managers that are members of the executive committee); the creation of the position of Deputy Chairman; the appointment of two new directors; the appointment of an additional member to the accounts and audit committee and the replacement of that committee's chairman; the preparation of proposals and recommendations to the Board concerning the compensation of the Chairman and Chief Executive Officer and the executive committee (setting the variable portion of compensation for 2008 and the fixed portion for 2009, criteria for calculating the variable portion for 2009) and the compensation of the Chairman and Chief Executive Officer after the separation of this position into two positions; the review of proposals concerning the compensation of members of the executive committee; giving an opinion on the policy with respect to granting stock options and setting up group-wide employee savings plans; the informal evaluation of the operation of the Board of Directors and its committees; the evaluation of the independence of the directors; the distribution of directors' fees and the revision of the rules for distributing the variable portion of directors' fees; and the revision of the internal rules and regulations of the Board of Directors and of the nominations and compensation committee.

16.1.7.3 The Strategy, Research, Innovation and Sustainable Development Committee

At its meeting on September 14, 2006, the Company's Board of Directors created a strategy, 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 2009 fiscal year, the committee met seven times (compared with eight times in 2008). Its members' average attendance rate was 85,7% (compared with an attendance rate of 91.7% in 2008).

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 therefore 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 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.

Activities in 2009

In 2009, the committee oversaw the implementation of a new organization within the Group in the fields of research, innovation and competition monitoring, focusing, in particular, revolving around the structure dedicated to the Group research and development activities known as Veolia Environnement Research and Innovation ("VERI"). The committee analyzed and made recommendations on the research and development budget and the preparation and implementation of innovation strategies. The committee interviewed the heads of the four Divisions and their teams, as well as the managers of VERI, the industrial markets and new business sectors manager and the IT systems manager. The committee also monitored progress made with respect to industrialization and the sharing of knowledge and expertise within the Group and made recommendations thereon. The committee presented a report on its work to the Board of Directors's meeting of December 17, 2009.

16.2 BODIES CREATED BY EXECUTIVE MANAGEMENT

16.2.1 The Executive Committee

Since April 30, 2003, in application of corporate governance principles, the Chief Executive Officer (previously the Chairman and Chief Executive Officer) have set up an executive committee, which includes *inter alia* representatives of each of the Company's four operating divisions.

Until November 26, 2009, the executive committee had eight members:

- Henri Proglio (Chairman and Chief Executive Officer);
- Olivier Barbaroux (Senior Executive Vice-President, Chairman of Dalkia);
- Antoine Frérot (Senior Executive Vice-President, Chief Executive Officer of Veolia Water – Compagnie Générale des Eaux);
- Denis Gasquet (Senior Executive Vice-President, Chief Executive Officer of Veolia Environmental Services);
- Cyrille du Peloux (Senior Executive Vice-President, Chief Executive Officer of Veolia Transport);
- Thomas Piquemal (Chief Finance Officer);
- Véronique Rouzaud (Senior Vice-President, Human Resources);
- Alain Tchernonog (General Secretary).

The composition of the executive committee was changed when Antoine Frérot was appointed Chief Executive Officer on November 27, 2009 to replace Henri Proglio, who had held the position of Chairman and Chief Executive Officer until then. In addition to his responsibilities as head of the Environmental Services Division, Denis Gasquet was appointed the Company's Chief Operating Officer. In this capacity, he is in charge of implementing a unified management structure for the Group, supervising the Group's subsidiaries and cross-disciplinary departments and supervising the effectiveness and structural cost control plans.

Since February 11, 2010 and as of the date this reference document was filed, the Company's executive committee had nine members:

- Antoine Frérot (Chief Executive Officer)*;
- Olivier Barbaroux (Head of the Energy Services Division and Chief Executive Officer of Dalkia)*;
- Jean-Pierre Frémont (Senior Executive Vice-President in charge of public entities and European affairs)*;
- Denis Gasquet (Chief Operating Officer of the Company and Head of the Environmental Services Division)*;
- Jean-Michel Herrewyn (Head of the Water Division)*;
- Olivier Orsini (Senior Executive Vice-President and Secretary General)*;

- Cyrille du Peloux (Head of the Transport Division)*;
- Pierre-François Riolacci[(1)] (Chief Finance Officer);
- Véronique Rouzaud (Senior Vice-President, Human Resources)*.

The executive committee is chaired by Antoine Frérot. This committee is a reflection, consultation and decision making body that meets when the Group's major policies are established. In addition, it authorizes major Group projects, such as sales contracts and proposed investments, divestments or sales for amounts above certain thresholds. The executive committee meets approximately every fifteen days.

In order to further enhance the Company's capabilities to assess and oversee projects, in 2008, an undertakings subcommittee of the Veolia Environnement executive committee was created, which is chaired by the Chief Executive Officer. This subcommittee conducts an in-depth review of major Group projects that must be submitted to the executive committee for final decision, before submission to the Board of Directors for authorization depending on the amounts involved. The subcommittee includes the head of the Group division concerned by a particular project, the Chief Finance Officer and the Company's Secretary General.

16.2.2 The Disclosure Committee

The disclosure committee was created by the chairman of the management board and the Company's Chief Finance Officer on December 11, 2002, the date on which the proposal to create such committee was submitted to the Company's management board. The meetings of the committee are chaired by the Chief Executive Officer.

In addition to the Chief Executive Officer, the members of the disclosure committee are the members of the Company's executive committee, the Company's Chief Finance Officer, the Secretary General, the finance managers of each division and the managers of the Company's major centralized 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 first 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 the content of this report. If necessary, the committee may meet before the announcement of any significant events.

The disclosure committee met twice in 2009. At its meeting of April 9, it reviewed *inter alia* the procedures followed in preparing and approving Form 20-F before it was filed with the SEC on April 16, 2009, as well as the certificates required to be provided by the Chief Executive Officer and the Chief Finance Officer in accordance with U.S. stock exchange regulations. At its meeting of December 17, 2009, 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 2009 fiscal year.

16.2.3 The Ethics Committee

The ethics committee was created by Veolia Environnement's executive committee in March 2004 (see also Chapter 4, § 4.4 above). 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.

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* *Members of the Executive Committee as of December 31, 2009.*

[(1)] *Until February 11, 2010 Thomas Piquemal was the Chief Finance Officer.*

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 outside the Company 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 has become particularly important since 2009 when the Company began appointing 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 2009, the ethics committee continued the major review of labor standards within the Group that it initiated in 2008, which led it *inter alia* to carry out 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 2009, the committee also continued its practice of holding meetings with each member of the Company's executive management, a practice it plans to continue each 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 2009, as in previous years, the committee received few major alerts concerning ethical issues. The committee continues to note 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 the 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 avenues have already been tried unsuccessfully.

As it does every year, in 2009, 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 2009, Veolia Environnement had 312,590 employees, 7% less than in 2008. This is a result of the disposal of certain assets (in particular Veolia Propreté Nettoyage et Multiservices), the loss of certain contracts and the impact of the economic crisis on some industrial sector contracts.

The nature of the Group's activity fully justifies the attention paid to all its employees, who are located throughout the 74 countries where Veolia is present. Firstly, this service-based activity, which is provided to the public, local and regional government, requires a know-how that is extensively drawn from Veolia men and women. Secondly, their skills cannot be delocalized, as they need to be in proximity to the territories and populations they serve.

For these reasons, systematically taking into account local context, cultural specificities and the existing teams is at the heart of the company's preoccupations and strategy.

The human resources policy is therefore based on the conviction that emphasizing talents and skills is a prerequisite for motivating employees and improving performances, at all levels of the business, at all stages of corporate life and for each of its local contexts.

In the current economic climate, the Group's social model must, more than ever, reinforce its founding values of employability, skills development, occupational safety, social awareness and guaranteed decent living conditions.

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.

Developing career paths and mobility, encouraging labor-management dialogue 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.

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.

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 corporate reality of the Group as a whole

Only sound knowledge of corporate reality and operational practices makes it possible to deploy and manage human resources consistently. The Group uses a worldwide network of more than 700 correspondents who collect, process and consolidate approximately 200 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. In this regard, once again this year Veolia Environnement is ranked as the leading CAC 40 company in terms of the thoroughness and quality of its human resources data(1).

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 protection…). The analyses and surveys will be continued in order to refine the method over time.

17.1.2 Attract talent and increase employee loyalty

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.

Veolia Environnement reaffirms its societal commitment to facilitate access to jobs for young people and the unemployed, by emphasizing its investment in the work-study system, which prepares its employees for employability by combining theoretical training and practical experience. For Veolia Environnement, work-study programs are not only a training policy, but also a recruitment policy, since they facilitate access to employment and the hiring process stages for the company.

Veolia Environnement's exemplary action in the field of work-study programs has been recognized through the "Work-Study Mission" entrusted to Henri Proglio by the French President, in the context of the current economic climate and the state of employment among young people. This action has led to both major corporations being mobilized around the promotion and development of work-study contracts, as well as to the publication of a report delivered to the government in December 2009, which proposes a set of measures to encourage companies to use work-study programs.

(1) *Alpha Study issued on November 26, 2009 on the 2008 reports.*

In the same way, at the request of the Secretary of State for Employment, the Veolia Environnement director of training authored a study on mentoring.

Regardless of their origin and length of service, this also means giving each employee the possibility of developing their skills throughout his or her career. Annual assessment interviews define the requirements that are necessary for each employee to develop skills and improve career development prospects. These are complemented by executive reviews and the design of succession plans for the key positions in each entity.

In order to strengthen management culture, particular attention is paid to the management of senior managers, in particular their leadership potential and their ability to propagate Veolia Environnement's social responsibility values. It is therefore essential for the Group to identify talented managers and to anticipate natural turnover by strengthening the talent pipelines in a constant, balanced way so as to reflect the Group's international deployment and diversity.

Continuance of the “Veolia Skills” approach

Veolia Skills is a recruitment approach 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 nine to twenty-four 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), which increases the chances of being offered an indefinite-term employment contract.

The approach is also open to internal candidates, who are 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 part of the Veolia Skills operation, the regional branches of Veolia Environnement decided to organize "Meetings with Employment and Training Partners" in the fall of 2008. The aim of these meetings was to encourage discussions and to clarify the expectations of all the stakeholders concerned locally by the environmental services sector. More than 750 participants responded favorably to this call. These meetings have given rise to the publication of a progress report entitled "The New Challenges for Environment Sector Professions". From April to June 2009, Veolia Environnement went out to meet candidates who were pre-selected by employment and training partners (State Job Centers, local initiatives, the AFPA, GRETA and CFA training organizations, Disability Advisory Bureaus, etc.). Candidates were able to have meetings with Group employees who work in areas where there is a strong need for recruitment.

In contributing to the "Work-Study Mission", Veolia continued to act as a socially responsible employer, by committing to hire 3,000 young people in 2009/2010 through various work-study contracts: apprenticeship contracts, work-and-training contracts or research agreements.

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. In 2009, over fifteen thousand employees benefited from mobility.

The Veolia Environnement recruitment and mobility website has been overhauled and extended. This new space, which is available online, is aimed as much at external candidates for positions or internships, as at Group employees who wish to change business sector or function. This portal is currently being deployed internationally: in the United States, the United Kingdom and Germany.

International development is not possible without executive mobility. Executives are corporate experts or managers who contribute to the start-up and development of new operations throughout the world, while facilitating the pooling and transfer of know-how. The objective is to encourage all talented employees and to accompany them wherever they work. Expatriates therefore come from an increasing variety of countries and represent forty-six nationalities.

In the past ten years, this population has almost doubled and at the end of 2009, 893 employees (of which 74% are French) were on assignment in more than seventy countries. Employee mobility involves for the most part the Group's development zones: Asia, Africa and the Middle East, in particular China, Saudi Arabia and the UAE.

Efforts are also continuing to promote VIE (International Corporate Volunteer) contracts. These young graduates (164 in 2009, of which one-third are women) represent a potential reservoir of talent for international mobility and for the company.

17.1.3 Develop employee skills and professional progress

In order to maintain its position as a world leader in its sector (environmental services) and reinforce the quality and technical excellence of its services, Veolia Environnement relies on its prime resource: 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 re-groups in a single location the various Group training divisions 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 around 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 eighteen campuses in eleven 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 original 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) have been open since 2008.

In the same way, the network of Campuses benefits from international branches: eleven Campuses support Veolia Environnement international development by proposing adapted programs in Germany, Australia, China, Egypt, the United States, Gabon, Israel, Morocco, the Czech Republic, the United Kingdom and Sweden.

17.1.4 A permanent requirement: employee health and safety

Prevention, and the health and safety of Veolia Environnement employees, are a continual concern given the very nature of our activities:

- working on public roads;
- being faced with antisocial behavior in vehicles;
- working conditions 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 monitor accidentology indicators, in particular 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:

- 29% of each employee's 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, i.e., within the context of the European REACH Regulation;
- as part of labor-management dialogue, the 3,360 structures that are dedicated to health and safety contribute to raising awareness of these matters;
- supporting employees who have suffered occupational accidents, both during their absence and when they return to work.

Using indicators, the Veolia Environnement executive committee regularly analyzes the prevention of occupational risks, health and safety as the logical extension of an approach to continually improve operational and management practices.

The progress plan implemented in the Group since 2008 has made it possible to support various priority actions in the field throughout the world by focusing on:

- annual Prevention, Health and Safety road maps for managers (quantitative data, current situation review, performance targets and plans for future actions);
- Group management standards for Prevention, Health and Safety, which define the indispensable basis of Group requirements for occupational health and safety, and allow the operational entities to perform self-evaluations and be audited;
- monitoring accidents via an information system that is being deployed to record and consolidate information on accidents (Acciline software) in order to obtain improved analysis of the causes and better evaluate the risks;
- the development of employee skills on safety issues (workplace tutoring and safety orientation, use of a common core health and safety syllabus for training programs, and management of prevention, health and safety matters).

The involvement of the executive management and all the Group Committee unions in France has made it possible, through the Monitoring Commission for the framework agreement signed in December 2008 on prevention, health and safety, to make an initial assessment of the priority areas for progress that result from this agreement, in particular:

- 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;
- identification of occupational risks, more accurate measurement of these risks and, consequently, better management of them in order to reinforce their prevention;
- the inclusion of occupational health and safety in the career path of all employees, in particular through training programs and professional meetings;
- the development of access to healthcare and increasing responsibility among all staff with regard to their health and their safety;
- the promotion of career paths that prevent future unemployability, in order to make health part of skills management;
- seek improved health-safety balance between professional and private lives.

Veolia Environnement has improved the coordination and organization of the networks that are designed to prevent health and safety risks at international level. This method of organization ensures not only better deployment of the actions undertaken, but also makes it possible to define the Group policies on the basis of the risks identified in each operational unit. It also makes it possible to highlight the best practices of all Veolia sectors throughout the world and to capitalize on them.

Preparation of the Group to deal with the influenza pandemic risk

As early as 2005 the Group took action to prepare for the risk of an influenza pandemic, in order to set up the organization and the resources to fulfill two major objectives: ensure the protection of its employees and ensure the continuity of its business activities, which are vital to the existence of local and regional government.

Following the WHO alerts concerning the A/H1N1 influenza virus pandemic, the Group activated the chosen procedures, taking into account the rise in the number of cases in each country (Mexico and the United States were the first countries affected) and maintaining close liaison with the local health authorities in order to ensure the continuity of services, eliminate contamination and limit the potential impacts on employee health.

A policy of increased security throughout the world

International current affairs continually confirm the unstable, shifting nature of the environment in which Group employees are sometimes required to work in certain countries, where they may be confronted with political crises, terrorist risks and natural disasters.

In 2009, the security department monitored 1,700 missions, an increase of 25% compared to 2008. The security department has a database, analyzes the local security conditions for missions, anticipates risks by producing a monthly map of at-risk countries, and organizes training to remind employees how to behave during missions in at-risk countries (35% employees on short-term missions have been trained to date).

Risk prevention is paramount, both from a legal and human standpoint. The security department has set up responsive, coordinated internal networks at the Division’s head offices as well as in the field (fourteen "security officers" have been appointed throughout the world). In the event of an emergency, partnerships have been formed with global specialists for health and security evacuations.

17.1.5 Build and maintain relationships of trust with employees

Labor-management dialogue that starts when employees arrive and are integrated

In France and throughout the world, Veolia Environnement is continuing its acquisition-based growth through several types of transactions, 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 dialogue

For the Group's local services, which are fundamental to Veolia Environnement's business, labor-management dialogue 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 dialogue venue has three levels:

- the first level, that of the business, remains the natural negotiating venue;
- the second level, that of the country, regroups joint commissions for information and dialogue 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 2009, with each holding a plenary session and meetings at the level of their respective offices.

Within the scope of this active dialogue, commissions have been monitoring the "Prevention of Occupational Risks, Health and Safety at Work" agreement, which was signed by all the French labor union organizations in December 2008 (cf. §17.1.4 above).

A new agreement was signed by the general management and all the labor union organizations (CGT, CFDT, CGT-FO, CFE-CGC, CFTC; UNSA) on February 9, 2010. This Group-level agreement covers the quality and development of labor-management dialogue in France, in particular with regard to:

- recognition of the importance of labor-management dialogue as a priority means of ensuring the Group runs smoothly and enjoys economic development;
- the implementation of Group union coordinators with regard to the new provisions of labor law;
- the adaptation of the resources allocated to Group union coordinators and their organizations within the scope of the new provisions of the law on union representativeness;
- the definition of the process that ensures elected employees' careers and remuneration are actively managed and evolve, in particular via the recognition of union careers through the Validation of Professional Experience (VAE);
- the rules governing access to and use by union organizations of new information and communication technologies.

The projected management of jobs and skills was also the subject of in-depth discussions with labor and management representatives concerning:

- the implementation of a global process that aims to steer employment at Group level, while strengthening labor-management dialogue;
- the processes that aim to facilitate the professional mobility of employees and skills development;
- the implementation of joint business segment observatories at the level of each of the business segments, complemented by a coordination committee at the Group level.

Lastly, as an extension of Veolia Environnement labor-management dialogue, during the France and Europe Group committee meetings in the second half of 2009, there was in-depth communication by executive management on the issues associated with the Transdev Group merger.

Promote diversity and fight against discriminations

From the outset, the company adopted diversity as a core value:

- cultural diversity, which is linked to the many different origins of its employees, with over a hundred nationalities represented;
- economic diversity, which is associated with having several business segments;
- social diversity, which is a result of being located 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 approach was put into practice through the launch of a "2008-2011 Diversity and Equal Opportunities Plan" that emphasizes three essential levers:

- equal treatment, to guarantee non-discriminatory access to jobs, career progress and skills development;
- harmonious management of diversity on a day-to-day basis, which means respecting differences, fighting against prejudices, and raising the awareness of Group internal stakeholders through training programs;
- minimum labor standards, which guarantee growth that is socially responsible. These Group minimum labor standards, which go beyond the fundamental rights defined by the ILO and the OECD, need to be detailed and adapted throughout the world, in order to guarantee genuinely equal opportunities for all.

In order to promote non-discriminatory access to employment, Veolia Environnement is continuing its policy of recruitment through work-study programs. This policy aims to improve labor market access and employability for persons for whom access to jobs is difficult: young people without qualifications and the unemployed. The policy is therefore oriented towards sectors of the public that are deemed to be a priority: women (access to "male" professions and key positions), seniors (job maintenance), and employees of various ethnic origins. Access to operational management positions for women and increasing the international nature of senior executives are some of the ways forward that have been identified. With regard to careers for union representatives, the Group must be able to offer guarantees so that each elected representative can return to his/her profession and acquire new skills at the end of his/her term of office.

Veolia Environnement also ensures that it helps seniors to stay in their jobs and encourages the recruitment of persons who suffer from handicaps or disabilities. The Divisions have Disability Assistance Offices that lead initiatives in terms of raising awareness, assistance with hiring disabled employees or the use of sheltered workshops.

In France, an Active Solidarity Plan was launched in consultation with the France Group committee, in order to support the more disadvantaged employees in a difficult economic context.

Within this framework, a center for advising and supporting employees outside the company was set up: "*Allô Solidarité*". Its objective is to resolve urgent situations and to provide security for individuals who very often do not know who to contact.

In an initial pilot phase, the operation concerns the Ile-de-France Region, where 30,000 employees are based. In order to ensure all employees were informed of this initiative as soon as the system was set up, a card with a toll free number and some explanations was attached to their pay slip.

In nine months, around 500 calls were received, primarily concerning housing and/or financial problems.

Lastly, in order to increase the visibility of its pro-diversity undertakings and actions, Veolia Environnement has applied for the diversity accreditation created by the French government and awarded by Afnor Certification in order to recognize corporate best practices.

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, 2009, Veolia Environnement's benefit obligations represented €1.96 billion, an increase of around 15% compared to the end of 2008, which is primarily due to changes in actuarial assumptions, and also linked to currency exchange effects. These obligations are mainly comprised of pension schemes with defined benefits (65%) and career-end indemnities (24%). The other obligations are mainly medical coverage for retirees, length of service reward payments and contract termination indemnities. These Group obligations exist in around 50 countries.

17.2 HUMAN RESOURCES INFORMATION ("NRE" LAW)(1)

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 200 human resources indicators, i.e. more than 270,000 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, 2009, the total headcount was 312,590 employees, compared to 336,013 at December 31, 2008, a decrease of 23,423 (-6.97%).

The table below shows the breakdown of the headcounts managed by Veolia Environnement, by Division and by geographical area.

Area	Water *	Environmental Services *	Energy Services	Transportation	Total	%
Europe	59,538	54,165	40,026	55,807	210, 589 **	67.38%
of which France	30,483	23,705	15,396	29,887	100, 524 **	32.16%
North America	3,874	9,549	628	14,116	28,167	9.01%
South America	4,801	7,352	6,962	1,030	20,145	6.44%
Africa/Middle East	8,412	8,546	1,405	3,313	21,676	6.93%
Asia/Pacific	19,164	5,988	3,536	3,325	32,013	10.24%
TOTAL	**95,789**	**85,600**	**52,557**	**77,591**	**312, 590 ****	**100%**
%	31%	27%	17%	25%	100%	

* *Proactiva's employees (10,656 persons) have been divided according to the activities of the companies concerned, between Water (3,633 persons), and Environmental Services (7,023 persons).*

** *This number includes, for France, 1,053 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, 2009, 32.16% of the Veolia Environnement total headcount was located in France, 35.22% in the rest of Europe, 10.24% in the Asia/Pacific region and 22.38% in the rest of the world.

Headcount breakdown by type of contract and by category

Among the 312,590 employees managed by the Company at December 31, 2009, 292,223 (93%) held indefinite-term contracts and 20,367 held fixed-term contracts. During 2009, 5,961 fixed-term contracts were converted into indefinite-term contracts (29.3%). Among the employees managed by Veolia Environnement at December 31, 2009, 28,580 (9.1%) were managers (*cadres*), and 284,010 were non-managers. The headcount comprised 62,337 women, representing 19.9% of the total number of employees.

In France, among the 100,818 managed at December 31, 2009, 95,794 (95%) held indefinite-term contracts and 5,024 held fixed-term contracts. During 2009, 1,970 fixed-term contracts were converted into indefinite-term contracts (39.2%). Among the employees managed by Veolia Environnement, 13,141 (13%) were managers, and 87,677 were non-managers. The headcount comprised 19,690 women (19.5%).

(1) *French New Economics Regulation law n° 2001.420 of May 15, 2001 ("NRE law").*

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 2009, this headcount was 296,120.6 employees, of whom 278,223.4 (94%) held indefinite-term contracts.

In France, the weighted average annual headcount in 2009 was 97,568.9 employees, of whom 92,893.9 (95.2%) 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 2009, the consolidated, weighted average annual headcount was 291,000 employees.

Hires

In 2009, 38,257 employees were hired under indefinite-term contract and 16,620(1) under fixed-term contracts.

The percentage of the headcount employed under fixed-term contract, 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 2009, 8,347 employees were hired under indefinite-term contracts, including 1,421 managers, and 7,404 under fixed-term contracts (2), i.e. 47% of the total hires. The equivalent full-time headcount of all the employees who hold fixed-term contracts corresponds to 5% of the total.

Departures

In 2009, the total number of departures reached 64,397, including 9,478 individual dismissals and 860 as part of layoffs.

In France, the total number of departures in 2009 reached 19,267, including 2,040 individual dismissals and 79 as part of layoffs.

Overtime

The total number of overtime hours worked was 25,474,719 (a decrease of 8.2% compared to 2008), or an average per employee of 81.5 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 3,761,461, which corresponds to an average of 37.3 overtime hours per employee, per year.

Labor from outside the Company

The headcount of temporary workers (full-time equivalent) was 12,112, which represents 4.1% of the total full-time equivalent headcount.

In France, the headcount of temporary workers (full-time equivalent) was 5,292 (5.4% of the total full-time equivalent headcount).

(1) *Not including hires converted into indefinite-term contracts (5,961 throughout the world).*

(2) *Not including hires converted into indefinite-term contracts (1,970 in France).*

Information on planned reductions in force and job 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 2009 most often corresponded to a loss of markets, or to 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 four, five or six 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 38.7 hours (compared to 38.6 hours in 2008).

The headcount of part-time employees (full-time equivalent) was 13,700.7 in 2009, or 4.6% of the full-time equivalent headcount.

Employees with indefinite-term contracts were absent on a total of 4,431,590 calendar days in 2009, of which 2,835,637 days of absence were due to sickness (64% of the total). The remainder was due to occupational accidents and to absences for family events and maternity. In 2009, the absenteeism rate of employees in indefinite-term contracts was 4.9% (4.7% in 2008)[1].

In France, the average workweek is 35.3 hours. The headcount of part-time employees (full-time equivalent) was 4,750.33 in 2009 (4.9% of the total full-time equivalent headcount). The total number of calendar days on which employees with indefinite-term contracts were absent reached 1,908,988 in 2009, including 1,250,741 days of absence for sickness (65.5% of the total). In 2009, the absenteeism rate was 6.6% (6.6% in 2008)[2].

Compensation, social security charges and gender equality

The average annual gross compensation for all employees, throughout the world, was €26,617 in 2009.

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 30.5% of the total cost of employment (this rate was 30.1% in 2008). Gross average compensation paid to male employees was €27,341 (€26,995 in 2008) and that paid to female employees was €23,549 (€22,337 in 2008), i.e. a difference of €3,792 (13.8% of men's compensation). 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 €31,361 in 2009. The average gross compensation paid to male employees was €31,725 and that paid to female employees was €29,772, a difference of €1,953 (6.1% of men's compensation). The rate of social security charges was 47% of total employment costs.

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(1) *As of this year, the method for calculating the absenteeism rate has been refined and takes into account the annual number of days worked per employee for each subsidiary. The 2008 rate of absenteeism (4.7%) has been recalculated using this same method.*

(2) *The same refined calculation principle was used for France.*

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 was higher in 2009 in the nineteen countries studied where there is a statutory minimum wage and where two-thirds of Veolia Environnement employees work (their average weighted salary of €29,458 is equal to 2.4 times the average statutory minimum wage in these countries, i.e. €12,330).

Optional and mandatory profit-sharing

In France, in 2009, the total amount paid in respect of optional profit-sharing was €68,810,823 (€62,361,750 in 2008) and the amount paid in respect of mandatory profit-sharing was €64,616,872 (€68,139,126 in 2008).

The total amount of optional and mandatory profit-sharing represented €133,427,695, or 4.4% of the total cost of employment (€130,500,877 in 2008).

Labor relations and overview of labor-management agreements

- Number of labor-management agreements: 2,047 labor-management agreements were signed, including 1,023 agreements on compensation, 268 agreements on health, safety or working conditions, 317 agreements on labor-management dialogue and 439 agreements on other subjects or that regrouped several subjects.
- Number of employee representatives: 15,553.
- Number of labor-management agreements signed in France: 786 labor-management agreements were signed, including 431 agreements on compensation, 91 agreements on health, safety or working conditions, 88 agreements on labor-management dialogue and 176 agreements on other subjects or that regrouped other subjects.
- Number of employee representatives in France: 9,372.

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 two or three 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 2009, the number of occupational accidents, not involving commutes, resulting in at least one day of absence from work was 10,049 (down 12.4% compared to 2008) and the number of calendar days lost due to occupational accidents was 382,247 (down 7.5% compared to 2008).

The number of occupational accidents per million hours worked (or "frequency rate"[(1)]) in one year decreased from 20.83 to 18.88 and the number of calendar days lost due to occupational accidents per thousand hours worked (or the "rate of severity"[(2)]) continued to decrease, to 0.72 (compared to 0.76 in 2008).

In 2009, 200,442 employees attended safety training sessions (7.3% more than in 2008). As evidence of the importance of these issues, 3,360 entities throughout the world are dedicated to dealing with occupational health and safety issues.

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(1) *So as to better take into consideration the local realities faced by our subsidiaries, which are becoming more and more geographically diverse, the volume of worked hours is refined by factoring in the annual amount of days worked, of hours of absence and of overtime, per employee for each subsidiary. The 2008 frequency rate (20.83 in the world and 33.31 in France) was determined following this new calculation method.*

(2) *In accordance with the change in calculation formula to determine the frequency rate of occupational accidents, the volume of worked hours is refined by using the same methodology. Furthermore, for comparison with other companies, days not worked because of occupational accidents are now factored in as calendar days and not as working days any more. The 2008 rate of security (0,76% in the world and 1,66% in France) was determined following this new calculation method.*

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 2009, the number of occupational accidents that caused at least one day of absence from work reached 4,622 and the number of calendar days lost due to occupational accidents was 241,210. The number of occupational accidents per million hours worked (or "frequency rate""[1]) was 31.27 (compared to 33.31) and the number of calendar days lost due to occupational accidents per thousand hours worked (or the "rate of severity"[2]) was 1.63 (compared to 1.66 in 2008). In 2009, 43,894 employees attended safety training and 581 entities dedicated to occupational health and safety issues were identified.

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: 5,687,612 hours;
- percentage of training expenses in the total cost of employment: 2.22%;
- total number of persons taking part in training programs: 508,697 (3.6% less than in 2008), including 53,405 management participants and 455,292 non-management participants; 89.5% of the persons who benefited from a training program were non-management. 389,578 participants were men and 119,119 were women;
- average duration of training programs: 11.2 hours.

In France, in 2009:

- total number of training hours provided: 1,814,387 hours;
- percentage of training expenses in the total cost of employment: 3.11%;
- total number of persons taking part in training programs: 109,312 including 14,165 management participants and 95,147 non-management participants, divided into 94,313 men and 14,999 women;
- average duration of training programs: 16.6 hours.

Employment and integration of disabled workers

At December 31, 2009, there were 4,932 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 2,902 disabled employees at December 31, 2009.

Social work

A total of €66,151,454 was provided as subsidies for social work in 2009, 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 €46,658,049.

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 (ILO).

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 ILO 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 2009 Sustainable Development Report.

17.3 SHARE SUBSCRIPTION AND PURCHASE OPTIONS, BONUS SHARES

17.3.1 Company policy on the award of share subscription and purchase options, and on the award of bonus shares

Company policy during the 2009 fiscal year

The Company did not grant any share subscription nor purchase options in 2009.

Company policy during the 2010 fiscal year

On March 24, 2010, in accordance with the recommendations made by the appointments and compensation committee, the Board of Directors defined the Company policy on incentive schemes for the Group's managers and executive officers for the 2010 fiscal year.

In this regard, the Board of Directors decided to favor the award of stock options.

The Board decided that, should stock options be awarded during the fiscal year, the options would be reserved to the main executives and managers in the Group, except for the chairman of the Board of Directors and for the chief executive officer.

Board of Directors also decided that the vesting of options would be contingent on terms and conditions to be defined, for all beneficiaries, and on attaining return on capital employed (ROCE) of at least 8.4% as of December 31, 2012.

The exercise price of the options would be fixed with reference to the average of the last twenty stock market prices for Veolia Environnement shares (with no discount or premium).

In light of these policy decisions, the board decided to propose that the general meeting of shareholders to be held on May 7, 2010 vote to approve a resolution that authorizes the Board to award employees of the Company and of companies that are affiliated to it, for a period of twenty-six months, share subscription or purchase options, with no discount, capped at 1% of the share capital on the date of the award decision.

Table outlining share subscription or purchase options at December 31, 2009

As a result of the capital increase recorded on July 10, 2007 (cf. chapter 21, § 21.1.6 below), 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
	Plan No. 7	**Plan No. 6**	**Plan No. 5**	**Plan No. 4**	**Plan No. 3**
Date of shareholders' meeting	5/11/2006	5/12/2005	5/12/2004	4/25/2002	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
Total number of options originally awarded	2,490,400	4,044,900	3,341,600	5,192,635	4,413,000
• *Of which total number of options awarded to corporate officers*	110,000	150,000	110,000	605,000	465,000
Number of corporate officers concerned originally	1	1	1	6	6
Number of employees concerned originally	557	1,378	1,087	1,740	1,400
Exercise start date	7/18/2011	3/29/2010	12/25/2007	3/25/2006	1/29/2005
Expiration date	7/17/2015	3/28/2014	12/24/2012	3/24/2011	1/28/2010
Exercise price*	€57.05	€44.03	€24.32	€22.14	€36.65
Number of options exercised at December 31, 2009	0	1,300	232,596	3,164,028	2,351,868
Total number of shares that could originally be subscribed for or purchased at at December 31, 2009**	**635,850**	**3,709,861**	**3,080,738**	**1,571,010**	**1,929,114**

* *Adjusted, where appropriate, to take into account transactions affecting the Company's share capital*

** *Once adjusted in accordance with legal requirements and plans' performance criteria, taking into account options that were exercised and changes of beneficiaries' situation that occurred since the implementation of each plan.*

A share purchase option plan No. 1 was implemented pursuant to a management board decision on June 23, 2000. This plan expired on June 23, 2008. On the plan's expiration date, a total number of 457,962 shares had been acquired by Group executives and employees under this plan.

A share subscription option plan No. 2 was implemented on February 8, 2001, also pursuant to a management board decision. This plan expired on February 8, 2009. On the plan's expiration date, a total number of 1,989,853 shares had been subscribed by Group executives and employees under this plan.

Plan No. 3 described above expired on January 28, 2010. On this date, 2,385,941 shares were subscribed by Group executives and employees under the plan.

With respect to the potential dilution relating to the share subscription options and bonus shares, see chapter 21, § 21.1.5 below.

Retention obligation applicable to the corporate officers (Articles L. 225-185 and L. 225-197-1 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 bonus shares awarded pursuant to Article L. 225-197-1 of the French Commercial Code. 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 appointments and compensation committee decided to reflect on the rules that could be applied when future share subscription or purchase options are awarded to corporate officers. The committee presented its findings to the Board of Directors on March 29, 2007.

In accordance with these recommendations, the Board decided to apply a rule to oblige its chairman and chief executive officer to set up a portfolio of Veolia Environnement 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 the tax).

This rule has not been applied in practice, as the performance criterion set in the 2007 stock options plan has not been satisfied and considering that no options or bonus shares have been awarded to corporate officers since that plan.

The board will consider the terms of application if options were to be awarded to the Chief Executive Officer.

17.3.2 Options and bonus shares awarded to corporate officers and exercised by them during the 2009 fiscal year

Share subscription or purchase options awarded during the fiscal year to corporate officers by Veolia Environnement and by any Group company

Name of corporate officers	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 of the Board of Directors)	NA	NA	none	NA	NA	NA
Antoine Frérot (chief executive officer)	NA	NA	none	NA	NA	NA

Bonus shares awarded during the fiscal year to corporate officers by Veolia Environnement and by any Group company

Name of corporate officers	Plan number and date	Number of shares awarded during the fiscal year	Valuation of the shares	Availability date	Performance conditions
Henri Proglio (Chairman of the Board of Directors)	NA	NA	none	NA	NA
Antoine Frérot (Chief Executive Officer)	NA	NA	none	NA	NA

Share subscription or purchase options exercised during the fiscal year by the corporate officers

Name of corporate officers	Plan number and date	Number of options exercised during the fiscal year	Nature of the options	Exercise price *(in euros)*
Henri Proglio (Chairman of the Board of Directors)	NA	none	NA	NA
Antoine Frérot (Chief Executive Officer)	NA	none	NA	NA

Bonus shares that became available during the fiscal year for corporate officers

Name of the corporate officer	Plan number and date	Number of shares that became available during the fiscal year	Vesting conditions
Henri Proglio (Chairman of the Board of Directors)	NA	none	NA
Antoine Frérot (Chief Executive Officer)	NA	none	NA

Share subscription options held by Mr. Henri Proglio, Chairman of the Company's Board of Directors, at December 31, 2009

Plan number and date	Exercise price *(in euros)*	Plan expiration	Number of options originally awarded	Number of shares under option
Plan No. 1 – 2000	31.41	expired (06/24/2008)	60,000	0
Plan No. 2 – 2001	40.59	expired (02/08/2009)	208,000	0
Plan No. 3 – 2002	36.65	01/28/2010	220,000	225,282
Plan No. 4 – 2003	22.14	03/24/2011	220,000	0
Plan No. 5 – 2004	24.32	12/24/2012	110,000	111,810
Plan No. 6 – 2006	44.03	03/28/2014	150,000	152,453
Plan No. 7 – 2007	57.05	07/17/2015	110,000	0
Total			**1,078,000**	**489,545**

Mr. Proglio's options in force at December 31, 2009 represented 0.99% of the Company's potential share capital on this date. The exercise prices at this same date for these options were all higher than the stock market price for Veolia Environnement shares.

No bonus shares have been awarded to Mr. Proglio.

Share subscription options held by Mr. Antoine Frérot, the Company's Chief Executive Officer, at December 31, 2009

Plan number and date	Exercise price *(in euros)*	Plan expiration	Number of options originally awarded	Number of shares under option
Plan No. 1 – 2000	31.41	expired (06/24/2008)	40,000	0
Plan No. 2 - 2001	40.59	expired (02/08/2009)	41,600	0
Plan No. 3 - 2002	36.65	01/28/2010	45,000	0
Plan No. 4 - 2003	22.14	03/24/2011	70,000	0
Plan No. 5 - 2004	24.32	12/24/2012	40,000	40,658
Plan No. 6 - 2006	44.03	03/28/2014	60,000	60,982
Plan No. 7 - 2007	57.05	07/17/2015	40,000	0
Total			**336,600**	**101,640**

Mr. Frérot's options in force at December 31, 2009 represented 0.02% of the Company's potential share capital on this date. The exercise prices at this same date for these options were all higher than the stock market price for Veolia Environnement shares.

No bonus shares have been awarded to Mr. Frérot.

17.3.3 Options granted to the top ten employees who are not corporate officers during the 2009 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 and exercised by them	Total number of options awarded / shares subscribed for or purchased	Average weighted price**	Plan number
Options awarded during the 2009 fiscal year by Veolia Environnement and any company within the option 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 in this way	none	NA	NA
Options held on Veolia Environnement and the companies referred to above, which were exercised during the 2009 fiscal year, by the ten employees of Veolia Environnement and of said companies, for whom the number of options thus exercised is the highest*	4,917	36.65	No. 3
	16,648	22.14	No. 4
	3,519	24.32	No. 5

* *This does not include options exercised by employees who have left the Group.*

** *Exercise price after legal adjustments.*

17.4 EMPLOYEE PROFIT-SHARING

17.4.1 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.

17.4.2 Company savings plans and employee share ownership policy

Since 2002, Veolia Environnement employees have had the possibility of investing in various instruments in the Group Savings Plan (GSP), "Sequoia," 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 during reserved capital increases. The plan was progressively extended at international level (it now covers twenty-nine countries, including France, all mechanisms combined), the ultimate goal being for employees to hold 5% of the Company capital.

Two shareholder plans are proposed: a "classic" plan, in which the employee is exposed to changes in listed share prices, and a "low-risk" plan (with or without leverage), which protects employees from a fall in the price of shares while giving them the possibility of benefiting from its increase.

Depending on local particularities, the shares in these two plans were subscribed either directly or through the FCPE (corporate mutual fund). Additional, *ad hoc* plans were put in place in the United Kingdom (Share Incentive Plan) and in China (synthetic formula that replicates the economic conditions of the low-risk shareholder plan) in order to circumvent certain constraints, such as tax and exchange rate regulations.

The most recent operation took place in the spring of 2009 and resulted in the issue of 911,014 new shares, representing 0.18% of the capital. This capital increase, which was reserved for employees, was offered to 190,000 staff in twenty-three countries.

Around 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 1.7% of the Company's capital.

In total, approximately 70,000 employees have opened an account in the Veolia Environnement Group Savings Plan.

17.5 SHARES HELD BY CORPORATE OFFICERS AND EXECUTIVES 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", 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, executives and officers are subject to French and U.S. regulations on misfeasance (*manquement d'initié*) and insider trading (*délit d'initié*) sanctioning the use or disclosure of privileged information[(1)].

Finally, executives 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 above). 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.

17.5.1 Shares held by directors and transactions involving Veolia Environnement securities

At December 31, 2009, the members of the Company's Board of Directors held a total of 272,243 Veolia Environnement shares, representing approximately 0.055% 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 12/31/2009	**Number of shares held at 12/31/2008**
Jean Azéma	799	750
Daniel Bouton	2,000	900
Jean-Francois Dehecq	895	840
Pierre-André de Chalendar	750	NA
Augustin de Romanet de Beaune	807	750
Jean-Marc Espalioux	19,202	3,952
Paul-Louis Girardot	1,051	985
Philippe Kourilsky	750	750
Serge Michel	3,094	3,094
Henri Proglio	236,271	232,714
Baudouin Prot	1,687	1,687
Georges Ralli	985	985
Paolo Scaroni	792	750
Louis Schweitzer	2,368	2,250
Murray Stuart	792	750
TOTAL	**272,243**	**251,157**

(1) *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 2009 fiscal year by Company directors [1]. 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 2009 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	shares	subscription*	June 8, 2009	16.06	246,713,12
Jean Azéma	shares	subscription*	June 8, 2009	16.06	786,94
Groupama SA (legal entity linked to Jean Azéma)	shares	subscription*	June 8, 2009	16.06	272,281.24
Jean-François Dehecq	shares	subscription*	June 8, 2009	16.06	883.30
Paul-Louis Girardot	shares	subscription*	June 8, 2009	16.06	1,959.32
Philippe Kourilsky	shares	subscription*	June 8, 2009	16.06	1,268.74
Serge Michel	shares	subscription*	June 8, 2009	16.06	3,758.04
Louis Schweitzer	shares	subscription*	June 8, 2009	16.06	1,895.08
Paulo Scaroni	shares	subscription*	June 8, 2009	16.06	674.52
Murray Stuart	shares	subscription*	June 8, 2009	16.06	674.52
Pierre-André de Chalendar	shares	acquisition*	June 29, 2009	20.90	15,678.75
Daniel Bouton	shares	acquisition	August 13, 2009	23.0287	46,347.52

* *dividend paid in new shares.*

17.5.2 Shares held by officers and transactions involving Veolia Environnement securities

The table below details transactions involving Veolia Environnement securities executed during the 2009 fiscal year by members of the Company's executive committee (cf. § 16.2.1 above)[2]. To the best of the Company's knowledge, no other declaration of transactions involving the purchase or sale of Veolia Environnement securities by these persons or any person who has close personal links therewith were made during the 2009 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	shares	subscription*	June 8, 2009	16.06	25,053.60
	shares	subscription**	August 5, 2009	21.28	6,236.37
Antoine Frérot	shares	subscription*	June 8, 2009	16.06	1,959.32
	shares	subscription**	August 5, 2009	21.28	1,145.44
Denis Gasquet	shares	subscription*	June 8, 2009	16.06	9,539.64
Thomas Piquemal	shares	subscription**	August 5, 2009	21.28	213,349.60
Véronique Rouzeau	shares	subscription**	August 5, 2009	21.28	4,805.60
Alain Tchernonog	shares	subscription*	June 8, 2009	16.06	2,007.50
	shares	subscription**	August 5, 2009	21.28	6,236.37

* *dividend paid in new shares*

** *subscription for the capital increase within the scope of the GSP (Group Savings Plan)*

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[1] *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 2009 fiscal year by the Company's directors.*

[2] *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 2009 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, 2009

The table below shows the number of shares and the corresponding percentages of share capital and voting rights held as of December 31, 2009 by Veolia Environnement's principal known shareholders.

Each Veolia Environnement share entitles its holder to one vote. There are no shares with double voting rights or non-voting shares (however, the voting rights of treasury shares are not exercised).

To the Company's knowledge, as of December 31, 2009 and the date this reference document was filed, no shareholder other than those listed in the table below directly or indirectly held 4% or more of the Company's shares or voting rights. The Company has not received any declarations of threshold crossings from the shareholders below, except as described in the notes to the table below.

Shareholders on December 31, 2009	**Number of shares**	**Percentage of share capital**	**Number of voting rights**	**Percentage of voting rights *****
Caisse des Dépôts(1)	47,273,114	9.58	47,273,114	9.87
Groupe Groupama(2)	28,234,444	5.72	28,234,444	5.89
Capital Group Companies(3)	22,252,765	4.51	22,252,765	4.65
EDF(4)	18,287,428	3.70	18,287,428	3.82
Veolia Environnement(5)	14,731,592	2.98	0**	0
Public and other investors	362,851,031	73.51	362,851,031	75.8
Total	**493,630,374***	**100.00**	**478,898,782***	**100.00**

* *This figure includes a capital increase of 31,011 shares pursuant to options exercised between July 1 and December 31, 2009 and recorded by the Board of Directors at its meeting of March 5, 2010. Issuing 31,011 shares with a par value of €5 each resulted in a capital increase of €155,055. At the conclusion of this transaction, the Company's share capital had increased from 493,599,363 shares to 493,630,374 shares (see Chapter 21, § 21.1.6, Table of changes in capital below).*

** *As of December 31, 2009 and the date this reference document was filed, Veolia Environnement held 14,731,592 treasury shares.*

*** *Percentage of voting rights as a share of actual voting rights (Veolia Environnement treasury shares do not exercise voting rights).*

(1) *According to the analysis of the Company's shareholders as of December 31, 2009 and the most recent known declaration of threshold crossing of Caisse des Dépôts filed with the Company on June 15, 2009 (AMF Decision and Information no. 209C0862 dated June 15, 2009).*

(2) *According to the analysis of the Company's shareholders as of December 31, 2009. To the Company's knowledge, Groupama's most recent declaration of threshold crossing was filed on December 30, 2004 (AMF Decision and Information no. 205C0030 dated January 7, 2005).*

(3) *Management companies acting on behalf of clients (U.S. mutual funds). Percentage of share capital and voting rights according to the analysis of the Company's shareholders as of December 31, 2009. The analysis of the Company's shareholders as of December 31, 2009 shows that companies of the Capital Group Companies group together hold 22,252,765 shares, representing 4.52% of the capital.*

(4) *According to the statement of registered shareholders as of January 19, 2010 prepared by Société Générale (the account manager) and according to the analysis of the Company's shareholders as of December 31, 2009. To the Company's knowledge, EDF's most recent declaration of threshold crossing was filed on December 30, 2002 (Euronext notice no. 2002-4424 dated December 31, 2002). In that declaration, EDF reported that on such date it held 16,155,492 Veolia Environnement shares. Furthermore, in the amendment dated November 24, 2002 to the agreement dated June 24, 2002 described in Chapter 18, §18.2, of this reference document, EDF stated that it would hold shares acquired in the Company as a financial investment, that it did not seek to influence the Company's management and that it would exercise its voting rights solely for the purpose of enhancing the value of its investment.*

(5) *Treasury shares without voting rights. This figure is included in the monthly report of transactions carried out by Veolia Environnement with respect to its own shares that was filed with the* Autorité des Marchés Financiers *on March 3, 2010.*

To the Company's knowledge, there is no agreement between one or more of the Company's other shareholders or any provision in a shareholders' agreement or agreement to which the Company is a party that could have a material impact on the Company's share price, and there is no shareholders' agreement or other agreement of such nature to which any significant non-listed subsidiary of the Company is a party, other than the agreements with EDF described in Chapter 20, § 20.1 (notes 36 and 39.3 to the 2009 consolidated financial statements), and in Chapter 22 of this reference document.

No third party controls Veolia Environnement and, to the Company's knowledge, there is no agreement in existence that, if implemented, could at a subsequent date result in a change of control or takeover of the Company.

Table summarizing changes in the Company's principal shareholders (that directly or indirectly have held more than 4% of the Company's shares) over the last three fiscal years*

	Situation on December 31, 2009			Situation on December 31, 2008			Situation on December 31, 2007		
Shareholder	**Number of shares**	**% of share capital**	**% of voting rights**	**Number of shares**	**% of share capital**	**% of voting rights**	**Number of shares**	**% of share capital**	**% of voting rights**
Caisse des Dépôts	47,273,114	9.58	9.87	47,273,114	10.00	10.33	48,763,596	10.36	10.70
EDF	18,287,428	3.70	3.82	18,287,428	3.87	4.00	18,287,428	3.88	4.01
Groupe Groupama	28,072,848	5.69	5.87	26,221,588	5.55	5.73	27,171,816	5.77	5.96
Capital Group Companies	22,252,765	4.52	4.65	43,691,019	9.25	9.55	55,741,994	11.84	12.23

* *Figures are taken from the 2009, 2008 and 2007 reference documents. Figures for Capital Group Companies have been combined to take into account the percentages of the Company's share capital and voting rights held by all companies of that group.*

18.2 CHANGES IN THE COMPANY'S SHAREHOLDERS

- SNEGE, a wholly-owned subsidiary of Vivendi Universal, owned 99.99% of the Company's share capital from its incorporation until March 31, 1999. Between April 1 and April 9, 1999, Vivendi Universal acquired 100% of the Company's share capital at its par value.
- In July 2000, the Company's shares began trading on the Euronext Paris First Market, which led Vivendi Universal's equity stake in the Company to fall 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 stake in the Company to 63%.
- In July 2002, the Company carried out a capital increase without suspending preemptive subscription rights. This capital increase was completed 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 preemptive subscription rights which had been granted to Vivendi Universal and subscribed for the remainder of the shares not subscribed by the public. Upon conclusion of the transaction, the GID 1 held 9.4% of the Company's share capital.
- On November 24, 2002, Vivendi Universal, the Company, the GID 1 and a group of new long-term 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 (on its own behalf and on behalf of a client), CIC, Generali, Crédit Lyonnais, Médéric Prévoyance and Wasserstein Family Trust LLC ("New Investors"), signed an amendment to the June 24, 2002 agreement[(1)], 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, which represented approximately 0.9% of its share capital at the time of sale). For each share purchased, the Company and the New Investors also received an option to purchase the Company's shares at a price of €26.50 per share, exercisable at any time between December 24, 2002 and December 23, 2004 inclusive. As of the expiration date of these options, i.e., December 23, 2004, none had been exercised.

(1) *Provisions published by the Conseil des Marchés Financiers on January 27, 2003 under no. 203C0104.*

- On December 31, 2002, the Company certified completion of a capital increase reserved to employees of the Company and the Group, which had been approved on June 27, 2002. The Sequoia employee investment fund subscribed for these shares in the name and on behalf of its beneficiaries. Upon conclusion of this transaction, 1,183,158 new shares with a par value of €13.50 each had been subscribed at a price of €26.50 per share, thereby increasing share capital by €15,972,633, which represented approximately 1.28% of the Company's share capital.
- On December 6, 2004, the Company certified completion of a share capital increase reserved to employees of the Company and the Group, which had been approved by the Board of Directors on September 16, 2004. Several employee investment funds acting in the name and on behalf of their beneficiaries subscribed for this capital increase. Upon conclusion of this transaction, 1,351,468 new shares with a par value of €5 each had been subscribed for at a price of €18.71 per share, thereby increasing share capital by €6,757,340, which represented approximately 0.33% of the Company's share capital.
- On December 8 and December 9, 2004, Vivendi Universal disposed of 15% of the 20.36% stake it held in the Company's capital through (i) a private placement for investors involving 10% of the Company's capital; (ii) the conclusion of a derivative transaction with Société Générale involving 3% of the Company's capital; and (iii) a redemption by Veolia Environnement of its shares, involving 2% of the share capital, which was completed on December 29, 2004.
- On December 6, 2005, the Company certified completion of a capital increase reserved to employees of the Company and the Group, which had been approved by the Board of Directors on September 15, 2005. Several employee investment funds acting in the name and on behalf of their beneficiaries subscribed for this capital increase. Upon conclusion of this transaction, 1,281,928 new shares with a par value of €5 per share had been subscribed at a price of €28.11 per share, thereby increasing share capital by €6,409,640, which represented approximately 0.3% of the Company's capital on the date completion was certified.
- On July 6, 2006, Vivendi (formerly Vivendi Universal) announced the completion of the sale of the 5.3% share of Veolia Environnement capital it still held, 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.(1)
- On December 15, 2006, the Company certified completion of a capital increase reserved to employees of the Company and the Group, which had been approved by the Board of Directors on September 14, 2006. Several employee investment funds acting in the name and on behalf of their beneficiaries subscribed for this capital increase. Upon conclusion of this transaction, 1,931,340 new shares with a par value of €5 each had been subscribed for at a price of €37.52 each, thereby increasing capital by €9,656,700, which represented approximately 0.47% of the Company's capital on the date completion was certified.
- On July 10, 2007, the Company certified completion of a capital increase for cash with maintenance of preemptive subscription rights, which had been approved by the Board of Directors on June 10, 2007. Upon conclusion of this transaction, 51,941,040 new shares with a par value of €5 each were issued, thereby increasing share capital by €259,705,200. The total amount of the capital increase, including the issue premium, was €2,581,469,688.
- On December 12, 2007, the Company certified completion of a capital increase consisting of (i) a capital increase reserved to current and retired employees of the Company and the Group, in France and abroad, the subscription for which was carried out directly and through several employee investment funds; and (ii) a capital increase reserved for Sequoia Souscription International – SAR, a subsidiary of Calyon, acting pursuant to a structured share offer for employees from countries unable to participate in traditional employee shareholder plans. Upon completion of this transaction, 3,250,446 new shares with a par value of €5 each, which were subscribed for at a price of €48.18 and €60.23 (depending on the plan), were issued, thereby increasing share capital by €16,252,230, which represented approximately 0.7% of the Company's share capital on the date completion was certified.
- On June 4, 2009, the Company certified completion of a capital increase for cash for a total amount of €322,993,629, which was carried out in order to pay a share dividend in accordance with the fifth resolution adopted by the combined general shareholders' meeting held on May 7, 2009. This transaction resulted in the issuance of 20,111,683 new shares with a par value of €5 each, i.e., an increase in the Company's capital of €100,558,415. Upon completion of this transaction, the Company's share capital had been increased to €2,463,441,745, divided into 492,688,349 shares with a par value of €5 each.

(1) *Following the transfer, Vivendi reported that as of July 11, 2006 it held less than 5% of the capital and voting rights of Veolia Environnement and that it no longer held any securities of the Company (AMF Decision and Information no. 206C1511 of July 24, 2006).*

- On August 5, 2009, the Company recorded completion of a capital increase reserved to current and retired employees of the Company and the Group, in France and abroad, the subscription for which was carried out directly and through several employee investment funds. Upon completion of this transaction, 911,014 new shares with a par value of €5 each had been issued, which were subscribed for at a price of €21.28, and which increased the Company's capital by €4,555,070, which represented approximately 0.18% of the Company's capital on the date completion was recorded.

  Following this transaction, the share of the Company's capital held by employees is approximately 1.82%[1].

- On March 4, 2010, the Company recorded completion of a capital increase pursuant to options exercised on July 1 and December 31, 2009. After these options were exercised, 31,011 new shares with a par value of €5 each were issued, thereby increasing the Company's capital by €155,055. Upon conclusion of this transaction, the Company's capital had been increased to €2,468,151,870 euros, divided into 493,630,374 shares with a par value of €5 each.

(1) *As of December 31, 2009, the Company's employees held 1.66% of its share capital.*

19. Related-party transactions

Information concerning transactions with related parties in 2009 is included in the statutory auditors' special report concerning regulated agreements and commitments concluded in 2009 (Schedule 1 to this reference document, and in chapter 20, paragraph 20.1, note 39 to the consolidated financial statements.

See also the statutory auditors' reports concerning regulated agreements for the 2007 and 2008 fiscal years, which are included as Schedules to Veolia Environnement's 2007 and 2008 reference documents.

20 Financial information concerning the assets, financial condition and results of the issuer

20.1 CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial position

Consolidated statement of financial position - Assets

		As of December 31		
(€ million)	**Notes**	**2009**	**2008**	**2007**
Goodwill	4	**6,624.6**	6,723.3	6,913.2
Concession intangible assets	5	**3,624.8**	3,637.7	2,989.2
Other intangible assets	6	**1,437.8**	1,535.2	1,706.4
Property, plant and equipment	7	**9,382.4**	9,427.1	9,203.2
Investments in associates	8	**268.5**	311.6	292.1
Non-consolidated investments	9	**174.6**	202.8	256.1
Non-current operating financial assets	10	**5,275.2**	5,298.9	5,272.4
Non-current derivative instruments - Assets	28	**431.9**	508.4	123.7
Other non-current financial assets	11	**753.9**	817.3	746.0
Deferred tax assets	12	**1,621.3**	1,579.5	1,468.1
Non-current assets		**29,595.0**	**30,041.8**	**28,970.4**
Inventories and work-in-progress	13	**997.3**	1,022.0	839.4
Operating receivables	13	**12,247.5**	13,093.2	12,459.4
Current operating financial assets	10	**376.6**	452.3	355.2
Other current financial assets	11	**217.7**	321.4	330.0
Current derivative instruments - Assets	28	**45.6**	142.8	114.4
Cash and cash equivalents	14	**5,614.4**	3,849.6	3,115.6
Assets classified as held for sale	24	**722.6**	203.0	122.5
Current assets		**20,221.7**	**19,084.3**	**17,336.5**
Total assets		**49,816.7**	**49,126.1**	**46,306.9**

Consolidated statement of financial position – Equity and liabilities

(€ million)	Notes	As of December 31 2009	2008	2007
Share capital		**2,468.2**	**2,362.9**	**2,358.8**
Additional paid-in capital		**9,433.2**	**9,197.5**	**9,179.5**
Reserves and retained earnings attributable to owners of the Company		**(4,440.8)**	**(4,559.2)**	**(3,925.4)**
Total equity attributable to owners of the Company	15	**7,460.6**	**7,001.2**	**7,612.9**
Total equity attributable to non-controlling interests		**2,670.1**	**2,530.5**	**2,577.8**
Equity	15	**10,130.7**	**9,531.7**	**10,190.7**
Non-current provisions	16	**2,291.1**	**2,160.2**	**2,138.9**
Non-current borrowings	17	**17,647.3**	**17,063.9**	**13,948.0**
Non-current derivative instruments – Liabilities	28	**139.3**	**159.9**	**163.8**
Deferred tax liabilities	12	**1,951.2**	**1,936.0**	**1,794.7**
Non-current liabilities		**22,028.9**	**21,320.0**	**18,045.4**
Operating payables	13	**13,075.7**	**13,591.8**	**12,944.8**
Current provisions	16	**749.2**	**773.1**	**825.7**
Current borrowings	17	**2,983.1**	**3,219.7**	**3,805.0**
Current derivative instruments - Liabilities	28	**84.8**	**125.9**	**34.0**
Bank overdrafts and other cash position items	14	**454.9**	**465.7**	**459.4**
Liabilities directly associated with assets classified as held for sale	24	**309.4**	**98.2**	**1.9**
Current liabilities		**17,657.1**	**18,274.4**	**18,070.8**
Total equity and liabilities		**49,816.7**	**49,126.1**	**46,306.9**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated income statement

(€ million)	Notes	Year ended December 31, 2009	2008 (2)	2007 (2)
Revenue	18	**34,551.0**	**35,764.8**	**31,574.1**
o/w Revenue from operating financial assets		394.4	397.9	342.1
Cost of sales		(28,786.2)	(30,013.4)	(25,710.4)(1)
Selling costs		(602.6)	(621.4)	(560.4)(1)
General and administrative expenses		(3,338.1)	(3,218.6)	(2,905.8)(1)
Other operating revenue and expenses		196.0	49.4	63.6
Operating income	19	**2,020.1**	**1,960.8**	**2,461.1**
Finance costs	20	(880.4)	(1,111.2)	(958.0)
Finance income	20	96.1	202.2	151.1
Other financial income and expenses	21	(110.3)	(39.2)	2.3
Income tax expense	22	(242.2)	(462.0)	(399.7)
Share of net income of associates	8 & 23	1.4	19.4	17.1
Net income from continuing operations		**884.7**	**570.0**	**1,273.9**
Net income from discontinued operations	24	(42.8)	139.2	(19.1)
Net income for the year		**841.9**	**709.2**	**1,254.8**
Non-controlling interests	25	257.8	304.1	326.9
Attributable to owners of the Company		**584.1**	**405.1**	**927.9**

(in euros)				
Net income attributable to owners of the Company per share(3)	26			
Diluted		1.24	0.87	2.11
Basic		1.24	0.88	2.13
Net income from continuing operations attributable to owners of the Company per share(3)	26			
Diluted		1.33	0.71	2.17
Basic		1.33	0.71	2.19

(1) In 2008, as part of ongoing efficiency measures, the Group reclassified certain expenses from cost of sales to selling costs and general and administrative expenses. These reclassifications had no impact on operating income (see Note 19 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;*
- *the entities of the U.S. incineration activity in Environmental Services (Montenay International) and Freight activities (essentially in France, Germany and the Netherlands) divested in the second half of 2009;*
- *Transportation activities in the United Kingdom and Renewable energy activities in the process of divestiture at the year end, are presented in a separate line, "Net income from discontinued operations," for the years ended December 31, 2008 and 2007.*

(3) Pursuant to IAS 33, the weighted average number of shares outstanding taken into account for the calculation of 2008 and 2007 net income per share was adjusted following the distribution of a scrip dividend in June 2009. The adjusted number of earning per share is therefore 462.2 million as of December 31, 2008 and 434.8 million as of December 31, 2007 (see Note 26).

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

(€ million)	Year ended December 31,		
	2009	**2008**	**2007**
Net income for the year	**841.9**	**709.2**	**1,254.8**
Actuarial gains or losses on pension obligations	(67.8)	(138.1)	114.4
Related income tax expense	14.3	34.1	(26.4)
Amount net of tax	(53.5)	(104.0)	88.0
Fair value adjustments on available-for-sale assets	(3.3)	(18.2)	33.8
Related income tax expense	(0.6)	(0.2)	(0.1)
Amount net of tax	(3.9)	(18.4)	33.7
Fair value adjustments on cash flow hedge derivatives	46.2	(112.8)	15.5
Related income tax expense	(5.8)	24.2	(6.7)
Amount net of tax	40.4	(88.6)	8.8
Foreign exchange gains and losses:			
- on the translation of the financial statements of subsidiaries drawn up in a foreign currency	65.2	(279.8)	(251.5)
Amount net of tax	65.2	(279.8)	(251.5)
- on the net financing of foreign operations	2.2	(31.8)	(6.5)
related income tax expense	**3.8**	15.9	1.0
Amount net of tax	**6.0**	(15.9)	(5.5)
Other comprehensive income	**54.2**	**(506.7)**	**(126.5)**
Total comprehensive income for the year	**896.1**	**202.5**	**1,128.3**
- Attributable to owners of the Company	657.1	(84.4)	778.5
- Attributable to non-controlling interests	239.0	286.9	349.8

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated cash flow statement

(€ million)	Notes	Year ended December 31, 2009	2008	2007
Net income for the year attributable to owners of the Company		584.1	405.1	927.9
Net income for the year attributable to non-controlling interests	25	257.8	304.1	326.9
Operating depreciation, amortization, provisions and impairment losses	19	2,230.4	2,301.6	1,816.7
Financial amortization and impairment losses		7.2	19.5	8.0
Gains/(losses) on disposal and dilution	19	(306.1)	(288.2)	(173.5)
Share of net income of associates	8	0.9	(18.5)	(16.9)
Dividends received	21	(8.7)	(8.4)	(8.8)
Finance costs and finance income	20	792	922.8	817.1
Income tax expense	22	311.9	470.9	420.1
Other items (including IFRS 2)		69.1	69.5	101.9
Operating cash flow before changes in working capital		**3,938.6**	**4,178.4**	**4,219.4**
Changes in working capital	13	432.1	(80.9)	(167.1)
Income taxes paid		(408.5)	(347.5)	(417.7)
Net cash from operating activities		**3,962.2**	**3,750.0**	**3,634.6**
Capital expenditure	41	(2,465.7)	(2,780.6)	(2,518.7)
Proceeds on disposal of intangible assets and property, plant and equipment		258.7	329.8	212.9
Purchases of investments		(187.0)	(800.7)	(1,835.4)
Proceeds on disposal of financial assets		582.3	361.1	181.7
Operating financial assets:				
New operating financial assets	10	(483.1)	(507.0)	(404.1)
Principal payments on operating financial assets	10	455.2	358.2	360.7
Dividends received	8 & 21	14.8	15.8	15.3
New non-current loans granted		(43.8)	(252.7)	(65.0)
Principal payments on non-current loans		65.8	30.0	61.6
Net decrease/(increase) in current loans		140.9	(89.0)	(27.4)
Net cash used in investing activities		**(1,661.9)**	**(3,335.1)**	**(4,018.4)**
Net increase/(decrease) in current borrowings	17	(1,323.9)	(1 437.0)	(1,534.5)
New non-current borrowings and other debt	17	3,301.2	3,590.2	2,060.4
Principal payments on non-current borrowings and other debt	17	(1,514.8)	(184.8)	(1,362.9)
Proceeds on issue of shares		157.1	51.0	3,039.2
Share capital reduction	15		(131.0)	-
(Purchases of)/proceeds from treasury shares (1)		4.9	3.2	18.9
Dividends paid (1)		(434.0)	(754.4)	(564.3)
Interest paid		(729.8)	(847.6)	(716.0)
Net cash from/(used in) financing activities		**(539.3)**	**289.6**	**940.8**
Net cash at the beginning of the year		**3,383.9**	**2,656.2**	**2,202.0**
Effect of foreign exchange rate changes and other		14.6	23.2	(102.8)
Net cash at the end of the year		**5,159.5**	**3,383.9**	**2,656.2**
Cash and cash equivalents	14	5,614.4	3,849.6	3,115.6
Bank overdrafts and other cash position items	14	454.9	465.7	459.4
Net cash at the end of the year		**5,159.5**	**3,383.9**	**2,656.2**

(1) See the Statement of Changes in Equity

Net cash flows attributable to discontinued operations as defined in IFRS 5 contributed -€31.1 million, +€37.8 million and +€55.1 million to net cash from operating activities, +€266.6 million, +€148.4 million and -€94.1 million to net cash from investing activities and -€5.7 million, -€26.3 million and -€26.9 million to net cash from financing activities in 2009, 2008 and 2007, respectively.

Discontinued operations are presented in Note 24.

The accompanying notes are an integral part of these consolidated financial statements.

Statement of changes in 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 owners of the Company**	**Non-controlling interests**	**Total equity**
As of January 1, 2007	**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 of 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 of 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)

(€ 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 owners of the Company**	**Non-controlling interests**	**Total equity**
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 of 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 of 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)

(€ 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 owners of the Company**	**Non-controlling interests**	**Total equity**
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**
Issues of share capital of the parent company (1)	21,053,708	105.3	235.8					341.1		341.1
Elimination of treasury shares				4.9				4.9		4.9
Share purchase and subscription options					10.3			10.3		10.3
Third party share in share capital increases of subsidiaries									149.8	149.8
Third party share in changes in consolidation scope									(45.0)	(45.0)
Parent company dividend distribution					(553.8)			(553.8)		(553.8)
Third party share in dividend distributions of subsidiaries									(202.0)	(202.0)
Foreign exchange translation						82.4		82.4	(17.2)	65.2
Foreign investments						82.0		82.0	(0.1)	81.9
Actuarial gains or losses on pension obligations					(51.2)			(51.2)	(2.3)	(53.5)
Fair value adjustments on cash flow hedge derivatives						(75.9)	35.6	(40.3)	4.8	(35.5)
Fair value adjustments on available-for-sale assets							0.1	0.1	(4.0)	(3.9)
TOTAL other comprehensive income					(51.2)	88.5	35.7	73.0	(18.8)	54.2
Net income for the year					584.1			584.1	257.8	841.9
Other changes					(0.2)			(0.2)	(2.2)	(2.4)
As of December 31, 2009	**493,630,374**	**2,468.2**	**9,433.2**	**(452.6)**	**(3,600.3)**	**(344.4)**	**(43.5)**	**7,460.6**	**2,670.1**	**10,130.7**

The dividend distribution per share was €1.21 in 2009 and 2008 and €1.05 in 2007.

A dividend distribution of €1.21 per share is proposed to the Annual General Meeting of Shareholders of May 7, 2010.

The total dividend paid recorded in the Consolidated Cash Flow Statement for the year ended December 31, 2009 of €434 million includes:

(€ million)	
Dividend distribution by the parent company	(554)
Third party share in dividend distributions of subsidiarires	(202)
Scrip dividend [(1)]	322
TOTAL DIVIDEND PAID	**(434)**

(1) The lines « Proceeds on issue of shares » and « Dividends paid » in the Consolidated Cash Flow Statement are presented net of scrip dividends as such distributions do not generate cash flows

Note 1 ACCOUNTING PRINCIPLES AND METHODS

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, as amended by European Regulation n°297/2008 of March 11, 2008, the consolidated financial statements for the year ended December 31, 2009 are presented in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union and IFRS as published by the International Accounting Standards Board (IASB). These standards may be consulted at the following European Union website: http://ec.europa.eu/internal_market/accounting/ias/index_fr. htm

These financial statements are accompanied, for comparative purposes, by financial statements for fiscal years 2008 and 2007 drawn up in accordance with the same standards framework.

Since fiscal year 2006, the Group has accounted for its concession business in accordance with the principles set out in 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 2009

The accounting principles and valuation rules applied by the Group in preparing the consolidated financial statements for the year ended December 31, 2009 are identical to those applied by the Group as of December 31, 2008, with the exception of the following standards, standard amendments and interpretations which came into mandatory effect as of January 1, 2009 or July 1, 2009:

- IFRS 8 "Operating Segments".

  The impact of the implementation of this new standard is presented in Note 1.26 below;

- IAS 1 Revised, "Presentation of Financial Statements".

  Pursuant to the revised standard, the "Balance sheet" is now known as the "Consolidated Statement of Financial Position" and the changes resulting from transactions with owners of the Company acting in this capacity are presented separately from transactions with non-controlling interests in the Statement of Changes in Equity, which is now presented with the financial statements;

- IFRIC 18 "Transfers of assets from Customers".

  IFRIC 18, Transfers of Assets from Customers, is applicable from July 1, 2009 but was not adopted by the European Union until December 1, 2009. The interpretation is of prospective applicable and the Group did not elect for early adoption.

  The interpretation covers situations where a customer transfers an asset to a supplier at the beginning of a contract, which the supplier must then use for the supply of goods or services. This interpretation also applies to cash transferred by a customer to finance the acquisition or construction of assets by the supplier to be used for the supply of goods or services. Contracts and services covered by the provisions of IFRIC 12 are specifically excluded from the scope of this interpretation.

  Within the Group, this interpretation is likely to impact the Water and Energy Services Divisions. The Group has allocated the necessary resources to analyze the contracts signed since July 1, 2009, likely to fall within the application scope of IFRIC 18;

- IAS 23 Revised, "Borrowing Costs";

- Amendments to IAS 32 and IAS 1, "Financial Instruments – Presentation: puttable financial instruments and obligations arising on liquidation";

- Amendments to IFRS 1 and IAS 27 relating to the cost of an investment on first-time adoption of IAS/IFRS;
- Amendment to IFRS 2, Share-based Payment – vesting conditions and cancellations;
- Amendments arising from the 2006-2008 annual improvement process, with the exception of the amendments to IFRS 5;
- Amendment to IFRS 7, Financial Instruments: Disclosures – Improvements to Financial Instrument Disclosures;
- Amendment to IAS 39 and IFRIC 9 relating to embedded derivatives;
- 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".

Implementation of these standards and interpretations did not have a material impact.

1.1.3 Texts which enter into mandatory effect after December 31, 2009 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, 2009 (adopted or in the course of being adopted by the European Union):

- IFRS 3 Revised, "Business Combinations";
- Amendment to IAS 27 "Consolidated and Separate Financial Statements".

  The application of IFRS 3 Revised and IAS 27 Revised is likely to have a material impact on future business combinations or transactions with non-controlling interests;
- Amendments resulting from the 2007-2009 annual improvement process (not adopted by the European Union).

  Pursuant to the new amendment specifying the conditions for implementing IAS 7, the Group will eliminate the replacement costs detailed in Note 19, Operating income, from "Net cash from operating activities" in the Consolidated Cash Flow Statement, from January 1, 2010. Consequently, when adjusting "Net income attributable to owners of the Company" to obtain "Net cash from operating activities", replacement costs will no longer be eliminated under "Operating depreciation, amortization, provisions and impairment losses." This amendment has no impact on net income or equity;
- Amendments to IAS 28 and IAS 31 subsequent to IFRS 3 revised;
- IAS 24 Revised, "Related Party Disclosures" (not adopted by the European Union);
- Amendment to IAS 32, "Financial Instruments: Disclosures: Classification of rights issues";
- Amendment to IAS 39, "Financial Instruments: Recognition and Measurement: Eligible Hedged Items";
- Amendment to IFRS 2, "Share-based Payment - Group cash-settled share-based payment transactions", (not adopted by the European Union);
- Amendment to IFRS 5 resulting from the 2006-2008 annual improvement process;
- IFRIC 17, "Distribution of Non-cash Assets to Owners";
- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments" (not adopted by the European Union);
- Amendment to IFRIC 14, "Prepayments of a Minimum Funding Requirement" (not adopted by the European Union);
- IFRS 9, "Financial Instruments, Classification and Measurement" (not adopted by the European Union).

  Subject to their definitive adoption by the European Union, these standards, standard amendments and interpretations are of mandatory application from July 1, 2009 or later, that is from January 1, 2010 or later for the Group. The Group is currently assessing the potential impact of the first-time application of these new texts.

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.

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 and IAS 39).

The Veolia Environnement consolidated financial statements for the year ended December 31, 2009 were adopted by the Board of Directors on March 24, 2010 and will be presented for approval to the Annual General Meeting of Shareholders on May 7, 2010.

1.3 Basis of presentation as of December 31, 2009

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, 2009, 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.

Non-controlling interests represent the part of net income or loss and of net assets not held by the Group. They are presented in the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income and in equity in the Consolidated Statement of Financial Position, separately from equity attributable to the owners of the Company.

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.

Pursuant to the provisions of IAS 28, Investments in Associates, Veolia Environnement accounts for associates using the equity method where it exercises significant influence over financial and operating policies. 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 the presentation currency of the Group are translated into the presentation 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 other comprehensive income 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, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
U.S. Dollar	0.6942	0.7185	0.6793
Pound Sterling	1.1260	1.0499	1.3636
Czech Crown	0.0378	0.0372	0.0376
Average annual exchange rate (*one foreign currency unit = €xx*)	**Average annual rate 2009**	**Average annual rate 2008**	**Average annual rate 2007**
U.S. Dollar	0.7177	0.6782	0.7248
Pound Sterling	1.1222	1.2433	1.4550
Czech Crown	0.0378	0.0399	0.0361

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 foreign 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 other comprehensive income in foreign exchange translation adjustments and are released to income on the disposal of the net investment. The impact on the Veolia Environnement financial statements is not material.

Exchange gains and losses on foreign currency-denominated borrowings or on currency derivatives that qualify as hedges of a net investment in a foreign operation, are recognized directly in other comprehensive income as foreign exchange translation adjustments. Amounts recognized in other comprehensive income are released to income on the sale date 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.

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 initially recorded in property, plant and equipment at the lower of fair value and the present value of future minimum lease payments. Subsequently, these assets are recognized at the lower of the present value of minimum lease payments less accumulated depreciation and any accumulated impairment losses, and market 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 Consolidated Statement of Financial Position.

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 applicable model following an analysis of each concession arrangement (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 arrangement.

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.

Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities and contingent liabilities assumed, if any. It is valued in the functional currency and recognized in assets in the Consolidated Statement of Financial Position.

Pursuant to IFRS, goodwill is not amortized but is subject to impairment tests performed annually or more frequently where there is evidence calling into question the net carrying amount.

Where the fair value of assets acquired and liabilities and contingent liabilities assumed, if any, exceeds the purchase price, "negative goodwill" is immediately recognized in net income.

Treatment of costs directly attributable to acquisitions incurred during 2009 and concerning acquisitions to be completed after January 1, 2010:

Costs directly attributable to business combinations incurred during 2009, and relating to acquisitions to be completed during fiscal year 2010, were expensed in net operating income for the year.

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 period-end 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.

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.

Impairment losses can be reversed, with the exception of those relating to goodwill.

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. Where an exceptional impairment must be recorded, it is deducted in priority from 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 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. Given the Group's activities, the cash-generating units generally represent a country in each Division. Future cash flows are taken for the first six years from the long-term plan validated by Executive Management. The main assumptions included in the calculation of the value in use of each cash-generating unit are the discount rate, changes in activity volumes, prices and direct costs (inflation) over the period and investments:

- A discount rate (weighted average cost of capital) is determined for each asset, CGU or group of CGUs: it is equal to the risk-free rate plus a risk premium weighted for country-specific risks. The discount rates estimated by management for each cash-generating unit therefore reflect current market assessments of the time value of money and the country specific risks to which the cash-generating unit is exposed, with the other risks reflected in the expected future cash flows from the assets;
- Changes in volumes, prices and direct costs are based on past changes and expected future market trends;
- The terminal value is calculated based on discounted forecast flows for the last year (2015). These flows include organic growth such as inflation.

As Water activities in China follow a specific economic model, with extremely long contract terms (up to fifty years) and high investment flows during the initial contract years, fiscal year 2015 may not be considered a standard year. Therefore, exceptionally, the business plan was extended to 2024 for the "Water–China" cash-generating unit, in order to identify standard flows for the calculation of the terminal value. The growth rate to perpetuity set out in Note 4 applies from this year.

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

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 Consolidated Statement of Financial Position at the lower of net carrying amount and fair value less costs to sell.

In addition, the standard requires the separate presentation in the income statement of the results of discontinued operations for all comparative periods on a retrospective basis.

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;
- 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.

Therefore, as of December 31, 2009, the results of operations sold or in the course of being sold in 2009 must also be adjusted in the comparative financial statements as of December 31, 2007 and 2008. The 2008 and 2007 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 Consolidated Cash Flow Statement for the year ended December 31, 2009 and comparative periods.

The 2008 and 2007 Consolidated Statements of Financial Position 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 Consolidated 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 Consolidated 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 Measurement, recognition and derecognition of financial assets

Financial assets are initially recognized at fair value including transaction costs, where the assets concerned are not subsequently measured at fair value through the Consolidated Income Statement. Where the assets are measured at fair value through the Consolidated 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 the present value of future cash flows discounted at the initial EIR. The impairment loss is recognized in the Consolidated 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 other comprehensive income, except where there is a material or long-term unrealized capital loss. This can arise when future cash flows decrease to such an extent that the fair value of these assets falls materially or long-term below the historical cost. Where this is the case, the impairment loss is recognized in the Consolidated Income Statement. Impairment reversals are recognized in the Consolidated Income Statement for debt securities only (receivables and bonds).

Amounts recognized in other comprehensive income 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, where there exists an indication of impairment, the carrying amount of these assets exceeds the present value of future cash flows discounted at the initial EIR. The impairment loss is recognized in the Consolidated 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 receivables or payables 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 Consolidated 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 Consolidated Income Statement.

Net gains and losses on assets at fair value through the Consolidated Income Statement consist of interest income, dividends and fair value adjustments.

Net gains and losses on derivatives entered into for trading purposes consist of flows exchanged and the change in the value of the instrument.

Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the contractual rights to the cash flows from the financial asset in a transaction under which nearly all the rights and obligations inherent to ownership of the financial asset are transferred. Any interest created or retained by the Group in a financial asset is recognized separately as an asset or liability.

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 3 months when initially recorded in the Consolidated Statement of Financial Position, 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 Consolidated 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 Non-controlling interest put options

Pursuant to IAS 27, non-controlling interests in fully consolidated subsidiaries are considered a component of equity.

Furthermore, in accordance with IAS 32, non-controlling interest put options are considered as liabilities.

Pending an IFRIC interpretation or a specific IFRS, the Group has adopted the following accounting treatment:

- the present value of purchase commitments is recorded in borrowings in the Consolidated Statement of Financial Position, through non-controlling 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 non-controlling interests have not been purchased on the expiry of the commitment, equity attributable to non-controlling interests is 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 Consolidated Statement of Financial Position at fair value. Other than the exceptions detailed below, changes in the fair value of derivative instruments are recorded through the Consolidated 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 Consolidated Income Statement 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 specific 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 specific 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 Consolidated 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 Consolidated Statement of Financial Position. The gain or loss on remeasurement is recognized in the Consolidated 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 other comprehensive income, while the gain or loss on the fair value remeasurement of the underlying item is not recognized in the Consolidated Statement of Financial Position. The ineffective portion of the gain or loss on the hedging instrument is recognized in the Consolidated Income Statement. Gains or losses recognized in other comprehensive income are released to the Consolidated Income Statement in the same period or periods in which the asset acquired or liability issued impacts net income;
- 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 other comprehensive income, while the ineffective portion is recognized in the Consolidated Income Statement. Gains and losses recognized in foreign exchange translation reserves are released to the Consolidated 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 Consolidated Income Statement.

1.15.8 Treasury shares

Treasury shares are deducted from equity.

Gains or losses arising from the sale of treasury shares and related dividends are recognized directly in equity and do not impact the Consolidated 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 Consolidated 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. The plan surplus is recognized in non-current financial assets.

Certain obligations of the Group or Group entities may enjoy repayment entitlement, corresponding to a commitment by a third party to repay in full or in part the expenses relating to these obligations. Repayment entitlement is recognized in non-current financial assets.

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 in the Consolidated Statement of Financial Position and the recognition of the related net expenses.

Pursuant to IAS 19 revised, Employee Benefits, actuarial gains and losses are offset against other comprehensive income and are not amortized in the Consolidated 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 Consolidated 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, expected volatility, determined based on observed volatility in the past and dividends expected on the shares.

The compensation expense in respect of employee saving plans corresponds to the difference between the subscription price and the average share price at each subscription date, less a discount for non-transferability and to the Company's contribution to subscribers.

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 Revenue 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 Concession arrangements (IFRIC 12)

See Note 1.21 on Service concession arrangements.

1.19 Financial items in the Consolidated 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 lease finance 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 Consolidated Income Statement when earned, using the effective interest method.

Other financial income and expenses primarily 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 (credit) includes the current tax charge (credit) and the deferred tax charge (credit).

Deferred tax assets are recognized on deductible timing differences, tax loss carry forwards and/or tax credit carry forwards.

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 appropriate, a provision for contractual commitments is recorded in respect of commitments resulting from delays in the performance of work.

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 divisions.

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 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 arrangements

Concession arrangements are recognized in accordance with IFRIC 12, Service Concession Arrangements, published in November 2006. IFRIC 12 was approved by the European Union 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 Consolidated Statement of Financial Position 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 the present value of future cash flows discounted at the initial EIR.

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 Consolidated Statement of Financial Position 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 for assets and infrastructure under construction (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 of 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 Consolidated Statement of Financial Position 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 Consolidated Statement of Financial Position and revenue in the Consolidated Income Statement, in accordance with the percentage completion method laid down in IAS 11 on 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 at the period-end 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 Consolidated Statement of Financial Position.

Partial payments received under construction contracts before the corresponding work has been performed, are recognized in liabilities in the Consolidated Statement of Financial Position under advances and down-payments received.

The amount of costs incurred, plus profits and less losses recognized (particularly 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.

1.24.1 Revenue

After analysis of contractual terms and conditions, the net margin on trading activity transactions is recognized in "Revenue".

1.24.2 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 28).

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 January 1, 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.

Directive 2009/29/EC of April 26, 2009 amended the ETS Directive and extended the allowance trading system beyond the second period (2008-2012). It covers the period 2013-2020 and provides for a progressive reduction in allowances allocated and new allocation procedures.

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 an initial period 2005-2007 (EUA I) and then for a second period 2008-2012 (EUA II). The actual emissions position is determined each year and the corresponding rights surrendered. The Group then purchases or sells emission rights, depending on whether actual emissions are greater or lesser than emission rights allocated.

In the absence of specific IFRS provisions, the Group has adopted the "net liability approach", which involves the recognition of a liability at the period-end 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 period-end. Fair value gains and losses on financial instruments relating to these forward transactions are recognized in other comprehensive income or net income depending on whether they qualify as cash flow hedges in accordance with IAS 39.

1.26 Segment reporting

Since January 1, 2009, the Group identifies and presents segment reporting in accordance with IFRS 8, Operating Segments.

This information is taken from the internal organization of Group activities and corresponds to the four Group businesses (which were used for primary reporting purposes under the former segment reporting standard, IAS 14): Water, Environmental Services, Energy Services and Transportation.

The quantified indicators presented by operating segment form part of the key ratios used for budget validation, operating segment performance measurement and resource allocation reviewed by Executive Management.

Financial information by operating segment is prepared in accordance with the same rules used to prepare the Consolidated Financial Statements.

1.27 Fair value determination principles

The fair value of all financial assets and liabilities is determined at the period-end, either for recognition in the accounts or disclosure in the notes to the financial statements (see Note 27).

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 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 USE OF MANAGEMENT ESTIMATES IN THE APPLICATION OF GROUP ACCOUNTING STANDARDS

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 28 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 16 and 30 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 22 on the income tax expense presents the tax position of the Group and is primarily 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 as of December 31, 2008 was analyzed with respect to the financial crisis. Following the stabilization of the financial context in 2009, these rates were analyzed again taking account of current conditions and using the following procedures:

- 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 at the end of the first half-year. A review of these rates as of December 31, 2009 did not call into question this practice;
- Application of IAS 37, Provisions, Contingent Liabilities and Contingent Assets: the discount rates used consist of a risk-free interest rate and a risk premium specific to the underlying assets and liabilities. The adjustment applied to this risk premium in December 2008 to limit market volatility in this period, was not considered necessary at the 2009 year-end;
- Application of IAS 19, Employee Benefits: the exclusive use of market indices and, in particular, the iboxx index in those countries where this index exists, was suspended as of December 31, 2008 due to the highly volatile nature of these indices. Commitments were once again measured using a range of market indices and, in particular the iboxx index, at the December 31, 2009 year-end.

Note 3 SIGNIFICANT EVENTS

- As was the case in the second half of 2008, 2009 was marked by the financial crisis and its economic repercussions, and specifically:
  - significant exchange rate fluctuations, which modified the contribution of businesses from outside the euro zone, particularly in Eastern Europe and on the U.S. dollar;
  - the downward trend in energy prices and CO_2 emission rights;
  - the fall, followed by the stagnation or rise in the price of certain recycled raw materials (particularly paper and cardboard);
  - the slowdown in activity, affecting volumes in the Environmental Services business lines, and, to a lesser extent, new orders in construction business in the Water and Energy Services Divisions;
  - the difficult financial situation of industry economic players and, to a lesser extent, public players which weighed on the performance of certain growth projects and the solvency of some customers.

  The first signs of stabilization of the economic environment began to appear, nonetheless, during the second half of 2009.

- In accordance with the decision of the May 7, 2009 Shareholders' General Meeting, the Group offered its shareholders a share or cash option with respect to the dividend payment. The share payment option was adopted by 58% of shareholders, resulting in the creation of 20.1 million shares representing a little over 4.25% of the share capital and 4.39% of the voting rights.
- As part of the refinancing of its EMTN program, Veolia Environnement carried out three bond issues: a €1,250 million bond issue, bearing annual interest at a fixed rate of 5.25% and maturing on April 24, 2014, a €750 million bond issue, bearing annual interest at a fixed rate of 6.75% and maturing on April 24, 2019, and a €250 million bond issue, bearing annual interest at a fixed rate of 5.70% and maturing in June 29, 2017.
- The Group continued its strategic development and discussions with Caisse des Dépôts aimed at merging its Transportation activities with Transdev in accordance with the proposal announced at the beginning of August 2009. In December 2009, Caisse des Dépôts and Veolia Environnement reached a framework agreement for the merger, which primarily covers the financial structure of the new group, with a view to signature of a final agreement in 2010, contingent on receipt of the necessary competition authorizations. The proposed merger of Veolia Transport and Transdev would be carried out by way of the contribution of Veolia Transport and Transdev to a new entity, held 50% by Veolia Environnement, acting as the industrial operator so as to retain transportation as a key component of its environmental services, and 50% by Caisse des Dépôts et Consignations, acting as long-term strategic shareholder. These discussions form part of the planned future listing of the Group's Transportation business.

  As part of its divestiture program, the Group performed the following divestitures in 2009:
  - On June 24, 2009, the Environmental Services Division announced that it had entered into exclusive discussions with TFN Group with respect to the sale of Veolia Propreté Nettoyage et Multiservices (VPNM). The sale was completed on August, 26, 2009 for an enterprise value of €111 million;
  - On July 6, 2009, Environmental Services Division announced the signature of an agreement relating to the sale of the U.S. incineration activity (Montenay International); the partial sale of activities provided for in the agreement was completed in August 2009 for an enterprise value of €220 million;
  - On August 12, 2009 Dalkia announced the signature of an agreement for the sale of its Facilities Management activities in the United Kingdom for a total amount of €90 million (Group share) as of December 31, 2009;
  - On December 1, 2009 Veolia Environnement announced the completion of the sale of Veolia Cargo to Transport Ferroviaire Holding (SNCF Group) for its activities in Germany, the Netherlands and Italy and to Europorte (Eurotunnel group) for its activities in France. The divestiture of Veolia Cargo at its enterprise value amounted to €94 million;
  - On November 9, 2009, the Group announced the signature of a partnership between Dalkia and CEZ, the number-one electricity producer in the Czech Republic, to develop an industrial cooperation and potentially leading to asset transfers. As a first step, CEZ acquired 15% of Dalkia Czech Republic for €123 million (100% value), subject to obtaining the necessary competition authorizations. This transaction had not been completed as of December 31, 2009;

- On December 22, 2009, the Water Division reviewed certain economic aspects (financial restructuring) and the governance rules of its partnership with Mubadala Development Company. This operation resulted in a €189 million reduction in Group debt as of December 31, 2009;
- In the fourth quarter of 2009, the Group finalized the sale of a minority interest in Compagnie Méridionale de Navigation for €45 million;
- Finally, in December 2009 the EBRD acquired an additional 6.88% interest in Veolia Voda (through a reserved share capital increase), the entity grouping together all Water Division operating activities in Central Europe, for €70 million.

• The Group is currently in exclusive discussions with RATP for the sale of its Transportation activities in the United Kingdom (corresponding to an autonomous cash-generating unit), Switzerland and a limited number of contracts in France, as part of the merger with Transdev, in accordance with the proposal announced in August 2009. Activities in the United Kingdom were reclassified in discontinued operations in the Group financial statements as of December 31, 2009.

• Finally, the Group decided to sell its Renewable Energies activities in the Energy Services Division during 2010. These activities represent a largely independent uniform unit ("cash-generating unit") as defined by IFRS 5 and have therefore been classified in discontinued operations in the Group financial statements as of December 31, 2009.

Note 4 GOODWILL

Goodwill breaks down as follows:

(€ million)	**As of December 31, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
Gross	**7,104.9**	7,211.2	7,013.3
Impairment losses	**(480.3)**	(487.9)	(100.1)
Net	**6,624.6**	**6,723.3**	**6,913.2**

The main goodwill balances in net carrying amount by cash-generating unit (amounts in excess of €100 million as of December 31, 2009) are as follows:

(€ million)	**As of December 31, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
Water - Distribution France	**743.3**	743.2	760.5
Environmental Services – United Kingdom	**690.0**	644.3	824.2
Environmental Services North America Solid Waste	**591.3**	610.8	567.8
Environmental Services - Germany	**402.1**	397.8	748.2
Dalkia France	**337.8**	338.5	342.8
Water Solutions & Technologies	**280.3**	245.8	206.1
Water – China	**240.4**	247.5	145.7
Environmental Services France Solid Waste	**238.5**	272.4	150.0
Water – United Kingdom	**222.7**	197.4	245.3
Water – Czech Republic	**219.1**	216.4	220.6
Dalkia Italy	**185.2**	184.9	139.9
Transportation - United States	**165.5**	175.3	137.0
Energy Services – United States	**147.4**	152.6	139.6
Transportation – Passenger services France	**143.7**	136.2	117.7
Water Germany (excl. Berlin)	**137.7**	137.7	138.8
Water – Berlin	**134.4**	134.4	134.4
Veolia Energy Services – Poland	**114.5**	111.5	71.7
Transportation Sweden, Norway, Finland	**114.4**	104.8	124.5
Environmental Services - Marius Pedersen	**102.2**	100.9	90.0
Goodwill balances > €100 million as of December 31, 2009	**5,210.5**	**5,152.4**	**5,308.4**
Goodwill balances < €100 million	1,414.1	1,570.9	1,608.4
Goodwill	**6,624.6**	**6,723.3**	**6,913.2**

Goodwill balances of less than €100 million break down by division as follows:

Goodwill balances < €100 million *(€ million)*	**As of December 31, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
Water	**275.5**	325.3	357.0
Environmental Services	**654.2**	710.5	669.1
Energy Services	**362.9**	343.6	404.1
Transportation	**114.0**	135.0	177.5
Other	**7.5**	56.5	0.7
Total	**1,414.1**	**1,570.9**	**1,608.4**

As of December 31, 2009, accumulated impairment losses totaled €480.3 million and mainly concerned the Environmental Services Division in Germany (€343 million) and the Transportation Division in the Netherlands and Belgium (€38 million) and in Scandinavia (€64 million).

No material impairment losses were recognized in the Group financial statements as of December 31, 2009.

Movements in the net carrying amount of goodwill by division are as follows:

(€ million)	**As of December 31, 2008**	**Changes in consolidation scope**	**Foreign exchange translation**	**Impairment losses**	**Other**	**As of December 31, 2009**
Water	**2,247.7**	10.0	14.4		(18.8)	**2,253.3**
Environmental Services	**2,736.7**	(84.1)	49.2		(23.4)	**2,678.4**
Energy Services	**1,131.1**	12.8	5.0	(1.0)	-	**1,147.9**
Transportation	**551.3**	(16.5)	11.6	(5.5)	(3.3)	**537.6**
Other	**56.5**	(16.3)	(0.6)	-	(32.2)	**7.4**
Goodwill	**6,723.3**	**(94.1)**	**79.6**	**(6.5)**	**(77.7)**	**6,624.6**

Changes in the consolidation scope primarily concern divestitures in 2009 (Dalkia UK in the Energy Services Division, VPNM in the Environmental Services Division and Freight activities in the Transportation Division) and the acquisition of Digismart in the Energy Services Division.

The main acquisitions of the year are presented in Note 31, "Main acquisitions", and the divestitures are presented in Note 24, "Net income from discontinued operations".

No material amendments were made to the opening balance sheets of 2008 acquisitions, including Tianjin Shibei WCO, Bartin Recycling and Praterm. The 12-month periods commencing the acquisition dates during which the Group can finalize the accounting recognition of the business combinations, pursuant to IFRS 3, had expired as of December 31, 2009.

Foreign exchange translation gains and losses are primarily due to the depreciation of the U.S. dollar and the appreciation of the pound sterling against the euro in the amount of -€37.2 million and €65.5 million respectively.

Other movements primarily consist of the reclassification of goodwill to "Assets classified as held for sale" in the amount of -€77.7 million, primarily in the Environmental Services Division, the Renewable Energies sector and certain French subsidiaries under joint control in the Water Division.

Impairment tests as of December 31, 2009:

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 in accordance with the procedures set out in Note 1.11.

Veolia Environnement Group has 147 cash-generating units as of December 31, 2009.

Discount rates used in 2009 reflect the country or geographical area of the cash-generating unit, in accordance with the criteria set out in Notes 1.11 and 2. The discount rates for the main geographical areas in 2009 were as follows:

France :	6.8%	United-Kingdom :	7.0%
United-States :	6.8%	China :	8.4%
Germany :	6.8%		

Similarly, perpetual growth rates used in 2009 to determine terminal values reflect the country or geographical area of the cash-generating unit, in accordance with the criteria set out in Notes 1.11. Average perpetual growth rates for the main geographical areas in 2009 were as follows:

France :	1.5%	United-Kingdom :	1.7%
United-States :	2.1%	China :	1.9%
Germany :	1.5%		

As in 2008 and given the current economic climate, impairment tests were performed based on the 2010 budget for all Group cash-generating units: the reduction in cash flows in the 2010 budget prepared at the end of 2009, of over 10% compared with 2010 figures in the long-term plan, led the Group to review its business plans for two cash-generating units – Italy in the Energy Services Division and Spain in the Transportation Division.

Impairment tests did not lead to the recognition of any material impairments of goodwill in 2009.

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 -€291 million (including -€129 million for the "Energy Services - United States" cash-generating unit, -€62 million for the "Dalkia - Italy" cash-generating unit and -€31 million for the "Environmental Services – Italy" 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 -€237 million (including -€106 million for the "Energy Services - United States" cash-generating unit, -€43 million for the "Dalkia - Italy" cash-generating unit and -€24 million for the "Environmental Services – Italy" cash-generating unit).

Recap: Movements in the net carrying amount of goodwill during 2008 are as follows:

(€ million)	**As of December 31, 2007**	**Changes in consolidation scope**	**Foreign exchange translation**	**Impairment losses**	**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**

In **2008**, **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,
  - Divestiture 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.

Foreign exchange translation gains losses are primarily due to the depreciation of the pound sterling and the appreciation of the U.S. dollar against the euro in the amount of -€272.2 million and €62.2 million respectively.

Impairment losses recognized in 2008 total -€398.3 million and include -€343.0 million in respect of impairment of the goodwill of the Environmental Services Division 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.

Note 5 CONCESSION INTANGIBLE ASSETS

Movements in the net carrying amount of concession intangible assets during 2009 are as follows:

(€ million)	**As of December 31, 2008**	**Additions**	**Disposals**	**Impairment losses**	**Amorti-zation**	**Changes in consoli-dation scope**	**Foreign exchange translation**	**Other**	**As of December, 31 2009**
Concession intangible assets, gross	4,983.9	373.9	(32.6)	-	-	(146.1)	(40.7)	(9.3)	**5,129.1**
Amortization & impairment losses	(1,346.2)	-	30.8	(14.2)	(243.5)	29.4	3.9	35.5	**(1,504.3)**
Concession intangible assets, net	**3,637.7**	**373.9**	**(1.8)**	**(14.2)**	**(243.5)**	**(116.7)**	**(36.8)**	**26.2**	**3,624.8**

Additions concern the Water Division in the amount of €286.4 million, the Energy Services Division in the amount of €57.7 million and the Environmental Services Division in the amount of €21.6 million.

Changes in consolidation scope are mainly the result of a change in consolidation method (from full to proportionate consolidation) of the Water Division in North Africa and the Middle East for -€195.6 million and the entry of several entities into the consolidation scope under the Shenzhen contract in the Water Division in China for €41.9 million.

Foreign exchange translation gains and losses are primarily due to the depreciation of the Chinese renminbi yuan and the appreciation of the pound sterling against the euro in the amount of -€46.8 million and €16.8 million respectively.

Other movements primarily consist of the reclassification of non-current operating financial assets following the extension of a concession arrangement in the Water Division in the amount of €21.1 million and 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 -€15.4 million.

Concession intangible assets by division break down as follows:

	As of December 31, 2009			**Net carrying amount as of December 31, 2008**	**Net carrying amount as of December 31, 2007**
(€ million)	**Gross carrying amount**	**Amortization & impairment losses**	**Net carrying amount**		
Water	3,787.1	(942.3)	**2,844.8**	2,892.0	2,336.1
Environmental Services	429.7	(166.5)	**263.2**	259.1	242.7
Energy Services	858.5	(378.5)	**480.0**	453.6	388.8
Transportation	-	-	**-**	-	-
Other	53.8	(17.0)	**36.8**	33.0	21.6
Concession intangible assets	**5,129.1**	**(1,504.3)**	**3,624.8**	**3,637.7**	**2,989.2**

Recap: Movements in the net carrying amount of concession intangible assets during 2008 are as follows:

(€ million)	**As of December 31, 2007**	**Additions**	**Disposals**	**Impairment losses**	**Amorti-zation**	**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.

Note 6 OTHER INTANGIBLE ASSETS

Other intangible assets break down as follows:

(€ million)	As of December 31, 2009	As of December 31, 2008	As of December 31, 2007
Intangible assets with an indefinite useful life, net	**70.0**	**99.5**	**82.8**
Intangible assets with a definite useful life gross	3,271.5	3,203.9	3,168.6
Amortization and impairment losses	(1,903.7)	(1,768.2)	(1,545.0)
Intangible assets with a definite useful life net	**1,367.8**	**1,435.7**	**1,623.6**
Intangible assets, net	**1,437.8**	**1,535.2**	**1,706.4**

Movements in the net carrying amount of other intangible assets during 2009 are as follows:

(€ million)	As of December 31, 2008	Additions	Disposals	Impairment losses	Amortization	Changes in consolidation scope	Foreign exchange translation	Other	As of December 31, 2009
Intangible assets with an indefinite useful life, net	**99.5**	**1.4**	**(0.0)**	**(1.1)**	**-**	**12.6**	**(1.7)**	**(40.7)**	**70.0**
Fees paid to local authorities	576.5	13.8	(0.4)	(1.3)	(58.9)	(13.2)	(3.1)	(11.7)	**501.7**
Purchased contractual rights	398.9	0.1	(0.0)	(12.5)	(51.6)	(1.4)	3.6	(14.5)	**322.6**
Purchased software	143.9	45.4	(0.4)	(0.4)	(52.8)	(1.0)	3.1	4.4	**142.2**
Purchased customer portfolios	78.2	-	-	-	(10.8)	(3.4)	1.3	(0.0)	**65.3**
Other purchased intangible assets	203.1	18.8	(1.3)	(6.7)	(24.6)	5.7	1.5	(8.5)	**188.0**
Other internally-developed intangible assets	35.1	56.4	(0.1)	(0.1)	(10.7)	(0.9)	0.2	68.1	**148.0**
Intangible assets with a definite useful life net	**1,435.7**	**134.5**	**(2.2)**	**(21.0)**	**(209.4)**	**(14.2)**	**6.6**	**37.8**	**1,367.8**
Other intangible assets	**1,535.2**	**135.9**	**(2.2)**	**(22.1)**	**(209.4)**	**(1.6)**	**4.9**	**(2.9)**	**1,437.8**

Intangible assets with an indefinite useful life are primarily trademarks.

Fees paid to local authorities in respect of public service contracts totaled €501.7 million as of December 31, 2009, including €494.8 million for the Water Division. The amortization of fees paid at the beginning of concession arrangements, calculated over the contract term, totaled -€58.9 million in 2009, including -€55.8 million for the Water Division.

Other movements primarily consist of the reclassification of the assets of the Renewable Energies activity and of certain French subsidiaries under joint control in the Water Division to "Assets classified as held for sale" in the amount of -€29.2 million.

Recap: 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**	**Amorti-zation**	**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**

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 arrangements, 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 Division 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.

Note 7 PROPERTY, PLANT AND EQUIPMENT

Movements in the net carrying amount of property, plant and equipment during 2009 are as follows:

(€ million)	As of December 31, 2008	Additions	Disposals	Impairment losses	Amorti-zation	Changes in consolidation scope	Foreign exchange translation	Other	As of December 31 2009
Property, plant and equipment, gross	19,491.5	1,598.7	(823.8)	-	-	(173.1)	315.6	(418.7)	**19,990.2**
Depreciation and impairment losses	(10,064.4)	-	602.5	(14.2)	(1,362.6)	126.6	(157.5)	261.8	**(10,607.8)**
Property, plant and equipment, net	**9,427.1**	**1,598.7**	**(221.3)**	**(14.2)**	**(1,362.6)**	**(46.5)**	**158.1**	**(156.9)**	**9,382.4**

Additions concern the Water Division in the amount of €330.4 million, the Environmental Services Division in the amount of €486.4 million, the Energy Services Division in the amount of €326.5 million and the Transportation Division in the amount of €423 million.

Disposals net of impairment losses and depreciation of -€221.3 million, mainly concern the Water Division in the amount of -€30.2 million, the Environmental Services Division in the amount of -€30.9 million and the Transportation Division in the amount of -€144.1 million.

Changes in consolidation scope mainly concern the Energy Services Division following the acquisition of Digismart in Estonia (+€47.3 million) and the Transportation Division following the divestiture of the Freight activity (-€124.7 million).

Foreign exchange translation gains and losses are primarily due to the appreciation of the pound sterling against the euro in the amount of €111.4 million, the appreciation of the Australian dollar against the euro in the amount of €53.3 million and the depreciation of the U.S. dollar against the euro in the amount of -€46.5 million.

Other movements consist of the reclassification of assets, and primarily the assets of Dalkia Usti activities (Czech Republic), to "Assets classified as held for sale" in the amount of -€175.6 million.

Property, plant and equipment by division break down as follows:

	As of December 31, 2009				
(€ million)	Gross carrying amount	Depreciation & impairment losses	Net carrying amount	Net carrying amount as of December 31, 2008	Net carrying amount as of December 31, 2007
Water	4,312.8	(2,182.4)	**2,130.4**	2,024.4	2,250.9
Environmental Services	8,693.7	(5,039.8)	**3,653.9**	3,838.7	3,638.1
Energy Services	3,178.0	(1,269.0)	**1,909.0**	1,816.6	1,617.3
Transportation	3,549.9	(1,987.9)	**1,562.0**	1,631.8	1,603.0
Other	255.8	(128.7)	**127.1**	115.6	93.9
Property, plant and equipment	**19,990.2**	**(10,607.8)**	**9,382.4**	**9,427.1**	**9,203.2**

The breakdown of property, plant and equipment by class of assets is as follows:

(€ million)	As of December 31, 2009 Gross carrying amount	Depreciation & impairment losses	Net carrying amount	Net carrying amount as of December 31, 2008	Net carrying amount as of December 31, 2007
Land	1,513.5	(629.4)	**884.1**	901.0	859.8
Buildings	3,012.6	(1,392.2)	**1,620.4**	1,543.9	1,660.3
Technical installations, plant and equipment	7,920.9	(4,192.6)	**3,728.3**	3,638.9	3,499.8
Traveling systems and other vehicles	4,889.1	(2,950.1)	**1,939.0**	2,041.3	1,954.0
Other property, plant and equipment	2,077.2	(1,441.0)	**636.2**	643.5	615.9
Returnable assets				-	6.4
Owned property, plant and equipment in progress	576.9	(2.5)	**574.4**	657.8	604.0
Property, plant and equipment in progress	0.0	(0.0)	**0.0**	0.7	3.0
Property, plant and equipment	**19,990.2**	**(10,607.8)**	**9,382.4**	**9,427.1**	**9,203.2**

Recap: Movements in the net carrying amount of property, plant and equipment during 2008 are as follows:

(€ million)	As of December 31, 2007	Additions	Disposals	Impairment losses	Amorti-zation	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, mainly 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.

Note 8 INVESTMENTS IN ASSOCIATES

The principal investments in associates with a value of greater than €10 million as of December 31, 2009 are as follows:

	As of December 31								
	% control			Share in equity			Share of net income		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Fovarosi Csatomazasi Muvek	25.00%	25.00%	25.00%	91.1	92.3	95.7	0.1	1.3	1.0
Regaz (Gaz de Bordeaux)	24.00%			23.8	-	-	4.0	-	-
Cie Méridionale de Navigation (2)		45.00%	45.00%	-	42.8	34.9	(10.2)	7.9	6.9
Doshion VWS	30.00%	30.00%		16.8	15.8	-	0.4	-	-
TIRU	24.00%	24.00%	24.00%	13.0	11.4	13.1	1.1	0.1	0.1
Cie Méridionale de Participations (2)		45.00%	45.00%	-	12.5	12.5	(0.0)	-	0.1
Berlinwasser China Holding (BWI)	49.00%	49.00%		12.0	6.2	-	0.2	-0.3	-
Stadtereinigung Holtmeyer GmbH	40.00%	40.00%		11.9	12.3	-	(0.4)	1.0	-
Stadtreinigung Dresden GmbH (3)		49.00%	49.00%	-	10.1	9.6	-	1.3	-
Other amounts < €10 million in 2008 and 2009				99.9	108.2	126.3	3.9	7.2	8.8
Investments in associates				**268.5**	**311.6**	**292.1**	**(0.9)** (1)	**18.5** (1)	**16.9** (1)

(1) These amounts include the share of net income of associates realized by Freight and Renewable Energy activities in the process of being sold. 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 -€2.4 million in 2009, -€1.0 million in 2008 and -€0.2 million in 2007.

(2) Companies sold in 2009.

(3) Change in consolidation method (from equity accounting to proportionate consolidation).

Movements in investments in associates in 2009 are as follows:

(€ million)	% control as of December 31, 2009	2008	Net income	Dividend distribution	Foreign exchange translation	Changes in consolidation scope	Other	2009
Fovarosi Csatomazasi Muvek	25.00%	92.2	0.1	-	(1.2)	-	-	91.1
Cie Méridionale de Navigation		42.8	(10.2)	-	-	(32.6)	-	-
Doshion VWS	30.00%	15.8	0.4	-	0.3	0.3	-	16.8
Cie Méridionale de Participations		12.5	(0.0)	-	-	(12.5)	-	-
Stadtereinigung Holtmeyer GmbH	40.00%	12.3	(0.4)	-	-	(0.0)	-	11.9
Berlinwasser China Holding(BWI)	49.00%	6.2	0.2	(0.6)	(1.1)	7.3	-	12.0
TIRU	24.00%	11.4	1.1	-	0.5	-	-	13.0
Regaz (Gaz de Bordeaux)	24.00%	-	4.0	-	-	19.8	-	23.8
Stadtreinigung Dresden GmbH		10.1	-	-	-	(10.1)	-	-
Other amounts < €10 million in 2008 and 2009		108.2	3.9	(5.4)	(0.3)	(4.9)	(1.6)	99.9
Investments in associates		**311.6**	**(0.9)**	**(6.0)**	**(1.8)**	**(32.7)**	**(1.6)**	**268.5**

No material amounts were transferred to Assets classified as held for sale in 2007, 2008 or 2009.

Summarized financial information for the main investments in associates is as follows (100% of amounts):

(€ million)	**As of December 31, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
Non-current assets	**767.6**	696.1	870.8
Current assets	**438.2**	328.1	310.4
Total assets	**1,205.8**	**1,024.2**	**1,181.2**
Equity attributable to owners of the Company	**581.5**	559.4	618.7
Equity attributable to non-controlling interests	**14.5**	(1.1)	0.8
Non-current liabilities	**223.3**	244.2	325.2
Current liabilities	**386.5**	221.7	236.5
Total equity and liabilities	**1,205.8**	**1,024.2**	**1,181.2**
Consolidated Income Statement			
Revenue	**431.4**	456.5	377.6
Operating income	**25.8**	52.6	31.6
Net income for the year	**7.1**	**34.7**	14.9

Recap: Movements in investments in associates during 2008 are as follows:

(€ million)	**% control as of December 31, 2009**	**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**	**-7.4**	**-4.0**	**20.2**	**-7.8**	**311.6**

Note 9 NON-CONSOLIDATED INVESTMENTS

Pursuant to IAS 39, non-consolidated investments are recognized at fair value. Unrealized gains and losses are taken directly to other comprehensive income, except for unrealized losses considered long-term which are expensed in the Consolidated Income Statement.

Movements in non-consolidated investments during 2009 are as follows:

(€ million)	**As of December 31, 2008**	**Additions**	**Disposals**	**Changes in consolidation scope**	**Fair value adjustments**	**Impairment losses(1)**	**Other**	**As of December 31, 2009**
Non-consolidated investments	202.8	**14.0**	**(8.4)**	**(46.3)**	**9.4**	**(2.5)**	**5.6**	**174.6**

(1) Impairment losses are recorded in financial income and expenses.

As of December 31, 2009, no investment line other than Méditerranea delle Acque exceeds €20 million. The value of this line is €36 million as of December 31, 2009, including fair value adjustments of €9.7 million and the percentage interest is 17.1%.

Changes in consolidation scope primarily concern the first-time consolidation of Regaz (Gaz de Bordeaux).

Recap: non-consolidated investments break down as follows as of December 31, 2008:

(€ 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**
Méditerranea delle Acque (1)	17.1%	26.3	-	2.0	28.3	55.8
Avacon	-	-	-	-	-	26.6
Domino Sanepar	-	-	-	-	-	20.6
Gaz de Bordeaux (1)	24.0%	17.5	-	11.7	29.2	20.4
Net carrying amount per unit < €20 million in 2008 and 2007		163.2	-19.7	1.8	145.3	132.7
Non-consolidated investments		**207.0**	**-19.7**	**15.5**	**202.8**	**256.1**

(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 2008 are as follows:

(€ 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 recognized in the period 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 2009 are as follows:

(€ million)	**As of December 31, 2008**	**New financial assets**	**Repayments /disposals**	**Impairment losses(1)**	**Changes in consolidation scope**	**Foreign exchange translation**	**Non-current /current reclassi-fication**	**Other**	**As of December 31, 2009**
Gross	5,311.5	467.7	(7.4)	-	(94.9)	34.6	(365.4)	(21.1)	5,325.0
Impairment losses	(12.6)	-	-	(37.4)	-	0.2	-	-	(49.8)
Non-current operating financial assets	**5,298.9**	**467.7**	**(7.4)**	**(37.4)**	**(94.9)**	**34.8**	**(365.4)**	**(21.1)**	**5,275.2**
Gross	452.3	7.8	(447.8)	-	(6.0)	3.5	365.4	4.8	380.0
Impairment losses	-	-	-	(3.4)	-	-	-	-	(3.4)
Current operating financial assets	**452.3**	**7.8**	**(447.8)**	**(3.4)**	**(6.0)**	**3.5**	**365.4**	**4.8**	**376.6**
Non-current and current operating financial assets	**5,751.2**	**475.5**	**(455.2)**	**(40.8)**	**(100.9)**	**38.3**	**-**	**(16.3)**	**5,651.8**

(1) Impairment losses are recorded in operating income.

The principal new operating financial assets in 2009 mainly concern:

- the Water Division and in particular projects in Berlin (€119.6 million);
- the Energy Services Division and in particular cogeneration plants (€73.9 million).

The principal repayments of operating financial assets in 2009 concern:

- the Water Division and in particular projects in Berlin (-€140.1 million);
- the Energy Services Division and in particular cogeneration plants (-€132.7 million).

Foreign exchange translation gains on non-current operating financial assets mainly concern the Environmental Services Division (€18.6 million) and the Water Division (€8.7 million), following the appreciation of the pound sterling and the Korean won against the euro.

Changes in consolidation scope mainly concern the sale of incineration activities in the United States by the Environmental Services Division in the amount of -€41.3 million and changes in consolidation method (from full to proportionate consolidation) of the Water Division in North Africa and the Middle East in the amount of -€59.1 million.

Impairment losses mainly concern the Environmental Services Division following the impairment of a contract in Italy in the amount of €38.6 million (including €35.2 million in non-current).

The breakdown of operating financial assets by division is as follows:

	As of December 31								
	Non-current			Current			Total		
(€ million)	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Water	**3,870.3**	3,851.0	3,719.4	**188.8**	232.2	165.1	**4,059.1**	4,083.2	3,884.5
Environmental Services	**711.8**	768.4	858.1	**42.8**	68.6	44.3	**754.6**	837.0	902.4
Energy Services	**528.4**	562.0	585.4	**126.0**	117.4	126.9	**654.4**	679.4	712.3
Transportation	**86.7**	71.6	104.3	**18.7**	33.9	18.7	**105.4**	105.5	123.0
Other	**78.0**	45.9	5.2	**0.3**	0.2	0.2	**78.3**	46.1	5.4
Operating financial assets	**5,275.2**	**5,298.9**	**5,272.4**	**376.6**	**452.3**	**355.2**	**5,651.8**	**5,751.2**	**5,627.6**

IFRIC 12 operating financial assets maturity schedule:

(€ million)	1 year	2 to 3 years	4 to 5 years	More than five years	**Total**
Water	165.1	359.0	367.9	2, 723.6	**3,615.6**
Environmental Services	40.9	107.4	116.4	461.1	**725.8**
Energy Services	5.2	26.6	7.5	30.0	**69.3**
Transportation	18.7	37.0	12.2	24.6	**92.5**
Other	0.3	-	-	4.7	**5.0**
Total	**230.2**	**530.0**	**504.0**	**3, 244.0**	**4,508.2**

IFRIC 4 operating financial assets maturity schedule:

(€ million)	1 year	2 to 3 years	4 to 5 years	More than five years	**Total**
Water	23.7	54.0	65.1	300.7	**443.5**
Environmental Services	1.9	8.5	9.1	9.3	**28.8**
Energy Services	120.9	182.2	74.3	207.7	**585.1**
Transportation	-	3.6	5.9	3.4	**12.9**
Other	-	-	-	73.3	**73.3**
Total	**146.5**	**248.3**	**154.4**	**594.4**	**1,143.6**

Recap: Movements in the net carrying amount of non-current and current operating financial assets during 2008 are as follows:

(€ million)	As of December 31, 2007	New financial assets	Repayments /disposals	Impairment losses[1]	Changes in consolidation scope	Foreign exchange translation	Non-current /current reclassi-fication	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**

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); and
- 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); and
- 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.

Note 11 OTHER NON-CURRENT AND CURRENT FINANCIAL ASSETS

(€ million)	As of December 31								
	Non-current			Current			Total		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Gross	774.8	803.0	572.6	195.8	283.3	174.1	970.6	1,086.3	746.7
Impairment losses	(73.5)	(63.4)	(57.6)	(31.9)	(27.9)	(21.3)	(105.4)	(91.2)	(78.9)
Financial assets in loans and receivables	**701.3**	**739.6**	**515.0**	**163.9**	**255.4**	**152.8**	**865.2**	**995.0**	**667.9**
Other financial assets	**52.6**	**77.7**	**231.0**	**53.8**	**66.0**	**177.2**	**106.4**	**143.7**	**408.2**
Total other financial assets, net	**753.9**	**817.3**	**746.0**	**217.7**	**321.4**	**330.0**	**971.6**	**1,138.7**	**1,076.1**

11.1 Movements in other non-current financial assets

Movements in the value of other non-current financial assets during 2009 are as follows:

(€ million)	As of December 31, 2008	Additions	Repayments /disposals	Changes in consolidation scope	Impairment losses (1)	Foreign exchange translation	Non-current /current reclassi-fication	Other	As of December 31, 2009
Gross	803.0	50.7	(68.6)	31.2	-	3.2	(14.7)	(30.0)	774.8
Impairment losses	(63.4)	-	-	(0.1)	(9.9)	2.0	0.1	(2.2)	(73.5)
Non-current financial assets in loans and receivables	**739.6**	**50.7**	**(68.6)**	**31.1**	**(9.9)**	**5.2**	**(14.6)**	**(32.2)**	**701.3**
Other non-current financial assets	**77.7**	**10.9**	**(4.5)**	**(8.2)**	**(0.5)**	**2.0**	**(3.2)**	**(21.6)**	**52.6**
Total Other non-current financial assets, net	**817.3**	**61.6**	**(73.1)**	**22.9**	**(10.4)**	**7.2**	**(17.8)**	**(53.8)**	**753.9**

(1) Impairment losses are recorded in financial income and expenses.

Non-current financial assets in loans and receivables

Repayments mainly correspond to the change in the non-Group portion of the loan to Dalkia International for €43 million.

Changes in consolidation scope are mainly the result of a change in consolidation method (from full to proportionate consolidation) of the Water Division in North Africa and the Middle East for €48.4 million.

Other movements concern the reclassification of balances in "Assets classified as held for sale" in the amount of -€15.4 million, mainly in the Transportation Division.

As of December 31, 2009, 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 €450.4 million (mainly 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 mainly concern the transfer of financial assets hedging pension obligations to the new operator, following the loss of a contract in Melbourne by the Transportation Division.

Recap: movements in the value of other non-current financial assets during 2008 are as follows:

(€ million)	**As of December 31, 2007**	**Additions**	**Repayments /disposals**	**Changes in consolidation scope**	**Impairment losses (1)**	**Foreign exchange translation**	**Non-current /current reclassi-fication**	**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, net	**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 mainly 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).

11.2 Movements in current financial assets

Movements in other current financial assets during 2009 are as follows:

(€ million)	**As of December 31, 2008**	**Changes in business**	**Changes in consolidation scope**	**Fair value adjustments**	**Impairment losses (1)**	**Foreign exchange translation**	**Non-current /current reclassi-fication**	**Other**	**As of December 31, 2009**
Gross	283.3	(141.3)	15.0	-	-	0.1	14.6	24.1	195.8
Impairment losses	(27.9)	-	0.1	-	(6.1)	0.1	(0.2)	2.1	(31.9)
Current financial assets in loans and receivables	**255.4**	**(141.3)**	**15.1**	**-**	**(6.1)**	**0.2**	**14.4**	**26.2**	**163.9**
Other current financial assets	**66.0**	**3.7**	**(0.7)**	**(0.2)**	**(0.4)**	**(0.5)**	**3.2**	**(17.3)**	**53.8**
Total other current financial assets, net	**321.4**	**(137.6)**	**14.4**	**(0.2)**	**(6.5)**	**(0.3)**	**17.6**	**8.9**	**217.7**

(1) Impairment losses are recorded in financial income and expenses.

The accounting treatment of other current financial assets in loans and receivables complies with the required treatment of loans and receivables as defined by IAS 39.

Other financial assets are treated as available-for-sale assets for accounting purposes.

Other net current financial assets as of December 31, 2009 of €217.7 million primarily comprise the pre-financing of assets in the Transportation Divisions for €62.3 million.

Recap: 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 reclassi-fication**	**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	**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 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.

Note 12 DEFFERRED TAX ASSETS AND LIABILITIES

Movements in deferred tax assets and liabilities during 2009 are as follows:

(€ million)	**As of December 31, 2008**	**Changes in business through net income**	**Changes in business through equity**	**Changes in consolidation scope**	**Foreign exchange translation**	**Other**	**As of December 31, 2009**
Deferred tax assets, gross	2,150.2	165.3	9.2	(30.8)	3.2	26.3	**2,323.4**
Deferred tax assets not recognized	(570.7)	(71.7)	2.5	25.7	(6.5)	(81.4)	**(702.1)**
Deferred tax assets, net	**1,579.5**	**93.6**	**11.7**	**(5.1)**	**(3.3)**	**(55.1)**	**1,621.3**
Deferred tax liabilities	**1,936.0**	**30.4**	**(0.1)**	**(15.3)**	**20.2**	**(20.0)**	**1,951.2**

As of December 31, 2009, 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.$407 million (€283 million) is recognized in the Consolidated Statement of Financial Position in respect of these tax losses as of December 31, 2009, compared to U.S.$434 million (€312 million) as of December 31, 2008.

This decrease is mainly due to the sale of incineration activities in the USA which decreased the future taxation of the Group (€64 million), partially offset by the recognition of additional deferred tax assets of €43 million in respect of other activities, enabled by the tax schedule.

Conversely, the French tax group offset tax losses brought forward and previously capitalized in the amount of €46 million.

Changes in business through equity mainly include the tax effect of fair value adjustments and actuarial gains and losses.

Changes in consolidation scope mainly concern the sale of VPNM in the Environmental Services Division in the amount of -€2.8 million in gross deferred tax assets and the sale of Freight activities in the Transportation Division in the amount of -€8.5 million in liabilities.

Foreign exchange translation gains and losses are mainly due to fluctuations in the U.S. dollar and the pound sterling against the euro.

Other movements are due to the impact on the U.S. tax group of the sale of incineration activities in the United States in the amount of -€64.8 million and the reclassification of certain subsidiaries 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 -€12.5 million and - €31.8 million respectively.

Deferred tax assets and liabilities break down by nature as follows:

(€ million)	**As of December 31, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
Deferred tax assets			
Tax losses	976.2	895.3	851.0
Provisions and impairment losses	401.6	368.4	374.1
Employee benefits	219.3	187.0	134.6
Financial instruments	159.0	142.5	106.0
Operating financial assets	112.5	106.1	107.5
Fair value remeasurement of assets purchased	65.8	79.3	88.5
Foreign exchange translation	8.5	17.9	8.0
Finance leases	34.5	34.2	31.4
Intangible assets and Property, plant and equipment	28.7	21.8	20.5
Other	317.3	297.7	315.9
Deferred tax assets, gross	**2,323.4**	**2,150.2**	**2,037.5**
Deferred tax assets not recognized	**(702.1)**	**(570.7)**	**(569.4)**
Recognized deferred tax assets	**1,621.3**	**1,579.5**	**1,468.1**

(€ million)	**As of December 31, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
Deferred tax liabilities			
Intangible assets and Property, plant and equipment	799.2	676.6	662.0
Fair value remeasurement of assets purchased	245.2	276.4	310.1
Operating financial assets	192.5	191.5	187.1
Financial instruments	91.2	89.2	48.4
Finance leases	88.9	76.1	18.9
Provisions	47.1	56.8	52.9
Foreign exchange translation	11.7	38.9	23.0
Employee benefits	36.9	19.0	4.3
Other	438.5	511.5	488.0
Deferred tax liabilities	**1,951.2**	**1,936.0**	**1,794.7**

Deferred tax assets and liabilities break down by destination as follows:

(€ million)	**As of December 31, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
Deferred tax assets, net			
Deferred tax assets on net income	1,471.5	1,433.8	1,400.5
Deferred tax assets on reserves	149.9	145.7	67.6
Deferred tax assets, net	**1,621.3**	**1,579.5**	**1,468.1**
Deferred tax liabilities			
Deferred tax liabilities on net income	1,900.5	1,876.8	1,755.1
Deferred tax liabilities on reserves	50.7	59.2	39.6
Deferred tax liabilities	**1,951.2**	**1,936.0**	**1,794.7**

The expiry schedule for tax losses not recognized as of December 31, 2009 is as follows:

(€ million)	Expiry			Total ≤ 5 years
	≤ 5 years	**> 5 years**	**Unlimited**	
Tax losses not recognized	14.6	96.3	446.6	557.5

Recap: Movements in deferred tax assets and liabilities during 2008 are as follows:

(€ million)	**As of December 31, 2007**	**Changes in business through net income**	**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**

Note 13 WORKING CAPITAL

Movements in net working capital during 2009 are as follows:

(€ million)	As of December 31, 2008	Changes in business	Net Impairment losses	Changes in consolidation scope	Foreign exchange translation	Reclassification in assets /liabilities classified as held for sale	Other	As of December 31, 2009
Inventories and work-in-progress, net	1,022.0	16.2	6.1	(3.6)	4.4	(53.5)	5.7	997.3
Operating receivables, net	13,093.2	(407.7)	(82.3)	(219.8)	95.5	(107.6)	(123.8)	12,247.5
Operating payables, net	13,591.8	(99.7)	-	(227.9)	105.3	(174.7)	(119.1)	13,075.7
Net working capital	**523.4**	**(291.8)**	**(76.2)**	**4.5**	**(5.4)**	**13.6**	**1.0**	**169.1**

The amount transferred to "Assets classified as held for sale" and "Liabilities directly associated with assets classified as held for sale" primarily concerns incineration activities in the United States in the Environmental Services Division and Renewable Energy activities.

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 2009 are as follows:

(€ million)	As of December 31, 2008	Changes in business	Net Impairment losses	Changes in consolidation scope	Foreign exchange translation	Reclassification in assets/ liabilities classified as held for sale	Other	As of December 31, 2009
Inventories and work-in-progress, net	1,022.0	**16.2**	**6.1**	**(3.6)**	**4.4**	**(53.5)**	**5.7**	**997.3**
Operating receivables (including tax receivables other than current tax)	12,844.4	(434.7)	(82.5)	(217.1)	89.0	(92.7)	(59.6)	12,046.8
Operating payables (including tax payables other than current tax)	(12,791.9)	62.7	-	207.2	(94.3)	73.5	42.3	(12,500.5)
Operating working capital	**1,074.5**	**(355.8)**	**(76.4)**	**(13.5)**	**(0.9)**	**(72.7)**	**(11.6)**	**543.6**
Tax receivables (current tax)	227.0	31.4	-	(2.7)	6.5	(13.3)	(59.2)	189.7
Tax payables (current tax)	(324.7)	(19.0)	-	(1.7)	(12.3)	72.1	64.8	(220.8)
Tax working capital	**(97.7)**	**12.4**	**-**	**(4.4)**	**(5.8)**	**58.8**	**5.6**	**(31.1)**
Receivables on non-current asset disposals	21.8	(4.4)	0.2	0.0	-	(1.6)	(5.0)	11
Capital expenditure payables	(475.2)	56.0	-	22.4	1.3	29.1	12.0	(354.4)
Investment working capital	**(453.4)**	**51.6**	**0.2**	**22.4**	**1.3**	**27.5**	**7.0**	**(343.4)**
Net working capital	**523.4**	**(291.8)**	**(76.2)**	**4.5**	**(5.4)**	**13.6**	**1.0**	**169.1**

Movements in inventories during 2009 are as follows:

Stocks *(€ million)*	**As of December 31, 2008**	**Changes in business**	**Impairment losses**	**Reversal of impairment losses**	**Changes in consolidation scope**	**Foreign exchange translation**	**Reclassification assets/ liabilities classified as held for sale**	**Other**	**As of December 31, 2009**
Raw materials and supplies	635.3	16.0	-	-	(6.6)	5.1	(12.5)	(6.4)	630.9
Work-in-progress	329.3	1.4	-	-	(0.4)	(1.8)	(42.7)	1.3	287.1
Other inventories [1]	139.4	(1.2)	-	-	3.0	2.3	0.1	10.6	154.2
Inventories and work-in-progress, gross	**1,104.0**	**16.2**	**-**	**-**	**(4.0)**	**5.6**	**(55.1)**	**5.5**	**1 ,072.2**
Impairment losses on inventories and work-in-progress	**(82.0)**	**-**	**(36.5)**	**42.6**	**0.4**	**(1.2)**	**1.6**	**0.2**	**(74.9)**
Inventories and work-in-progress, net	**1,022.0**	**16.2**	**(36.5)**	**42.6**	**(3.6)**	**4.4**	**(53.5)**	**5.7**	**997.3**

(1) Including CO_2 inventory

Inventories mainly concern the Water Division in the amount of €335.5 million and the Energy Services Division in the amount of €389.2 million.

Movements in operating receivables during 2009 are as follows:

Operating receivables *(€ million)*	**As of December 31, 2008**	**Changes in business**	**Impairment losses[1]**	**Reversal of impairment losses[1]**	**Changes in consolidation scope**	**Foreign exchange translation**	**Reclassification assets/ liabilities classified as held for sale**	**Other**	**As of December 31, 2009**
Trade receivables	10,253.0	(378.2)	-	-	(199.6)	55.8	(56.9)	(32.5)	9,641.6
Impairment losses on trade receivables	(550.9)	-	(180.5)	112.2	11.3	(0.3)	9.5	38.4	(560.3)
Trade receivables, net [2]	**9,702.1**	**(378.2)**	**(180.5)**	**112.2**	**(188.3)**	**55.5**	**(47.4)**	**5.9**	**9,081.3**
Other operating receivables	1,314.1	(63.3)	-	-	(12.0)	24.6	(15.2)	(70.2)	1,178.0
Impairment losses on other operating receivables	(59.6)	-	(27.7)	13.7	0.0	(0.2)	-	(3.0)	(76.8)
Other operating receivables, net [2]	**1,254.5**	**(63.3)**	**(27.7)**	**13.7**	**(12.0)**	**24.4**	**(15.2)**	**(73.2)**	**1,101.2**
Other receivables [3]	663.4	89.0	-	-	(1.7)	8.1	(28.4)	0.9	731.3
Tax receivables	1,473.2	(55.2)	-	-	(17.8)	7.5	(16.6)	(57.4)	1,333.7
Operating receivables, net	**13,093.2**	**(407.7)**	**(208.2)**	**125.9**	**(219.8)**	**95.5**	**(107.6)**	**(123.8)**	**12,247.5**

(1) Impairment losses are recorded in operating income and included in the line "Changes in working capital" in the Consolidated 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**: change in consolidation method (from full to proportionate consolidation) of the Water Division in North Africa and the Middle East following a change in governance for -€111.6 million and change in consolidation method (from proportionate to full consolidation) of Italian concessions for €47.6 million;
- **Environmental Services**: sale of the VPNM sub-group for -€84.4 million;
- **Transportation**: sale of Freight activities for -€59 million.

Foreign exchange translation gains and losses are primarily due to the appreciation of the Australian dollar, Brazilian real and pound sterling against the euro.

Securitization of receivables in France

Securitized debts total €499.7 million as of December 31, 2009 compared to €496.6 million at the end of December 2008.

These receivables are retained in assets and the financing secured is recorded in "Current borrowings" (see Note 17, Current borrowings).

Assignment of receivables

Receivables definitively assigned to third parties in the Energy Services Division in Italy totaled €178 million as of December 31, 2009, compared to €69.4 million as of December 31, 2008 and €25.5 million as of December 31, 2007.

Movements in operating payables during 2009 are as follows:

Operating payables *(€ million)*	**As of December 31, 2008**	**Changes in business**	**Changes in consolidation scope**	**Foreign exchange translation**	**Reclassification assets/ liabilities classified as held for sale**	**Other**	**As of December 31, 2009**
Trade payables (1)	5,634.5	(273.7)	(50.4)	35.3	(30.4)	(4.3)	5,311.0
Other current operating payables (1)	5,112.2	1.9	(129.7)	47.3	(63.6)	(34.7)	4,933.4
Other liabilities (2)	1,255.6	90.8	(1.2)	6.8	(6.0)	(21.6)	1,324.4
Tax and employee-related liabilities	1,589.5	81.3	(46.6)	15.9	(74.7)	(58.5)	1,506.9
Operating payables	**13,591.8**	**(99.7)**	**(227.9)**	**105.3**	**(174.7)**	**(119.1)**	**13,075.7**

(1) Financial liabilities as defined by IAS 39, measured at amortized cost.

(2) Primarily deferred incom.

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: change in consolidation method (from full consolidation to proportionate consolidation) of the Water Division in North Africa and the Middle East following a change in governance for -€123.4 million;
- Environmental Services: sale of the VPNM sub-group for -€99.1 million;
- Transportation: sale of Freight activities for - €54.3 million.

Foreign exchange translation gains and losses are primarily due to the appreciation of the Australian dollar, Brazilian real and pound sterling against the euro.

Recap: 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**

Note 14 CASH AND CASH EQUIVALENTS

Movements in cash and cash equivalents and bank overdrafts and other cash position items during 2009 are as follows:

(€ million)	As of December 31, 2008	Changes in business	Changes in consolidation scope	Fair value adjustments(1)	Foreign exchange translation	Other	As of December 31, 2009
Cash	1,317.9	44.1	(57.3)	-	24.3	(18.6)	1,310.4
Cash equivalents	2,531.7	1,797.1	(20.7)	1.3	(0.4)	(5.0)	4,304.0
Cash & cash equivalents	**3,849.6**	**1,841.2**	**(78.0)**	**1.3**	**23.9**	**(23.6)**	**5,614.4**
Bank overdrafts and other cash position items	**465.7**	**(3.4)**	**(6.4)**		**(1.4)**	**0.4**	**454.9**
Net cash	**3,383.9**	**1,844.6**	**(71.6)**	**1.3**	**25.3**	**(24.0)**	**5,159.5**

(1) Fair value adjustments are recorded in financial income and expenses.

Cash and cash equivalents of -€23.7 million were transferred to "Assets classified as held for sale" in 2009.

Changes in consolidation scope primarily concerned the following disposals:

- **Transportation**: sale of Freight activities for - €32.2 million;
- **Environmental Services**: sale of the VPNM sub-group for -€38.6 million;
- **Water**: change in the consolidation method (from full to proportionate consolidation) in North Africa and the Middle East for -€10.2 million.

As of December 31, 2009, the Water Division held cash of €477.5 million, the Environmental Services Division held cash of €182.9 million, the Energy Services Division held cash of €280.4 million, the Transportation Division held cash of €158.6 million, Veolia Environnement SA held cash of €41.4 million and certain subsidiaries (primarily insurance) held cash of €169.6 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. Note 29.3.2 – Management of liquidity risk, presents a breakdown of investments by nature.

As of December 31, 2009, cash equivalents were primarily held by Veolia Environnement SA in the amount of €4,049.8 million including monetary UCITS of €3,037.9 million, negotiable debt instruments (bank certificates of deposit and treasury notes with a maturity of less than three months) of €375.2 million, monetary notes of €385.0 million and term deposit accounts of €250.0 million. Cash equivalents are accounted for as assets designated at fair value through the Consolidated Income Statement.

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 cash and cash equivalents during 2008 are as follows:

(€ 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**
Bank overdrafts and other cash position items	**459.4**	**32.7**	**18.1**		**(6.0)**	**(38.5)**	**465.7**
Net cash	**2,656.2**	**693.4**	**11.1**		**(21.6)**	**44.8**	**3,383.9**

(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.

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.

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 Consolidated Income Statement.

Bank overdrafts and other cash position items consist of credit balances on bank accounts and related accrued interest payable, corresponding to brief overdrafts. The contributors in 2008 are the Water Division (€210.7 million), the Environmental Services Division (€99.1 million), the Energy Services Division (€77.9 million), the Transportation Division (€43.4 million) and other (€34.6 million).

Note 15 EQUITY

15.1 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.

15.2 Total equity attributable to owners of the Company

15.2.1 Share capital

The share capital is fully paid up.

Share capital increases

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.

In 2009, Veolia Environnement performed a share capital increase of €322 million on the payment of scrip dividends. As decided by the Annual General Meeting of Shareholders of May 7, 2009, the Group offered shareholders a choice of payment of the dividend in cash or shares. Shareholders elected for the payment of 58% of dividends in shares, leading to the creation of 20,111,683 shares, representing just over 4.25% of the share capital and 4.39% of voting rights.

In addition in 2009, Veolia performed a share capital increase (including additional-paid-in capital) reserved for employees (Group employee savings plan) of €19.4 million (excluding issuance costs). A discount was not granted on the subscription price.

Finally, Veolia Environnement performed a share capital increase of €0.7 million following the exercise of share options.

Number of shares outstanding and par value

The number of shares outstanding is 471,762,756 shares as of December 31, 2007, 472,576,666 shares as of December 31, 2008 and 493,630,374 shares as of December 31, 2009 (including treasury shares). The par value of each share is €5.

15.2.2 Offset of treasury shares against equity

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.

In 2009, Veolia Environnement transferred 109,533 shares as consideration for an external growth transaction performed by a subsidiary for an amount of €1.9 million and 138,909 shares as part of the share capital increase reserved for employees; as of December 31, 2009, the Group held 14,731,592 of its own shares.

15.2.3 Share purchase and subscription options

In accordance with IFRS 2, an expense of €15.6 million in 2007, €5.5 million in 2008 million and €10.9 million in 2009 was recognized in respect of share option plans granted to employees.

15.2.4 Appropriation of net income and dividend distribution

A dividend of €553.8 million was distributed by Veolia Environnement SA. 2008 net income attributable to owners of the Company of €405.1 million was appropriated in full to the distribution of dividends.

15.2.5 Foreign exchange translation reserves

Accumulated foreign exchange translation reserves as of January 1, 2007 are positive in the amount of €144.6 million (portion attributable to owners of the Company), 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 owners of the Company) 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 owners of the Company), 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 owners of the Company) 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 owners of the Company), 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.

In 2009, translation gains of €88.5 million (portion attributable to equity owners of the Company) concerned the U.S. dollar in the amount of -€57.5 million, the pound sterling in the amount of +€65.8 million, the Chinese renminbi yuan in the amount of -€85.0 million and the Australian dollar in the amount of +€60.0 million.

The increase in foreign exchange translation reserves primarily reflects the appreciation of the pound sterling and Australian dollar against the euro in 2009, while the U.S. dollar and Chinese renminbi yuan depreciated 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 owners of the Company and to non-controlling interests)

(€ million)	Total	o/w attributable to owners of the Company
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	(333.0)	(379.8)
Translation differences on net foreign investments	(52.8)	(53.1)
As of December 31, 2008	**(385.8)**	**(432.9)**
Translation differences on the financial statements of subsidiaries drawn up in a foreign currency	73.2	82.5
Translation differences on net foreign investments	6.2	6.0
Movements in 2009	**79.4**	**88.5**
Translation differences on the financial statements of subsidiaries drawn up in a foreign currency	(259.8)	(297.2)
Translation differences on net foreign investments	(46.6)	(47.2)
As of December 31, 2009	**(306.4)**	**(344.4)**

Breakdown by currency of Foreign exchange translation reserves attributable to owners of the Company

(€ million)	As of December 31, 2007	As of December 31, 2008	Movement	As of December 31, 2009
Pound sterling	(61.8)	(385.9)	65.8	(320.1)
Chinese renminbi yuan	(46.0)	110.1	(85.0)	25.1
Czech crown	80.7	74.0	7.6	81.6
U.S. dollar	(126.2)	(51.8)	(57.5)	(109.3)
Australian dollar	(0.7)	(45.5)	60.0	14.5
Korean won	8.8	(32.3)	4.9	(27.4)
Polish zloty	11.3	(24.7)	16.0	(8.7)
Hong Kong dollar	16.3	(24.5)	18.8	(5.7)
Norwegian crown	2.4	(17.9)	16.1	(1.8)
Romanian leu	4.9	(7.1)	(5.3)	(12.4)
Canadian dollar	7.7	(4.8)	9.4	4.6
Swedish krona	(5.6)	(3.9)	16.7	12.8
Hungarian florint	2.7	(3.4)	(1.4)	(4.8)
Mexican peso	2.0	(1.1)	(6.7)	(7.8)
Egyptian pound	(0.6)	(0.8)	0.2	(0.6)
Other currencies	(15.0)	(13.3)	28.9	15.6
Total	**(119.1)**	**(432.9)**	**88.5**	**(344.4)**

15.2.6 Fair value reserves

Fair value reserves attributable to owners of the Company are €21.6 million as of December 31, 2007, -€79.2 million as of December 31, 2008 and -€43.5 million as of December 31, 2009.

(€ million)	**Available-for sale securities**	**Commodity derivatives hedging cash flows**	**Foreign currency derivatives hedging cash flows**	**Interest rate derivatives hedging cash flows**	**Total**	**o/w Attributable to owners of the Company**
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)**
Fair value adjustments	(4.0)	22.3	3.4	17.7	39.4	38.6
Other movements		(4.0)	0.5	0.3	(3.2)	(2.9)
As of December 31, 2009	**12.0**	**(9.5)**	**4.1**	**(57.3)**	**(50.7)**	**(43.5)**

Amounts are presented net of taxes.

No material amounts were released to the Consolidated Income Statement in respect of interest rate derivatives hedging cash flows and recorded in finance costs and income.

15.3 Non-controlling interests

A breakdown of the movement in non-controlling interests is presented in the Statement of Changes in Equity.

The increase in non-controlling interests in 2009 is due to the dividend distribution for -€202.0 million, offset by the net income for the year of €257.8 million and the various share capital increases for €149.8 million.

The decrease in non-controlling 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 16 NON-CURRENT AND CURRENT PROVISIONS

Pursuant to IAS 37 (see Note 1.14), provisions maturing after more than one year are discounted. Discount rates used were as follows:

Discount rates

	As of December 31, 2009	As of December 31, 2008	As of December 31, 2007
Euro			
2 to 5 years	2.49%	5.67%	5.27%
6 to 10 years	4.14%	5.97%	5.52%
More than ten years	5.59%	6.65%	6.04%
U.S. Dollar			
2 to 5 years	2.24%	4.95%	4.35%
6 to 10 years	4 .67%	5.75%	4.94%
More than ten years	5.92%	6.82%	5.84%
Pound Sterling			
2 to 5 years	2.26%	6.13%	5.51%
6 to 10 years	4.43%	6.40%	5.66%
More than ten years	5.68%	6.46%	5.88%

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 during 2009 are as follows:

(€ million)	**As of December 31, 2008**	**Addition/ charge**	**Repayment/ Utilization during the year**	**Reversal**	**Actuarial gains (losses)**	**Unwinding of discount**	**Changes in consolidation scope**	**Foreign exchange translation**	**Non-current/ current reclassi-fication**	**Other**	**As of December 31, 2009**
Tax litigations	126.0	45.7	(27.9)	(3.2)	-	(0.1)	-	-	(28.9)	11.7	123.3
Employee litigations	9.3	2.7	(0.3)	(0.5)	-	0.1	(0.2)	-	(0.8)	0.4	10.7
Other litigations	76.2	31.0	(4.7)	(4.4)	-	2.0	-	(0.2)	(10.4)	8.4	97.9
Contractual commitments	248.6	186.1	(173.3)	(1.3)	-	1.4	-	-	-	6.2	267.7
Provisions for work-in-progress & losses to completion on LT contracts	226.6	33.9	(10.0)	(1.7)	-	10.6	0.8	0.9	(41.0)	(4.9)	215.2
Closure and post-closure costs	520.4	19.6	(5.9)	(10.5)	-	111.1	9.8	3.5	(37.1)	(3.0)	607.9
Restructuring provisions	1.2	0.2	(0.1)	(0.3)	-	-	-	-	(0.2)	-	0.8
Self-insurance provisions	126.7	59.4	(53.8)	(0.6)	-	2.9	-	(0.3)	(21.2)	(0.4)	112.7
Other	97.0	16.6	(22.1)	(3.9)	-	1.5	(1.2)	-	(12.7)	1.7	76.9
Non-current provisions excl. pensions and other employee benefits	**1,432.0**	**395.2**	**(298.1)**	**(26.4)**	-	**129.5**	**9.2**	**3.9**	**(152.3)**	**20.1**	**1 513.1**
Provisions for pensions and other employee benefits	**728.2**	**89.1**	**(101.3)**	**(31.0)**	**68.5**	**38.3**	**(7.9)**	**14.1**	-	**(20.0)**	**778.0**
Non-current provisions	**2,160.2**	**484.3**	**(399.4)**	**(57.4)**	**68.5**	**167.8**	**1.3**	**18.0**	**(152.3)**	**0.1**	**2,291.1**

Movements in current provisions during 2009 are as follows:

(€ million)	As of December 31, 2008	Charge	Utilization	Reversal	Changes in consolidation scope	Foreign exchange translation	Non-current/ current reclassi-fication	Other	As of December 31, 2009
Tax litigations	63,2	18,2	-20,9	-35,5	-0,7	0,1	28,9	-9,1	44,2
Employee litigations	28,7	11,9	-8,6	-3,4	-5,3	0,1	0,8	0,3	24,5
Other litigations	113,0	46,6	-26,1	-19,6	-0,3	-0,5	10,5	-6,8	116,8
Provisions for work-in-progress & losses to completion on LT contracts	158,8	85,2	-94,8	-10,1	1,3	2,7	41,0	-35,7	148,4
Closure and post-closure costs	68,7	12,1	-37,8	-1,7	-2,8	1,5	37,1	1,3	78,4
Restructuring provisions	26,6	5,3	-18,6	-3,3	-0,1	0,2	0,2	-1,4	8,9
Self-insurance provisions	106,0	84,1	-70,4	-2,7	0,6	-1,0	21,2	-2,7	135,1
Other	208,1	122,5	-102,4	-33,2	-5,6	1,7	12,6	-10,8	192,9
Current provisions	**773,1**	**385,9**	**-379,6**	**-109,5**	**-12,9**	**4,8**	**152,3**	**-64,9**	**749,2**

Movements in current and non-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 (€220.7 million, €85.2 million and €57.0 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 €267.7 million and primarily relate to the Water and Energy Services Divisions in the amount of €174.1 million and €93.6 million respectively.

Work-in-progress and losses to complation on long-term contracts

As of December 31, 2009, these provisions mainly concerned the Water Division (primarily engineering and construction activities) in the amount of €113.7 million, the Transportation Division in the amount of €142 million and the Environmental Services Division in the amount of €100.7 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 €686.3 million and primarily concern the Environmental Services Division in the amount of €610.6 million in 2009, compared to €508.9 million in 2008 and €532.1 million in 2007 and the Energy Services Division in the amount of €58.8 million in 2009, compared to €63.8 million in 2008 and €55.6 million in 2007.

The increase in these provisions is mainly due to the unwinding of the discount in the Environmental Services Division in the amount of €110.3 million.

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 totaled €622.7 million at the end of 2009, including €567.2 million in respect of the Environmental Services Division compared to €527.4 million at the end of 2008 and €452.8 million at the end of 2007.

Other provisions concern environmental risks in the amount of €48.2 million, compared to €46.5 million in 2008 and €66.0 million in 2007 and plant dismantling in the Water, Energy Services and Environmental Services Divisions in the amount of €15.5 million in 2009, compared to €15.3 million in 2008 and €18.2 million in 2007.

Self-insurance provisions

As of December 31, 2009, self-insurance provisions totaled €247.8 million and were mainly recorded by Group insurance and reinsurance subsidiaries in the amount of €129.2 million, the Energy Services Division in the amount of €39.5 million and the Transportation Division in the amount of €39.6 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, 2009 total €778.0 million, and include provisions for pensions and other post-employment benefits of €627.8 million (governed by IAS 19 and detailed in Note 30, Employee benefit obligation) and provisions for other long-term benefits of €150.2 million.

Recap: Movements in non-current provisions and other debt during 2008 are as follows:

(€ 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 reclassi-fication**	**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 and other debt	**2,138.9**	**394.2**	**(389.4)**	**(42.1)**	**135.5**	**81.9**	**38.1**	**(60.3)**	**(115.9)**	**(20.7)**	**2,160.2**

* *See note 30, Employee benefit obligation*

Recap: Movements in current provisions during 2008 are as follows:

(€ million)	As of December 31, 2007	Charge	Utilization	Reversal	Changes in consolidation scope	Foreign exchange translation	Non-current/ current reclassi-fication	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**

Note 17 NON-CURRENT AND CURRENT BORROWINGS

(€ million)	As of December 31								
	Non-current			Current			Total		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Bonds	**13,264.5**	**11,097.6**	**9,009.6**	**36.9**	**67.7**	**1,253.8**	**13,301.4**	**11,165.3**	**10,263.4**
- maturing in < 1 year		-	-	36.9	67.7	1,253.8	36.9	67.7	1,253.8
- maturing in 2-3 years	1,045.2	61.9	122.3		-	-	1,045.2	61.9	122.3
- maturing in 4-5 years	2,951.7	2,726.5	1,020.5		-	-	2,951.7	2,726.5	1,020.5
- maturing in > 5 years	9,267.6	8,309.2	7,866.8		-	-	9,267.6	8,309.2	7,866.8
Other borrowings	**4,382.8**	**5,966.3**	**4,938.4**	**2 946.2**	**3,152.0**	**2,551.2**	**7,329.0**	**9,118.3**	**7,489.6**
- maturing in < 1 year		-	-	2 946.2	3,152.0	2,551.2	2,946.2	3,152.0	2,551.2
- maturing in 2-3 years	1,511.1	1,434.3	1,636.4		-	-	1,511.1	1,434.3	1,636.4
- maturing in 4-5 years	779.7	1,941.5	1,120.2		-	-	779.7	1,941.5	1,120.2
- maturing in > 5 years	2,092.0	2,590.5	2,181.8		-	-	2,092.0	2,590.5	2,181.8
Total non-current and current borrowings	**17,647.3**	**17,063.9**	**13,948.0**	**2 983.1**	**3,219.7**	**3,805.0**	**20,630.4**	**20,283.6**	**17,753.0**

17.1 Movements in non-current and current bonds

Movements in non-current and current bonds during 2009 are as follows:

(€ million)	As of December 31, 2008	Increases/ Subscriptions	Repayments	Changes in consolidation scope (2)	Fair value adjustments (1)	Foreign exchange translation	Non-current/ current reclassi-fication	Other	As of December 31, 2009
Non-current bonds	**11,097.6**	2,243.0	(0.0)	(39.1)	(2.8)	15.0	(48.3)	(0.9)	13,264.5
Current bonds	**67.7**	0.0	(72.0)	(7.6)	-	0.7	48.3	(0.2)	36.9
Total bonds	**11,165.3**	**2,243.0**	**(72.0)**	**(46.7)**	**(2.8)**	**15.7**	**-**	**(1.1)**	**13,301.4**

(1) Fair value adjustments are recorded in financial income and expenses.

(2) Changes in consolidation scope are mainly due to the sale of incineration activities in the United States in the Environmental Services Division.

Non-current borrowings are recorded as financial liabilities at amortized cost for accounting purposes. Hedging transactions were entered into in respect of certain fixed-rate borrowings in 2009. Fair value hedge accounting was applied to these transactions. Non-current bonds break down by maturity as follows:

(€ million)	As of December 31, 2007	As of December 31, 2008	As of December 31, 2009	Maturity 2 to 3 years	4 to 5 years	> 5 years
Publicly offered or traded issuances [(a)]	**8,191.1**	**10,290.9**	**12,511.8**	**1,012.1**	**2,779.7**	**8,720.0**
European market [(i)]	8,191.1	8,884.3	11,206.7	1,012.1	2,276.2	7,918.4
U.S. market [(ii)]	-	1,406.6	1,305.1		503.5	801.6
Private placements [(b)]	288.8	320.2	299.1		142.6	156.5
Three Valleys bond issue [(c)]	267.6	206.1	221.2			221.2
Stirling Water Seafield Finance bond issue [(d)]	59.3	88.0	90.7	6.8	7.7	76.2
Other amounts < €50 million in 2009	202.8	192.4	141.7	26.3	21.7	93.7
Bonds	**9,009.6**	**11,097.6**	**13,264.5**	**1,045.2**	**2,951.7**	**9,267.6**

(a) Publicly offered or traded issuances

(i) European market: As of December 31, 2009, the amount in the Consolidated Statement of Financial Position in respect of bonds issued under the European Medium Term Notes (EMTN) Program totaled €11,229.4 million, including €11,206.7 million maturing in more than one year. The impact of the fair value measurement of non-current bonds was €188.8 million.

Veolia Environnement issued notes under its EMTN program for a nominal amount of €2,250 million as of December 31, 2009. These issues break down as follows:

- *On April 22, 2009, Veolia Environnement performed the following bond issues:*
  - *€1,250 million bond issue bearing fixed-rate interest of 5.25% and maturing in 2014,*
  - *€750 million bond issue bearing fixed-rate interest of 6.75% and maturing in 2019;*
- *On June 29, 2009, Veolia Environnement performed a €250 million bond issue bearing fixed-rate interest of 5.70% and maturing in 8 years in 2017.*

The Series 9 bond issue (CZK 600 million) maturing on April 23, 2010 was transferred to current borrowings (€22.6 million euro equivalent).

(ii) U.S. market: As of December 31, 2009, nominal outstandings on the bond issues performed in the United States on May 27, 2008 total €1,249.5 million (euro equivalent) and the amount in the Consolidated Statement of Financial Position is €1,305.1 million (including fair value adjustments of €34.2 million). These fixed-rate bond issues total U.S.$1.8 billion and comprise three tranche:
Tranche 1, maturing June 3, 2013, of U.S.$700 million, bearing fixed-rate interest of 5.25%,
Tranche 2, maturing June 1, 2018, of U.S.$700 million, bearing fixed-rate interest of 6%,
Tranche 3, maturing June 1, 2038, of U.S.$400 million, bearing fixed-rate interest of 6.75%.

(b) Private placements: As of December 31, 2009, the euro-equivalent amount in the Consolidated Statement of Financial Position of private placements performed in the United States in 2003 (USPP) is €299.1 million (including fair value adjustments of €12.6 million). These bond issues 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, 2009 at amortized cost for a euro equivalent of €221.2 million. This bond matures on July 13, 2026.

(d) Stirling Water Seafield Finance bond issue: The outstanding balance as of December 31, 2009 on the amortizable bond issue performed in 1999 by Stirling Water Seafield Finance (Veolia Water UK subsidiary, Water Division), is GBP 99.6 million. This bond issue is recognized at amortized cost for a euro equivalent of €90.7 million as of December 31, 2009 (non-current portion). Stirling Water was proportionately consolidated in the amount of 49% in 2007 and has been fully consolidated since December 2008 following the buy-out of non-controlling interests. This bond matures on September 26, 2026.

Breakdown of non-current bond issues by component:

Operation *(€ million)*	**Final maturity**	**Currency**	**Nominal**	**Interest rate**	**Net carrying amount**
Series 7	02/01/2012	EUR	1,000	5.88%	1,012
Series 10	05/28/2013	EUR	1,000	4.88%	1,025
Series 10 bis	05/28/2018	EUR	750	5.38%	788
Series 12	11/25/2033	EUR	700	6.13%	695
Series 14	06/30/2015	USD	35	4.69%	36
Series 15	06/17/2015	EUR	875	1.75% (indexed to European inflation)	920
Series 17	02/12/2016	EUR	900	4.00%	922
Series 18	12/11/2020	EUR	600	4.38%	632
Series 21	01/16/2017	EUR	1,140	4.38%	1,177
Series 23	05/24/2022	EUR	1,000	5.13%	1,038
Series 24	10/29/2037	GBP	732	6.13%	713
Series 27	06/29/2017	EUR	250	5.70%	250
Series 25	04/24/2014	EUR	1,250	5.25%	1,250
Series 26	04/24/2019	EUR	750	6.750%	749
Total bond issues (EMTN)	**n/a**	**n/a**	**10,982**	**n/a**	**11,207**
USD Series Tranche 1	06/03/2013	USD	486	5.25%	504
USD Series Tranche 2	06/01/2018	USD	485	6%	496
USD Series Tranche 3	06/01/2038	USD	278	6.75%	305
Total publicly offered or traded issuances in USD	**n/a**	**n/a**	**1,249**		**1,305**
USPP EUR 2013	01/30/2013	EUR	33	5.84%	32
USPP GBP 2013	01/30/2013	GBP	8	6.22%	8
USPP USD 2013	01/30/2013	USD	102	5.78%	102
USPP USD 2015	01/30/2015	USD	87	6.02%	92
USPP USD 2018	01/30/2018	USD	59	6.31%	65
Total U.S. private placements	**n/a**	**n/a**	**289**	**n/a**	**299**
Three Valleys bond issue	07/13/2026	GBP	225	5.88%	221
Stirling Water Seafield Finance bond issue	09/26/2026	GBP	100	5.82%	91
Total principal bond issues	**n/a**	**n/a**	**12,250**	**n/a**	**13,123**

Recap : Movements in bond issues during 2008 are as follows:

(€ million)	**As of December 31, 2007**	**Increases/ subscriptions**	**Repayments**	**Changes in consolidation scope**	**Fair value adjustments(1)**	**Foreign exchange translation**	**Non-current/ current reclassi-fication**	**Other**	**As of December 31, 2008**
Non-current bonds	**9,009.6**	1,807.6	(37.7)	47.0	442.8	(121.6)	(68.8)	18.7	**11,097.6**
Current bonds	**1,253.8**		(1,261.3)	6.2	(0.5)	0.7	68.8		**67.7**
Total bonds	**10,263.4**	**1,807.6**	**(1,299.0)**	**53.2**	**442.3**	**(120.9)**	**0.0**	**18.7**	**11,165.3**

(1) Fair value adjustments are recorded in financial income and expenses

17.2 Movements in other borrowings

(€ million)	As of December 31, 2008	Increases/ subscriptions	Repayments	Changes in consolidation scope	Fair value adjustments (1)	Foreign exchange translation	Non-current/ current reclassi-fication	Other	As of December 31, 2009
Other non-current borrowings	**5,966.3**	1,102.6	(1,514.8)	(127.7)	6.2	7.5	(1,042.5)	(14.8)	4,382.8
Other current borrowings	**3,152.0**		(1,179.4)	(8.1)	13.1	(41.8)	1,042.5	(32.1)	2,946.2
Total other borrowings	**9,118.3**	**1,102.6**	**(2,694.2)**	**(135.8)**	**19.3**	**(34.3)**	**0.0**	**(46.9)**	**7,329.0**

(1) Fair value adjustments are recorded in financial income and expenses

Changes in consolidation scope mainly concern the acquisition of Digismart in the Energy Services Division in the amount of €45.9 million and the change in consolidation method (from full to proportionate consolidation) of the Water Division in North Africa and the Middle East, in the amount of -€198.9 million.

Increases and repayments of other non-current borrowings mainly concern management transactions involving the multi-currency syndicated loans.

Breakdown of other non-current borrowings by main component:

(€ million)	As of December 31, 2007	As of December 31, 2008	As of December 31, 2009	Maturity 2 to 3 years	4 to 5 years	> 5 years
BWB and SPE debts [(a)]	1,234.8	1,392.4	1,344.7	213.2	307.7	823.8
Finance leases obligations [(b)]	754.5	751.2	650.4	253.5	137.4	259.5
Multi-currency syndicated loan facility [(c)]	-	1,109.7	305.4	305.4		
Delfluent [(d)]	118.3	107.6	108.4	9.9	8.7	89.8
Shenzhen [(e)]	93.2	105.3	99.1	5.7	9.6	83.8
Non-controlling interest put options (Note 1.15.5) [(f)]	309.9	183.6	95.2	84.4	0.8	10.0
VSA Tecnitalia [(g)]	164.6	100.4	94.5	35.1	27.4	32.0
Redal [(h)]	161.3	165.7	92.7	17.3	19.9	55.5
Cogevolt [(i)]	259.7	170.6	91.0	91.0	0.0	0.0
Syndicated loan facility in CZK [(j)]	338.0	316.3	75.4	75.4		
Aquiris [(k)]	184.2	175.4	0.0			
Other < €100 million	1,319.9	1,388.1	1,426.0	420.2	268.2	737.6
Other non-current borrowings	4,938.4	5,966.3	4,382.8	1,511.1	779.7	2,092.0

(a) BWB and SPE debts: The Berliner Wasser Betriebe ("BWB" in Water Division) non-current borrowing, proportionately consolidated in the amount of 50%, breaks down as follows :
- *The debt borne by the operating companies of €1,088.6 million as of December 31, 2009, compared to €1,113.1 million as of December 31, 2008 and €933.3 million as of December 31, 2007;*
- *Special purpose entity (SPE) debts of €256.1 million as of December 31, 2009, compared to €279.3 million as of December 31, 2008 and €301.5 million as of December 31, 2007.*

(b) Finance lease obligations: As of December 2009, finance lease obligations fall due between 2010 and 2031. Interest rates are fixed or floating (indexed to EONIA, euro T4M and euro TAM or their equivalent for financing in other currencies).

(c) Multi-currency syndicated loan facility: This €4 billion multi-currency syndicated loan facility matures in 2012. Two draw-downs were performed in October 2008, in Polish zlotys and euros. As of December 31, 2009, this syndicated loan facility was drawn in the amount of €305.4 million (€73.9 million and PLN 950.1 million, or a euro equivalent of €231.5 million as of December 31, 2009).

(d) Delfluent: Two 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. As of December 31, 2009 these two redeemable lines, maturing in 2030, had been drawn in the total amount of €108.4 million.

(e) 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 amount of €99.1 million (euro equivalent) as of December 31, 2009. 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).

(f) The decrease in non-controlling interest put obligations primarily reflects the adjustment to the exercise price of the put option on VSA Tecnitalia.

(g) VSA Tecnitalia: Primarily two floating-rate redeemable financing lines in the amount of €94.5 million, carried by VSA Tecnitalia (purchased in 2007, Environmental Services Division) to finance waste thermal treatment plant projects in Italy.

(h) Redal: This non-recourse debt carried by Redal, Morocco (Water Division), was fully consolidated in 2008 and is now proportionately consolidated in the amount of 52%. It matures on December 31, 2018 and amounts to €92.7 million as of December 31, 2009.

(i) 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 5.20%.

(j) 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 redeemable tranche maturing July 27, 2012. As of December 31, 2009, this syndicated loan facility had been drawn down by CZK 8 billion (€302.1 million euro equivalent), including CZK 6 billion (€226.7 euro equivalent) maturing on July 29, 2009 and reclassified in current borrowings.

(k) 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. Veolia Eau- Compagnie Générale des Eaux granted a first-demand guarantee to the lenders of the Aquiris borrowings enabling Calyon and the EIB to obtain repayment of this borrowing on June 30, 2010 at the earliest. The Aquiris borrowing of €175.4 million is therefore reclassified in current borrowings as of December 31, 2009.

Current borrowings are recorded as financial liabilities at amortized cost for accounting purposes.

Current borrowings total €2,983.1 million as of December 31, 2009, compared to €3,219.7 million as of December 31, 2008 and €3,805.0 million as of December 31, 2007.

This decrease is mainly due to:

- a €620 million decrease in treasury note outstandings;
- the repayment of the U.S.$27 million EMTN Series 13 bond issue (€22.2 million euro equivalent at historical rates), which matured March 4, 2009;
- the repayment of the CZK660 million EMTN Series 8 bond issue (€22.1 million euro equivalent at historical rates), which matured April 29, 2009;
- the repayment of a floating-rate financing line carried by Delfluent BV (Water Division), proportionately consolidated in the amount of 40%, in respect of the Hague wastewater treatment plant construction project, for an amount of €17.5 million;
- partially offset by the reclassification in current borrowings of:
  - one tranche of the syndicated loan facility arranged by Komerčni Banka, Crédit Lyonnais, and ING Bank in favor of Veolia Environnement, maturing July 29, 2010, in the amount of CZK 6 billion (€226.6 million euro equivalent),
  - borrowings carried by Aquiris in the amount of €175.4 million (see point (k) of the breakdown of non-current borrowings),
  - the EMTN Series 9 bond issue maturing on April 23, 2010, reclassified in current borrowings in the amount of CZK 600 million (€22.6 million euro equivalent).

As of December 31, 2009, current borrowings mainly concern:

- Veolia Environnement SA for €1,343.4 million (including treasury notes of €302 million, bond issues of €22.7 million, securitization program debts of €409.2 million, the Czech crown syndicated loan facility of €226.6 million and accrued interest on debt of €344.2 million);
- the Water Division for €767.8 million (including the company carrying the Berlin contract for €160.1 million and the Acquiris borrowing for €179.1 million);
- the Environmental Services Division for €411.4 million;
- the Energy Services Division for €367.1 million (including the current portion of Cogevolt financing of €73.6 millions);
- the Transportation Division for €52.1 million.

Current debts in respect of Group finance leases total €117.4 million as of December 31, 2009, compared to €141.9 million as of December 31, 2008 and €125.6 million as of December 31, 2007.

Recap: Movements in other borrowings during 2008 are as follows:

(€ million)	**As of December 31, 2007**	**Increases/ subscriptions**	**Repayments**	**Changes in consolidation scope**	**Fair value adjustments**	**Foreign exchange translation**	**Non-current/ current reclassi-fication**	**Other**	**As of December 31, 2008**
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**
Other current borrowings	**2,551.2**		(174.2)	143.7	(266.6)	119.8	711.7	66.4	**3,152.0**
Total other borrowings	**7,489.6**	**1,918.0**	**(321.3)**	**202.1**	**(256.6)**	**36.6**	**0.0**	**49.9**	**9,118.3**

17.3 Breakdown of non-current and current borrowings by currency

Borrowings are primarily denominated in euro, pound sterling, U.S. dollar, Czech crown, Chinese renminbi yuan and Polish zloty.

Borrowings break down by original currency (before currency swaps) as follows:

(€ million)	As of December 31, 2008	As of December 31, 2009
Euro	14,662.5	15,444.3
U.S. dollar	2,128.6	1,902.9
Pound sterling	1,254.9	1,282.7
Czech crown	411.3	365.2
Chinese renminbi yuan	476.4	496.7
Polish zloty	318.7	311.2
Moroccan dirham	287.7	166.4
Korean won	39.3	38.4
Norwegian crown	24.0	21.3
Israeli shekel	129.3	109.1
Danish krone	208.3	146.5
Other	342.6	345.7
Non-current and current borrowings	**20,283.6**	**20,630.4**

17.4 Finance leases

The Group uses finance leases to finance the purchase of certain operating property, plant and equipment and real estate assets recorded in assets in the Consolidated Statement of Financial Position.

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, 2009	381.2	146.2	267.6	**795.0**
December 31, 2008	455.1	173.8	271.0	**899.9**
December 31, 2007	423.5	191.7	284.8	**900.0**

As of December 31, 2009, future minimum lease payments under these contracts break down as follows:

(€ million)	Finance leases (in the Consolidated Statement of Financial Position)
Less than 1 year	169.8
2 to 3 years	289.3
4 to 5 years	174.0
More than 5 years	358.3
Total future minimum lease payments	**991.4**
Less amounts representing interest	228.6
Present value of minimum lease payments (finance leases)	**762.8**

Contingent rent and sub-lease income for the period recorded in the Consolidated Income Statement is not material.

Note 18 REVENUE

Pursuant to IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, the income statements of:

- Clemessy and Crystal entities, in the Energy Services Division, sold in December 2008,
- incineration activity entities in the United States (Montenay International) in the Environmental Services Division and Freight activity entities (primarily in France, Germany and the Netherlands) in the Transportation Division, sold during the second half of 2009 and,
- activities in the United Kingdom in the Transportation Division and renewable energy activities in the process of being sold,

were grouped together in a single line, "Net income from discontinued operations", for fiscal year 2009 and fiscal years 2008 and 2007 presented for comparison purposes.

Breakdown of revenue (see note 1.18)

(€ million)	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Services rendered	**27,998.2**	29,033.4	26,284.1
Sales of goods	**1,756.5**	1,711.9	1,435.4
Revenue from operating financial assets	**394.4**	398.0	342.1
Construction	**4,401.9**	4,621.5	3,512.5
Revenue	**34,551.0**	35,764.8	31,574.1

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.

Note 19 OPERATING INCOMES

Operating income is calculated as follows:

(€ million)	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Revenue	**34,551.0**	**35,764.8**	**31,574.1**
Cost of sales (1)	**(28,786.2)**	**(30,013.4)**	**(25,710.4)**
o/w:			
• Impairment losses on goodwill and negative goodwill recorded in the Consolidated Income Statement	(6.5)	(302.2)	18.2
Selling costs(1)	**(602.6)**	**(621.4)**	**(560.4)**
General and administrative expenses(1)	**(3,338.1)**	**(3,218.6)**	**(2,905.8)**
o/w:			
• Research and development costs	(89.8)	(92.1)	(84.6)
Other operating revenue and expenses	**196.0**	**49.4**	**63.6**
o/w:			
• Capital gains and losses on disposal (2)	183.4	48.9	106.5
• other(2)	13.6	0.5	-
OPERATING INCOME	**2,020.1**	**1,960.8**	**2,461.2**

(1) In 2008, as part of ongoing efficiency measures, the Group reclassified certain expenses from cost of sales to selling costs and general and administrative 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.

(2) Primarily capital gains on disposals of financial assets; industrial and financial capital gains totaled €213.6 million in 2009 compared to €114.1 million in 2008 and €171.5 million in 2007; financial capital gains on assets classified as held for sale totaled €92.4 million in 2009 compared to €176.5 million in 2008 and €0.7 million in 2007.

Operating depreciation, amortization, provisions and impairment losses included in operating income in 2009 break down as follows:

(€ million)	**Charge**	**Reversal**	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Operating depreciation, amortization and provisions, net	**(2,962.9)**	**1,071.9**	**(1,891.0)**	**(1,632.0)**	**(1,435.4)**
Depreciation and amortization	**(1,806.8)**	**16.7**	**(1,790.1)**	**(1,663.7)**	**(1,518.6)**
Property, plant and equipment	(1,357.8)	16.7	(1,341.1)	(1,239.6)	(1,151.4)
Intangible assets	(449.0)	-	(449.0)	(424.1)	(367.2)
Impairment losses	**(326.2)**	**168.2**	**(158.0)**	**(138.3)**	**(47.5)**
Property, plant and equipment	(9.1)	3.2	(5.9)	(0.3)	(35.7)
Intangible assets	(77.8)	3.0	(74.8)	(70.1)	(0.7)
Inventories	(36.5)	42.6	6.1	(43.3)	(1.7)
Trade receivables	(175.4)	105.9	(69.5)	(30.4)	(39.2)
Other operating and non-operating receivables	(27.4)	13.5	(13.9)	5.8	29.8
Non-current and current operating provisions other than replacement provisions	**(829.9)**	**887.0**	**57.1**	**170.0**	**130.7**
Non-current operating provisions other than replacement provisions	(468.4)	453.8	(14.6)	50.3	51.6
Current operating provisions	(361.5)	433.2	71.7	119.7	79.1
Replacement costs*			**(360.9)**	**(390.3)**	**(358.4)**
Impairment losses and impact of disposals on goodwill and negative goodwill presented in the Consolidated Income Statement			**(6.5)**	**(302.2)**	**18.2**
Operating depreciation, amortization, provisions and impairment losses			**(2,258.4)**	**(2,324.5)**	**(1,775.6)**

* *Replacement costs: all replacement costs for concession assets in the context of public service delegation contracts in France are considered in the Consolidated 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 Consolidated Cash Flow Statement include operating depreciation, amortization, provisions and impairment losses transferred to Net income from discontinued operations in the amount of -€48.1 million in 2009, -€27.6 million in 2008 and -€49.5 million in 2007.

Recap: Before adjustment for the sale of Montenay International in the Environmental Services Division, of Freight activities in the United Kingdom in the Transportation Division and of renewable energy activities, published Operating depreciation, amortization, provisions and impairment losses for fiscal year 2008 broke down as follows:

(€ million)	**Charge**	**Reversal**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Operating depreciation, amortization and provisions, net	**(2,674.2)**	**1,014.7**	**(1,659.5)**	**(1,460.0)**
Depreciation and amortization	**(1,711.5)**	**22.2**	**(1,689.3)**	**(1,542.6)**
Property, plant and equipment	(1,285.1)	22.2	(1,262.9)	(1,173.8)
Intangible assets	(426.4)		(426.4)	(368.8)
Impairment losses	**(286.6)**	**146.0**	**(140.6)**	**(48.0)**
Property, plant and equipment	(8.3)	8.0	(0.3)	(35.7)
Intangible assets	(74.3)	4.2	(70.1)	(0.7)
Inventories	(51.9)	8.6	(43.3)	(1.7)
Trade receivables	(144.1)	111.6	(32.5)	(39.7)
Other operating and non-operating receivables	(8.0)	13.6	5.6	29.8
Non-current and current operating provisions other than replacement provisions	**(676.1)**	**846.5**	**170.4**	**130.6**
Non-current operating provisions other than replacement provisions	(379.0)	429.7	50.7	51.5
Current operating provisions	(297.1)	416.8	119.7	79.1
Replacement costs*			**(390.3)**	**(358.4)**
Impairment losses and impact of disposals on goodwill and negative goodwill presented in the Consolidated Income Statement			**(319.9)**	**18.2**
Operating depreciation, amortization, provisions and impairment losses			**(2,369.7)**	**(1,800.2)**

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, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Impairment losses on goodwill of the Environmental Services Division Germany CGU		(343.0)	-
Impairment losses on goodwill of the Transportation Division "Other European" CGU		(37.6)	-
Impairment losses on goodwill of the Eurolines CGU			(6.9)
Negative goodwill recorded in the Consolidated Income Statement – Water Division		2.3	-
Negative goodwill recorded in the Consolidated Income Statement – SNCM		70.2	10.9
Negative goodwill recorded in the Consolidated Income Statement following employee share subscriptions – Lodz (Energy Services Division - Poland)		2.1	10.3
Other	(6.5)	3.8	3.9
Impairment losses on goodwill and negative goodwill presented in Cost of sales in the Consolidated Income Statement	**(6.5)**	**(302.2)**	**18.2**
Impairment losses and impact of disposals on goodwill presented in Other operating revenue and expenses in the Consolidated Income Statement		**-**	**-**
Impairment losses and impact of disposals on goodwill and negative goodwill presented in the Consolidated Income Statement	**(6.5)**	**(302.2)**	**18.2**

Restructuring costs

(€ million)	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Restructuring expenses	(39.6)	(34.5)	(29.6)
Net charge to restructuring provisions	16.8	5.5	0.6
Restructuring costs	**(22.8)**	**(29.0)**	**(29.0)**

Personnel costs

(€ million)	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Employee costs	(10,554.0)	(10,315.0)	(9,449.8)
Profit sharing and incentive schemes	(172.0)	(171.8)	(166.3)
Share-based compensation (IFRS 2)	(10.9)	(5.2)	(65.4)
Personnel costs	**(10,736.9)**	**(10,492.0)**	**(9,681.5)**

The IFRS 2 share-based compensation expense in respect of 2009 (€10.9 million) solely concerns share option and free share allocation plans granted in 2007 and prior years. In 2009, no new share purchase or subscription option plans were granted.

Research and development costs

Research and development costs totaled €89.8 million, €92.1 million and €84.6 million in 2009, 2008 and 2007 respectively.

Note 20 NET FINANCE COSTS

The income and expense balances making up net finance costs are as follows:

(€ million)	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Finance income	**96.1**	202.2	151.1
Finance costs	**(880.4)**	(1,111.2)	(958.0)
Net finance costs	**(784.3)**	**(909.0)**	**(806.9)**

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.

Net finance costs fell, despite an increase in average net debt from €16,142 million in 2008 to €16,466 million in 2009. This decrease is due to the fall in 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) from 5.61% in 2008 to 4.76% in 2009. This fall of nearly 1% is mainly due to:

- the decrease in short-term rates on the floating portion of the debt (primarily Eonia, Euribor and GBP and USD libor) ;
- partially offset by the cost of liquidity (cash received under the €2 billion bond issue on April 24, 2009 – including a €1.25 billion tranche maturing in 5 years and a €0.75 billion tranche maturing in 10 years – is invested in low-risk short-term instruments with a yield close to Eonia).

(€ million)	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Financial liabilities measured using the effective interest method	(962.1)	(1,019.7)	(879.9)
Commission not included in the EIR	(4.6)	(3.1)	(4.2)
Expenses on gross debt	**(966.7)**	**(1,022.8)**	**(884.1)**
Assets at fair value through the Consolidated Income Statement (fair value option)*	**75.4**	**137.3**	**128.1**
Net gains and losses on derivative instruments, hedging relationships and other	**107.0**	**(23.5)**	**(50.9)**
Net finance costs	**(784.3)**	**(909.0)**	**(806.9)**

* *Cash equivalents are valued at fair value through the Consolidated Income Statement.*

Net gains and losses on derivative instruments, hedging relationships and other mainly include the following amounts for fiscal year 2009:

- interest income on hedging relationships (fair value hedges and cash flow hedges) of €149.1 million, as a result of the fall in interest rates in fiscal year 2009;
- income on the ineffective portion of fair value hedging relations of €6 million;
- the unwinding of the discount on non-controlling interest put options in the amount of -€11.9 million;
- net gains and losses on "trading" derivatives of -€19.5 million, mainly on foreign currency derivatives.

In addition, the charge relating to the ineffective portion of net investment hedges and cash flow hedges was not material in 2009.

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 €412.6 million in 2009.

Note 21 OTHER FINANCIAL INCOME AND EXPENSES

(€ million)	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Net gains on loans and receivables(1)	**13.9**	43.3	55.6
Net gains and losses on available-for-sale assets (2)	**8.0**	9.3	10.3
Assets and liabilities at fair value through the Consolidated Income Statement	**(22.9)**	35.1	5.4
Unwinding of the discount on provisions	**(83.0)**	(73.3)	(59.4)
Foreign exchange gains and losses	**(10.7)**	(42.8)	(2.2)
Other expenses	**(15.6)**	(10.8)	(7.4)
Other financial income and expenses	**(110.3)**	**(39.2)**	**2.3**

(1) including impairment losses of -€11.8 million in 2009, compared to -€4.9 million in 2008 and -€7.1 million in 2007.

(2) including dividends received of €8.7 million in 2009, compared to €8.4 million in 2008 and €8.8 million in 2007.

Other financial income and expenses decreased from a net expense of -€39.2 million in 2008, to a net expense of -€110.3 million in 2009.

This downturn is mainly due to:

- a -€29.4 million decrease in net gains on loans and receivables;
- fair value adjustments for -€58 million, including -€60 million in respect of indexing clauses in Water Division contracts.

Note 22 INCOME TAX EXPENSE

Analysis of the income tax expense

The income tax expense breaks down as follows:

(€ million)	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Current income tax expense	**(303.4)**	**(375.9)**	**(407.1)**
France	(79.7)	(90.1)	(108.8)
Other countries	(223.7)	(285.8)	(298.3)
Deferred income tax expense (credit)	**61.2**	**(86.1)**	**7.4**
France	9.8	(29.6)	(95.4)
Other countries	51.4	(56.5)	102.8
Total income tax expense	**(242.2)**	**(462.0)**	**(399.7)**

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 35).

The Group bears a net income tax expense of -€242.2 million in fiscal year 2009, compared to -€462.0 million in fiscal year 2008.

As a percentage of net income from continuing operations adjusted for this tax charge and the share of net income of associates, the effective tax rate is 21.5% in 2009 compared to 45.6% in 2008.

The decrease in this tax rate is mainly due to:

- the inclusion in the 2008 effective tax rate of the consequences of unfavorable changes in regulations, asset impairments without tax savings and the contribution of loss-making subsidiaries without profit forecasts enabling the future recovery of these losses;
- the positive impact in 2009 of the low tax rate applicable to capital gains on disposals and the capitalization of additional tax losses in the United States in the amount of €43 million.

Effective tax rate

(€ million)	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Net income from ordinary activities before tax	1,125.5	1,012.6	1,656.5
Income tax expense	(242.2)	(462.0)	(399.7)
Legal tax rate	**34.43%**	**34.43%**	**34.43%**
Impairment losses on goodwill not deductible for tax purposes	0.15%	8.81%	+0.11%
Differences in tax rate	-2.88%	-0.38%	-7.56%
Effect of tax projections	-9.66%	-6.62%	-4.70%
Dividends	+4.3%	+2.66%	+2.15%
Taxation without basis	+1.32%	+4.50%	+1.68%
Capital gains and losses on disposals	-6.32%	-1.38%	-1.69%
Other	+0.2%	+3.61%	-0.30%
Effective tax rate	**21.5%**	**45.6%**	**24.1%**

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.

Note 23 SHARE OF NET INCOME OF ASSOCIATES

The share of net income of associates fell from €19.4 million in 2008 to €1.4 million in 2009.

This decrease in mainly due to the sale of Compagnie Méridionale de Navigation in the Transportation Division in 2009.

Note 24 ASSETS CLASSIFIED AS HELD FOR SALE, DISCONTINUED OPERATIONS AND DIVESTITURES

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.

The amount recorded in Net income from discontinued operations 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.

During the second half of 2009, the business of incineration entities in the United States (Montenay International) in the Environmental Services Division and Freight activities (primarily in France, Germany and the Netherlands) in the Transportation Division, were sold for enterprise values of €220 million and €94 million respectively.

In addition, the Group decided to sell its activities in the United Kingdom in the Transportation Division and its renewable energy activities. These businesses were presented for fiscal year 2009 in the line "Net income from discontinued operations". This heading includes market value adjustments to certain assets held for sale.

In the Consolidated Income Statements presented for comparative purposes, the net income of these businesses for the years ended December 31, 2008 and 2007 was transferred to "Net income from discontinued operations".

Movements in net income (expense) from discontinued operations are as follows:

(€ million)	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Income(expense) from discontinued operations	(64.8)	(36.8)	(19.8)
Capital gains and losses on disposal	92.4	176.5	0.7
Income tax expense	(70.4)	(0.5)	-
Net income(expense) from discontinued operations	**(42.8)**	**139.2**	**(19.1)**

Net income (expense) from discontinued operations in 2009 breaks down by division as follows:

(€ million)	**Environmental Services**	**Transportation**	**Energy Services**	**Total**
Income (expense) from discontinued operations	(0.1)	(52.6)	(12.1)	(64.8)
Capital gains and losses on disposal	134.6	(42.2)	-	92.4
Income tax expense	(70.4)	-	-	(70.4)
Net income (expense) from discontinued operations	**64.1**	**(94.8)**	**(12.1)**	**(42.8)**

The main Consolidated Income Statement items for discontinued operations for the year ended December 31, 2009 break down by division as follows:

(€ million)	**Environmental Services**	**Transportation**	**Energy Services**	**Total**
Revenue	143.9	247.7	18.2	409.8
Operating income	-	(44.3)	(11.2)	(55.5)
Financial items	(0.1)	(9.2)	1.8	(7.5)
Income tax expense	-	1.1	(0.5)	0.6
Share of net income of associates	-	(0.2)	(2.2)	(2.4)
Income (expense) from discontinued operations	**(0.1)**	**(52.6)**	**(12.1)**	**(64.8)**

Net income (expense) from discontinued operations in 2008 breaks down by division as follows:

(€ million)	**Water**	**Environmental Services**	**Energy Services**	**Transportation**	**Total**
Income (expense) from discontinued operations	1.9	12.5	2.5	(53.7)	(36.8)
Capital gains and losses on disposal	-	-	176.5	-	176.5
Income tax expense	-	-	(0.5)	-	(0.5)
Net income (expense) from discontinued operations	**1.9**	**12.5**	**178.5**	**(53.7)**	**139.2**

The main Consolidated Income Statement items for discontinued operations for the year ended December 31, 2008 break down by division as follows:

(€ million)	**Water**	**Environmental Services**	**Energy Services**	**Transportation**	**Total**
Revenue	-	171.6	623.2	266.0	1,060.8
Operating income	1.9	20.3	5.6	(28.6)	(0.8)
Financial items	-	(1.2)	0.4	(26.0)	(26.8)
Income tax expense	-	(6.6)	(2.5)	0.9	(8.2)
Share of net income of associates	-	-	(1.0)	-	(1.0)
Income (expense) from discontinued operations	**1.9**	**12.5**	**2.5**	**(53.7)**	**(36.8)**

Net income (expense) from discontinued operations in 2007 breaks down by division as follows:

(€ million)	**Water**	**Environmental Services**	**Energy Services**	**Transportation**	**Total**
Income (expense) from discontinued operations	(1.9)	1.7	11.4	(31.0)	(19.8)
Capital gains and losses on disposal	-	-	-	0.7	0.7
Income tax expense					-
Net income (expense) from discontinued operations	**(1.9)**	**1.7**	**11.4**	**(30.3)**	**(19.1)**

The main Consolidated Income Statement items for discontinued operations for the year ended December 31, 2007 break down by division as follows:

(€ million)	**Water**	**Environmental Services**	**Energy Services**	**Transportation**	**Total**
Revenue	-	157.1	696.0	266.5	1,119.6
Operating income	(1.9)	21.7	14.4	(20.8)	13.4
Financial items	-	(2.0)	(1.0)	(9.6)	(12.6)
Income tax expense	-	(18.0)	(2.2)	(0.2)	(20.4)
Share of net income of associates	-	-	0.2	(0.4)	(0.2)
Income (expense) from discontinued operations	**(1.9)**	**1.7**	**11.4**	**(31.0)**	**(19.8)**

The statement of financial position of the sub-groups sold or in the progress of being sold are as follows:

Montenay International sub-group (Environmental Services)

The statement of financial position as of December 31, 2008 and December 31, 2007 of the North American portfolio of incineration contracts sold during 2009 is as follows:

(€ million)	**As of December 31, 2008**	**As of December 31, 2007**
Assets		
Non-current assets	130.7	131.7
Current assets	51.8	50.0
Cash and cash equivalents	15	4.3
Total assets	**197.5**	**186.0**
Equity and liabilities		
Equity	123.5	116.2
Non-current liabilities	59.0	64.8
Current liabilities	15.0	5.0
Total equity and liabilities	**197.5**	**186.0**

Freight sub-group (Transportation)

The statement of financial position as of December 31, 2008 and December 31, 2007 of the Freight business, primarily in France, Germany and the Netherlands, sold during 2009 is as follows:

(€ million)	**As of December 31, 2008**	**As of December 31, 2009**
ASSETS		
Non-current assets	203.3	172.5
Current assets	102.1	68.0
Cash and cash equivalents	12.8	3.4
Total assets	**318.2**	**243.9**
EQUITY AND LIABILITIES		
Equity	53.0	79.4
Non-current liabilities	20.4	11.0
Current liabilities	244.8	153.5
Total equity and liabilities	**318.2**	**243.9**

Businesses in the process of being sold impacted the Group Consolidated Statement of Financial Position as follows:

(€ million)	**As of December 31, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
Assets classified as held for sale	722.6	203.0	122.5
Liabilities directly associated with assets classified a held for sale	309.4	98.2	1.9

As of December 31, 2009, assets classified as held for sale mainly concern certain French subsidiaries held jointly with Suez Environnement, as was the case at December 31, 2008, renewable energy activities, the transportation business in the United Kingdom and Dalkia Usti businesses (Czech Republic).

Note 25 NET INCOME FOR THE YEAR ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Net income attributable to non-controlling interests for the year ended December 31, 2009 is €257.8 million, compared to €304.1 million for the year ended December 31, 2008 and €326.9 million for the year ended December 31, 2007. In 2008, this item included the share of non-controlling interests in the capital gain realized on the sale of Clemessy and Crystal in the Energy Services Division for €60 million.

Net income for the year attributable to non-controlling interests breaks down by division as follows:

(en millions d'euros)	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Water [(a)]	144.7	118.9	178.9
Environmental Services	4.7	18.3	21.8
Energy Services [(b)]	97.9	144.8	96.4
Transportation	6.6	19.4	28.9
Other	3.9	2.7	0.9
NON-CONTROLLING INTERESTS	**257.8**	**304.1**	**326.9**

(a) Including non-controlling interests in Germany (Berlin water services company and Stadtwerke of Braunschweig) of €120.5 million in 2007, €75.9 million in 2008 and €96.4 million in 2009.

(b) Including EDF's interest in Dalkia Holding of €68.2 million in 2007, €121.7 million in 2008 and €63.1 million in 2009.

Note 26 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.

The weighted average number of shares outstanding used to calculate earnings per share for 2008 and 2007 was adjusted following the scrip dividend performed in June 2009.

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, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Weighted average number of ordinary shares (in millions)			
Weighted average number of ordinary shares for the calculation of basic earnings per share	471.7	462.2	434.8
Theoretical number of additional shares resulting from the exercise of share purchase and subscription options		1.8	5.0
Weighted average number of ordinary shares for the calculation of diluted earnings per share (in millions)	**471.7**	**464.0**	**439.8**
Net income attributable to owners of the Company per share (€ million)			
Net income attributable to owners of the Company	584.1	405.1	927.9
Net income attributable to owners of the Company per share:			
Basic	1.24	0.88	2.13
Diluted	1.24	0.87	2.11
Net income (expense) from discontinued operations attributable to owners of the Company per share (€ million)			
Net income(expense) from discontinued operations attributable to owners of the Company	(41.7)	75.1	(25.3)
Net income(expense) from discontinued operations attributable to owners of the Company per share:			
Basic	(0.09)	0.16	(0.06)
Diluted	(0.09)	0.16	(0.06)
Net income from continuing operations attributable to owners of the Company per share (€ million)			
Net income from continuing operations attributable to owners of the Company	625.8	330.0	953.2
Net income from continuing operations attributable to owners of the Company per share:			
Basic	1.33	0.71	2.19
Diluted	1.33	0.71	2.17

The only potentially dilutive instruments recognized by Veolia Environnement are share subscription and purchase options.

Note 27 ADDITIONAL INFORMATION ON THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (EXCLUDING DERIVATIVES)

Fair value measurement principles are presented in Note 1.27.

27.1 Financial assets

The following tables present the net carrying amount and fair value of Group financial assets as of December 31, 2009, 2008 and 2007:

		As of December 31, 2009							
			Financial assets at fair value				**Method of determining fair value**		
(€ million)	**Note**	**Net carrying amount**	**Available-for-sale assets**	**Loans and receivables**	**Assets designated at fair value through the Consolidated Income Statement**	**Fair value**	**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	174.6	174.6			174.6	39.8	134.8	
Non-current and current operating financial assets	10	5,651.8		5,651.8		5,656.6		5,656.6	
Other non-current financial assets	11	753.9	52.6	701.3		753.9		753.9	
Trade receivables	13	9,081.3		9,081.3		9,081.3		9,081.3	
Other current operating receivables	13	1,101.2		1,101.2		1,101.2		1,101.2	
Other current financial assets	11	217.7	53.8	163.9		217.7		217.7	
Cash and cash equivalents	14	5,614.4			5 614.4	5,614.4	1,310.4	4,304.0	
Total		**22,594.9**	**281.0**	**16,699.5**	**5 614.4**	**22,599.7**	**1,350.2**	**21,249.5**	

(€ million)	Note	Net carrying amount	Available-for-sale assets	Loans and receivables	Assets designated at fair value through the Consolidated Income Statement	Fair value	Price 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
		As of December 31, 2008							
			Financial assets at fair value				Method of determining fair value		
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	11	321.4	66.0	255.4		321.4	X	X	X
Cash and cash equivalents	14	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**			

(€ million)	Note	As of December 31, 2007							
		Net carrying amount per IAS 39 category				Fair value			
		Total	**Available-for-sale assets**	**Loans and receivables**	**Assets designated at fair value through the Consolidated Income Statement**	**Total**	**Available-for-sale assets**	**Loans and receivables**	**Assets designated at fair value through the Consolidated 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	11	**330.0**	177.2	152.8	-	**330.0**	177.2	152.8	-
Cash and cash equivalents	14	**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**

27.2 Financial liabilities

The following tables present the net carrying amount and fair value of financial liabilities by category as of December 31, 2009, 2008 and 2007:

		As of December 31, 2009							
		Net carrying amount	Financial liabilities at fair value			Fair value	Method of determining fair value		
(€ million)	**Note**	**Total**	**Liabilities at amortized cost**	**Liabilities at fair value through the Consolidated Income Statement**	**Liabilities at fair value through the Consolidated 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	17	**13,264.5**	13,264.5			**13,810.5**	13,321.2	489.3	
- other non-current borrowings	17	**4,382.8**	4,382.8			**4,385.3**		4,385.3	
- current borrowings	14	**2,983.1**	2,983.1			**2,983.1**		2,983.1	
- bank overdrafts and other cash position items	14	**454.9**	454.9			**454.9**		454.9	
Trade payables	13	**5,311.0**	5,311.0			**5,311.0**		5,311.0	
Other operating payables	13	**4,933.4**	4,933.4			**4,933.4**		4,933.4	
Total		**31,329.7**	**31,329.7**			**31,878.2**	13,321.2	18,557.0	

		As of December 31, 2008							
		Net carrying amount per IAS 39 category				Fair value			
(€ million)	Note	Total	Liabilities at amortized cost	Liabilities at fair value through the Consolidated Income Statement	Liabilities at fair value through the Consolidated Income Statement and held for trading	Total	Liabilities at amortized cost	Liabilities at fair value through the Consolidated Income Statement	Liabilities at fair value through the Consolidated Income Statement and held for trading
Borrowings and other financial liabilities									
- non-current bonds	17	**11,097.6**	11,097.6	-	-	**9,836.9**	9,836.9	-	-
- other non-current borrowings	17	**5,966.3**	5,966.3	-	-	**5,227.4**	5,227.4	-	-
- current borrowings	14	**3,219.7**	3,219.7	-	-	**3,219.7**	3,219.7	-	-
- bank overdrafts and other cash position items	14	**465.7**	465.7	-	-	**465.7**	465.7	-	-
Other non-current debt	17	**-**	-	-	-	**-**	-	-	-
Trade payables	13	**5,634.5**	5,634.5			**5,634.5**	5,634.5		
Other operating payables	13	**5,112.3**	5,112.3	-	-	**5,112.3**	5,112.3	-	-
Total		**31,496.1**	**31,496.1**	**-**	**-**	**29,496.5**	**29,496.5**	**-**	**-**

		As of December 31, 2007							
		Net carrying amount per IAS 39 category				Fair value			
(€ million)	**Note**	**Total**	**Liabilities at amortized cost**	**Liabilities at fair value through the Consolidated Income Statement**	**Liabilities at fair value through the Consolidated Income Statement and held for trading**	**Total**	**Liabilities at amortized cost**	**Liabilities at fair value through the Consolidated Income Statement**	**Liabilities at fair value through the Consolidated Income Statement and held for trading**
Borrowings and other financial liabilities									
- non-current bonds	17	**9,009.6**	9,009.6	-	-	**8,747.8**	8,747.8	-	-
- other non-current borrowings	17	**4,938.4**	4,938.4	-	-	**4,761.6**	4,761.6	-	-
- current borrowings	14	**3,805.0**	3,805.0	-	-	**3,805.0**	3,805.0	-	-
- bank overdrafts and other cash position items	14	**459.4**	459.4	-	-	**459.4**	459.4	-	-
Other non-current debt	17	**-**	-	-	-	**-**	-	-	-
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**	**-**	**-**

Note 28 DERIVATIVES

The Group uses derivatives to manage and reduce its exposure to fluctuations in interest rates, exchange rates and commodity prices (see Note 29, Risk Management).

The fair value of derivatives in the Consolidated Statement of Financial Position breaks down as follows:

		As of December 31, 2009		As of December 31, 2008		As of December 31, 2007	
(€ million)	**Notes**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest-rate derivatives	28.1	**355.0**	**76.6**	**389.1**	**116.8**	**71.1**	**113.0**
Fair value hedges		351.5	8.3	378.9	7.4	21.2	48.9
Cash flow hedges		-	59.6	0.3	96.6	11.8	41.0
Derivatives not qualifying for hedge accounting		3.5	8.7	9.9	12.8	38.1	23.1
Foreign currency derivatives	28.2	**58.6**	**103.9**	**172.7**	**61.7**	**105.2**	**49.2**
Net investment hedges		13.1	17.1	65.1	8.0	78.3	13.6
Fair value hedges		7.9	0.6				
Cash flow hedges		8.8	0.3				
Derivatives not qualifying for hedge accounting		28.8	85.9	107.6	53.7	26.9	35.6
Commodity derivatives	28.3	**63.9**	**43.6**	**89.4**	**107.3**	**61.8**	**35.6**
Total derivatives		**477.5**	**224.1**	**651.2**	**285.8**	**238.1**	**197.8**
o/w non-current derivatives		**431.9**	**139.3**	**508.4**	**159.9**	**123.7**	**163.8**
o/w current derivatives		**45.6**	**84.8**	**142.8**	**125.9**	**114.4**	**34.0**

The fair value of derivatives recognized in the Consolidated Statement of Financial Position is determined and breaks down as follows:

	As of December 31, 2009		Internal model with observable parameters (%)		Internal model with certain non-observable parameters (%)	
(€ million)	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest-rate derivatives	355.0	76.6	100%	100%		
Foreign currency derivatives	58.6	103.9	100%	100%		
Commodity derivatives	63.9	43.6	35.2%	84.2%	64.8%	15.8%
Total derivatives	**477.5**	**224.1**	**91.3%**	**96.9%**	**8.7%**	**3.1%**

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.

	As of December 31, 2008		Internal model with observable parameters (%)		Internal model with certain non-observable parameters (%)	
(€ million)	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest-rate derivatives	389.1	116.8	100%	100%	-	-
Foreign currency derivatives	172.7	61.7	100%	100%	-	-
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%**

(€ 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 currency derivatives	105.2	49.2	100.0%	100.0%	-	-
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%**

28.1 Interest rate derivatives

The fair value of interest rate derivatives recognized in the Consolidated Statement of Financial Position breaks down as follows:

(€ million)	Note	As of December 31, 2009		As of December 31, 2008		As of December 31, 2007	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest-rate derivatives		**355.0**	**76.6**	**389.1**	**116.8**	**71.1**	**113.0**
Fair value hedges	28.1.1	351.5	8.3	378.9	7.4	21.2	48.9
Cash flow hedges	28.1.2	-	59.6	0.3	96.6	11.8	41.0
Derivatives not qualifying for hedge accounting	28.1.3	3.5	8.7	9.9	12.8	38.1	23.1

28.1.1 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 Notes 29 and 17).

Fair value hedging swaps represent a notional outstanding amount of €6,315.4 million as of December 31, 2009, with a net fair value in the Consolidated Statement of Financial Position of €343.2 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 5 years	Total assets	Total liabilities
As of December 31, 2009	**6,315.4**		**2,361.1**	**3,954.3**	**351.5**	**8.3**
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

The increase in the fair value hedging portfolio is mainly due to:

- the set-up of several floating-rate payer swaps hedging EMTN issues, in the total amount of €2,122 million;
- and the early cancellation of certain EURIBOR-based swaps (Euro Interbank Offered Rate, interest rate on inter-bank exchanges in the euro-zone, for terms of 1 to 12 months) and swaps with extremely long maturity, in the amount of €1,165 million.

For euro-denominated debt, floating-rate payer swaps entered into in 2009 were all indexed to EONIA (European Overnight Index Average, overnight Euro rate).

28.1.2 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 5 years**	**Total assets**	**Total liabilities**
As of December 31, 2009	997.2	230.9	202.1	564.2	-	59.6
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

-€57.3 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, 2009.

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 other comprehensive income is released to net income in the period in which interest flows on the debt impact the Consolidated Income Statement.

The decrease in the cash-flow hedging portfolio is mainly due to:

- the set-up of new swaps in the amount of €17.6 million;
- the expiry or cancellation of swaps in the amount of €81 million;
- the amortization of the nominal of certain swaps in the amount of €76 million.

Over and above the volume impact, the increase in the fair value of floating-rate payer swaps can also be attributed to the increase in U.S. dollar and pound sterling interest rates in 2009.

28.1.3 Derivatives not qualifying for hedge accounting

A certain number of derivatives 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.

	Notional amounts as of December 31, 2009				**Fair value of derivatives**	
(€ million)	**Total**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total assets**	**Total liabilities**
Fixed-rate receiver / floating-rate payer swaps	333.7	250.1	57.8	25.8	3.4	-
Floating-rate receiver / fixed-rate payer swaps	755.2	627.5	41.5	86.2	-	5.6
Floating-rate receiver / floating-rate payer swaps	200.0	-	-	200.0	-	1.4
Total firm financial instruments	**1,288.9**	**877.6**	**99.3**	**312.0**	**3.4**	**7.0**
Purchases of vanilla and structured caps	1,230.1	277.7	752.4	200.0	0.1	1.7
Sales of caps	-	-	-	-	-	-
Sales of swaptions	-	-	-	-	-	-
Total optional financial instruments	**1,230.1**	**277.7**	**752.4**	**200.0**	**0.1**	**1.7**
Total interest-rate derivatives not qualifying for hedge accounting	**2,519.0**	**1,155.3**	**851.7**	**512.0**	**3.5**	**8.7**

The increase in the portfolio of interest rate derivatives not qualifying for hedge accounting is mainly due to:

- the set-up of approximately €900 million of new options;
- the cancellation or expiry of approximately €300 million of financial instruments;
- the amortization of the nominal and the decrease in the number of short-term cash flow hedging swaps in the amount of €240 million.

The break down as of December 31, 2008 and 2007 is as follows

(€ million)	Notional amounts as of December 31, 2008				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	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**

(€ million)	Notional amounts as of December 31, 2007				Fair value of derivatives	
	Total	**Less than 1 year**	**1 to 5 years**	**More than years**	**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**

28.2 Foreign currency derivatives

The fair value of foreign currency derivatives recognized in the Consolidated Statement of Financial Position breaks down as follows:

(€ million)	Note	As of December 31, 2009		As of December 31, 2008		As of December 31, 2007	
		Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Foreign currency derivatives		**58.6**	**103.9**	**172.7**	**61.7**	**105.2**	**49.2**
Net investment hedge	28.2.1	13.1	17.1	65.1	8.0	78.3	13.6
Fair value hedge	28.2.2	7.9	0.6				
Cash flow hedge	28.2.3	8.8	0.3				
Derivatives not qualifying for hedge accounting	28.2.4	28.8	67.4	104.7	53.7	26.9	11.8
Embedded derivatives			18.5	2.9	-	-	23.8

28.2.1 Hedge of a net investment in a foreign operation

Financial instruments designated as net investment hedges break down as follows:

Financial instrument	Notional amount as of December 31, 2009 by currency and maturity					Fair value of derivatives	
(€ million)	Currency	Amount	Less than 1 year	1 to 5 years	More than 5 years	Total assets	Total liabilities
Currency payer swaps	AED	**3.7**	3.7	-	-	0.0	0.0
	AUD	**7.5**	7.5	-	-	-	0.1
	GBP	**67.0**	67.0	-	-	2.4	-
	HKD	**199.9**	196.0	3.9	-	-	0.5
	HUF	**86.9**	86.9	-	-	0.0	0.5
	ILS	**17.9**	17.9	-	-	-	0.0
	JPY	**60.3**	60.3	-	-	0.6	-
	MXN	**1.0**	1.0	-	-	0.0	-
	PLN	**5.8**	5.8	-	-	-	0.5
Embedded derivatives (forward sale)	KRW	**92.4**	12.1	42.5	37.8	10.1	-
Cross currency swaps: fixed-rate payer / fixed-rate receiver	CNY	**120.0**	-	60.0	60.0	-	15.5
Total foreign currency derivatives		**662.4**	**458.2**	**106.4**	**97.8**	**13.1**	**17.1**
USD borrowings	USD	**1,339.8**	**-**	411.6	928.2	N/A	N/A
GBP borrowings	GBP	**731.9**	**-**	-	731.9	N/A	N/A
Syndicated loan	CZK	**190.3**	**190.3**	-	-	N/A	N/A
Syndicated loan	PLN	**219.8**	**-**	219.8	-	N/A	N/A
Total financing		**2,481.8**	**190.3**	**631.4**	**1,660.1**		

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.

Fair value movements compared with December 31, 2008 are mainly due to:

- the change in the fair value of euro/Chinese renminbi yuan cross currency swaps for -€35 million;
- the change in the fair value of the Korean won embedded derivative for -€19 million.

Inter-company loans and receivables forming part of a foreign investment (IAS 21) are nearly systematically hedged by foreign currency external financing or foreign 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, 2009 of -€46.6 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 -€28.9 million;
- the impact of exchange rate fluctuations on hedges of Veolia Environnement SA investments in the United States of - €10.6 million.

Recap: the break down as of December 31, 2008 and 2007 is as follows:

Financial instrument	Notional amount as of December 31, 2008 by currency and maturity					Fair value of derivatives	
(€ million)	Currency	Amount	Less than 1 year	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 foreign 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**		

Financial instrument	Notional amount as of December 31, 2007 by currency and maturity					Fair value of derivatives	
(€ million)	Currency	Amount	Less than 1 year	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 foreign 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**	**-**	**-**

28.2.2 Fair value hedges

Financial instruments designated as fair value hedges break down as follows:

Financial instrument	Notional amount as of December 31, 2009 by currency and maturity					Fair value of derivatives	
(€ million)	**Currency**	**Amount**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total assets**	**Total liabilities**
Forward sales	USD	48.9	45.8	3.1	-	2.9	-
Forward purchases	BRL	11.1	11.1	-	-	3.4	0.6
Forward purchases	NOK	39.4		39.4	-	1.6	-
Total foreign currency derivatives		**99.4**	**56.9**	**42.5**	**-**	**7.9**	**0.6**

In 2009, Veolia Environnement Group decided to designate a certain number of currency transactions as hedges as defined by IAS 39.

The majority of the fair value hedges presented above consist of foreign currency hedges in respect of construction contracts or hedging financial assets.

28.2.3 Cash flow hedges

Financial instruments designated as cash flow hedges break down as follows:

Financial instrument	Notional amount as of December 31, 2009 by currency and maturity					Fair value of derivatives	
(€ million)	**Currency**	**Amount**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total assets**	**Total liabilities**
Forward purchases	NOK	115.3	20.3	64.2	30.8	7.1	-
Forward sales	USD	15.6	4.2	11.4	-	1.0	-
Forward purchases	USD	9.8	9.8	-	-	0.2	-
Forward purchases	SEK	8.9	7.5	1.4	-	-	0.3
Forward purchases	HUF	4.3	4.3	-	-	0.5	-
Total foreign currency derivatives		**153.9**	**46.1**	**77.0**	**30.8**	**8.8**	**0.3**

In 2009, Veolia Environnement Group decided to designate a certain number of currency transactions as hedges as defined by IAS 39.

The majority of the cash flow hedges presented above consist of currency hedges in respect of lease payments on a boat.

28.2.4 Hedges of currency exposure in the Consolidated Statement of Financial Position by derivatives not qualifying for hedge accounting

Fair value				**As of December 31, 2009**			
(€ million)	**Total**	**USD**	**GBP**	**NOK**	**SEK**	**KRW**	**Other**
Forward purchases	(0.9)	(0.7)	(1.0)	0.0	0.0	0.0	0.8
Currency receiver swaps	10.3	8.2	0.2	0.1	0.1	0.0	1.7
Total currency swaps and forward purchases	**9.4**	**7.5**	**(0.8)**	**0.1**	**0.1**	**0.0**	**2.5**
Forward sales	(17.4)	2.0	(0.1)	0.1	0.0	(18.5)	(0.9)
Currency payer swaps	(49.1)	1.4	(17.6)	(11.1)	(11.4)	0.0	(10.4)
Total currency swaps and forward sales	**(66.5)**	**3.4**	**(17.7)**	**(11.0)**	**(11.4)**	**(18.5)**	**(11.3)**
Call options	-	-	-	-	-	-	-
Put options	-	-	-	-	-	-	-
Total currency options	-	-	-	-	-	-	-
Total derivatives not qualifying for hedge accounting	**(57.1)**	**10.9**	**(18.5)**	**(10.9)**	**(11.3)**	**(18.5)**	**(8.8)**

Hedges as of December 31, 2008 and 2007 are as follows:

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)**
Total derivatives not qualifying for hedge accounting(*)	**51.0**	**28.3**	**14.3**	**10.2**	**(1.8)**

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**	-	-
Total derivatives not qualifying for hedge accounting(*)	**15.1**	**11.2**	**3.1**	**0.8**

** Net fair value (Assets–Liabilities) excluding embedded derivatives.*

The above portfolio of foreign 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).

28.3 Commodity derivatives

As of December 31, 2009, the fair value of commodity derivatives totaled €63.9 million in assets and €43.6 million in liabilities.

	As of December 31, 2009		As of December 31, 2008	
(€ million)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Commodity derivatives	**63.9**	**43.6**	**89.4**	**107.3**
Electricity	53.1	18.3	56.3	18.3
Fuel	9.1	7.1	22.5	46.5
CO_2	0.8	0.4	2.1	2.7
Coal	0.9	15.5	8.2	15.6
Other	-	2.3	0.3	24.2

Pursuant to IAS 39, these derivatives break down as follows:

	As of December 31, 2009		As of December 31, 2008	
(en millions d'euros)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Commodity derivatives	**63.9**	**43.6**	**89.4**	**107.3**
Fair value hedges		0.3		2.3
Cash flow hedges	10.0	23.9	32.1	64.3
Derivatives not qualifying for hedge accounting	53.9	19.4	57.3	40.8

Material contract notional amounts (electricity – see Note 1.24) are as follows:

28.3.1 Electricity

	Notional contract amount as of December 31, 2009 by maturity			
(€ million)	**Total**	**Less than one year**	**1 to 5 years**	**More than five years**
Electricity purchase options:				
• in GWh	13,196	1,052	2,934	9,210
• in € million	696.0	55.2	158.4	482.4
Electricity sales commitments :				
• in GWh	3,051	1,110	1,941	-
• in € million	215.2	72.3	142.9	-

Purchase options cover the period 2010 to 2025 and represent a notional amount of €52.3 million, based on valuation assumptions at the year end. Sales commitments cover the period 2010 to 2011 and represent a notional amount of €17.7 million, based on the same valuation assumptions.

A 10% increase or decrease in the price of electricity (all other things being equal) would have an impact on net income of +€1.2 million and -€0.9 million, respectively.

	Notional contract amount as of December 31, 2008 by maturity			
(€ million)	**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	-

	Notional contract amount as of December 31, 2007 by maturity			
(€ million)	**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	-

28.3.2 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 2010, 2011 and 2012. These transactions are recorded in assets in the amount of €0.5 million and the impact on the Consolidated Income Statement is a net income of €0.8 million

Note 29 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 29.1;
- interest-rate risk, presented in Note 29.1.1 (interest-rate fair value hedges, cash flow hedges and derivatives not qualifying for hedge accounting);
- foreign exchange risk, presented in Note 29.1.2 (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 29.1.3 (fuel and electricity risks, greenhouse gas emission rights);
- Equity risk, presented in Note 29.2;
- Liquidity risk, presented in Note 29.3;
- Credit risk, presented in Note 29.4.

29.1 Market risk management

29.1.1 Management of interest rate risk

The financing structure of the Group exposes it naturally to the risk of interest rate fluctuations. As such, 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.

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.

These swaps 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 following table shows the interest-rate exposure of gross debt (defined as the sum of non-current borrowings, current borrowings and bank overdrafts and other cash position items) before and after hedging.

	As of December 31, 2009		As of December 31, 2008		As of December 31, 2007	
(€ million)	Out-standings	% total debt	Out-standings	% total debt	Out-standings	% total debt
Fixed rate	15,971.5	77.0%	14,055.2	69.0%	12,129.7	66.5%
Floating rate	4,770.6	23.0%	6,322.6	31.0%	6,111.0	33.5%
Gross debt before hedging	**20,742.1**	**100.0%**	**20,377.8**	**100.0%**	**18,240.7**	**100.0%**
Fixed rate	10,808.8	51.3%	9,960.8	48.0%	9,759.2	53.6%
Capped floating rate (active caps)	0,0	0.0%	36.0	0.2%	1,401.7	7.7%
Floating rate	10,276.5	48.7%	10,752.5	51.8%	7,052.1	38.7%
Gross debt after hedging and fair value remeasurement of fixed-rate debt	**21,085.3**	**100.0%**	**20,749.3**	**100.0%**	**18,213.0**	**100.0%**
Fair value adjustments to (asset)/liability hedging derivatives	**(343.2)**		**(371.5)**		**27.7**	
Gross debt at amortized cost	**20,742.1**		**20,377.8**		**18,240.7**	

Total gross debt as of December 31, 2009 after hedging was 51.3% fixed-rate and 48.7% floating-rate. No caps were active as of December 31, 2009. Excluding inactive caps, the fixed-rate portion of gross debt was 57.1% and the floating-rate portion was 42.9%.

As of December 31, 2009, the Group has cash and cash equivalents of €5,614.4 million, the majority of which bears interest at floating rates.

Net debt totals €15,127.7 million and is 69.2% fixed-rate and 30.8% floating-rate.

Sensitivity of the consolidated 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 as of December 31, 2009 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)	5,614.4			5,614.4
Total floating-rate liabilities	(3,438.0)	(855.5)	(477.1)	(4,770.6)
Net floating-rate position before hedging	**2,176.4**	**(855.5)**	**(477.1)**	**843.8**
Derivative instruments [1]	4.2	(2,159.0)	(3,351.1)	(5,505.9)
Net floating-rate position after active management and hedging	**2,180.6**	**(3,014.5)**	**(3,828.2)**	**(4,662.1)**

(1) Debt hedging financial instruments excluding inactive caps of U.S.$400 million and €952 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, 2009. 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 (after hedging), 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. This sensitivity corresponds to fair market value movements 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 €25 million (before tax) and a decrease in net income (before tax) of €15 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.

29.1.2 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.

Overall exposure to foreign exchange risk and risk management

Foreign exchange risk, as defined in accordance with IFRS 7, mainly results from:

(a) foreign currency-denominated purchases and sales of goods and services relating to operating activities and the related hedges (e.g. currency forwards). However, these transactions remain minor within the Group (see Note 29.1.2.1);

(b) foreign currency-denominated financial assets and liabilities, including foreign currency-denominated loans/borrowings and related hedges (e.g. forex swaps) (see Note 29.1.2.2);

(c) investments in foreign subsidiaries realized through the translation of accounts impacting the translation reserves (see Note 29.1.2.3).

Management of foreign exchange transaction risk:

The Group has no significant exposure to foreign exchange transaction risk. The activities of the Group are performed by subsidiaries operating in their own country and their own currency. Exposure to foreign exchange risk is therefore naturally limited.

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 hedging certain net foreign investments and 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 (IAS 21 / IAS 39).

29.1.2.1 Translation risk

Considering its international presence, the translation of the income statements of the Group's foreign subsidiaries is sensitive to exchange rate fluctuations.

The following table summarizes the sensitivity of certain Group consolidated income statement aggregates to a 10% increase or decrease in foreign exchange rates against the euro, with regard to the translation of financial statements of foreign subsidiaries.

	Contribution to the consolidated financial statements							**Sensitivity to an increase or decrease in the main currencies against the euro**	
(€ million)	**EUR**	**GBP**	**USD**	**PLN**	**CZK**	**Other currencies**	**Total**	**+10%**	**-10%**
Revenue	20,677.4	2,259.3	2,977.4	502.3	1,150.6	6,984.0	**34,551.0**	(626.3)	689.0
Operating income	1,046.8	330.4	147.8	46.0	173.3	276.9	**2,021.2**	(63.4)	69.7

29.1.2.2 Foreign exchange risk with regard to the net finance cost

With many offices worldwide, Veolia organizes financing in local currencies.

The foreign currency debts borne by the parent company, Veolia Environnement SA, are generally hedged using either derivative instruments or assets in the same currency.

The following table shows the exposure to exchange rate fluctuations of the foreign currency net financial debt of the entities that bear the main foreign exchange risks. It also presents the sensitivity of these entities to a 10% increase or decrease in the parities of the corresponding foreign currencies.

	Net finance cost Foreign currency exposure *(in millions of local currency)*						**Sensitivity to an increase or decrease in the 4 main currencies against the euro** *(€ million)*	
	GBP	**USD**	**PLN**	**CZK**	**Other currencies** *(in euros)*	**Total translated into euros**	**+10%**	**-10%**
Veolia Environnement SA	(37.4)	(86.0)	(54.7)	(313.1)	(356.3)	**(473.9)**	(15.3)	9.8
Other Group subsidiaries	(21.8)	(96.6)	(51.5)	(13.2)	(199.2)	**(310.4)**	(11.8)	9.7
Total in foreign currency	**(59.2)**	**(182.7)**	**(106.2)**	**(326.3)**	**(555.5)**	**(784.3)**		
Total translated into euros	**(66.2)**	**(125.8)**	**(24.5)**	**(12.3)**	**(555.5)**	**(784.3)**	**(27.1)**	**19.5**

29.1.2.3 Foreign exchange and translation risk in the consolidated statement of financial position

Due to its international presence, the Group's consolidated statement of financial position is exposed to exchange rate fluctuations. A fluctuation in the euro impacts the translation of subsidiary foreign currency-denominated assets in the consolidated statement of financial position. The main currencies used are the US dollar and the pound sterling.

For its most significant assets, the Group has issued debt in the relevant currencies.

The following table shows the net asset amounts for the main currencies, defined as the asset amount excluding net financial debt.

(€ million)	Contribution to the consolidated financial statements					Sensitivity to an increase or decrease in the 2 main currencies against the euro	
	EUR	USD	GBP	Other currencies	Total	+10%	-10%
Assets excluding net financial debt by currency	13,044	2,710	2,646	6,859	25,259	595	(487)
Net financial debt by currency	8,506	1,595	1,857	3,170	15,128	384	(314)
Net assets by currency	4,538	1,115	789	3,689	10,131	211	(173)

29.1.3 Management of commodity risk

Fuel or electricity 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 long-term 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 and set-up derivatives to fix the cost of commodities supply, where the contracts do not offer adapted protection.

29.1.3.1 Fuel risks

In the Transportation Division, a "fuel" hedging policy has been implemented in order to control trends in fuel prices. The Group uses firm fuel purchase contracts (deemed for its own use) or 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 used to determine the forward purchase price of fuel.

These derivatives were analyzed in accordance with IAS 39 and classified as hedging instruments (cash flow hedges) (see Note 28).

29.1.3.2 Coal, gas and electricity risks

The Group has entered into long-term gas, coal, electricity and biomass purchase contracts in order to secure its supplies.

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 eligible for hedging within the meaning of IAS 39 (see Note 36 on off-balance sheet commitments).

29.2 Management of equity risk

As of December 31, 2009, Veolia Environnement held 14,731,592 of its own shares, of which 8,591,656 were allocated to external growth operations and 6,139,936 were acquired for allocation to employees under stock option and employee savings plans, with a market value of €340.7 million, based on a share price of €23,125 and a net carrying amount of €452.6 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.

29.3 Management of liquidity risk

The operational management of liquidity and financing is managed by the Treasury and Financing Department. This management involves the centralization of major financing in order to optimize liquidity and cash.

The Group secures financing on international bond markets, international private placement markets, the treasury note market and the bank lending market, (see Note 17 "Non-current and current borrowings")..

29.3.1 Maturity of financial liabilities

Undiscounted contractual flows of financial liabilities, comprising principal payments and interest flows, are presented below. Market data used are valid as of December 31, 2009:

	As of December 31, 2009		Maturing in			
(€ million)	**Net carrying amount**	**Total contractual flows (1)**	**Less than 1 year**	**2 years**	**3 to 5 years**	**More than 5 years**
Non-current borrowings	**17,647.3**	**17,422.7**		773.4	5,468.1	11,181.2
o/w bond issues – publicly offered	12,511.8	12,304.1		-	3,735.9	8,568.2
o/w bond issues – private placements	299.1	288.7			142.9	145.8
Current borrowings	2,983.1	2,983.1	2,983.1			
Trade payables	**5,311.0**	**5,311.0**	5,311.0			
Other current operating payables	**4,933.4**	**4,933.4**	4,933.4			
Bank overdrafts and other cash position items	**454.9**	**454.9**	454.9			
Interest on non-current and current borrowings (2)			851.8	**823.0**	**1,952.9**	**4,019.3**
Derivative instruments – Liabilities	**224.1**					
o/w interest rate derivatives	**76.6**	**751.6**	57.0	57.2	158.1	479.3
Fair value hedges	*8.3*	85.5	*10.9*	*10.9*	*30.0*	*33.7*
Cash flow hedges	*59.6*	640.8	*46.0*	*42.1*	*118.8*	*433.9*
Derivatives not qualifying for hedge accounting	*8.7*	25.3	*0.1*	*4.2*	*9.3*	*11.7*
o/w foreign currency derivatives not qualifying for hedge accounting	**86.8**	**88.0**	68.0	0.1	1.4	18.5
Inflows		(2,761.8)	*(2,755.3)*	*(1.1)*	*(5.4)*	*0.0*
Outflows		2,849.8	*2,823.3*	*1.2*	*6.8*	*18.5*
o/w foreign currency derivatives hedging a net investment	**17.1**	**17.1**	1.6			*15.5*
Inflows		(276.4)	*(272.5)*	*(3.9)*		
Outflows		293.5	*274.1*	*3.9*		*15.5*
o/w commodity derivatives	**43.6**					
Sub-total debts and liabilities			**14,660.8**	**1,653.7**	**7,580.5**	**15,713.8**
Derivative instruments – Assets	**(477.5)**					
o/w interest rate derivatives	**(355.0)**	**(1,173.6)**	(180.8)	(180.7)	(458.4)	(353.7)
Fair value hedges	*(351.5)*	*(1163.0)*	*(178.3)*	*(178.3)*	*(453.3)*	*(353.1)*
Cash flow hedges	*(0.1)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Derivatives not qualifying for hedge accounting	*(3.5)*	*(10.6)*	*(2.5)*	*(2.4)*	*(5.1)*	*(0.6)*

(€ million)	As of December 31, 2009 Net carrying amount	Total contractual flows (1)	Maturing in Less than 1 year	2 years	3 to 5 years	More than 5 years
o/w foreign currency derivatives not qualifying for hedge accounting	**(45.5)**	**(42.8)**	***(26.5)***	***(3.4)***	***(8.9)***	***(4.0)***
Inflows		(1,182.4)	*(995.4)*	*(53.3)*	*(102.9)*	*(30.8)*
Outflows		1,139.6	*968.9*	*49.9*	*94.0*	*26.8*
o/w foreign currency derivatives hedging a net investment	**(13.1)**	**(13.1)**	**(3.0)**			**(10.1)**
Inflows		(185.1)	*(175.0)*			(10.1)
Outflows		172.0	*172.0*			
o/w commodity derivatives	**(63.9)**					
Sub-total assets			**(210.3)**	**(184.1)**	**(467.3)**	**(367.8)**
Total			**14,450.5**	**1,469.6**	**7,113.2**	**15,346.0**

(1) debts are presented at the year-end exchange rate.
(2) floating-rate interest is calculated at the year-end interest rate.

The average maturity of financial debt is 10 years.

29.3.2 Net liquid asset positions

Net liquid assets of the Group as of December 31, 2009 break down as follows:

(€ million)	**As of December 31, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
Veolia Environnement:			
Undrawn MT syndicated loans *	3,694.6	2,890.3	4,000.0
Undrawn MT credit lines	400.0	575.0	850.0
Undrawn ST credit lines	575.0	350.0	175.0
Cash & cash equivalents	4,091.2	2,283.6	1,550.8
Subsidiaries:			
Cash & cash equivalents	1,523.2	1,566.0	1,564.8
Total liquid assets	**10,284.0**	**7,664.9**	**8,140.6**
Current debts and bank overdrafts and other cash position items			
Current debts	**2,983.1**	**3,219.7**	**3,805.0**
Bank overdrafts and other cash position items	**454.9**	**465.7**	**459.4**
Total current debts and bank overdrafts and other cash position items	**3,438.0**	**3,685.4**	**4,264.4**
Total liquid assets net of current debts and bank overdrafts and cash position items	**6,846.0**	**3,979.5**	**3,876.2**

* *maturing April 20, 2012.*

As of December 31, 2009, Veolia Environnement had total liquid assets of €10.3 billion, including cash and cash equivalents of €5.6 billion.

As of December 31, 2009, cash equivalents were primarily held by Veolia Environnement SA in the amount of €4,049.8 million including non-dynamic monetary UCITS of €3,037.9 million, negotiable debt instruments (bank certificates of deposit and treasury notes with a maturity of less than three months) of €375.2 million, monetary notes of €385.0 million and term deposits of €250.0 million.

Undrawn credit lines as of December 31, 2009 are as follows:

Bank	Amount *in € million*	Maturity
NATIXIS	150	March 31, 2012
BNP Paribas	150	March 2, 2012
HSBC	100	June 30, 2011
RBS formerly ABN	100	December 29, 2010
SG	150	December 23, 2010
ABN Amro	125	December 20, 2010
CIC and BFCM	100	November 15, 2010
Calyon	100	March 4, 2010
Total	**975**	

The €150 million credit line with BNP Paribas which matured on March 3, 2009 was renewed in the same amount, with a new maturity of March 2, 2012.

The €200 million credit line with Natixis which matured on February 9, 2009 was renewed in the amount of €150 million, with a new maturity of March 31, 2012.

A new credit line of €100 million was negotiated with HSBC, with a maturity of June 30, 2011.

Veolia Environnement may draw on the multi-currency syndicated credit facility and all credit lines at any time.

29.3.3 Rating

As of December 31, 2009, Moody's and Standard & Poor's rated Veolia Environnement SA as follows:

	Short-term	Long-term	Outlook	Recent events
Moody's	P-2	A3	Negative	On March 26, 2009, Moody's confirmed the ratings assigned to Veolia Environnement on June 27, 2005, but downgraded the outlook from stable to negative.
Standard and Poor's	A-2	BBB+	Negative	On March 25, 2009, Standard and Poor's confirmed the ratings assigned to Veolia Environnement on October 3, 2005, butdowngraded the outlook from stable to negative. On January 4, 2010, these ratings were confirmed by Standard and Poor's.

29.3.4 Information on early debt repayment clauses

Debt of Veolia Environnement SA:

Bank financing:

The legal documentation for syndicated loans (particularly the syndicated loan of €4 billion) and bilateral credit lines contracted by Veolia Environnement SA does not contain any financial covenants, i.e. obligations to comply with a debt payout ratio or interest ratio or a minimum credit rating which, in the event of non-compliance, could lead to the early repayment of the relevant financing.

Bond financing:

The private placement performed in the United States in 2003 (outstanding of €299.1 million as of December 31, 2009) is the only source of bond financing that contains financial covenants (debt hedging ratio < 5.3 and interest hedging ratio > 3.2). These covenants were complied with as of December 31, 2009.

The legal documentation for the notes issued by the Company under its EMTN program (outstanding of €11.2 billion as of December 31, 2009) does not contain any financial covenants.

Debt of subsidiaries:

The project financing borne by specific companies or the financing granted by multilateral development banks to the Group's subsidiaries may contain financial covenants.

As of December 31, 2009, the financing agreements containing such covenants and amounting to more than €100 million (Group share) were as follows:

Financing (€ million)	**Outstanding as of December 31, 2009**	**Type of covenant**
Aquiris (Water Division - Belgium)	179.1	DPR* and deadline for obtaining final acceptance for the plant
Delfluent (Water Division – Netherlands)	112.4	DPR, forecast DPR and duration of financing
Shenzhen (Water Division – China)	100.9	Minimum reserve account
Redal (Water Division - Morocco)	103.6	Working capital, equity/share capital and DPR

* *DPR (Debt Payout Ratio) = Net financial debt hedging ratio/EBITDA for which the defined aggregates may vary according to financing.*

As of December 31, 2009, the Group complied with all the covenants included in the documentation of these significant financing agreements.

With regard to the Aquiris project (Brussels wastewater treatment plant), the lenders waived their right as of January 29, 2010 to demand early repayment of the financing until June 30, 2010. At the same time, a demand guarantee, exercisable as of June 30, 2010 and maturing on August 31, 2010, was granted by Veolia Eau-CGE to the lenders.

Financing for a project with an outstanding of €81 million as of December 31, 2009 contains a covenant that has yet to be complied with.

29.4 Management of credit risk

The Group is exposed to counterparty risk in various areas: its operating activities, cash investment activities and derivatives.

29.4.1 Counterparty risk relating to operating activities

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.

Group customer credit risk analysis may be broken down into the following four categories (Public customers - Delegating authority, Private customers - Individuals, Public customers - Other and Private customers - Companies):

		As of December 31, 2009			Breakdown by customer type			
(€ million)	**Note**	**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	5,705.0	(53.2)	5,651.8	4,647.3		185.6	818.9
Trade receivables	13	9,641.6	(560.3)	9,081.3	2,202.8	1,685.8	1,672.9	3,519.8
Other current operating receivables	13	1,178.0	(76.8)	1,101.2	183.3	318.6	88.3	511.0
Other non-current financial assets in loans and receivables	11	774.8	(73.5)	701.3	**59.0**	**4.1**	**19.3**	**618.9** (1)
Current financial assets in loans and receivables	11	195.8	(31.9)	163.9	**27.9**	**5.1**	**3.8**	**127.1**
Loans and receivables		**17,495.2**	**(795.7)**	**16,699.5**	**7,120.3**	**2,013.6**	**1,969.9**	**5,595.7**
Other non-current financial assets	11	**72.8**	**(20.2)**	**52.6**	**3.1**	**7.1**	**18.2**	**24.2**
Other current financial assets	11	**57.9**	**(4.1)**	**53.8**	**1.9**	**4.1**	**0.3**	**47.5**
Total		**17,625.9**	**(820.0)**	**16,805.9**	**7,125.3**	**2,024.8**	**1,988.4**	**5,667.4**

(1) Of which Dalkia International and its subsidiaries in the amount of €390.8 million as of December 31, 2009.

The analysis of Group customer credit risk as of December 31, 2008 is as follows:

		As of December 31, 2008			Breakdown by customer type			
(€ million)	**Note**	**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) Of which Dalkia International and its subsidiaries in the amount of €434.2 million as of December 31, 2008.

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.

Assets past due and not impaired break down as follows:

		As of December 31, 2009				Assets past due but not impaired		
(€ million)	**Note**	**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	5,705.0	(53.2)	5,651.8	5,623.7	13.7	7.4	7.0
Trade receivables	13	9,941.6	(560.3)	9,081.3	6,765.4	1,631.7	267.3	416.9
Other current operating receivables	13	1,178.0	(76.8)	1,101.2	747.2	87.3	171.3	95.4
Other non-current financial assets in loans and receivables	11	774.8	(73.5)	701.3	701.3			
Current financial assets in loans and receivables	11	195.8	(31.9)	163.9	136.4	10.8	5.6	11.1
Loans and receivables		**17,495.2**	**(795.7)**	**16,699.5**	**13,974.0**	**1,743.5**	**451.6**	**530.4**
Other non-current financial assets	11	**72.8**	**(20.2)**	**52.6**	**52.6**			
Other current financial assets	11	**57.9**	**(4.1)**	**53.8**	**48.2**		**1.9**	**3.7**

Assets past due over 6 months and not impaired (€987.6 million) mainly consist of trade receivables. They declined by 11.2% compared to fiscal 2008.

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 €247.2 million as of December 31, 2009, 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 €39.6 million as of December 31, 2009, compared to €73.3 million as of December 31, 2008, for receivables past due over 6 months. This decrease was mainly attributable to the change in consolidated method (from full to proportionate consolidation) for the Water division's activity in North Africa and the Middle East.

Finally, in France, net trade receivables past due over 6 months total €196.7 million at the end of 2009 (€262.1 million at the end of 2008) representing 4.2% of customer outstandings (including €109.8 million past due over one year), the majority of which concern amounts invoiced on behalf of local authorities and public bodies, receivables on local authorities and public bodies and VAT.

Financial assets maturity schedule as of December 31, 2008:

(€ million)	Note	As of December 31, 2008 Gross carrying amount	Provisions	Net carrying amount	Assets not yet due	Assets past due but not impaired 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	11	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	11	**70.2**	**(4.2)**	**66.0**	**17.7**	**30.5**	**3.9**	**13.9**

Financial assets maturity schedule as of December 31, 2007:

(€ million)	Note	As of December 31, 2007 Gross carrying amount	Provisions	Net carrying amount	Assets not yet due	Assets past due but not impaired 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	11	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	11	**177.2**	**-**	**177.2**	**177.2**	**-**	**-**	**-**

29.4.2 Counterparty risk relating to investment and hedging activities

The Group is exposed to credit risk relating to the investment of its surplus cash and its use of derivative instruments in order to manage interest rate and currency risk. Credit risk corresponds to the loss that the Group may incur should a counterparty default on its contractual obligations. In the case of derivative financial instruments, this risk corresponds to the fair value of all the instruments contracted with a counterparty insofar as this value is positive.

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 and the size of their equity, and are reviewed monthly. In addition, derivative transactions are only entered into with counterparties with whom the Group has an ISDA or FBF framework agreement.

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 middle-office. The Group is not exposed to any risk as a result of material concentration.

As of December 31, 2009, Veolia Environnement SA's total outstandings exposed to credit risk amounted to €4,049.8 million with regard to investments and €272 million with regard to derivative instruments (sum of the fair values of assets and liabilities). These counterparties are investment grade for up to 97% of the total exposure.

Veolia Environnement SA cash surpluses (€4.05 billion as of December 31, 2009) 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.

They were injected into the following types of investment:

- non-dynamic monetary UCITS (with the AMF Euro Monetary classification) for €3,038 million;
- certificates of deposit and term deposits with a maturity of less than three months with leading French banks with a rating from Moody's, Standard & Poor's or Fitch: A1+/P1/F1 in the short term for €350 million;
- negotiable debt securities with a maturity of less than three months issued by CAC40 or Eurostoxx 50 companies for €275 million;
- monetary notes issued by leading French banks with a rating from Moody's, Standard & Poor's or Fitch: A1+/P1/F1 in the short term for €385 million.

Note 30 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 2009 were as follows:

	N°7	N°6	N°5	N°4	N°3	N°2
	2007	**2006**	**2004**	**2003**	**2002**	**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	635,850 (*)	3,709,861	3,080,738	1,571,010	1,929,114	0
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 1,742,650 in 2008.*

** *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). To recap, the initial strike prices for plans no. 2, no. 3, no. 4, no. 5 and no. 6 were €42.00, €37.53, €22.50, €24.72 and €44.75 respectively.*

2008 and 2009

The Group did not grant any share options in 2008 or 2009.

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 was €13,91. This value was calculated using the Black and Scholes model based on the following underlying assumptions: 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 six 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, 2009, the estimated fair value of each option granted in 2007 is €0.195. This value was calculated using the Black and Scholes model based on the following underlying assumptions: share price of €22.52, historical volatility of 33.24%, expected dividend yield of 5.35%, risk-free interest rate of 1.99%, estimated exercise maturity of three 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 €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.

Information on share purchase and subscription options granted since 2001 is detailed below, with a breakdown of movements in 2007, 2008 and 2009 (share option plans excluding SAR plans and free share plans):

	Number of shares outstanding	**Weighted average strike price** *(in €)*
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**
Granted	-	-
Exercised	(31,011)	25.06
Cancelled	(148,418)	46.05
Expired	(1,382,525)	40.59
As of December 31, 2009	**10,926,573**	**34.78**

* *including 1,742,650 shares due to failure to meet performance conditions.*

The average share price at the time of option exercise in 2009 was €24.21.

Details of Veolia Environnement share purchase and subscription options outstanding as of December 31, 2009 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	4,651,748	23.58	2.39	4,651,748
35-40	1,929,114	36.65	0.08	1,929,114
40-45	3,709,861	44.03	4.24	0
55-60	635,850	57.05	5.54	0
	10,926,573	**34.78**	**3.40**	**6,580,862**

As of December 31, 2009, 6,580,862 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. 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 2007 and 2009:

	2009	**2007**
Number of shares	624,387	1,415,163
Subscription price	€21.28	€48.37 (*)
Amount subscribed (€ million)	13.3	68.5

* *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 2009, in the absence of a discount for plan subscribers, the expense recognized for the savings plan totaled €5.1 million and corresponds to the contribution valued as of July 3, the transaction closing date, less a non-transferability discount for the standard plan of €915,000.

In 2007, a compensation expense of €49.7 million was recorded in accordance with IFRS 2 on share-based payments. This compensation includes a discount for non-transferability of €7.2 million.

Veolia Group applies the recommendations of the CNC (communiqué of December 21, 2004 on Group Savings Plans and supplementary notice of February 2, 2007). 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, financed by a loan. The risk-free interest rate and the interest rate for calculating the carrying cost were 4.05% and 6.74% in 2007 and 2.76% and 6.90% in 2009. The notional cost of non-transferability of shares as a percentage of the spot rate of the shares at the grant date was 12% in 2007 and 17.9% in 2009.

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 certain subsidiaries, supplementary defined contribution plans were set up. Expenses incurred by the Group under these plans total €91 million for 2009 and €89 million for 2008.

Certain Group companies have established defined benefit pension plans and/or offer other post-employment benefits (mainly retirement termination payments). The largest defined benefit pension plans are located in the United Kingdom, with a pension obligation as of December 31, 2009 of €988 million (and plan assets of €857 million) and in France with a pension obligation as of December 31, 2009 of €478 million (and plan assets of €127 million), notably in respect of retirement termination payments.

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 11,500 employees. The corresponding expense recorded in the consolidated income statement is equal to annual contributions and totals slightly over €29 million in 2009 compared to €32 million in 2008. 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)

	As of December 31					
Change in the defined benefit obligation	**Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)**			**Health insurance coverage of retirees**		
(€ million)	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Defined benefit obligation at beginning of year	**1,522.0**	**1,733.4**	**1,836.0**	**41.7**	**41.0**	**53.8**
Current service cost	51.3	53.4	61.8	0.6	1.4	1.6
Interest cost	89.4	88.7	85.7	2.4	2.2	2.3
Plan participants' contributions	5.7	7.1	7.9	-	-	-
Benefit obligation assumed on acquisition of subsidiaries	5.1	7.3	41.3	-	-	-
Benefit obligation transferred on disposal of subsidiaries	(14.3)	(20.4)	(2.3)	-	-	-
Curtailments	(9.3)	(5.0)	(3.3)	-	-	(8.3)
Liquidations	(1.1)	(23.2)	(9.6)	(2.6)	-	-
Actuarial loss (gain)	142.6	(75.2)	(128.5)	1.3	(3.7)	(5.9)
Benefits paid	(78.8)	(79.2)	(75.6)	(2.8)	(3.1)	(2.6)
Plan amendments	3.3	43.0	21.1	-	-	-
Other (incl. changes in consolidation scope and foreign exchange translation)	54.2	(207.9)	(101.1)	0.9	3.9	0.1
(1) Defined benefit obligation at end of year	**1,770.1**	**1,522.0**	**1,733.4**	**41.5**	**41.7**	**41.0**

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 (€60 million in 2009).

b-2 Change in plan assets

Change in plan assets	As of December 31					
	Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)			Health insurance coverage of retirees		
(€ million)	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Fair value of plan assets at beginning of year	**901.1**	**1,242.7**	**1,220.8**	**-**	**-**	**-**
Expected return on plan assets	58.6	72.8	70.9	-	-	-
Actuarial gains (losses)	79.2	(219.6)	(5.6)	-	-	-
Group contributions	63.4	45.2	74.9	-	-	-
Plan participants' contributions	5.7	7.1	7.9	-	-	-
Plan assets acquired on acquisition of subsidiaries	4.1	1.8	24.8	-	-	-
Plan assets transferred on disposal of subsidiaries	(2.4)	(1.6)	(0.5)	-	-	-
Liquidations	(0.9)	(12.2)	(9.9)	-	-	-
Benefits paid	(50.5)	(49.0)	(47.8)	-	-	-
Other (incl. changes in consolidation scope and foreign exchange translation)	43.6	(185.9)	(92.8)	-	-	-
(2) Fair value of plan assets at end of year	**1,101.9**	**901.1**	**1,242.7**	**-**	**-**	**-**

Other changes in plan assets primarily concern the impact of foreign exchange translation (€51 million in 2009).

Group pension plan assets were invested as follows as of December 31, 2009, 2008 and 2007:

	As of December 31, 2009	**As of December 31, 2008**	**As of December 31, 2007**
Shares	46%	46%	50%
Bonds and debt instruments	41%	40%	38%
Insurance risk-free funds	13%	12%	8%
Liquid assets	0%	0%	3%
Other	0%	2%	1%

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.

The actual return on plan assets (expected return on plan assets + actuarial gains/losses) was €137.8 million at the end of 2009, compared to -€146.8 million at the end of December 2008 and €65.3 million at the end of December 2007.

The expected return on plan assets in 2010 is €64 million.

Group contributions in 2009 include exceptional contributions of €7 million in the United Kingdom.

The Group plans to make contributions of €46 million to defined benefit plans in 2010.

b-3 Change in funding status and the provision

(€ million)	Pension plans and other post-employment benefits (excluding health insurance coverage of retirees) – As of December 31			Health insurance coverage of retirees		
	2009	2008	2007	**2009**	2008	2007
Funding status = (2) – (1)	**(668.2)**	**(620.9)**	**(490.7)**	**(41.5)**	**(41.7)**	**(41.0)**
Unrecognized past service costs	88.4	96.6	61.2	0.6	-	-
Other	0	(2.1)	(6.4)		-	-
Net obligation	**(579.8)**	**(526.4)**	**(435.9)**	**(40.8)**	**(41.7)**	**(41.0)**
Provisions	(594.2)	(539.8)	(445.3)	(40.8)	(41.7)	(41.0)
Prepaid benefits	14.4	13.6	9.4	0	-	-

Provisions for post-employment benefits total €635.0 million, compared to €581.5 million in 2008. In 2009, this amount notably includes provisions of €7.2 million reclassified in the consolidated statement of financial position in Liabilities directly associated with assets held for sale (i.e. an amount of €627.8 million recorded in the consolidated statement of financial position).

The defined benefit obligation (DBO) is €347 million for unfunded defined benefit pension plans and other post-employment benefits (excluding medical insurance coverage of retirees) and €1,423 million for partially or fully funded plans as of December 31, 2009, compared to €341 million and €1,181 million at the end of 2008 and €334 million and €1,441 million at the end of 2007.

b-4 Change in repayment entitlement

Change in repayment entitlement (€ million)	**2009**	**2008**	**2007**
Fair value of repayment entitlement at beginning of year	**22.3**	**21.5**	**25.9**
Expected return on repayment entitlement	0.9	0.9	1.1
Actuarial gains (losses)	0.9	(1.0)	(3.3)
Repayment entitlement acquired on acquisition of subsidiaries	-	-	-
Repayments	(1.9)	(1.6)	(2.2)
Other (including new repayment entitlements)	0.2	2.5	-
Fair value of repayment entitlement at end of year	**22.4**	**22.3**	**21.5**

The market value of repayment entitlement recorded in assets as of December 31, 2009 is €22.4 million. Repayment entitlement concerns the portion of employee rights to post-employment benefits (including medical insurance coverage of retirees) 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 consolidated income statement

The net benefit cost for the period is as follows:

	As of December 31					
	Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)			Health insurance coverage of retirees		
(€ million)	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Current service cost	51.3	53.4	61.8	0.6	1.4	1.6
Interest cost	89.4	88.7	85.7	2.4	2.2	2.3
Expected return on plan assets	(58.6)	(72.8)	(70.9)	-	-	-
Expected return on repayment entitlement	-	-	(1.1)	(0.9)	(0.9)	-
Past service costs recognized in the year	10.2	9.4	7.6	0.4	-	0.1
Curtailments / liquidations	(9.5)	(16.3)	(3.1)	(2.6)	-	-
Other (1)	(12.3)	(1.2)	(0.3)	-	2.2	-
Net benefit cost (2)	**70.5**	**61.2**	**79.7**	**(0.1)**	**4.9**	**4.0**

(1) In 2009, the "Other" heading primarily includes provision charges and reversals for labor commitments involving contract gains and losses.

(2) 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.

Pension plans and other post-employment benefits (excluding medical insurance coverage of retirees)

The benefit obligation in respect of pension plans as of December 31, 2009, 2008 and 2007 is based on the following average assumptions:

	As of December 31, 2009	As of December 31, 2008	As of December 31, 2007
Discount rate	5.23%	5.83%	5.49%
Expected rate of salary increase	3.66%	3.8%	3.5%

As of December 31, 2009, the discount rates in the main areas with regard to post-employment commitments are as follows:

	As of December 31, 2009
United Kingdom	5.5%
Euro zone	5.25%

The expected returns on plan assets in 2009, 2008 and 2007, as defined at the start of each year to determine the amount recorded in the income statement, are as follows:

	As of December 31, 2009	**As of December 31, 2008**	**As of December 31, 2007**
Expected return on plan assets	6.5%	6.4%	6.0%
Average residual active life expectancy (in years)	13.0	12.0	12.0

In the United Kingdom, where the vast majority of plan assets are located, the expected return, as defined at the start of 2009, was 7%.

The actual return on plans assets in 2009, 2008 and 2007 was 13.8%, -13.7% and 5.3% 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 €237 million and current service costs by €10 million. A 1% decrease in the discount rate would increase the benefit obligation by €284 million and current service costs by €13 million.

Conversely, a 1% increase in the inflation rate would increase the benefit obligation by €231 million and current service costs by €9 million. A 1% decrease in the inflation rate would decrease the benefit obligation by €201 million and current service costs by €7 million.

A 1% increase in the expected rate of return assumption would generate additional income of €7.8 million.

Medical insurance coverage of retirees

Additional assumptions concerning health insurance plans are as follows:

Average rate of increase in health insurance costs	**As of December 31, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
Assumed rate of increase in health costs in the coming year	4.9%	5.1%	5.4%
Target rate of increase in costs	3.5%	3.6%	3.5%
Year long-term rate is expected to stabilize	2019	2020	2020

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 €6.9 million and, conversely, a 1% decrease would reduce the post-employment benefit obligation by €5.3 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 four prior periods are as follows:

Retirement plans and other post-employment benefits (excluding medical insurance coverage of retirees)	2009	2008	2007	2006
Benefit obligation at year end	(1,770.1)	(1,522.0)	(1,733.4)	(1,836.0)
Fair value of plan assets at year end	1,101.9	901.1	1,242.7	1,220.8
Funded status	**(668.2)**	**(620.9)**	**(490.7)**	**(615.2)**
Actuarial gains (losses) / experience adjustments on obligations	(11.7)	8.8	(0.7)	3.4
% of the benefit obligation	*0.66%*	*-0.58%*	*0.04%*	*-0.19%*
Actuarial gains (losses) / experience adjustments on plan assets	79.2	(219.6)	(5.6)	21.5

Medical insurance coverage of retirees	2009	2008	2007	2006
Benefit obligation at year end	(41.5)	(41.7)	(41.0)	(53.8)
Fair value of plan assets at year end		-	-	-
Funded status	**(41.5)**	**(41.7)**	**(41.0)**	**(53.8)**
Actuarial gains (losses) / experience adjustments on obligations	0.5	1.9	1.9	-0.7
% of the benefit obligation	*-1.20%*	*-4.56%*	*-4.63%*	*1.30%*
Actuarial gains (losses) / experience adjustments on plan assets	-	-	-	-

The cumulative amounts of actuarial gains and losses on obligations and assets recognized in other comprehensive income and the change in the asset ceiling are as follows:

	2009	2008	2007
Cumulative amount as of January 1	**(185.8)**	**(48.3)**	**(172.7)**
Change during the period	(61.7)	(137.5)	124.4
Cumulative amount as of December 31	**(247.5)**	**(185.8)**	**(48.3)**

Note 31 MAIN ACQUISITIONS

31.1 Acquisitions in 2009

Acquisitions in 2009 with related net cash flows of less than €100 million represent business combination costs of €195 million. These acquisitions contributed €110 million to Group revenue in 2009.

In general, goodwill balances are justified by synergies with existing operations in the Group and future developments.

31.2 Acquisitions in 2008

Acquired asset and liability fair values recorded at the end of 2008 in the opening balance sheets of 2008 acquisitions not yet definitive as of December 31, 2008 (Tianjin Shibei at Veolia Water in China, Bartin Aero Recycling Group at Veolia Propreté, and the Praterm Group at Veolia Energie in Poland) were not materially changed during the 12-month allocation period following their acquisition date.

Note 32 CONSTRUCTION CONTRACTS

As described in Note 1.23, Veolia recognizes its construction contracts under the percentage of completion method. At each period-end, a statement per contract compares the amount of costs incurred, plus profits (including any provisions for losses to completion) with the intermediary billings: "Construction contracts in progress / Assets" is therefore a contract for which the costs incurred and profits recognized exceed the billing issued.

(€ million)	**As of December 31, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
Construction contracts in progress / Assets (A)	358.7	495.6	593.8
Construction contracts in progress / Liabilities (B)	292.4	332.2	232.0
Construction contracts in progress / net (A) – (B)	**66.3**	**163.4**	**361.8**
Costs incurred plus income and losses recognized to date (C)	5,413.7	4,404.8	4,068.7
Amounts billed (D)	5,347.4	4,241.4	3,706.9
Construction contracts in progress / net (C) – (D)	**66.3**	**163.4**	**361.8**
Customer advances	**36.8**	**355.8**	**41.2**

Note 33 OPERATING LEASES

The Group enters into operating leases (mainly for transportation equipment and constructions).

The future minimum lease payments under operating leases amount to €2,753.7 million as of December 31, 2009, compared to €2,530.4 million as of December 31, 2008 and €2,190.0 million as of December 31, 2007.

As of December 31, 2009, future minimum lease payments under these contracts were as follows:

(€ million)	**Operating lease**
2010	567.7
2011 & 2012	864.5
2013 & 2014	624.6
2015 and thereafter	696.9
Total future minimum lease payments	**2,753.7**

Lease payments for the period

(€ million)	**As of December 31, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
Minimum lease payments expensed in the period	630.9	609.7	523.4
Contingent rent expensed in the period	18.7	13.6	17.1
Total lease payments for the period	649.6	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 34 PROPORTIONATELY CONSOLIDATED COMPANIES

Summarized financial information in respect of proportionately consolidated companies is set out below (Group part):

(€ million)	As of December 31, 2009	As of December 31, 2008	As of December 31, 2007
Non-current assets	8,188.4	7,682.7	6,757.3
Current assets	3,984.1	3,670.8	3,115.5
Total assets	**12,172.5**	**11,353.5**	**9,872.8**
Equity attributable to owners of the Company	3,128.1	2,910.7	2,295.9
Equity attributable to non-controlling interests	915.1	801.6	895.5
Non-current liabilities	3,295.8	3,016.6	2,650.8
Current liabilities	4,833.4	4,624.6	4,030.6
Total equity and liabilities	**12,172.4**	**11,353.5**	**9,872.8**

(€ million)	As of December 31, 2009	As of December 31, 2008	As of December 31, 2007
Income Statement data			
Revenue	5,520.3	5,481.1	4,623.7
Operating income	636.8	612.6	659.9
Net income for the year	326.5	261.2	322.9
Financing data			
Operating cash flows	819.8	712.3	567.0
Investing cash flows	(644.9)	(621.7)	(566.8)
Financing cash flows	(316.1)	(533.2)	(289.9)

The most material proportionately consolidated are as follows:

- BWB (Berlin water services company) in the Water Division in Germany is 50% consolidated and contributed revenue of €602 million, operating income of €225 million, net assets of €2,735 million and net debt of €1,498 million;
- Dalkia International is 75.81% consolidated and contributed revenue of €2,282 million, operating income of €158 million and net assets of €1,857 million;
- The Proactiva Group in South America contributed revenue of €202 million, operating income of €26 million and net assets of €108 million;
- The Shenzhen and Tianjin Shibei contracts in the Water Division in China are 25% and 49% consolidated respectively and contributed €138 million and €48 million respectively to revenue and €237 million and €150 million respectively to net assets.
- A change in the governance of the partnership with Mubadala Development Company on December 22, 2009 led to a change in consolidation method (from full to proportionate consolidation) for the activity of the Water Division in North Africa and the Middle East. This change in governance also resulted in financial debt restructuring, whereby the Group granted a 16-year loan for €121 million at a fixed rate of 5.7% (market conditions).

Note 35 TAX AUDIT

In the normal course of their business, the Group entities in France and abroad are subjected 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 reviews focusing specifically on local taxes. The tax audits concerning the major Group companies in France, including Veolia Environnement SA, were closed in 2009. To date, none of these reviews have led to material liabilities to the tax authorities in excess of amounts estimated during the review of tax risks and the booking of provisions in accordance with IAS 37. Certain amounts are still being negotiated with the French tax authorities.

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 were in progress as of December 31, 2008 in Germany and Morocco were completed in 2009. The liabilities arising from these tax audits had been anticipated and provided for in accordance with IAS 37.

Tax audits are still in progress, particularly in Italy. Discussions continued in 2009 with the Italian tax authorities. Where necessary, revised assessments and identified uncertain tax positions in respect of which a revised assessment has not been yet issued are adequately provided, and provision amounts are regularly reviewed in accordance with IAS37 criteria.

In the United States, the Group has launched 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. No major event took place in 2009 that could call into question the Group's position.

Note 36 OFF-BALANCE SHEET COMMITMENTS

Specific commitments given

Specific Berlin contract commitments

Under the Berlin water contract, the Group plans to acquire easement rights of passage 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 these easement rights, this commitment was retained off-balance sheet as of December 31, 2007.

More precise estimates were performed in 2008, producing a 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 vest over the period to 2011, the amounts paid will be recorded, net of amounts reimbursed by the Berlin Lander, in 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 and 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.

Other commitments given

Other commitments and contingencies include neither collateral guarantees supporting borrowings (see Note 38) nor specific commitments and contingencies described above.

Other off-balance sheet commitments break down as follows:

(€ million)	As of December 31, 2007	As of December 31, 2008	As of December 31, 2009	Maturing in Less than 1 year	1 to 5 years	More than 5 years
Operational guarantees including performance bonds	**5,591.4**	**6,624.9**	**6,950.9**	**2,442.4**	**2,418.8**	**2,089,7**
Financial guarantees	**835.6**	**667.5**	**679.4**	**229.4**	**275.8**	**174.2**
Debt guarantees	355.6	303.0	258.3	89.3	113.6	55.4
Vendor warranties received	480.0	364.5	421.1	140.1	162.2	118.8
Commitments given	**617.1**	**507.8**	**431.6**	**283.7**	**97.6**	**50.3**
Purchase commitments	589.9	476.5	425.1	277.8	97.6	49.7
Sales commitments	27.2	31.3	6.5	5.9	-	0.6
Other commitments given	**957.3**	**912.7**	**1,065.3**	**489.4**	**267.2**	**308.7**
Letters of credit	573.8	706.7	604.5	329.1	152.1	123.3
Other commitments given	383.5	206.0	460.8	160.3	115.1	185.4
Other commitments given	**8,001.4**	**8,712.9**	**9,127.2**	**3,444.9**	**3,059.4**	**2,622.9**

Operational guarantees: operational or operating guarantees encompass all commitments not relating to the financing of operations, required in respect of contracts and markets and more generally the operations and activities of Group companies. Such guarantees include bid bonds accompanying tender offers, advance payment bonds and completion or performance bonds given on the signature of contracts or concession arrangements.

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 in the amount of €246.5 million.

Purchase commitments: these include commitments given by Group companies to purchase shares in other companies or to invest. As of December 31, 2009, these commitments mainly concerned the Energy Services Division (€82.4 million), the Environmental Services Division (€23.0 million), the Transportation Division (€41.1 million) and the Water Division (€241.7 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 Note 1.13).

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.

- Engineering and construction activities:

Total commitments given in respect of construction activities in the Water Division (Veolia Water Solutions & Technologies) amount to €2,823.6 million as of December 31, 2009, compared to €2,969.8 million as of December 31, 2008 and €1,630.4 million as of December 31, 2007.

Total commitments received (see below) in respect of these same activities amount to €757.2 million as of December 31, 2009, compared to €856.9 million as of December 31, 2008 and €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.

- Commitments given in respect of concession contracts:

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 the 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.

- Firm commodity purchase commitments

As part of supply management and cost optimization, certain Group subsidiaries may be required, depending on their activities, to set-up derivatives to fix the cost of commodity supplies where the contracts do not offer appropriate protection (see Note 29.1.3) or contract forward purchases or sales of commodities.

Firm commodity purchase commitments mainly concern:

  - coal in the Energy Services Division in Central European countries;
  - gas in the Energy Services Division (mainly in France) and in the Water Division;
  - electricity in the Water Division.

With regard to both gas and electricity, the number of contracts signed enables the Group to significantly reduce political and counterparty risk.

  - forward purchases of fuel are primarily contracted by the Transportation Division (SNCM).

Other commitments given break down by Division as follows:

(€ million)	**As of December 31, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
Water	6,036.4	5,891.8	4,368.3
Environmental Services	831.1	901.7	1,171.1
Energy Services	700.3	538.1	755.7
Transportation	533.2	415.8	398.3
Proactiva	45.2	50.6	39.8
Holding companies	942.0	891.3	1,241.5
Other	39.0	23.6	26.7
Total	**9,127.2**	**8,712.9**	**8,001.4**

Lease contracts entered into by the Group are analyzed in Notes 17 and 33.

Contingent assets and liabilities relating to legal or arbitration proceedings

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") of the State of California, with whom Connex Railroad cooperates, came to the preliminary conclusion that the two causes of the accident were the lack of vigilance of the driver who failed to stop at the red light and the fact that the SCRRA had not installed an automatic braking system on the train, despite the earlier requests of the NTSB. Lawsuits combined under one class action suit for unspecified amounts of damages have been filed by the beneficiaries of the deceased passengers and the majority of those injured in the California State courts of Los Angeles against Connex Railroad, its parent company Veolia Transportation LLC, the SCRRA and the Los Angeles County Metropolitan Transportation Authority. A specific hearing on the question of responsibility is scheduled for November 2010. At the same time, Connex Railroad LLC and the SCRRA have brought their disagreements regarding their respective contractual responsibilities with respect to the claims filed subsequent to the accident to the federal courts of California and are still awaiting a date for a hearing. 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. The Group's insurers have been notified of the claim. At this stage, the Group is unable to determine whether the financial consequences of this accident could materially and adversely affect its financial condition or results of operations.

Furthermore, the Group is subject to several other litigations 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, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
Guarantees received	**1,756.3**	**2,082.0**	**1,459.7**
Debt guarantees	303.4	351.6	266.6
Vendor warranties received	142.0	294.8	53.6
Other guarantees received	1,310.9	1,435.6	1,139.5

The commitments notably consist of commitments received from our partners in respect of construction contracts.

The decrease in 2009 was mainly due to the expiry of a warranty obtained from an acquisition in the Environmental Services Division, the partial terminations in the Construction activity of Veolia Water Solutions & Technologies and the cancellation of the guarantee received from the British Treasury for a credit line repaid at the start of the year.

In addition, the Group has undrawn medium and short-term credit lines and syndicated loans in the amount of €4.7 billion (see Note 29.3).

Note 37 GREENHOUSE GAS EMISSION RIGHTS

The process governing the grant and valuation of these rights is presented in Note 1.25, Greenhouse gas emission rights.

The position in 2009 is as follows:

Volume *(in thousands of metric tons)*	**As of January 1, 2009**	**Entries into the consolidation scope**	**Granted**	**Purchased / sold / cancelled**	**Consumed**	**As of December 31, 2009**
Total	**1,363**	**433**	**13,504**	**441**	**(12,187)**	**3,554**

Similarly to 2008, the Group entered into new swaps of EUA II and CER in order to benefit from market opportunities.

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 France.

Phase II rights granted free of charge for fiscal years 2010-2012 are estimated at €515 million. Future allocations were measured using the spot price as of December 31, 2009.

Note 38 COLLATERAL GIVEN SUPPORTING BORROWINGS

As of December 31, 2009, the Group has given €699 million of collateral guarantees in support of borrowings. The breakdown by type of asset is as follows (€ million):

Type of pledge / mortgage *(€ million)*	**Amount pledged (a)**	**Total consolidated statement of financial position amount (b)**	**Corresponding% (a) / (b)**
Intangible assets	5	1,438	0.35%
Property, plant and equipment	151	9,382	1.61%
Financial assets*	504	-	-
Total non-current assets	**660**	**-**	**-**
Current assets	39	20,222	0.19%
Total assets	**699**	**-**	**-**

* *As a 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:

				Maturing in		
(€ million)	**As of December 31, 2007**	**As of December 31, 2008**	**As of December 31, 2009**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Intangible assets	**2**	**2**	**5**	**-**	**1**	**4**
Property, plant and equipment	**293**	**225**	**151**	**19**	**40**	**92**
Mortgage pledge	15	16	37	3	3	31
Other PP&E pledge (1)	278	209	114	16	37	61
Financial assets (2)	**313**	**588**	**504**	**10**	**65**	**429**
Current assets	**26**	**109**	***39***	***3***	***9***	***27***
Pledges on receivables	23	108	39	3	9	27
Pledges on inventories	3	1	0	-	-	-
Total	**634**	**924**	**699**	**32**	**115**	**552**

(1) mainly equipment and traveling systems.

(2) including non-consolidated investments of €198 million and other financial assets (primarily operating financial assets) of €306 million as of December 31, 2009.

Note 39 RELATED PARTY TRANSACTIONS

The purpose of this note is to present related-party transactions.

39.1 “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.

39.2 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 due by the Group in respect of compensation and other benefits granted to key management personnel.

(€ million)	**As of December 31, 2009**	**As of December 31, 2008**	**As of December 31, 2007**
Short-term benefits, excluding employer contributions [a]	**4.7**	8.2	6.9
Employer contributions	**2.0**	3.2	2.5
Post-employment benefits [b]	**1.1**	1.2	1.0
Other long-term benefits [c]	**-**	-	-
Share-based payments	**0.6**	1.0	1.6
Contract termination payments	**-**	-	-
Total	**8.4**	**13.6**	**12.0**

(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 €771,795 in 2009, €771,952 in 2008 and €741,380 in 2007.

The Reference Document (Chapter 15) contains detailed disclosures on compensation and benefits paid to key management personnel of the Group.

39.3 Transactions with other related parties

39.3.1 Relations with proportionately consolidated companies and equity associates

- The Group granted a loan of €1,614.9 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 statement of financial position in the amount of €390.8 million (see Note 11 Other non-current financial assets).
- In December 2009, the Group sold its investment in Compagnie Méridionale de Navigation (CMN) which was consolidated using the equity method.
- 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 within the Water Division, 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 generally 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.

39.3.2 Relations with Group shareholders

Caisse des Dépôts et Consignations (with a 9.58% interest in share capital)

The Chief Executive Officer of this financial institution is represented on the Board of Directors of Veolia Environnement.

The Group had the following relations with the Caisse des Dépôts et Consignations during fiscal 2009:

- the financing agreements between the two groups bear interest at market conditions
- in connection with the ongoing merger at the year-end between Veolia Transport and Transdev.

Electricité de France (with a 3.70% interest in share capital as of December 31, 2009)

On November 25, 2009, Mr. Proglio was appointed Chairman and CEO of the EDF Group by ministerial decree; he also acts as Chairman of the Veolia Environnement Group Board of Directors from November 27, 2010 (publication date of the decree).

EDF Group has a 3.70% 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 market conditions. Electricity sold by Dalkia to EDF in 2007, 2008 and 2009 totaled €521.7 million, €608.4 million and €568.7 million, respectively.

There are under certain conditions cross options between Veolia Environnement and EDF for all the securities held by each party in case of taking control of one or the other (see Note 36 Off-balance sheet commitments).

BNP Paribas (with a 0.57% interest in share capital as of December 31, 2009)

The Chief Executive Officer of BNP Paribas is represented on the Board of Directors of Veolia. The financing agreements between the two groups bear interest at market conditions.

Société Générale (with a 0.15% interest in share capital as of December 31, 2009)

The financing agreements between the two groups bear interest at market conditions.

Mr. Bouton, member of the Veolia Environnement Board of Directors, is no longer Chairman of the Board of Directors of Société Générale as of May 6, 2009

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. As such, Vivendi Universal no longer has an obligation to Veolia Environnement with respect thereto.

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 was claimed in its entirety as of December 31, 2009.

39.3.3 Relations with other related parties

Relations avec Lazard, Groupama, ENI and Saint Gobain

These Groups and Véolia Environnement have common directors.

Any business relations between these groups and Veolia are maintained at market conditions.

Relations with EBRD

The European Bank for Reconstruction and Development (EBRD) holds non-controlling interests in Group operating entities in Central Europe, primarily in the Energy Services, Transportation and Water Divisions.

In 2009, the EBRD acquired an additional 6.88% interest in Veolia Voda, which encompasses all the operating activities of the Water Division in Central Europe.

Note 40 CONSOLIDATED EMPLOYEES

Consolidated employees * break down as follows:

By division	As of December 31, 2009	As of December 31, 2008 (1)	As of December 31, 2007 (1)
Water	80,239	78,040	74,280
Environmental Services	80,693	95,399	84,994
Energy Services	44,748	44,370	46,387
Transportation	78,094	74,526	73,299
Proactiva	5,400	4,823	4,503
Other	1,826	807	609
Consolidated employees*	**291,000**	**297,965**	**284,072**

* *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 2008 includes the employees of entities divested in 2009. In 2007, the average number of employees in the Environmental Services and Transportation Divisions totaled 9,095 and 2,391, respectively, in 2007 and 10,953 and 2,682, respectively, in 2008. Furthermore, the 2007 figures included the employees of the Clemmessy and Crystal entities of the Energy Division that were divested in 2008.*

By company	As of December 31, 2009	As of December 31, 2008 (1)	As of December 31, 2007 (1)
Fully consolidated companies	240,657	251,772	241,857
Proportionately consolidated companies	50,343	46,193	42,215
Consolidated employees*	**291,000**	**297,965**	**284,072**

* *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 2008 includes the employees of entities divested in 2009. In 2007, the average number of employees in the Environmental Services and Transportation Divisions totaled 9,095 and 2,391, respectively, in 2007 and 10,953 and 2,682, respectively, in 2008. Furthermore, the 2007 figures included the employees of the Clemmessy and Crystal entities of the Energy Division that were divested in 2008.*

The decrease in the average number of employees in 2009 was primarily due to the divestment of VPNM in the Environmental Services division and the sale of Freight activity in the Transportation division.

Note 41 REPORTING BY OPERATING SEGMENT

Since January 1, 2009, the Group has identified and presented segment reporting in accordance with IFRS 8 "Operating segments."

Financial reporting by operating segment is governed by the same rules as those used for the condensed consolidated financial statements and described in the Accounting Policies note to the Financial Statements.

This reporting is based on the internal organization of the Group's activities and corresponds to the Group's four business segments (which were used for the primary segment reporting under the previous standard – IAS 14) 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.

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, sold in December 2008,
- incineration activity entities in the United States (Montenay International) in the Environmental Services Division and Freight activity entities in the Transportation Division, sold during the second semester of 2009,
- activities in the United Kingdom in the Transportation Division and renewable energy activities in the process of being sold were grouped together in a single line, Net income from discontinued operations, for fiscal year 2009 and fiscal years 2008 and 2007 presented for comparison purposes.

OPERATING SEGMENTS

Revenue by segment *(€ million)*	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Water	12,555.9	12,557.9	10,927.4
Environmental Services	9,055.8	9,972.5	9,057.2
Energy Services	7,078.6	7,446.3	6,200.4
Transportation	5,860.7	5,788.1	5,389.1
Revenue as per the consolidated income statement	**34,551.0**	**35,764.8**	**31,574.1**

Inter-segment revenue *(€ million)*	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Water	67.6	36.6	25.5
Environmental Services	93.5	99.8	80.9
Energy Services	53.9	59.7	39.1
Transportation	4.7	4.6	5.2
Inter-segment revenue	**219.7**	**200.7**	**150.7**

Operating income by segment (€ million)	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Water	1164.3	1,198.5	1,267.7
Environmental Services	453.8	265.2	781.8
Energy Services	415.5	434.4	384.3
Transportation	152.9	170.5	130.6
Total operating segments	**2,186.5**	**2,068.6**	**2,564.4**
Unallocated operating income	(166.4)	(107.8)	(103.3)
Operating income as per the consolidated income statement	**2,020.1**	**1,960.8**	**2,461.1**

Operating cash flow before changes in working capital by business segment (€ million)	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Water	1,800.9	1,795.4	1,848.4
Environmental Services	1,194.1	1,357.5	1,456.3
Energy Services	736.9	768.4	656.0
Transportation	311.5	291.8	280.2
Total operating segments	**4,043.4**	**4,213.1**	**4,240.9**
Unallocated operating cash flow before changes in working capital	(104.8)	(34.7)	(21.5)
Operating cash flow before changes in working capital in the consolidated cash flow statement	**3,938.6**	**4,178.4**	**4,219.4**

Net charge to operating depreciation, amortization and provisions by segment(*) (€ million)	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Water	(505.3)	(461.7)	(396.0)
Environmental Services	(871.9)	(754.9)	(685.3)
Energy Services	(268.8)	(226.6)	(147.9)
Transportation	(197.1)	(160.1)	(176.9)
Total business segments	**(1,843.1)**	**(1,603.3)**	**(1,406.1)**
Unallocated net charge to operating depreciation, amortization and provisions (**)	(47.9)	(28.7)	(29.3)
Net charge to operating depreciation, amortization and provisions	**(1,891.0)**	**(1,632.0)**	**(1,435.4)**

(1) including movements in provisions for working capital requirement.

(2) including Proactiva and Artelia.

Capital expenditure by segment (€ million)	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Water	835	950	869
Environmental Services	626	990	863
Energy Services	531	539	429
Transportation	445	342	459
Unallocated capital expenditure	56	72	22
Total capital expenditure (1)	**2,493**	**2,893**	**2,642**

(1) Pursuant to IFRS 8, capital expenditure presented in segment reporting includes investments financed by finance lease in the amount of €28 million, net of the capital expenditure presented in the consolidated cash flow statement.

Assets by segment as of December 31, 2009 (€ million)	Water	Environmental Services	Energy Services	Transportation	Unallocated amounts	Total assets in the Consolidated Statement of Financial Position
Goodwill, net	2,253.3	2,678.4	1,147.9	537.6	7.4	6,624.6
Intangible assets and property, plant and equipment, net	5,836.5	4,167.8	2,492.4	1,669.8	278.5	14,445.0
Operating financial assets	4,059.1	754.5	654.4	105.4	78.4	5,651.8
Working capital assets including DTA	6,504.3	2,772.2	3,590.5	1,269.4	729.7	14,866.1
Total segment assets	**18,653.2**	**10,372.9**	**7,885.2**	**3,582.2**	**1,094.0**	**41,587.5**
Investments in associates	148.1	62.0	55.3	2.9	0.2	268.5
Other unallocated assets (1)					7,960.7	7,960.7
Total assets	**18,801.3**	**10,434.9**	**7,940.5**	**3,585.1**	**9,054.9**	**49,816.7**

(1) including Proactiva and Artelia.

Assets by segment as of December 31, 2008 (€ million)	Water	Environmental Services	Energy Services	Transportation	Unallocated amounts	Total assets in the Consolidated Statement of Financial Position
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 (1)					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).*

(1) including Proactiva and Artelia.

Assets by segment as of December 31, 2007 (€ million)	Water	Environmental Services	Energy Services	Transportation	Unallocated amounts	Total assets in the Consolidated Statement of Financial Position
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 (1)					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).*

(1) including Proactiva.

Liabilities by segment as of December 31, 2009 (€ million)	Water	Environmental Services	Energy Services	Transportation	Unallocated amounts	Total liabilities in the Consolidated Statement of Financial Position
Provisions for contingencies and losses	997.3	985.9	494.6	367.3	195.2	3,040.3
Working capital liabilities including DTL	7,670.0	2,615.9	2,878.2	1,558.4	304.4	15,026.9
Other segment liabilities						
Total segment liabilities	**8,667.3**	**3,601.8**	**3,372.8**	**1,925.7**	**499.6**	**18,067.2**
Other unallocated liabilities (1)					**31,749.5**	31,749.5
Total liabilities	**8,667.3**	**3,601.8**	**3,372.8**	**1,925.7**	**32,249.1**	**49,816.7**

(1) including Proactiva and Artelia.

Liabilities by segment as of December 31, 2008 (€ million)	Water	Environmental Services	Energy Services	Transportation	Unallocated amounts	Total liabilities in the Consolidated Statement of Financial Position
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 (1)					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).*

(1) including Proactiva and Artelia.

Liabilities by segment as of December 31, 2007 (€ million)	Water	Environmental Services	Energy Services	Transportation	Unallocated amounts	Total liabilities in the Consolidated Statement of Financial Position
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 (1)					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).*

(1) including Proactiva.

Geographical area

December 31, 2009 (€ million)	France	Germany	United-Kingdom	Rest of Europe	United-States	Oceania	Asia	Middle-East	Rest of the world	Total
Revenue	13,755.4	2,967.3	2,478.1	6,811.2	2,953.0	1,300.2	1,500.7	1,017.6	1,767.5	**34,551.0**

December 31, 2008 (€ million)	France	Germany	United-Kingdom	Rest of Europe	United-States	Oceania	Asia	Middle-East	Rest of the world	Total
Revenue	14,465.0	3,057.3	2,876.9	7,029.5	2,873.4	1,437.7	1,269.9	1,026.8	1,728.3	**35,764.8**

December 31, 2007 (€ million)	France	Germany	United-Kingdom	Rest of Europe	United-States	Oceania	Asia	Middle-East	Rest of the world	Total
Revenue	13,547.3	2,602.0	2,866.0	6,028.6	2,423.3	1,308.2	961.0	447.0	1,390.7	**31,574.1**

Breakdown of non-current assets (excluding deferred tax assets and non-current derivative instruments) by geographical area

December 31, 2009 (€ million)	France	Germany	United-Kingdom	Rest of Europe	United-States	Oceania	Asia	Middle-East	Rest of the world	Total
Total	7,518.0	4,701.6	3,282.0	5,143.7	2,619.9	419.3	2,644.1	264.0	949.2	**27,541.8**

December 31, 2008 (€ million)	France	Germany	United-Kingdom	Rest of Europe	United-States	Oceania	Asia	Middle-East	Rest of the world	Total
Total	7,641.9	4,904.0	3,110.4	5,145.4	2,902.5	344.8	2,456.2	284.5	1,164.2	**27,953.9**

December 31, 2007 (€ million)	France	Germany	United-Kingdom	Rest of Europe	United-States	Oceania	Asia	Middle-East	Rest of the world	Total
Total	7,501.6	5,104.4	3,785.3	4,988.7	2,578.9	372.9	1,767.5	117.3	1,162.0	**27,378.6**

Note 42 POST-BALANCE SHEET EVENTS

In February 2010, Veolia Environnement announced that it transferred to Covanta Holding Corporation the contract for the operation of the incineration plant in the County of Miami-Dade. Veolia Environnement has now transferred to Covanta Holding the North American portfolio of incineration contracts in the Environmental Services Division, the sale of which had been announced on July 6, 2009. This sale totaled US$128 million, pursuant to the stipulated financial terms and conditions.

In connection with its strategic repositioning in the Czech Republic, on January 5, 2010, Dalkia signed an agreement for the acquisition of Energy.As which manages the industrial utilities of the mining group OKD. The completion of this transaction is contingent on receipt of the competition authorizations.

Further the signature of an agreement with Lyonnaise des Eaux on December 19, 2008, an amendment to the agreement for the unwinding of common subsidiaries between Veolia Eau-CGE and Lyonnaise des Eaux France was signed on February 3, 2010. It resulted in a supplementary control of Société des Eaux de Marseille and of Société des Eaux d'Arles to Veolia Water. These transactions were completed on March 22, 2010. The contribution in terms of revenue for 2009 of the subsidiaries disposed were € 150 million and € 136 million for the subsidiaries acquired.

In addition, on March 10, 2010, Veolia Environnement received notices of proposed adjustments ("NOPAs") from the U.S. Internal Revenue Service (IRS) relating to a number of tax positions relating to its U.S. subsidiaries, including primarily tax losses resulting from the reorganization of the former US Filter.

The Group believes that its tax positions are well-founded and correct in all material respects. It has already commenced, and intends to pursue, discussions with the IRS to have the positions in the NOPAs modified. The NOPAs are preliminary assessments that do not reflect a definitive audit position and are subject to change. The Group hopes to resolve the issues through discussions with the IRS. If necessary, however, the Group is prepared to defend its tax positions vigorously.

The NOPAs relate to the Worthless Stock Deduction, in the amount of US$4.5 billion (see Note 35), for which a deferred tax asset in the amount of 283 million euros has been recorded (see Note 12). They also relate to certain other issues relating to tax losses for the 2004, 2005 and 2006 tax years, in an aggregate amount of a similar order of magnitude as the Worthless Stock Deduction. Based on a preliminary analysis, Veolia Environnement has not recorded any provisions in its consolidated financial statements in respect of the NOPAs.

Because the NOPAs are still subject to the continuing IRS audit process (see Note 35), there is no requirement at this time for any payment of taxes.

Note 43 MAIN COMPANIES INCLUDED IN THE 2009 CONSOLIDATED FINANCIAL STATEMENTS

In 2009, the Group consolidated or accounted for a total of 2,573 companies, of which the principal companies are:

Company and address	French company registration number (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	85.44
EOLFI SA and its subsidiaries 25, place de la Madeleine - 75008 Paris	477 951 644 00020	FC	69.11	69.11
PROACTIVA Medio Ambiete 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 (United States)		FC	100.00	69.11
Veolia Environnement Europe Services SA Rue des Deux Eglises 26 B- 1000 Brussels (Belgium)	RPM Bruxelles : BCE 0894.628.426	FC	100.00	100.00
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
Société Française de Distribution d'Eau 7, rue Tronson-du-Coudray – 75008 Paris	54 205 494 500 382	FC	99.56	99.56
Compagnie Fermière de Services Publics 3, rue Marcel Sembat – Immeuble CAP 44 44100 Nantes	57 575 016 100 342	FC	99.87	99.87
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	99.29	99.29
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

Company and address	French company registration number (Siret)	Consolidation method	% control	% interest
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	99.26	99.26
Veolia Water 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
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 Kings Place – 5th Floor - 90 York Way - London N19AG (United Kingdom)		FC	100.00	100.00
Veolia Water Central Ltd Tamblin Way – Hatfield – Hertfordshire AL109EZ (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 10 117 Berlin (Germany)		FC	100.00	100.00
Berliner Wasserbetriebe Anstalt des Offentlichen Rechts Neue Jüdenstrasse 1 10179 Berlin (Germany)		PC	49.90	24.95
Braunschweiger Versorgungs- AG &Co.KG Taubenstrasse 7 D-38 106 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, Bucarest (Romania)		FC	73.69	73.69
Veolia Voda and its subsidiaries 52, rue d'Anjou – 75 008 Paris	434 934 809 00016	FC	83.12	83.12
Prazske Vodovody A Kanalizagce As 11 Parizska – 11 000 Prague 1 (Czech Republic)		FC	100.00	83.12
Severoceske Vodovody A Kanalizagce As 1 689 Pritkovska 41 550 Teplice (Czech Republic)		FC	50.10	41.64
Shenzhen Water (Group) Co. Ltd and its subsidiaries Water Building, N°1019 Shennan Zhong Road, 518031 SHENZHEN, GuangDong (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

Company and address	French company registration number (Siret)	Consolidation method	% control	% interest
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 10F Yeonsei Jaeden Severance Bldg.84-11 Namdaemunno 5-ga, Jung-gu, Seoul, 100-753 (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
AZALIYA 52, rue d'Anjou 75008 Paris	505 190 801 00017	PC	51.00	51.00
Veolia Water Middle East North Africa (Veolia Water MENA) and its subsidiaries 52, rue d'Anjou – 75 008 Paris	403 105 919 00019	PC	80.55	41.08
Amendis 23, rue Carnot – 90 000 Tangiers (Morocco)		PC	100.00	31.22
REDAL SA 6 Zankat Al Hoceima, BP 161 – 10 000 Rabat (Morocco)		PC	100.00	31.91
Lanzhou Veolia Water (Group) 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	PC	55.00	28.05
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 (China)		PC	49.00	49.00
Changle Veolia Water Supply Co Ltd (N°2 Water Plant) Pan Ye Village, Hang Cheng Jie Dao, Changle Municipality, Fujian Province (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 52 avenue des Champs Pierreux 92000 Nanterre	77 573 481 700 353	FC	100.00	99.55
SARP Industries and its subsidiaries 427, route du Hazay – Zone Portuaire Limay-Porcheville - 78520 Limay	30 377 298 200 029	FC	100.00	99.85
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 105 avenue du 8 mai 1945 69140 Rilleux-Le-Pape	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

Company and address	French company registration number (Siret)	Consolidation method	% control	% interest
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. 200 East Randolph Street – Suite 7900 Chicago – IL 60601 (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
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 5 Loyang Way 1 – WMX Technologies Building 508706 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) Hammerbrookstrasse 69 20097 Hamburg (Germany)		FC	100.00	100.00
Marius Pedersen / Veolia Miljøservice Holding A/S Danemark and its subsidiaries ørbaekvej49-5863 Ferritsllev (Danemark)		FC	65.00	65.00
Veolia Servizi Ambientali SpA (and its subsidiaries) Via di Monte Brianzo,56 – 00186 Roma-(Italy)		FC	100.00	100.00

Company and address	French company registration number (Siret)	Consolidation method	% control	% interest
ENERGY SERVICES				
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
Dalkia SGPS SA and its subsidiaries 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	16.59
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.října 3123/ 152 709 74 Ostrava (Czech Republic)		PC	75.81	49.06

Company and address	French company registration number (Siret)	Consolidation method	% control	% interest
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
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
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 (Netherlands)		FC	100.00	100.00

Company and address	French company registration number (Siret)	Consolidation method	% control	% interest
Veolia Transport Belgium nv and its subsidiaries Groenendaallaan 387 2030 Antwerpen (Belgium)		FC	100.00	100.00
Veolia Transport Central Europe GmbH and its subsidiaries Georgenstrasse 22 10117 Berlin (Germany)		FC	100.00	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

Consolidation method.
FC: Full consolidation
PC: Proportionate consolidation
EA: Equity associate.

Note 44 AUDIT FEES

Audit fees incurred by the Group during fiscal years 2009, 2008 and 2007 total €50.2 million, €51.7 million and €52.2 million respectively, including €40.2 million in 2009, €40.3 million in 2008 and €37.6 million in 2007 in respect of the statutory audit of the accounts and €10.0 million in 2009, €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.

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2009

This is a free translation into English of the auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit 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 balances, transactions, or disclosures.

This report also includes information relating to the specific verification of information given in the Group's management report.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended December 31, 2009, on:

- the audit of the accompanying consolidated financial statements of Veolia Environnement ;
- the justification of our assessments;
- the specific verification required by 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, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit 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, 2009 and of the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

2. Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

Management's significant judgments and estimations are disclosed in note 2 to the consolidated financial statements. 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 and 7), financial assets (notes 10 and 11), income taxes (notes 1-20, 12 and 22), provisions and post-employment benefits (notes 1-14, 1-16, 16 and 30) and financial instruments (notes 1-15, 1-27, 27, 28 and 29). Our works consisted in assessing the financial information and assumptions underlying these judgments 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.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3. Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

The Auditors

French original signed by

Paris La Défense et Neuilly-sur-Seine, March 30, 2010

KPMG Audit A division of KPMG S.A.		ERNST & YOUNG et Autres	
Jay Nirsimloo	Baudouin Griton	Pierre Hurstel	Nicolas Pfeuty

20.2 STATUTORY FINANCIAL STATEMENTS

Balance sheet as of December 31, 2009

(in euros)

Assets	December 31, 2009			December 31, 2008
	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	104,446	71,816	32,630	6,956
Purchased goodwill (1)	-	-	-	-
Other intangibles	-	-	-	-
Intangible assets under construction	37,447,166	-	37,447,166	21,716,306
Property, plant and equipment				
Land	-	-	-	-
Buildings	-	-	-	-
Industrial and technical plant	-	-	-	-
Other plant and equipment	359,589	165,655	193,934	215,856
PP&E under construction	68,234	-	68,234	-
Payments on account - PP&E	-	-	-	-
Long-term loans and investments (2)				
Equity investments	16,416,599,035	429,807,260	15,986,791,775	15,803,984,398
Loans to equity investments	6,901,313,546	-	6,901,313,546	6,892,498,533
Long-term portfolio investments (TIAP)		-	-	-
Other long-term investment securities	51,155,033	-	51,155,033	98,510,205
Loans	271,175,455	-	271,175,455	50,704
Other long-term loans and investments	309,837,506	114,995,459	194,842,047	258,547,540
TOTAL (I)	**23,988,060,010**	**545,040,190**	**23,443,019,820**	**23,075,530,498**

Assets	December 31, 2009 GROSS	AMORT. & PROV.	NET	December 31, 2008 NET
CURRENT ASSETS				
Inventories and work-in-progress				
Raw materials & supplies	-	-	-	-
Work in process – goods and service	-	-	-	-
Semi-finished and finished goods	-	-	-	-
Bought-in goods	-	-	-	-
Payments on account – inventories	402,016	-	402,016	392,516
Receivables (3) **:**				
Trade receivables				
Trade receivables and related accounts	206,764,464	-	206,764,464	181,258,149
Other receivables	1,192,551,773	3,948,036	1,188,603,737	1,682,806,980
Miscellaneous receivables				
Share capital subscribed and called but not paid in	-	-	-	-
Marketable securities				
Treasury shares	140,788,733	1,798,973	138,989,760	123,525,811
Other securities	3,797,957,353	-	3,797,957,353	2,203,800,904
Treasury instruments - Assets	224,420,893	-	224,420,893	210,075,481
Cash at bank and in hand	62,424,108	-	62,424,108	19,338,733
Prepayments (4)	18,829,751	-	18,829,751	21,234,418
TOTAL (II)	**5,644,139,091**	**5,747,009**	**5,638,392,082**	**4,442,432,992**
ACCRUED INCOME AND DEFERRED CHARGES				
Deferred charges **(III)**	30,955,784	-	30,955,784	31,257,679
Bond redemption premiums **(IV)**	81,725,396	-	81,725,396	90,819,286
Unrealized foreign exchange losses (V)	127,881,634	-	127,881,634	147,401,438
GRAND TOTAL (I+II+III+IV+V)	**29,872,761,915**	**550,787,199**	**29,321,974,715**	**27,787,441,892**
(1) *Of which leasehold rights*			-	-
(2) *Portion due within less than one year*			281,326,024	111,468,911
(3) *Portion due within more than one year*			30,151,645	28,146,771
(4) *Portion due within more than one year*			13,026,780	13,735,750

EQUITY AND LIABILITIES	2009	2008
SHAREHOLDERS' EQUITY		
Share capital (of which paid in: 2,468,151,870)	2,468,151,870	2,362,883,330
Additional paid-in capital	9,245,911,141	9,010,157,780
Revaluation reserves	-	-
Equity accounting revaluation reserve	-	-
Reserves:		
Reserve required by law	184,460,551	176,817,830
Reserves required under the bylaws or contractually	-	-
Special long-term capital gain reserve	-	-
Other reserves	343,226,042	343,226,042
Retained earnings	211,766,138	620,378,893
Net income (loss) for the period	541,668,872	152,854,426
SUB-TOTAL: Shareholders' equity	**12,995,184,614**	**12,666,318,300**
INVESTMENT SUBSIDIES	-	-
TAX-DRIVEN PROVISIONS	221,894	111,776
TOTAL (I)	**12,995,406,508**	**12,666,430,076**
EQUITY EQUIVALENTS		
Proceeds from issues of equity equivalent securities	-	-
Subordinated loans	-	-
Other	-	-
TOTAL (I B)	**-**	**-**
PROVISIONS :		
Provisions for contingencies	128,602,366	110,317,727
Provisions for losses	10,159,617	8,777,437
TOTAL (II)	**138,761,983**	**119,095,164**
LIABILITIES [1] :		
Convertible bonds	-	-
Other bonds	12,958,129,810	10,672,675,656
Bank borrowings [2]	724,466,448	1,455,248,489
Other borrowings	1,592,789,592	2,185,532,686
Payments received on account for work-in-progress	-	22,842
Operating liabilities		
Trade payables and related accounts	95,775,282	82,263,221
Tax and employee-related liabilities	82,400,907	55,920,065
Other operating liabilities	-	-
Other liabilities		
Amounts payable in respect of PP&E and related accounts	137,527,124	6,893,699
Tax liabilities (income tax)	-	-
Other miscellaneous liabilities	105,160,060	46,724,828
Treasury instruments - Liabilities	311,075,809	346,077,819
DEFERRED INCOME AND MISCELLANEOUS		
Deferred income	120,799,722	38,225,410
TOTAL (III)	**16,128,124,754**	**14,889,584,715**
UNREALIZED FOREIGN EXCHANGE GAINS **(IV)**	**59,681,470**	112,331,937
GRAND TOTAL (I+II+III+IV)	**29,321,974,715**	**27,787,441,892**
[1] *Portion due in more than one year*	13,062,932,380	11,894,150,575
Portion due in less than one year	2,944,392,651	2,957,208,730
[2] *Of which overdrafts and current bank facilities*	113,064,537	13,022,964

Income statement for the year ended December 31, 2009

(in euros)	**2009**	**2008**
OPERATING REVENUE [1]:		
Sales of bought-in goods	-	-
Sales of own goods and services	196,667,841	370,032,304
NET SALES	196,667,841	370,032,304
Of which export sales		
Changes in inventory of own production of goods and services	-	-
Own production capitalized	24,842,600	3,909,026
Operating subsidies	23,211	34,454
Write-back of depreciation, amortization and provisions and expense reclassifications	11,414,256	10,251,045
Other revenue	189,583,768	103,833
TOTAL (I)	**422,531,676**	**384,330,663**
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 [*]	227,247,175	407,615,185
Duties and taxes other than income tax	6,207,080	8,148,038
Wages and salaries	61,603,590	53,414,526
Social security contributions	41,631,771	26,353,886
Depreciation, amortization and charges to provisions :		
On non-current assets: depreciation and amortization	5,206,635	4,376,339
On non-current assets: charges to provisions	-	-
On current assets: charges to provisions	-	-
For contingencies and losses: charges to provisions	7,354,450	1,187,872
Other charges	201,328,761	2,481,292
TOTAL (II)	**550,579,462**	**503,577,137**
1. OPERATING LOSS (I – II)	**(128,047,787)**	**(119,246,475)**
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*	-	-

	2009	2008
FINANCIAL INCOME [3]		
Financial income from equity investments	1,020,948,141	906,640,824
Financial income from other securities and long-term receivables	4,198,139	3,247,275
Other interest and similar income	258,841,749	217,972,442
Write-back of provisions and expense reclassifications	172,877,181	144,375,260
Foreign exchange gains	1,471,360,748	1,098,554,191
Net proceeds from the sale of marketable securities	20,539,375	24,363,646
TOTAL (V)	**2,948,765,333**	**2,395,153,638**
FINANCIAL EXPENSES		
Amortization and charges to provisions for financial items	340,047,321	483,314,027
Interest and similar expenses [4]	714,589,734	655,840,986
Foreign exchange losses	1,414,005,586	1,169,769,987
Net expenses on sales of marketable securities	-	-
TOTAL (VI)	**2,468,642,640**	**2,308,925,000**
2. NET FINANCIAL INCOME (EXPENSE) (V–VI)	**480,122,693**	**86,228,638**
3. NET INCOME/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAX (I-II+III-IV+V-VI)	**352,074,906**	**(33,017,837)**
EXCEPTIONAL INCOME		
Exceptional income from non-capital transactions	38,064	2,287
Exceptional income from capital transactions	25,107,878	24,394,671
Write-back of provisions and expense reclassifications	3,883,939	4,045,675
TOTAL (VII)	**29,029,881**	**28,442,633**
EXCEPTIONAL EXPENSES		
Exceptional expenses on non-capital transactions	33,433	91,760
Exceptional expenses on capital transactions	27,554,273	22,068,498
Exceptional depreciation, amortization and charges to provisions	3,937,597	7,333,460
TOTAL (VIII)	**31,525,303**	**29,493,718**
4. NET EXCEPTIONAL ITEMS (VII–VIII)	(2,495,421)	(1,051,085)
STATUTORY EMPLOYEE PROFIT-SHARING **(IX)**	-	-
INCOME TAX EXPENSE **(X)**	192,089,387	186,923,347
TOTAL INCOME (I+III+V+VII)	**3,248,431,090**	**2,807,926,933**
TOTAL EXPENSES (II+IV+VI+VIII+IX-X)	**2,706,762,218**	**2,655,072,508**
NET INCOME	**541,668,872**	**152,854,426**
(3) Of which income from related parties	1,537,018,725	1,536,822,860
(4) Of which interest charged by related parties	23,425,924	25,302,642

Proposed appropriation of 2009 net income

(in euros)	2009
2009 accounting net income	541,668,872
Retained earnings	211,766,138
Gross distributable reserves	**753,435,010**
Dividend distribution (€1.21 x 478,898,782 shares) (1)	579,467,526
Reserve required by law	27,083,444
Retained earnings	146,884,040
Gross distributable reserves	**753,435,010**

(1) As of December 31, 2009, the share capital comprises 493,630,374 shares, including 14,731,592 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 € thousands)	**2009**	**2008**
SOURCE OF FUNDS:		
Operating cash before changes in working capital	715,539	497,737
Disposals or decreases in non-current assets:		
Disposals of intangible assets and PP&E	8,960	10,385
Disposals of equity investments	16,148	111
Repayment of contributions	-	-
Repayment of financial receivables (long-term advances)	307,133	915,804
Repayment of deposits and guarantees	71,131	24,230
Increase in shareholders' equity	18,999	21,967
New medium and long-term borrowings	2,419,551	2,891,240
TOTAL SOURCE OF FUNDS	**3,557,460**	**4,361,474**
APPLICATION OF FUNDS:		
Dividend distribution (excluding withholding tax)	231,801	553,460
Acquisitions or purchases of non-current assets:		
Intangible assets and PP&E	24,877	21,633
Long-term loans and investments:		
Equity investments	259,121	3,143,659
Long-term financial receivables	260,868	2,010,657
Deposits and guarantees	250,016	72,657
Other long-term loans and investments	-	-
Decrease in shareholders' equity	-	-
Principal payments on borrowings	1,130,883	1,270,159
TOTAL APPLICATION OF FUNDS	**2,157,567**	**7,072,226**
Increase / decrease in working capital	1,399,893	(2,710,753)
TOTAL	**3,557,460**	**4,361,474**

Note 1 MAJOR EVENTS OF THE PERIOD

1.1 Company financing

1.1.1. Share capital increase resulting from the payment of the dividend for fiscal year 2008 in shares

Pursuant to the decision of the Combined General Shareholders' Meeting of May 7, 2009 in the fifth resolution, to offer shareholders the option of receiving payment of the dividend for fiscal year 2008 in cash or Veolia Environnement shares, the Board of Directors, on the same day, delegated to the Chairman and Chief Executive Officer, all necessary powers to enable the payment of the dividend in shares and perform the share capital increase resulting from the exercise of this option. The option exercise period was set from May 13, to May 28, 2009 inclusive.

At the end of the option exercise period and based on a certificate of deposit prepared by Société Générale, the Chairman and Chief Executive Officer duly noted on June 4, 2009, the performance of a share capital increase for cash of €322,993,629; this led to the issue of 20,111,683 new shares with a par value of €5, representing an increase in the share capital of the Company of €100,558,415 and the recognition of additional paid-in capital of €222,435,214. The expenses relating to this operation were deducted from additional paid-in capital for a net of tax amount of €970,263.

1.1.2. Share capital increase reserved for employees

In accordance with the delegation of authority granted by the Combined General Shareholders' Meeting of May 7, 2009 to the Board of Directors pursuant to the seventeenth resolution, the Chairman and Chief Executive Officer, acting by virtue of the sub-delegation granted to him by the Board of Directors on the same day, decided on June 23, 2009 to offer employees of Veolia Environnement Group the opportunity to subscribe to a share capital increase from June 25 to July 3, 2009 inclusive (subscription period). On August 5, 2009, the Chairman and Chief Executive Officer duly noted the performance of the share capital increase subscribed by members of French and International Group Savings Plans for a total amount of €19.4 million.

A total of 911,014 new shares were created as a result of subscriptions and the Group contribution, including 286,464 shares in respect of the Group contribution. This share capital increase represents a total par value of €4,555,070 and additional paid-in capital of €14,831,308. The expenses relating to this operation were deducted from additional paid-in capital for a net of tax amount of €1,051,653.

The new shares which rank for dividends from January 1, 2009, are equivalent to existing shares and confer entitlement to dividends distributed in 2010 in respect of fiscal year 2009.

1.1.3 Exercise of share subscription options

The successive exercise of share options during 2009 led to the creation of 31,011 new shares with a par value of €5, representing a share capital increase of €0.2 million and additional paid-in capital of €0.5 million. The share options exercised mainly concerned plans granted in 2002, 2003 and 2004.

1.1.4. New bond issues

Veolia Environnement performed new bonds issued under its EMTN program for a total amount of €2,250 million, as follows:

- On April 24, 2009, Veolia Environnement performed a bond issue in the amount of:
    - €1,250 million, bearing fixed-rate interest of 5.25% and maturing in 2014;
    - €750 million, bearing fixed-rate interest of 6.75% and maturing in 2019;
- On June 29, 2009, Veolia Environnement performed a €250 million bond issue, bearing fixed-rate interest of 5.70% and maturing in 2017.

1.1.5. Maturity of certain bond issues and syndicated loan facilities

Three bond issues arrived at maturity in 2009, representing a total amount of €46 million: the EMTN Series 13 bond issue, issued in March 2004 for an amount of US$27 million and maturing in March 2009 and the EMTN Series 8 bond issues, issued in April 2002 and February 2003 for an amount of CZK660 million and maturing in April 2009.

The €800 million draw-down on the syndicated loan facility was repaid on April 17, 2009.

1.2 Subsidiary financing

1.2.1. Veolia Environnement Services RE

On December 7, 2009, Veolia Environnement subscribed to a share capital increase performed by Veolia Environnement Services RE in the amount of €8 million.

1.2.2. Campus Veolia Environnement

On October 26, 2009, Veolia Environnement subscribed to the entire share capital increase performed by Campus Veolia Environnement in the amount of €15.1 million, including a cash consideration of €4.4 million paid on October 28, 2009.

1.2.3. Veolia Environnement Europe Service

Following the Extraordinary Shareholders' Meeting of Veolia Environnement Europe Service on March 31, 2009, Veolia Environnement subscribed to the entire share capital increase of €300 million, of which €185 million was fully paid-up.

Veolia Environnement's total investment in Veolia Environnement Europe Service therefore amounted to €3,150.1 million at the end of 2009.

1.2.4. Ridgeline Energy Holdings and Eolfi

On April 1, 2009, Veolia Environnement bought-out 1,850 shares held by minority interest in Eolfi for €1.7 million.

On April 17, 2009, Eolfi performed a share capital increase of €60 million.

This share capital increase was subscribed by Veolia Environnement in the amount of €50.8 million by offset again certain, liquid and due receivables. The residual balance of €9.2 million was settled in cash.

The receivables of €50.8 million held by Veolia Environnement on Eolfi concerned:

- the sale of Ridgeline Energy Holdings shares by Veolia Environnement to Eolfi on April 16, 2009 for €15.9 million;
- the transfer to Eolfi of the Ridgeline debt owed to Veolia Environnement of €17.6 million;
- the settlement of the Eolfi current account in the Veolia Environnement accounts in the amount of €17.3 million.

1.3 Other events

Due to the recovery in its share price, Veolia Environnement reversed the provision for impairment of treasury shares in the amount of €46.1 million as of December 31, 2009, based on the average share price in December 2009 of €22.64.

Note 2 ACCOUNTING PRINCIPLES AND METHODS

2.1 Basis of preparation

The company financial statements for the year ended December 31, 2009 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, 2009 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 net income per share. 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.

Indemnities in full and final discharge of repair and maintenance work

Veolia Environnement, as an active partner, assumes responsibility for the payment of indemnities in full and final discharge of repair and maintenance work due by subsidiaries, which it then rebills to these subsidiaries. For the first time this year, Veolia Environnement decided to recognize, in the 2009 financial statements, rebilled indemnities in Other income (previously recognized in Net sales) and indemnity expenses in Other charges (previously recognized in Other purchases and external charges). This change in accounting method seeks to standardize accounting practices observed within the Group. In 2008, rebilled indemnities recorded in Net sales totaled €179.6 million and indemnity expenses recorded in Other purchases and external charges totaled €203.4 million.

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 € thousands)	Opening balance	Inter-account transfers	Additions	Disposals	Closing balance
Intangible assets	21,724	-	24,787	8,960	37,552
Property, plant and equipment	338	-	90	-	428
Long-term loans and investments					
Equity investments	16,047,872	-	384,876	16,149	16,416,599
Loans to equity investments	6,892,499	15,092	302,866	309,145	6,901,313
Other long-term investment securities	98,596	(15,092)	12,314	44,663	51,155
Loans	51	87,030	919,610	735,515	271,175
Other long-term loans and investments	400,967	(87,030)	16	4,116	309,838
Total	**23,462,047**	**0**	**1,644,559**	**1,118,548**	**23,988,060**

Two reclassifications were performed this year in Long-term loans and investments: the perpetual subordinated loan granted to V3PF was transferred from "Other long-term investment securities" to "Loans to equity investments" and the Tyseley loan granted to HSBC and cash investments were transferred from "Other long-term loans and investments" to "Loans".

Movements in depreciaion, amortization and non-current asset provisions:

(In € thousands)	Opening balance	Addition/ Charge	Utilization/ Release	Closing balance
Amortization of intangible assets	1	71	-	72
Depreciation of property, plant and equipment	122	44	-	166
Financial impairment provisions	386,393	202,320	43,910	544,803
Total	**386,516**	**202,435**	**43,910**	**545,040**
Nature of charges and releases:				
. Operating		115	-	
. Financial		202,320	43,910	
. Exceptional		-	-	
Total		**202,435**	**43,910**	

Intangible assets:

Intangible asset additions concern the capitalization of two migration projects towards new IT applications. Disposals consist of an IT application sold to Veolia Environnement Informations et Technologie.

Long-term loans and investments:

a) Equity investments: Equity investments total €16,416.6 million as of December 31, 2009.

The ***increase*** in equity investments breaks down as follows:

(In € thousands)	**Amount**
VEES share capital increase	300,000
EOLFI share capital increase	61,746
Campus Veolia share capital increase	15,130
Veolia Environnement Services RE share capital increase	8,000
Total	**384,876**

The ***decrease*** in equity investments breaks down as follows:

(In € thousands)	**Amount**
Divestiture of Ridgeline Energy Holdings	15,943
Divestiture of Vigies 21AS, 22AS, 31AS	111
Partial divestiture of Deers Green Power	95
Total	**16,149**

b) Loans to equity investments: This heading totals €6,901.3 million as of December 31, 2009.

(In € thousands)	**Opening balance**	**Inter-account transfers**	**Increase**	**Decrease**	**Foreign exchange translation**	**Closing balance**
Veolia Propreté	2,402,414	-	22,137	105,341	1,693	2,320,903
Veolia Eau (Compagnie Générale des Eaux)	2,201,450	-	138,216	7,240	(7,999)	2,324,428
Veolia Transport	939,928	-	3,064	108,061	(1,249)	833,682
Sulo	-	-	-	-	-	-
Campus Veolia Environnement	20,080	-	-	1,631	-	18,450
Dalkia International	1,130,159	-	684	52,663	3,105	1,081,285
Centre d'Analyses Environnementales	6,401	-	-	401	-	6,000
Ofis (Office Français d'Ingénierie Sanitaire)	202	-	-	202	-	-
Artelia	23,577	-	42,151	337	-	65,391
Eolfi	10,245	-	-	10,245	-	-
Ridgeline	17,965	-	-	17,965	-	-
VEI (Veolia Environnement Industries)	-	-	16,799	-	-	16,799
V3PF	-	15,092	842	92	-	15,842
VEIT (Veolia Environnement Informations et Technologies)	45,228	-	26,252	228	-	71,252
Collex PTY Ltd	94,850	-	52,721	289	-	147,281
Total	**6,892,499**	**15,092**	**302,866**	**304,695**	**(4,450)**	**6,901,313**

c) Other long-term investment securities:

This heading comprises subordinated shares issued as part of a securitization program launched in 2002 and renewed in Jun'e 2007, of €47.2 million (including accrued interest) and shares in the Demeter venture capital mutual fund of €4 million. 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) Loans:

This heading comprises a guarantee deposit in respect of subsidiary financing operations of GBP 18.5 million, or €20.8 million' euro-equivalent (including accrued interest) and cash surpluses loaned on a short-term basis of €250.3 million (including accrued interest).

e) Other long-term loans and investments:

This heading primarily includes 8,591,656 treasury shares with a gross value of €309.5 million.

f) Provisions for financial impairment:

This heading mainly comprises the provision for the impairment of treasury shares in the amount of €115 million and the impairment of equity investments held by the Transportation Division in the amount of €365 million, of Proactiva shares in the amount of €56.1 million and Campus Veolia shares in the amount of €4.2 million.

3.2 Prepayments

Prepayments total €18.8 million and include swap balancing cash adjustments of €16.9 million, operating prepayments of €1.8 million concerning in particular insurance and professional fees and interest paid in advance on treasury notes of €0.2 million.

3.3 Accrued income and deferred charges

3.3.1. Bond redemption premiums

Unamortized bond redemption premiums total €81.7 million.

Bond redemption premiums are amortized on a straight-line basis over the bond term.

The performance of a new bond issue led to the payment of redemption premiums in 2009 of €1.9 million.

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, 2009 total €27.1 million.

New bond issues led to the payment of issue costs in 2009 of €4.7 million.

Other deferred charges total €3.8 million and mainly comprise issue costs incurred in prior years in setting up credit lines.

3.4 Accrued income

Accrued income included in balance sheet headings *(in € thousands)*	**2009**	**2008**
Loans to equity investments	30,964	42,033
Other long-term investment securities	29	131
Loans	0	9
Other long-term loans and investments	333	685
Trade receivables and related accounts	50,054	45,329
Other receivables	81,224	30,994
Marketable securities	47,079	40,822
Treasury instruments	118,900	62,531
Total	**328,583**	**222,535**

3.5 Other receivables

Other receivables total €1,192.6 million and mainly comprise the following balances:

(in € thousands)	**2009**	**2008**
Current accounts with Veolia Propreté	357,707	363,331
Current accounts with Veolia Eau (formerly CGE)	325,205	587,756
Current accounts with Dalkia International	91,925	218,074
Financial income receivable*	77,049	28,067
Financial receivables on derivatives	59,250	-
Current accounts with Veolia Transport	59,079	37,950
"C" shares relating to the securitization program**	43,386	42,698
Current account with VEIT	33,727	16,499
Income tax account	30,153	42,820
Current account with VES Australia PTY	30,062	-
Current account with Dalkia Holding	13,495	0
Current account with Veolia UK	0	141,396
Current account with VEES	0	89,467
Current accounts with Collex	0	47,116

(*) Financial income receivable includes dividends receivable of €61.7 million.

(**) The value of "C" shares carried by Veolia Environnement in respect of the receivables securitization program is €43.4 million. A liability of the same amount is recognized to these companies.

3.6 Foreign exchange and losses

Foreign exchange gains and losses concern hedges of matching foreign exchange structural positions and overall foreign exchange positions by currency.

(In € thousands)	**Unrealized foreign exchange losses**	**Unrealized foreign exchange gains**
Foreign exchange hedges of structural foreign exchange positions (Note 3.6.1)	36,174	51,081
Overall foreign exchange positions (Note 3.6.2)	91,707	8,601
Total	**127,881**	**59,682**

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

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 *(in € thousands)*	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Total net unrealized foreign exchange loss	Provision for contingencies
Loans	0	10,346		
Borrowings	22,570	0		
Currency derivatives	0	0		
Total CZK	**22,570**	**10,346**	**12,224**	**12,224**
Loans	63,712	0		
Currency derivatives	12,671	52,432		
Total USD	**76,383**	**52,432**	**23,951**	**0**
Grand total	**98,952**	**62,778**	**36,174**	**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 *(in € thousands)*	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Total net unrealized foreign exchange gain
Loans	0	0	
Borrowings	8,006	19,351	
Currency derivatives	29,675	18,330	
Total PLN	**37,681**	**37,681**	**0**
Loans	0	0	
Borrowings	0	184,209	
Current accounts	41,083	0	
Currency derivatives	158,983	15,992	
Total GBP	**200,066**	**200,201**	**(134)**
Loans	21,054	25,670	
Borrowings	69,790	118,054	
Currency derivatives	11,078	9,145	
Total USD	**101,922**	**152,869**	**(50,946)**
Grand total	**344,737**	**395,818**	**(51,080)**

3.6.2. Unrealized foreign exchange gains and losses on overall foreign exchange positions excluding matching foreign exchange positions

Account heading concerned by the foreign exchange gain/loss *(in € thousands)*	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Total net unrealized foreign exchange loss	Provision for contingencies
Loans	123	0		
Currency derivatives	0	81		
Total AED	**123**	**81**	**42**	**68**
Currency derivatives	1	0		
Total BGN	**1**	**0**	**1**	**0**
Loans	0	785		
Currency derivatives	967	8		
Total CHF	**967**	**793**	**174**	**174**
Loans	4,936	0		
Borrowings	15,314	0		
Currency derivatives	1,333	4,080		
Total CZK	**21,583**	**4,080**	**17,503**	**17,514**
Currency derivatives	3	2		
Total DKK	**3**	**2**	**1**	**1**
Loans	8,557	3,762		
Borrowings	0	2,794		
Currency derivatives	22,514	15,228		
Total GBP	**31,071**	**21,784**	**9,287**	**14,455**
Loans	11,963	703		
Currency derivatives	4,514	2,159		
Total HKD	**16,477**	**2,862**	**13,615**	**13,616**
Loans	0	525		
Currency derivatives	2,372	1,046		
Total HUF	**2,372**	**1,571**	**801**	**974**
Loans	815	752		
Currency derivatives	1,050	6		
Total ILS	**1,865**	**758**	**1,107**	**1,202**
Loans	3,357	0		
Currency derivatives	682	2,434		
Total JPY	**4,039**	**2,434**	**1,605**	**3,357**
Loans	0	0		
Currency derivatives	0	0		
Total MXN	**0**	**0**	**0**	**21**
Loans	0	7,019		
Currency derivatives	22,041	10,015		
Total NOK	**22,041**	**17,034**	**5,007**	**5,008**
Loans	0	1,097		
Currency derivatives	23,223	130		
Total SEK	**23,223**	**1,227**	**21,996**	**21,996**
Loans	332	2,273		
Borrowings	28,865	556		
Currency derivatives	14,910	19,116		
Revaluation of dividends receivable	0	1,918		
Total USD	**44,106**	**23,864**	**20,242**	**33,831**
Loans	0	106		
Currency derivatives	431	0		
Total ZAR	**431**	**106**	**325**	**325**
Grand total	**168,309**	**76,603**	**91,706**	**112,542**

Contingency provisions for foreign exchange risk are not necessarily of the same amount as net unrealized foreign exchange losses, as commencing fiscal year 2009, they are based not only on the overall foreign exchange position but also on the maturity of that position.

Account heading concerned by the foreign exchange gain/loss *(in € thousands)*	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Total net unrealized foreign exchange gain
Loans	0	649	
Currency derivatives	3,002	3,224	
Operations	0	4	
Total AUD	**3,002**	**3,877**	**(875)**
Loans	0	612	
Currency derivatives	535	0	
Total BHD	**535**	**612**	**(77)**
Loans	168	1,593	
Currency derivatives	1,427	33	
Total CAD	**1,595**	**1,626**	**(31)**
Operations	0	11	
Total CHF	**0**	**11**	**(11)**
Currency derivatives	0	6	
Total EEK	**0**	**6**	**(6)**
Currency derivatives	0	1	
Total LTL	**0**	**1**	**(1)**
Loans	35	117	
Currency derivatives	84	472	
Total MXN	**119**	**589**	**(470)**
Currency derivatives	0	131	
Total NZD	**0**	**131**	**(131)**
Loans	0	8,936	
Borrowings	1,268	0	
Currency derivatives	12,337	11,246	
Total PLN	**13,605**	**20,182**	**(6,577)**
Loans	26	0	
Currency derivatives	184	356	
Total RON	**210**	**356**	**(146)**
Loans	0	94	
Currency derivatives	197	380	
Total SGD	**197**	**474**	**(277)**
Grand total	**19,264**	**27,865**	**(8,601)**

3.7 Treasury shares (classified in marketable securities)

Veolia Environnement holds 14,731,592 treasury shares purchased under the share purchase program, including 8,591,656 classified in "Other long-term loans and investments" (*see Note 3.1.e above).* The remaining 6,139,936 shares, recorded in marketable securities and earmarked for an Employee Savings Plan, SEQUOIA, have a net value of €139 million at the year-end*.* The provision of €1.8 million corresponds to the difference between the purchase cost of the Veolia Environnement shares and the average stock market price during the twenty trading days preceding December 31, 2009. A provision reversal of €18.6 million was recorded in fiscal year 2009.

3.8 Other securities

Other securities total €3,798 million and include certificates of deposit of €150 million, treasury notes of €225 million, mutual fund investments of €3,037.8 million, monetary notes of €338.1 million and accrued interest of €47.1 million.

NOTE 4 BALANCE SHEET LIABILITIES

4.1 Share capital and reserves

(In € thousands)	Opening balance	Increase	Decrease	Closing balance
Share capital subscribed, called and paid	2,362,883	105,269	-	2,468,152
Additional paid-in capital	4,878,481	235,753	-	5,114,234
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	176,818	7,643	-	184,461
Special long term capital gain reserve	-	-	-	-
Frozen reserves	-	-	-	-
Other reserves	343,226	-	-	343,226
Retained earnings	620,379	-	408,613	211,766
Prior year net income	152,854	-	152,854	-
TOTAL BEFORE NET INCOME FOR THE YEAR	**12,666,318**	**348,665**	**561,467**	**12,453,515**
Net income for the year	-	541,669	-	541,669
TOTAL AFTER NET INCOME FOR THE YEAR	**12,666,318**	**890,334**	**561,467**	**12,995,185**

The share capital comprises 493,630,374 shares of €5 par value each, compared with 472,576,666 shares of €5 par value each as of December 31, 2008.

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.

4.2 Provisions for contingencies and losses

Movements in provisions for contingencies and losses:

(In € thousands)	Opening balance	Charge	Utilized	Released	Closing balance
Provision for foreign exchange risk	103,382	124,765	103,382	-	124,765
Provisions for other contingencies (1)	6,935	3,837	6,935	-	3,837
Provisions for losses (2)	8,778	11,182	9,800	-	10,160
Total	**119,095**	**139,784**	**120,117**	**-**	**138,762**
Nature of additional provisions and releases:					
. Operating		11,182	9,800	-	
. Financial		128,602	110,317	-	
. Exceptional		-	-	-	
Total		**139,784**	**120,117**	**-**	

(1) Including a provision for unrealized losses on financial instruments (trading) of €3.8 million.

(2) Including a contingency provision in respect of corporate patronage tax credits for fiscal years 2005 and 2006 of €7.5 million.

4.3 Bond issues

(In € thousands)	**Opening balance**	**Increase**	**Decrease**	**Foreign exchange translation**	**Closing balance**
Other bonds	10,418,232	2,250,000	46,233	(3,726)	12,618,274
Accrued interest on other bonds	254,443	339,856	254,443	-	339,856
Total	**10,672,675**	**2,589,856**	**300,676**	**(3,726)**	**12,958,130**

The increase of €2,250 million breaks down as follows:

- a €1,250 million bond issue bearing fixed-rate interest, issued in April 2009 and maturing in April 2014,
- a €750 million bond issue bearing fixed-rate interest, issued in April 2009 and maturing in April 2019,
- a €250 million bond issue bearing fixed-rate interest, issued in June 2009 and maturing in April 2017,

The decrease of €46.2 million is mainly due to three redemptions: the first in March 2009 in the amount of USD 27 million (€22.2 million) and the second and third in April 2009 in the amounts of CZK 400 and CZK 260 million (€13.2 and €8.2 million).

4.4 Bank and other borrowings

Bank and other borrowings total €2,317.3 million and comprise the following main balances:

(in € thousands)	**2009**	**2008**
Syndicated loan arranged by Crédit Lyonnais	610,838	1,441,688
Current accounts with Veolia Eau (Compagnie Générale des Eaux)	345,631	485,854
Treasury note outstandings	302,018	922,800
Current account with Veolia North America	300,070	126,660
Current account with Dalkia Holding	134,350	307,415
Current accounts with Dalkia International	124,672	5,444
Loan from Veolia Energie (Dalkia)	113,305	166,724
Bank accounts in overdraft	113,065	13,022
Current accounts with Veolia Environnement Europe Service	84,966	-
Current account with Veolia Environnement Service RE	62,450	-
Current accounts with Exploitation Eau - Compagnie Générale des Eaux	45,630	-
Current account with Sense	28,949	17,350
Current accounts with Veolia Propreté	16,668	8,893
Current accounts with Veolia Transport	13,722	3,203
Tax group current accounts	6,554	12,230

4.5 Accrued expenses included in the following balance sheet headings:

(In € thousands)	**2009**	**2008**
Other bonds	339,856	254,443
Bank borrowings	3,852	16,234
Other borrowings	8,387	8,947
Trade payables and related accounts	86,990	74,362
Tax and employee-related liabilities	23,454	19,670
Other liabilities	15,629	4,011
Treasury instruments	13,797	11,492
Total	**491,965**	**389,160**

4.6 Tax and employee-related liabilities

Tax and employee-related liabilities total €82.4 million and mainly comprise VAT payable of €29.7 million, output VAT on sales of €16.7 million, VAT on purchase invoice accruals of €3.2 million, the provision for performance bonuses and related social security contributions of €16.5 million and amounts due to social welfare and tax organizations of €15.9 million.

4.7 Deferred income

Deferred income totals €120.8 million and mainly comprises balancing cash adjustments on derivatives of €119.5 million, interest received in advance on certificates of deposit of €0.4 million and bond issue premiums of €857 thousand.

NOTE 5 DEBT MATURITY ANALYSIS

(In € thousands)	**Amount**	**Falling due within one year**	**Falling due within more than one year**
Non-current assets:			
Loans to equity investments	6,901,314	30,965	6,870,349
Other long-term investment securities	51,155	29	51,126
Loans	271,175	250,333	20,842
Other long-term loans and investments	309,838	0	309,838
Current assets:			
Payments on account – inventories	402	402	0
Trade receivables and related accounts	206,764	206,764	0
Group and associates	960,532	960,532	0
Other receivables	232,020	201,868	30,152
Marketable securities (1)	4,163,167	4,150,659	12,508
Cash at bank and in hand	62,424	62,424	0
Prepayments	18,830	5,803	13,027
Total receivables	**13,177,621**	**5,869,779**	**7,307,842**

(1) including treasury instruments of €224,421,073.

(In € thousands)	**Amount**	**Falling due within one year**	**Falling due within one to five years**	**Falling due after five years**
Liabilities:				
Bonds	12,958,130	362,521	3,776,790	8,818,819
Other borrowings	913,420	532,516	380,904	-
Group and associates	1,177,467	1,177,467	-	-
Bank current accounts	113,065	113,065	-	-
Group loans	113,305	26,885	86,420	-
Miscellaneous liabilities	-	-	-	-
Other	852,738	748,165	43,906	60,667
Total liabilities	**16,128,125**	**2,960,619**	**4,288,020**	**8,879,486**

NOTE 6 INCOME STATEMENT

6.1 Net income from ordinary activities

The net income from ordinary activities before tax is €352.1 million.

Income:

Operating revenue is €422.5 million and mainly comprises:

- rebilled indemnities in full and final discharge of repair and maintenance work of €207.2 million,
- management fees received from subsidiaries of €95.6 million,
- brand fees of €33.3 million,
- miscellaneous rebillings of €25.3 million,
- capitalized production in respect of an IT project of €24.8 million,
- rebilled communication department expenses of €13 million,
- fees for the provision of employees of €12.7 million,
- reversals of operating provisions for contingencies and losses of €5.9 million,
- transferred operating expenses in respect of bond issue costs of €4.7 million.

In 2009, rebilled indemnities in full and final discharge of repair and maintenance work were transferred from "Net sales" to "Other income" in the amount of €189.6 million.

Financial income is €2,948.7 million and mainly comprises:

- foreign exchange gains of €1,471.4 million,
- dividends of €815.7 million,
- interest received on current accounts and advances to Group companies of €251.7 million,
- income mainly comprising interest on derivatives of €154.8 million,
- reversals of provisions for foreign exchange losses of €103.4 million,
- reversals of provisions for impairment of treasury shares of €46.1 million,
- proceeds from the sale of marketable securities of €20.5 million,
- investment interest of €18.5 million,
- balancing cash adjustment received on financial instruments of €13.3 million,
- reversals of provisions for impairment of equity investments of €16.5 million,
- amortization of premiums/discounts of €16.4 million,
- income on option premiums of €8.3 million,
- reversals of financial provisions for contingencies and losses of €6.9 million,
- financial income from the remuneration of guarantees of €5.2 million.

Expenses:

Operating expenses total €550.6 million and mainly comprise:

- indemnities paid in full and final discharge of repair and maintenance work of €211.4 million,
- administrative and management costs associated with the management of essential head office functions of €215.9 million,
- personnel costs (wages, salaries and social security contributions) of €103.2 million,
- taxes other than income tax of €6.2 million,
- charges to depreciation, amortization and provisions of €12.6 million.

In 2009, indemnities paid in full and final discharge of repair and maintenance work were transferred from "Other purchases and external charges" to "Other charges" in the amount of €200.1 million.

Financial expenses total €2,468.6 million and mainly comprise:

- interest on bond issues of €594.2 million,
- charges to provisions for impairment of equity investments of €202.3 thousand,
- foreign exchange losses of €1,414 million,
- charges to provisions for foreign exchange losses of €124.8 million,
- interest paid on other borrowings and treasury notes less interest received on related hedges of €55.8 million,
- premiums and discounts of €38.1 million,
- interest paid on subsidiary current accounts of €13.8 million,
- amortization of bond redemption premiums of €8.4 million,
- balancing cash adjustments paid/deferred expenses on financial instruments of €6.3 million,
- bank commission and expenses of €4.9 million,
- charges to other financial provisions of €4.5 million.

6.2 Exceptional items

Exceptional items represent a net expense of €2.5 million and mainly comprise the following items:

- a loss of €2.4 million on the sale of treasury shares,
- a reversal of a loss provision of €3.9 million,
- a charge to provisions for the loss of the corporate patronage tax credit of €3.8 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 2009 is reflected in the Veolia Environnement financial statements by a tax saving in respect of the subsidiaries of €184.7 million. The share of the group tax credit benefiting Veolia Environnement is €0.7 million in respect of 2009.

In addition, offsetting Group losses, a tax expense of €1.1 million concerns share capital increase costs deducted from corresponding additional paid-in capital and another additional tax expense of €2.7 million concerns withholding tax paid to the Australian State.

Finally, corrections to prior year tax expenses and tax audits had an impact of €13.9 million, and a loss of €3.5 million was recorded in respect of the corporate patronage tax credit.

6.4 Net income for the year

The net income for 2009 is €541.7 million.

NOTE 7 OTHER INFORMATION

7.1 Off-balance sheet commitments

Commitments given by Veolia Environnement, primarily financing and performance guarantees on behalf of subsidiaries, total €2,388.7 million as of December 31, 2009, including counter-guarantees (*in € thousands)*:

Commitments given	**Amount**
Discounted notes not yet matured	-
Endorsements and guarantees [1]	2,387,556
Equipment finance lease commitments	-
Real estate finance lease commitments	-
Pension obligations and related benefits [2]	1,133
Other commitments given	-
Total [2]	**2,388,689**
[3] of which commitments given to:	
- management – including the payments disclosed hereafter (see b)	(5,623)
- related entities	-

(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, 2009, drawn outstandings guaranteed by Veolia Environnement represented a euro equivalent of €211.6 million. Veolia Environnement also guarantees a group syndicated credit line of a maximum amount of USD 1.2 billion, covering the issue of letters of credit to U.S. subsidiaries for the purpose of their activities. As of December 31, 2009, total outstandings guaranteed by Veolia Environnement in respect of this credit line represented a euro equivalent of €544.1 million.

(2) Additional information on pension obligations and related benefits:

Obligations, net of hedge assets, are broken down in the following table (in € thousands):

Pension obligations pursuant to Article 14 of the Collective Bargaining Agreement	7,869	Rebilled partially to Group subsidiaries
Collective insurance contract in favor of Group executives	(1,113) [a]	
Insurance company contract in favor of Executive Committee members	(5,623)	
Total	**1,133**	

(a) Net of payments of €31.3 million in respect of fiscal years 2006 to 2009, including €3.5 million in respect of 2009.

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 to 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 has no longer any obligation to Veolia Environnement in this respect. Conversely, Société Générale was liable to the company in this respect for a maximum amount, equal to €17.6 million as of December 31, 2008, which had been called in full as of December 31, 2009. 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 2009, the company recognized in the accounts an amount of €11.6 million to be retroceded to Veolia Eau – Compagnie Générale des Eaux.

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, 2009, 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 € thousands)	**Asset**	**Liability**
Accrued interest on swaps	118,900	13,797
Interest rate option premiums	17,630	-
Currency derivatives	72,708	281,813
Equity derivatives	-	-
Premium/discount*	15,183	15,466
Prepaid expenses	16,876	-
Deferred income	-	119,532
Total	**241,297**	**430,608**

(*) 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 € thousands)	**Asset**	**Liability**
Interest rate derivatives	**379,015**	**47,539**
Hedging derivatives	378,542	44,033
Derivatives not qualifying for hedge accounting (trading)	473	3,506
Currency derivatives	**68,127**	**274,588**
Hedging derivatives	67,343	273,709
Derivatives not qualifying for hedge accounting (trading)	784	879
Total	**447,142**	**322,127**

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 € thousands)		**Foreign currency amount**	**€ equivalent**
Swaps hedging long-term debt			
Fixed-rate payer/floating-rate receiver swaps	EUR	503,625	503,625
Fixed-rate payer/floating-rate receiver swaps	CZK	6,000,000	226,646
Fixed-rate payer/floating-rate receiver swaps	GBP	0	0
Fixed-rate payer/floating-rate receiver swaps	USD	0	0
Fixed-rate payer/floating-rate receiver swaps	PLN	700,000	170,545
Floating-rate payer/fixed-rate receiver swaps	EUR	5,229,306	5,229,306
Floating-rate payer/fixed-rate receiver swaps	CZK	0	0
Floating-rate payer/fixed-rate receiver swaps	GBP	400,000	450,400
Floating-rate payer/fixed-rate receiver swaps	USD	1,354,200	940,025
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	0	0
Total			**7,520,546**
Caps hedging short-term debt			
Caps	USD	200,000	138,831
Trading caps			
Caps denominated in foreign currency	USD	200,000	138,831
Caps denominated in euro	EUR	930,000	930,000
Total			**1,207,662**

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 € thousands)	**Purchases**	**Sales**
Currency hedging instruments:		
Cross currency swaps:		
CNY	120,000	120,000
Total	**120,000**	**120,000**
Currency forwards:		
USD	819,984	510,447
GBP	1,152,160	722,408
PLN	235,261	234,727
CZK	283,435	105,046
AUD	76,181	232,311
CNY	16,367	16,367
Other currencies	550,265	1,953,473
Total	**3,133,653**	**3,774,779**

7.4 Average workforce

	Salaried employees	**Employees at the disposal of the company**
Executives	452	15
Supervisors and technicians	15	6
Administrative employees	14	-
Workers	-	-
Total	**481**	**21**

7.5 Executive compensation

Compensation granted to members of *(in euros)*	**Amount**
Management bodies	2,183,255

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, 2009 in respect of individual training entitlement represents 36,357 cumulative training hours. A training request has not yet been received in respect of 35,480 hours.

7.7 Deferred tax

Deferred tax liability *(in € thousands)*	**Amount**
Tax-driven provisions:	
Accelerated depreciation	222
Provisions for price increase	-
Provisions for exchange rate fluctuations	-
Other:	
Investment subsidy	-
Income temporarily non-taxable	-
Income deferred for accounting but not tax purposes	-
Unrealized foreign exchange losses	127,882
Total	**128,104**

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	146,442
Other:	
- Taxed income not recognized	106,060
- Difference between the NCA/tax value of treasury shares	71,179
- Amortization of option premiums	10,019
- Unrealized foreign exchange gains	59,681
Total	**393,381**
Tax losses carried forward	1,569,588
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 €631,744 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)	**2009**	**2008**
Equity investments net of provisions	15,814,006	15,803,837
Loans to equity investments	6,901,314	6,892,499
Other receivables	1,074,642	1,587,764
Trade receivables	187,270	181,037
Borrowings	1,290,772	1,262,728
Other liabilities	225,248	59,402
Operating revenue	370,331	366,982
Operating expenses	292,871	298,118
Financial income (1)	1,537,019	1,536,823
Financial expenses (1)	772,367	826,589
Exceptional income	24,903	22,068
Exceptional expenses	24,903	22,146

(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 2009 were as follows:

	N°7 2007	N°6 2006	N°5 2004	N°4 2003	N°3 2002
Grant date	07/17/2007	03/28/2006	12/24/2004	03/24/2003	01/28/2002
Number of options granted	2,490,400	4,044,900	3,341,600	5,192,635	4,413,000
Number of options not exercised	635,850	3,709,861	3,080,738	1,571,010	1,929,114
Plan term	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
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
Strike price (in euros)	57.05	44.03*	24.32*	22.14*	36.65*

* *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°3, n°4, n°5 and n°6 were €37.53, €22.50, €24.72 and €44.75 respectively*

7.11 Subsequent events

No material events likely to call into question the financial statements for the year ended December 31, 2009 took place between December 31, 2009 and the date of approval of the accounts.

7.12 Subsidiaries and equity investments

Investments:

Investments within the meaning of Article L. 233-7 of the French Commercial Code (crossing of investment thresholds laid down by law):

A table providing a breakdown of equity investments is presented at the end of the notes to the financial statements.

SUBSIDIARIES AND EQUITY INVESTMENTS

Company	Number of shares held	Share capital (2)	Share-holders' Equity other than Share capital (*) (2)	% share capital held	Carrying amount of shares held GROSS (2)	Carrying amount of shares held NET (2)	Loans and advances granted by the company (gross) (**) (2)	Guarantees Provided by the company (2)	2008 revenue (2)	2009 revenue (2)	2008 net income (2)	2009 net income (2)	Dividends recorded in the last fiscal year (2)	Year-end
Veolia Eau (Compagnie Générale des Eaux)[1], 52, rue d'Anjou, 75008 Paris	214,187,292	2,207,287	1,098,756	100.00%	8,300,000	8,300,000	2,649,632		3,579,509	3,685,617	219,088	464,884	381,253	Dec. 31, 2009
Veolia Energie (Dalkia)[1], 37, av. Mal. de Lattre de Tassigny, 59350 Saint-André-Lez-Lille cedex	42,069,294	968,869	522,985	66.00%	641,342	641,342	1,186,706		164,447	175,496	228,216	158,977	98,863	Dec. 31, 2009
Veolia Propreté[1]**,**, 163-169, av. G. Clémenceau, 92000 Nanterre	8,966,751	143,473	1,502,996	100.00%	1,929,892	1,929,892	2,678,610		667,364	489,941	(288,491)	61,353	140,061	Dec. 31, 2009
Veolia Transport [1] 163-169, av. G. Clémenceau, 92000 Nanterre	18,317,015	293,072	372,936	100.00%	1,055,993	691,000	892,758		285,771	149,701	48,355	(181,731)	0	Dec. 31, 2009
Proactiva Medio Ambiente SA, Torre Puerta de Europa, Paseo de la Castellana, Madrid	4,710	56,520	20,457	50.00%	119,733	63,601	0		48,735	18,884	5,804	5,194	1,012	Dec. 31, 2009
S.I.G. 41	2,493	38	(15)	99.72%	38	38	0		0	0	0	(2)	0	Dec. 31, 2009
V.I.G.I.E. 1	3,815	38	(19)	99.87%	38	38	0		0	0	(1)	(2)	0	Dec. 31, 2009
V.I.G.I.E. 2	3,815	38	(3,844)	99.87%	38	0	6,832		0	0	(2,585)	(163)	0	Dec. 31, 2009

Company	Number of shares held	Share capital (2)	Share-holders' Equity other than Share capital (*) (2)	% share capital held	Carrying amount of shares held		Loans and advances granted by the company (gross) (**) (2)	Guarantees Provided by the company (2)	2008 revenue (2)	2009 revenue (2)	2008 net income (2)	2009 net income (2)	Dividends recorded in the last fiscal year (2)	Year-end
					GROSS (2)	NET (2)								
V.I.G.I.E. 3	41,829	251	1,187	100.00%	266	266	29		0	1	69	1,082	0	Dec. 31, 2009
Veolia Environnement Service RE	1,100,000	11,000	(993)	100.00%	11,000	11,000	0		6,785	35,157	3,921	(8,963)	**0**	Dec. 31, 2009
Veolia PPP Finance (formerly V.I.G.I.E 9)	3,500,341	35,003	(1,164)	99.89%	35,003	35,003	15,842		0	479	(695)	(369)	0	Dec. 31, 2009
VE Informations et Technologies (formerly V.I.G.I.E 10 AS)	1,919,478	11,517	(13,827)	100.00%	11,532	11,517	104,979		28,439	35,849	26	(13,853)	0	Dec. 31, 2009
CAMPUS VEOLIA ENVIRONNEMENT	2,395,200	26,130	(5,632)	91.66%	23,952	19,752	27,218		33,833	26,921	(277)	(4,630)	0	Dec. 31, 2009
V.I.G.I.E. 14 AS	3,700	706	(1,409)	100.00%	1,123	0	698		21	18	(636)	(193)	0	Dec. 31, 2009
V.I.G.I.E. 15 AS	3,700	37	(9,516)	100.00%	37	37	8,688		1,522	0	(514)	(8,872)	0	Dec. 31, 2009
G.I.E. GECIR	5	0	0	5.00%	35	35	0		17,888	19,447	506	779	0	Dec. 31, 2009
Veolia North America Operations (3)	240	2	(84,636)	10.21%	872,992	872,992	0		0	0	57	105,207	58,804	Dec. 31, 2009
C.A.E.	22,500	250	51	90.00%	225	225	6,000		13,746	14,244	26	15	0	Dec. 31, 2009
CODEVE	3,000,000	3,000	34,315	100.00%	38,000	38,000	0		27,500	22,167	1,290	(3,854)	0	Dec. 31, 2009
VEOLIA ENVIRONNEMENT INDUSTRIE	33,334	500	1,655	100.00%	1,113	1,113	18,493		3,710	4,152	762	68	0	Dec. 31, 2009

Company	Number of shares held	Share capital (2)	Share-holders' Equity other than Share capital (*) (2)	% share capital held	Carrying amount of shares held GROSS (2)	Carrying amount of shares held NET (2)	Loans and advances granted by the company (gross) (**) (2)	Guarantees Provided by the company (2)	2008 revenue (2)	2009 revenue (2)	2008 net income (2)	2009 net income (2)	Dividends recorded in the last fiscal year (2)	Year-end
ARTELIA Portugal	9,996	50	(465)	99.96%	50	50	65,391		0	1,435	(101)	(363)	0	Dec. 31, 2009
SASLT 65	60,000	1,545	(1,710)	19.41%	300	0	0		3,213	3,765	(346)	(801)	0	June 30, 2009
EOLFI	102,331	14,808	77,697	69.11%	80,143	80,143	0		2,531	3,465	(4,450)	(5,443)	0	Dec. 31, 2009
VEOLIA ENVIRONNEMENT COMPETITION (formerly-V.I.G.I.E. 17 AS)	3,700	37	(113)	100.00%	37	0	1,538		857	839	(36)	(79)	0	Dec. 31, 2009
VEOLIA ENERGIE (formerly-V.I.G.I.E. 20 AS)	13,703,700	137,037	2,181	100.00%	137,037	137,037	0		5	2,148	(7)	2,140	0	Dec. 31, 2009
VEES	31,500,999	3,150,100	3,044,562	100.00%	3,150,100	3,150,100	0		0	2,122	121,805	67,429	115,710	Dec. 31, 2009
DEER GREEN POWER	294	6	2,681	48.92%	4,801	1,900	0		639	5,522	(2,152)	(1,880)	0	Dec. 31, 2009
VIGIE 23 AS	3,700	37	(1)	100.00%	37	37	0		0	0	0	(1)	0	Dec. 31, 2009
VIGIE 28 AS	3,700	37	(2)	100.00%	37	37	0		0	0	(1)	(1)	0	Dec. 31, 2009
VIGIE 29 AS	3,700	37	(2)	100.00%	37	37	0		0	0	(1)	(1)	0	Dec. 31, 2009
VIGIE 30 AS	3,700	37	(2)	100.00%	37	37	0		0	0	(1)	(1)	0	Dec. 31, 2009
VIGIE 32 AS	3,700	37	(2)	100.00%	37	37	0		0	0	(1)	(1)	0	Dec. 31, 2009

Company	Number of shares held	Share capital (2)	Share-holders' Equity other than Share capital (*) (2)	% share capital held	Carrying amount of shares held GROSS (2)	Carrying amount of shares held NET (2)	Loans and advances granted by the company (gross) (**) (2)	Guarantees Provided by the company (2)	2008 revenue (2)	2009 revenue (2)	2008 net income (2)	2009 net income (2)	Dividends recorded in the last fiscal year (2)	Year-end
VIGIE 33 AS	3,700	37	(2)	100.00%	37	37	0		0	0	(1)	(1)	0	Dec. 31, 2009
VIGIE 34 AS	3,700	37	(2)	100.00%	37	37	0		0	0	(1)	(1)	0	Dec. 31, 2009
Other subsidiaries and equity investments (less than 1% of share capital)														
Veolia Environnement UK(1)	865,733	663,797	26,485	0.15%	1,387	1,387	0		37,385	414,788	36,696	412,291	0	Dec. 31, 2009
VIGEO	1,300	17,495	(9,137)	0.73%	130	62	0		5,490		(1,360)			Dec. 31, 2009
VE EST	1	2,100	1,520	-	0.01	0.01	0		0	0	(3)	1,586	0	Dec. 31, 2009
VESTALIA (formerly V.I.G.I.E. 16 AS)	1	37	3,590	-	0.01	0.01	0		107,802	83,898	1,175	919	0	Dec. 31, 2009
CLIG2				-					-		-			Dec. 31, 2009
CLIG3				0.04%					-		-			Dec. 31, 2009
SLOVEO	1	33	1,504	1.00%	0.3	0.3			11,694	11,514	384	372		Dec. 31, 2009

(*) 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 € thousands.

(3) The main activity of this company consists in being the head company of the US consolidated tax group.

AUDITORS’ REPORT ON THE STATUTORY FINANCIAL STATEMENTS

Year ended December 31, 2009

This is a free translation into English of the auditors' report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit 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 balances, transactions or disclosures.

This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended December 31, 2009, on:

- the audit of the accompanying financial statements of Veolia Environnement;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. 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, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit 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 assets and liabilities and of the financial position of the Company as at December 31, 2009 and of the results of its operations for the year then ended in accordance with French accounting principles.

Without qualifying our opinion, we draw your attention to the matter set out in Note 2.2 Main accounting policies to the financial statements regarding the change in accounting policy of the presentation of indemnities received in full and final discharge of repair and maintenance work and compensation paid in respect of repair and maintenance work.

2. Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code ("Code de commerce") relating to the justification of our assessments, we bring to your attention the following matters:

As mentioned in note 2.2 to the financial statements in respect of the accounting principles for financial investments, your company recognizes provisions for impairment when the net carrying amount of a financial investment exceeds its value in use. The value in use for the investment is determined 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 review, 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 the opinion we formed which is expressed in the first part of this report.

3. Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L.225-102-1 of the French Commercial Code ("Code de commerce") relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders has been properly disclosed in the management report.

The Auditors

French original signed by

Paris La Défense et Neuilly-sur-Seine, March 30, 2010

KPMG Audit		**ERNST & YOUNG et Autres**	
A division of KPMG S.A.			
Jay Nirsimloo	Baudouin Griton	Pierre Hurstel	Nicolas Pfeuty

Parent Company results over the past five years

(in thousands of euros)	**2009**	**2008**	**2007**	**2006**	**2005**
Capital at the end of the financial year:					
Shareholders' equity	2,468,152	2,362,883	2,358,814	2,063,133	2,039,363
Number of shares issued	493,630,374	472,576,666	471,762,756	412,626,550	407,872,606
Financial year transactions and results:					
Operating revenue	422,532	384,331	356,655	337,591	305,841
Income before tax, amortization and provisions	523,449	310,813	427,594	231,828	24,732
Company tax	(192,089)	(186,923)	(165,504)	(236,792)	(228,473)
Income after tax, amortization and provisions	541,669	152,854	491,255	414,945	388,429
Amount of distributed income	579,468 [(a)]	553,692	553,460	419,702	336,341
Income per share *(in euros):*					
Income after tax, before amortization and provisions	1.45	1.05	1.26	1.14	0.62
Income after tax, amortization and provisions	1.1	0.32	1.04	1.01	0.95
Dividend allocated to each share	1.21	1.21	1.21	1.05	0.85
Personnel:					
Number of employees (annual average)	481	416	337	304	231
Total payroll	61,604	53,415	43,217	39,173	32,135
Amount of sums paid as welfare benefits (Social Security, benevolent works, etc.)	41,632	26,354	20,430	15,549	13,704

(a) As of December 31, 2009, the share capital comprises 493,630,374 shares, including 14,731,592 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.

Supplier Payables Aging

The total of supplier payables at the end of the period breaks down as follows (in thousands of euros):

(in thousands of euros)	**2009**
Supplier Payables	**9 198**
Breakdown of invoices by due date	
• Invoices not yet due:	8 029
• Invoices payable:	
Up to 30 days	440
Between 30 and 60 days	379
Over 60 days	350

All of the invoices not yet due have payment terms equal to 45 days or less, end of month. Moreover, in compliance with the "LME law", Veolia Environnement complies with new obligations regarding payment terms.

20.3 DIVIDEND POLICY

20.3.1 Dividends paid during the last five fiscal years

(in euros)	**2004 dividend**	**2005 dividend**	**2006 dividend**	**2007 dividend**	**2008 dividend**
Gross Dividend Per Share	0.68	0.85	1.05	1.21	1.21
Net Dividend Per Share	*0.68	**0.85	**1.05	**1.21	**1.21
Tax Credit	n/a	n/a	n/a	n/a	n/a
Amount of Dividends Paid (without tax credit)	**265 417 221**	**336 340 679**	**419 701 966**	**553 459 872**	**553 824 460**

n/a: not applicable

** Individual shareholders are eligible for a 50% tax reduction on such dividends.*

*** Individual shareholders are eligible for a 40% tax reduction on such dividends (or, on options, a flat withholding tax for the dividend distributed in 2008 for the 2007 fiscal year and for the dividend distributed in 2009 for the 2008 fiscal year).*

A dividend payment of €1.21 per share for each of the Company's outstanding shares carrying dividend rights as of January 1, 2009 was approved at the combined general shareholders' meeting of May 7, 2009. The right to this dividend was detached from the share on May 13, 2009 (ex-dividend date) and was paid as of June 8, 2009 based on the Company's shareholding records at the close of business on May 12, 2009 (record date).

As of December 31, 2008, the Company's capital was composed of 472,576,666 shares, including 14,980,034 treasury shares. The total distribution amount was adjusted based on the total number of new shares created following the exercise of share subscription and purchase options and the number of treasury shares held by Veolia Environnement on the date of payment. Treasury shares do not enjoy dividend rights.

Pursuant to the fifth resolution adopted by the combined general shareholders' meeting held on May 7, 2009, which offered shareholders an option to receive payment of the dividend for the 2008 fiscal year either in cash, in accordance with the terms described above, or in Veolia Environnement shares, the Board of Directors on that same date sub-delegated to the Chairman and Chief Executive Officer all powers to pay the dividend in shares and to carry out the capital increase ensuing from exercise of that option. The option period during which shareholders could choose between a payment of the dividend in cash or shares lasted from May 13 to May 28, 2009 inclusive.

At the end of this option period and on the basis of a depositary's certificate issued by Société Générale, the Chairman and Chief Executive Office certified on June 4, 2009 that a capital increase for cash for a total amount of €322,993,629 had been carried out. This resulted in the issuance of 20,111,683 new shares with a par value of €5 each, thereby increasing the Company's stated capital by €100,558,415 (58.48% of coupons exercised the option in favor of payment in shares).

In light of the reliability of future cash flows and the strengthening of the Company's financial position, it will be proposed that the general shareholders' meeting of May 7, 2010 vote to retain the distribution of a dividend of €1.21 per share for 2009, payable in cash or Veolia Environnement shares. If the shareholders' meeting approves this proposal and if this option is exercised, these new shares will be issued at a price equal to 90% of the average opening price on the Euronext Paris regulated market during the 20 trading days prior to the general shareholders meeting of May 7, 2010, less the amount of the dividend that may be approved pursuant to the fourth resolution voted by the combined general shareholders' meeting, rounded to the next lowest euro cent. The shares issued will carry dividend rights as of January 1, 2010.

Shareholders may opt for the payment of the dividend in cash or in new shares between May 14, 2010 and May 31, 2010 inclusive, by sending their request to the financial intermediaries authorized to pay the dividend or, in the case of shareholders registered in pure registered accounts held by the Company, to its agent (Société Générale, Securities and Stock Transactions Department, 32 Rue du Champ-de-Tir, B.P. 81236, Nantes Cedex 3). When this option period expires, shareholders who have not opted for payment in shares will receive a dividend in cash as of June 9, 2010. On that same date, shares will be delivered to shareholders who have opted for the payment of the dividend in shares.

For individual shareholders who are French tax residents, dividends, whether paid in cash or in shares, are automatically included in total income, which is taxed on a progressive scale. They qualify for both an unlimited 40% reduction of the gross amount thereof and for a fixed annual reduction (€1,525 for single taxpayers and €3,050 for married couples). Dividends also qualify for a tax credit equal to 50% of their gross amount (i.e., before applying the aforementioned reductions), the annual amount of which is limited (€115 for single taxpayers 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 withholding tax on the gross amount of dividends, without deduction of any applicable charges or expenses or any reduction (Article 117 *quater* of the General Tax Code). The applicable base rate is 18%, which represents an overall tax rate of 30.1% when social security contributions are included. This option must be exercised by the taxpayer with the paying establishment prior to the payment of dividends and is irrevocable. If the option has been exercised at least once during a given year, dividends received by the taxpayer during such year (i.e., 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 taxpayers' responsibility to evaluate, with the help of their own tax advisers, their interest in opting for this flat withholding tax given their particular circumstances.

Since January 1, 2008, the social security contributions required to be paid on dividends distributed to shareholders have been withheld 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, such as the Company's net income and financial position, 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 government.

20.4 LITIGATION

The most significant litigation involving the Company or its subsidiaries is described below. In addition, tax audits and disputes are described in notes 35 and 42 to the consolidated financial statements (see Chapter 20.1 above).

Other than as described below, there are no other current or threatened legal, governmental or arbitration proceedings involving the Company or its subsidiaries which during the past twelve months have had or may in the future have a material adverse effect on the financial condition or profitability of the Company or the Group.

The consolidated total amount that Veolia Environnement has booked as reserves for all litigation (see Chapter 20, § 20.1, note 16 to the consolidated financial statements), including reserves for labor and tax claims, includes a large number of disputes involving individual amounts that are not significant. These reserves include all losses deemed probable in connection with all types of litigation likely to arise in the conduct of Veolia Environnement's business. The largest individual reserve booked for litigation, other than tax and labor disputes, in our financial statements as of December 31, 2009 was €17.2 million.

Veolia Eau – Compagnie Générale des Eaux

On February 27, 2001, the French Competition Council (*Conseil de la Concurrence*) served Compagnie Générale des Eaux with a complaint alleging that several joint subsidiaries it had formed with other companies in the drinking water and water treatment sectors affected the level of competition in the market. On July 11, 2002, the Council rejected the allegations of anticompetitive collusion among these water services companies and refused to either impose monetary sanctions or issue an injunction against these companies. However, the Council found that the joint subsidiaries constituted a "collective dominant position" in the market and left it to the French Minister of the Economy, Finance and Industry to take any necessary measures to modify, complete or terminate this pooling arrangement between the companies and their joint subsidiaries. Compagnie Générale des Eaux challenged this decision, first before the Paris Court of Appeals, which affirmed the Council's decision. However, in a decision dated July 12, 2004, the commercial, financial and economic chamber of the French Supreme Court (*Cour de Cassation*) overturned the Paris Court of Appeals' decision, holding that only the administrative courts had jurisdiction over the matter. Thereafter, Compagnie Générale des Eaux brought the matter before the Conseil d'Etat (the French supreme court in administrative matters), which in a decision dated November 7, 2005 held that the complaint was inadmissible because the Council's decision was only an act preliminary to the Minister's decision. 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 for the unwinding of operations over a twelve-month period, subject to review by the relevant European competition authorities. In a decision dated July 30, 2009, the European Commission, which had been given notice of the proposed concentration whereby Veolia Eau-Compagnie Générale des Eaux would acquire exclusive control of three of the joint companies at issue, announced that it did not oppose this transaction and found that it was compatible with the common market and the EEA agreement, without any conditions or charges. The European Commission rendered a similar decision in favor of Lyonnaise des Eaux France regarding the companies allocated to it. The unwinding operations, which continued pursuant to the agreement of December 19, 2008, as completed by two contractual amendments, the most recent of which was signed on February 3, 2010, and after approval of the European Commission, which had been given notice once again due to a change in the scope of the business of the companies allocated to Lyonnaise des Eaux pursuant to the most recent amendment, were completed on March 22, 2010.

On February 15, 2006, Aquatraitements Energies Services (AES) brought a complaint before the Paris Commercial Court against two of Veolia Eau's subsidiaries (Veolia Water and Seureca Overseas). AES is seeking €150 million in damages from Veolia Water and Seureca Overseas, claiming that it lost potential consulting fees following Veolia Water's decision not to participate in a call for bids initiated 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 any contract awarded to 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 and that they considered had nullified their consent at the time the contracts were signed. On June 28, 2006, Veolia Water and Seureca Overseas filed a defense brief requesting that all of AES's claims before the Commercial Court be denied. AES filed a responsive brief before the Commercial Court in which, in light of the arguments made by Veolia Water and Seureca Overseas in their brief of June 28, 2006, AES reduced its claim for damages to €15 million. After several more briefs were exchanged between the parties, on April 7, 2009, AES made an additional claim for compensation for an amount between €25 million and €50 million for commissions it alleged were owed to it as a result of various transactions completed by the Group in the region. After several procedural hearings, the matter was postponed to October 6, 2009, and then to December 1, 2009, to enable the Company to respond to these most recent claims of AES. However, on December 3, 2009, all parties signed a settlement agreement providing for dismissal of the case. As a result, this matter has been removed from the Commercial Court's docket and has been concluded without a significant impact on the Company's financial position.

Since 2008, Aquiris, a 99% subsidiary of the Company, holds a concession pursuant to which it is responsible for operating the Brussels-North wastewater treatment plant. As a result of extensive obstruction of the plant's security chambers following the arrival of abnormal and extraordinary quantities of rubble and other solid waste through the public sewer lines, Aquiris decided to halt operation of the plant from December 8 to December 19, 2009 due to significant safety risks to persons and to the plant. This stoppage permitted a partial return to normal, but has resulted in several disputes regarding liability for the disruption and the possible environmental consequences of the halt in wastewater treatment services. At this point, the Company believes that these disputes will not have a significant impact on its financial position.

WASCO and Aqua Alliance Inc.

Several current and former indirect subsidiaries of Veolia Eau in the United States[1] are defendants in lawsuits in the United States in which the plaintiffs seek recovery for personal injuries and other damages allegedly due to exposure to asbestos, silica and other potentially hazardous substances. With respect to the lawsuits against Veolia Eau's former subsidiaries, certain of Veolia Eau's current subsidiaries retain liability and in certain cases manage the defense of the lawsuits. In addition, in certain instances, Veolia Eau or Veolia Environnement has agreed to hold harmless the buyers of Veolia Eau's former subsidiaries in respect of these lawsuits. These lawsuits typically allege that the plaintiffs' injuries resulted from the use of products manufactured or sold by Veolia Eau's current or former subsidiaries or their predecessors. There are generally numerous other defendants in addition to Veolia Eau's current or former subsidiaries, which are accused of having contributed to the injuries alleged. Reserves have been booked for the possible liability of current subsidiaries in these cases, based *inter alia* on the nexus between the injuries claimed and the products manufactured or sold by these 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 booked at the time such liability becomes probable and can be assessed reasonably, and do not include reserves for possible liability in lawsuits that have not been initiated.

As of the date this reference document was filed, a number of such claims have been resolved either through settlement or dismissal. To date, none of the claims has resulted in a finding of liability.

During the five-year period ended December 31, 2009, the average annual costs that the Company has incurred in relation with these claims, including amounts paid to plaintiffs, legal fees and case expenses, have been approximately US$1.9 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 position or operating results.

Veolia Water North America Operating Services

In 2002, Veolia Water North America Operating Services (VWNAOS), a subsidiary of the Company, entered into a ten-year contract with the city of Atlanta, representing annual revenues of about 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 completion of plant renovation work. 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 for services provided. At this time, VWNAOS estimates its damages to be at least US$25 million, subject to adjustments during the course of the proceedings. On July 10, 2006, the city of Atlanta unilaterally cancelled the contract and, in turn, brought an action against VWNAOS, alleging VWNAOS's failure to fulfill certain of its obligations during the performance of the contract. The city is seeking compensation of approximately US$35 million from 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, in orders issued on December 8, 2008 and September 24, 2009, the court partially

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[1] *Subsidiaries of the Aqua Alliance group or of WASCO (formerly Water Applications & Systems Corporation and United States Filter Corporation), the parent company of the former U.S. Filter group, most of whose businesses were sold to various buyers in 2003 and 2004.*

denied VWNAOS's claims and scheduled a hearing on all remaining claims for June 2010. Because the court has denied VWNAOS's claim on the grounds of the city's wrongful termination of the contract, the amount of VWNAOS's claim has been reduced accordingly. Taking this adjustment into account, the Company believes that this matter will not have a significant impact on its financial position.

In April 2008, two subsidiaries of the Company, Veolia Water North America Operating Services and Veolia Water Indianapolis, LLC (VWI), were named as defendants in two potential class actions filed before the Indiana state courts, which have since been consolidated. The plaintiffs allege that the meter-reading practices used by VWI for Indianapolis customers were inconsistent with VWI's contract with the local authorities and with Indiana consumer protection law. The plaintiffs claim that VWI billed customers on the basis of estimates of water usage, rather than actual usage, more frequently than the contract permitted, resulting in overbilling that, although later credited to the customers, deprived the customers of their money for a period of time. The plaintiffs also contend that the methods applied by VWI to estimate water consumption were inappropriate and violated applicable laws. The plaintiffs are seeking certification of a class of similarly situated residential water customers. VWI believes that its billing and meter reading practices complied with its contract and with 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 a motion to dismiss filed by Veolia Water North America Operating Services and VWI, but granted the plaintiffs leave to refile their complaint. On January 23, 2009, the plaintiffs filed an amended complaint against Veolia Water North America Operating Services and VWI, and also named the water department of the city of Indianapolis as a defendant. All defendants have requested that the amended complaint be dismissed. However, the date of the hearing to rule on these complaints has been deferred to give the parties the opportunity to attempt mediation, which is scheduled to begin on March 17, 2010. Although the preliminary stage of these proceedings makes it impossible to estimate its potential financial consequences, the Company believes that these lawsuits will not significantly affect its financial position or results.

Veolia Transport

In 1998, the DGCCRF (a French administrative body with jurisdiction over competition matters) conducted an inspection and seized evidence on the premises of the Company's transportation subsidiary Connex (now Veolia Transport) and other companies in the public transportation market, for the purpose of obtaining proof relating to possible anti-competitive practices in this market. In September 2003, the French Competition Council served notice of two grievances on Veolia Transport alleging possible collusion among operators between 1994 and 1999 which may have limited competition at the local and national level in the public passenger transportation market for urban, inter-urban and school services. In September 2004, the Competition Council served Veolia Transport with additional grievances alleging the existence of an anticompetitive agreement at the European Union level. On July 5, 2005, the Competition Council issued a decision in which it partially validated the claims of the competition authorities, and ordered Veolia Transport to pay a fine of approximately €5 million, which the Company paid. The Paris Court of Appeals affirmed the decision of the Competition Council on February 7, 2006 and on March 7, 2006, Veolia Transport filed an appeal with the French Supreme Court. The French Supreme Court found in favor of certain arguments made by Veolia Transport and, in its decision dated October 9, 2007, reversed the decision of the Court of Appeals of Paris and remanded the case to a different panel of the same court. On October 8, 2009, Veolia Transport brought the case before this new appellate court. Oral argument is scheduled for April 2010.

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 (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 (NTSB), a federal and California State agency, with which Connex Railroad is cooperating, reached a preliminary conclusion that the two causes of the accident were, first, lack of attention by the engineer, who did not observe a red light and, second, the fact that the SCRRA had not installed an automatic train braking system in compliance with prior recommendations of the NTSB. Actions seeking an undetermined amount of total damages have been filed by the heirs of the deceased passengers and the majority of injured passengers, in the courts of the state of California in Los Angeles, against Connex Railroad LLC, its parent company, Veolia Transportation LLC, the SCRRA and the Los Angeles County Metropolitan Transportation Authority. These actions have been consolidated into a single case. A hearing specifically dedicated to the issue of liability is scheduled for November 2010. At the same time, Connex Railroad LLC and the SCRRA have brought before the federal courts in California their disputes concerning their respective contractual liability in connection with the suits filed as a result of this accident and are still awaiting a hearing date. A U.S. federal statute limits the total amount of damages that may be awarded to passengers for injuries and property damage arising from a single accident to U.S.$200 million. Notice of this accident has been given to the relevant insurers of the Group. At this point, the Group is unable to determine whether the financial consequences of this accident could significantly affect its financial position or results.

Société Nationale Maritime Corse Méditerranée (SNCM)

On September 19, 2006, Compagnie Méridionale de Navigation (CMN) and Corsica Ferries filed a complaint before the French Competition Council alleging anti-competitive practices by SNCM, a subsidiary of Veolia Transport, the Corsican Regional Authority and the Corsican Transportation Bureau for the purpose of restricting or eliminating competition during a call for bids initiated to delegate the Marseille-Corsica public transportation service. On December 11, 2006, the Competition Council dismissed the claim that a cartel existed between the Corsican Regional Authority, the Corsican Transportation Bureau and SNCM, and denied the claims of excessive subsidies and cross-subsidies asserted by Corsica Ferries. However, the Competition Council found that the overall indivisible offer of SNCM was likely to constitute an abuse of dominant position. Although it relates to a call for bids that was invalidated 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 appealed this decision and on January 12, 2010 the matter was argued before the Paris Court of Appeal. The court's decision is scheduled to be rendered in March 2010.

In a second case brought before the Competition Council after a second call for bids procedure was initiated following the decision of the Conseil d'Etat, Corsica Ferries contended that SNCM and CMN had formed an unjustified grouping that constituted an anti-competitive cartel, that this grouping constituted an abuse of a dominant position and, lastly, that presenting a bid requesting excessive subsides, suggesting the existence of cross-subsidies, constituted an abuse of a dominant position. On April 6, 2007, the Competition Council dismissed the two claims concerning the grouping. Proceedings on the merits and the investigation of the French Competition Authority (formerly, the Competition Council) on the claim of excessive subsidies are underway. The investigation is also focusing on the performance terms of this agreement delegating a public service (monitoring the application of the guaranteed receipts clause and the corresponding changes in the amount of subsidies received by the parties being awarded the contract). As of this date, no complaint has been served.

In addition, Corsica Ferries brought suit before the administrative courts, which ended in a decision by the Conseil d'Etat in December 2006 and a second call for bids procedure. Following a new complaint of Corsica Ferries with respect to this second bid procedure, its request for the invalidation of the decision of June 7, 2007 awarding the contract for marine service to Corsica to the SNCM/CMN group for the 2007-2013 period was denied by a judgment of the Bastia administrative court on January 24, 2008. Corsica Ferries appealed this decision to the Marseille administrative court of appeal. The case may be heard in 2010.

Lastly, Veolia Transport's acquisition of an interest in SNCM was conditioned on the European Commission approving the privatization provisions concerning state assistance. The French government was responsible for this procedure in Brussels and filed briefs on November 16, 2006 and April 27, 2007. The European Commission ruled on July 8, 2008 that the amounts paid by the French government in connection with the privatization process did not constitute state assistance. Corsica Ferries and the STIM d'Orbigny (Stef Tfe group) have each appealed the Commission's decision before the European Court of First Instance. On July 1, 2009, the French government and SNCM were granted leave to intervene in support of the conclusions of the Commission, which raised the defense that the appeal of STIM d'Orbigny was inadmissible. SNCM filed its brief on September 28, 2009, to which Corsica Ferries replied on November 26, 2009.

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 subsidiary of Veolia Propreté, filed a claim with the administrative court of the region of Calabria in Italy for the payment of subsidies in an updated amount of €26.9 million, allegedly owed under a concession agreement entered into on October 17, 2000 with the region of Calabria. 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 arbitration tribunal against the Extraordinary Commissioner of Calabria seeking reimbursement of €62.2 million for various additional operating fees and costs incurred since 2005 and claiming 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 counterclaim 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 booked any provisions for this dispute.

In addition, VSAT has been accused of manipulating the software that monitors carbon monoxide emissions in its 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 initiate negotiations with the Italian company Termomeccanica Ecologia S.p.a. pursuant to the seller's guarantee granted by Termomeccanica Ecologia S.p.a. in the agreement pursuant to which VSAT was sold to Veolia Propreté in 2007. In light of the repeated refusal of Termomeccanica Ecologia S.p.a. to compensate VSAT pursuant to its guarantee, on May 19, 2009, Veolia Propreté and Veolia Servizi Ambientali S.p.a., the parent companies of VSAT, filed a request for arbitration with the International Chamber of Commerce (ICC). The arbitration tribunal was formed in August 2009 and has set a schedule calling for a hearing in December 2010 and an award in June 2011 at the earliest.

At this point, the Company is not in a position to predict whether the outcome of these actions will have a significant impact on its financial position or results.

Veolia Énergie - Dalkia

On September 3, 1970, a concession agreement was concluded between Prodith, a subsidiary of Dalkia France, and the Lyon metropolitan authority (*Communauté Urbaine de Lyon*) which called for the construction and operation, for an initial 30-year period, of a public heating and cooling system service on behalf of the Lyon metropolitan authority. Following the decision of the Lyon metropolitan authority to terminate the agreement early on January 21, 2003 and the disagreement between the parties concerning the compensation owed to Prodith, Prodith brought an action before the Lyon administrative court seeking a judgment ordering the Lyon metropolitan authority to pay it €47.8 million.

In a judgment issued on May 16, 2007, the Lyon administrative court denied Prodith's claims for compensation on the grounds that the concession agreement and the amendments thereto were void because the Lyon metropolitan authority lacked the power to sign the agreement in 1970. Prodith appealed that judgment.

In a decision dated October 22, 2009, the Lyon administrative court of appeal reversed the judgment of the administrative court but nevertheless held that the agreement was void due to the Lyon metropolitan authority's lack of power to sign it and, on those grounds, found that the Lyon metropolitan authority was not contractually liable. With regard to the consequences of this invalidity, the Court denied Prodith's claims for compensation on the non-contractual grounds that the company had not proved that it had been impoverished because it had generated profits during the performance of the agreement, and it denied Prodith's claim for lost profits on the grounds that the agreement had been performed for its full term. However, the Court confirmed Prodith's property rights to the land on which the Lafayette thermal power plant is located. On December 22, 2009, the company appealed the decision of October 22, 2009 to the Conseil d'Etat.

After the agreement with Prodith was terminated, the Lyon metropolitan authority initiated a competitive bid procedure to award the contract for providing a public heating and cooling system service. At the conclusion of this procedure, the contract was awarded to Dalkia France, which was replaced by its subsidiary, Elvya. That contract was signed on July 23, 2004.

In a judgment dated December 15, 2005, the Lyon administrative court invalidated the decision empowering the president of the Lyon metropolitan authority to sign the agreement with Dalkia France on the grounds that there had been no prior consultation of the Lyon metropolitan authority's joint committee (*comité mixte paritaire*) and that the principle requiring bidders to be treated equally had been breached as a result of a late change in the bid package. The court held that the nature of the defects affecting the decision to sign the agreement delegating this public service necessarily invalidated the agreement. In a decision dated February 8, 2007, the Lyon administrative court of appeal affirmed this judgment and gave the parties a period of 18 months to attempt to rescind the agreement in an amicable manner.

Because no amicable resolution proved possible, on June 25, 2007, the Lyon metropolitan authority brought an action before the Lyon administrative court requesting a rescission of the agreement and a finding on compensation. Elvya claimed compensation in the amount of €68.8 million. In a judgment dated October 22, 2009, the court rescinded the agreement and held that, on the grounds of the metropolitan authority's tortious conduct, Elvya was entitled to be compensated for its necessary expenditures, the amount of which was to be determined by a panel of experts. The court also held that the tortious liability of the Lyon metropolitan authority would be reduced by 50% on the grounds that Dalkia France could not have been unaware of the irregularities in the competitive bid procedure.

At this point, the Company considers that these disputes should not have a significant impact on its financial position or results.

20.5 MATERIAL CHANGES IN FINANCIAL POSITION OR COMMERCIAL SITUATION

There has been no material change in the financial position or commercial situation of the Company since the close of its 2009 fiscal year. The events or circumstances that could reasonably be expected to have a material effect on the Company's outlook for the current fiscal year are described in Chapter 6 and Chapter 9 above and were communicated by the Company during the presentation of its 2009 annual results on March 5, 2010.

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, 2009, Veolia Environnement’s share capital amounted to €2,467,996,815 divided into 493,599,363 shares.

As of the filing date of this reference document, the company’s share capital was €2,468,151,870 divided into 493,630,374 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 below)[1].

21.1.2 Market for the Company's securities

The Company’s shares were admitted to trading on the Euronext Paris market (Compartment A) on 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 eighteen months.

[1] *On March 5, 2010, 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. Following the issue of 31,011 shares representing a nominal amount of €155,055, the Company's capital was raised from €2,467,996,815 to €2,468,151,870 divided into 493,630,374 shares (cf. §18.2 above).*

Euronext Paris

Year (month/quarter)	Price (in euros)		Volume of securities traded
2010	**Highest**	**Lowest**	
February	24.98	22.81	36,702,154
January	25.90	23.16	43,409,186
2009			
Fourth quarter	26.67	21.65	117,606,999
December	23.30	21.94	30,981,155
November	23.50	21.65	35,554,795
October	26.67	22.02	51,071,049
Third quarter	27.10	20.015	115,250,414
September	27.10	23.32	40,528,805
August	25.12	21.92	40,279,166
July	24.495	20.015	34,442,443
Second quarter	23.15	15.37	132,076,948
June	23.055	20.105	36,544,678
May	23.15	19.925	44,983,185
April	21.10	15.37	50,549,085
First quarter	23.09	15.00	153,007,114
March	17.90	15.00	52,282,100
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	28.00	153,059,989
September	36.85	28.00	58,047,976

Source: Euronext Paris.

New York Stock Exchange

Year *(month/quarter)*	Price *(in USD)*		Volume of securities traded (1)
2010	**Highest**	**Lowest**	
February	34.88	31.30	1,295,234
January	37.15	32.75	1,439,472
2009			
Fourth quarter	38.53	31.50	4,898,227
December	34.63	31.50	1,989,622
November	35.00	31.88	1,126,868
October	38.53	32.28	1,781,737
Third quarter	40	27.72	6,288,772
September	40	33.3953	2,002,640
August	35.9	31.30	2,316,192
July	34.6	27.72	1,969,940
Second quarter	31.51	27.07	9,200,208
June	31.51	27.92	2,281,661
May	30.13	27.07	3,210,068
April	20.41	28.1	3,708,479
First quarter	31.83	19.14	12,239,309
March	24.12	19.46	4,493,706
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

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[1]

21.1.3.1 Repurchase plan in effect on the filing date of this reference document (plan authorized by the combined general meeting on May 7, 2009)

During the combined general meeting on May 7, 2009, 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 regulated markets, on multilateral trading systems, with systematic internalisers 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 financial futures 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 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.443-1 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 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) cancelling all or part of the shares thus repurchased.

The maximum purchase price under the program was set at the general meeting on May 7, 2009 at €50 per share, and the maximum amount that the Company may allocate to the share repurchase plan was set at €1 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 eighteen months from the time of the combined general meeting on May 7, 2009, i.e. on November 7, 2010, unless a new plan is authorized at the general meeting on May 7, 2010.

21.1.3.2 Summary of transactions completed by Veolia Environnement on its own securities during the 2009 fiscal year

Percentage of capital held as treasury shares at December 31, 2009	2.98%
Number of treasury shares held at December 31, 2009	14,731,592
Carrying value of the portfolio at December 31, 2009 *	€450,273,549.81
Market value of the portfolio at December 31, 2009 **	€340,668,065.00
Number of shares cancelled over the last 24 months	0

* *Carrying value excluding provisions.*

** *On the basis of the closing price at December 31, 2009, i.e. €23.125.*

[1] *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.*

The table below details the transactions performed by the Company on its own shares during the 2009 fiscal year as part of the plans authorized by the combined general meetings on May 7, 2008 and May 7, 2009:

	Total gross flows at December 31, 2009		**Net positions at December 31, 2009***			
			Net long positions		**Net short positions**	
	Purchases	**Sales/ Transfers**	**Call options purchased**	**Forward purchases**	**Call options sold**	**Forward sales**
Number of securities	none	248,442	none	none	none	none
Average price of transactions (*in euros*)	NA	19.54				
Average exercise price *(in euros)*			NA	NA	NA	NA
Amounts *(in euros)*	NA	4,855,987	NA	NA	NA	NA

NA: not applicable.

(*) the call options sold by the Company to Calyon in August and September 2006 as part of the implementation of the low-risk part of its capital increase reserved for employees, the completion of which was recorded on December 15, 2006, have matured since August 5, 2009 and September 24, 2009 respectively.

21.1.3.3 Objectives of transactions performed during the 2009 fiscal year and allocation of the treasury shares held

The transactions involving Veolia Environnement shares that were carried out during the 2009 fiscal year were performed both for the remittance of payment by the Company, for and on behalf of one of its subsidiaries, of 109,533 treasury shares held in respect of the purchase of a minority shareholding by said subsidiary on April 8, 2009 (external growth transaction) and in order to adjust the coverage of the low-risk part of the capital increase reserved for employees, the completion of which was recorded on August 5, 2009 (*cf. § 21.1.6. below*).

At December 31, 2009, Veolia Environnement held a total of 14,731,592 treasury shares, representing 2.98% 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:

- 6,139,936 shares were allocated to cover stock option programs or other share award programs to Group employees;
- 8,591,656 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, 2010

The authorization for share repurchases described in section 21.1.3.1 above will expire at the latest on November 7, 2010, unless the combined general meeting of May 7, 2010 approves the resolution adopted in accordance with the provisions of Articles L. 225-209 et seq. of the French Commercial Code set out below.

This resolution, with reference to the report by the board of directors, 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) cancelling all or part of the shares thus repurchased, subject to the adoption of the twenty-seventh resolution at the general meeting on May 7, 2010.

This program is also intended to enable the implementation of all market practices that shall come to be permitted by the AMF and, in general, the completion of all other transactions that comply with the regulations in force. In such a case, the Company will inform its shareholders by way of press release.

Purchases of Company shares may be for a number of shares such that:

- 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 49,363,037 shares as of December 31, 2009 (this percentage will apply to the capital, as adjusted in light of transactions that affect it after this general meeting), it being specified (i) that the number of shares acquired with a view to being retained and subsequently delivered as part of a merger, spin-off, or contribution cannot exceed 5% of its share capital, and (ii) when shares are repurchased in order to encourage liquidity under the conditions defined by the AMF General Regulations, the number of shares taken into account to calculate the 10% limit provided for in the first paragraph corresponds to the number of shares purchased, less the number of shares resold during the authorization period;
- 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, and by any method, on regulated markets, on multilateral trading systems, with systematic internalizers 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 or exchange shares, or through the use of options or other financial futures traded on a regulated market 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 will be forty (40) euros per share (or the counter-value of said amount on the same date in any other currency); said maximum price is only applicable to acquisitions decided as from the date of the combined general meeting of May 7, 2010 and not to future transactions concluded pursuant to an authorization granted by a previous general meeting that provides for acquisitions of shares subsequent to the date of said meeting.

The total amount allocated to the share repurchase plan authorized above may not exceed €1 billion.

This authorization would cancel, as from the day of the combined general meeting of May 7, 2010, any prior authorization granted to the board of directors to trade in the Company's shares, effective from May 7, 2008 and if applicable for the value of any unused portion of any prior authorization. Said authorization is granted for a period of eighteen months from the date of said combined general meeting.

The general meeting delegates to the board of directors, in the event of a change in the par value of shares, a capital increase via capitalization of reserves, award of bonus shares, division or regrouping of securities, distribution of reserves or of any other assets, redemption of capital or any other transaction concerning the shareholders' equity, the power to adjust the aforementioned purchase price in order to take into account the impact on the share value of said transactions.

The general meeting 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, to carry out the purchase plan, and, in particular, to place all stock market orders, enter into all agreements, allocate or reallocate the shares acquired to the desired objectives under the applicable statutory and regulatory provisions, determine the terms and conditions under which, if applicable, the rights of holders of securities or options will be protected, in compliance with the statutory, regulatory and contractual provisions, make all declarations to the AMF and to all competent authorities, carry out all other formalities and, in general, do what is necessary.

21.1.4 Capital authorized but not issued

21.1.4.1 Authorizations adopted at the general meetings on May 7, 2008 and May 7, 2009

Status of the authorizations adopted by the combined general meeting on May 7, 2008[(1)]

Securities concerned	Term of the authorization and expiration date	Maximum nominal amount of the capital increase *(in millions of euros)*	Use of the authorizations *(in € million)*
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 allocated 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 allocated 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 allocated 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 allocated to the total nominal cap on capital increases of 1,651)	none
Increase in the number of securities in the event of capital increases, with or without preferential subscription rights (green shoe option) (*)	26 months July 7, 2010	+15% of a capital increase (This maximum amount is allocated 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
Issues reserved for employees (*) (**) Capital increase for a particular category of beneficiary	18 months November 7, 2009	0.2% of the capital (This maximum amount is allocated to the total nominal cap on capital increases of 1,651)	none
Issues reserved for employees (*) Stock-options	26 months July 7, 2010	1% of the capital (This maximum amount is allocated to the total nominal cap on capital increases of 1,651)	none

(*) The total amount of the capital increases that may occur pursuant to this authorization will be allocated to the total cap of €1,651 million authorized by the combined general meeting on May 7, 2008.

(**) Capital increase for the benefit of a company held by a lending 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 (issues reserved for employees who are members of savings plans).

(1) *Only authorizations that are still in force as of the date of filing of this reference document are listed.*

Status of the authorizations adopted by the combined general meeting of May 7, 2009[1]

Securities concerned	Term of the authorization and expiration date	Maximum nominal amount of the capital increase *(in millions of euros and/or as a percentage)*	Use of the authorization *(in € million)*
Share repurchase plan	18 months November 7, 2010	1,000 or 10% of the share capital	none
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 allocated to the total nominal cap on capital increases of 1,651)	none
Issuances reserved for employees (**) Members of savings plans	14 months July 7, 2010	2% of the capital (This maximum amount is allocated to the total nominal cap on capital increases of 1,651)	4.555
Issue of stock warrants during a public offer	18 months November 7, 2010	25% of the share capital	none

(*) *The total amount of the 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 on May 7, 2008 (15% of the capital).*

(**) *The total amount of the capital increases that may occur pursuant to this authorization adopted by the combined general meeting of May 7, 2009 will be allocated to the total cap of €1,651 million authorized by the combined general meeting on May 7, 2008.*

21.1.4.2 Authorizations voted upon at the combined general meeting on May 7, 2010

Securities concerned	Term of the authorization and expiration date	Cap on use *(in millions of euros and/or as a percentage)*
Share repurchase plan Except during public offering periods (resolution 17)	18 months November 7, 2011	€40 per share, capped at 1 billion euros; the company cannot hold more than 10% of its share capital
Issuances with preferential subscription rights (PSR) (*) Capital increase through all types of securities (resolution 18)	26 months July 7, 2012	40% of the share capital (use allocated to the aggregate nominal maximum amount of 1,727)
Issuances without preferential subscription rights (PSR) (*) Capital increase through a public offering of all types of securities (resolution 19)	26 months July 7, 2012	15% of the share capital (use allocated to the 15% cap for capital increases without PSR and to the maximum nominal amount of 1,727)
Issuances without preferential subscription rights (PSR) (*) Capital increase through private placement of all types of securities (resolution 20)	26 months July 7, 2012	15% of the share capital (use allocated to the 15% cap for capital increases without PSR and to the aggregate nominal maximum amount of 1,727)
Issuances of securities as payment for contributions in kind (*) (resolution 21)	26 months July 7, 2012	10% of the share capital (use allocated to the 15% cap for capital increases without PSR and to the aggregate nominal maximum amount of 1,727)
Increase in capital through the capitalization of premiums, reserves, profits or other items (*) (resolution 22)	26 months July 7, 2012	400 (said maximum nominal amount is allocated to the nominal maximum amount of 1,727)

[1] *Only authorizations that are still in force as of the date of filing of this reference document are listed.*

Securities concerned	Term of the authorization and expiration date	Cap on use *(in millions of euros and/or as a percentage)*
Increase in the number of securities in the event of capital increases, with or without preferential subscription rights (green shoe option) (*) (resolution 23)	26 months July 7, 2012	Extension to a maximum of 15% of a share capital increase decided under resolutions 18 or 19 (the supplementary issue is allocated to the aggregate nominal maximum amount of 1,727 and to the cap for the resolution concerned)
Issuances reserved for savings plan members (*) Capital increase through the issue of shares or negotiable securities convertible into shares (resolution 24)	26 months July 7, 2012	2% of the share capital (the issuances are allocated to the aggregate nominal maximum amount of 1,727)
Issuances reserved for employees without preferential subscription rights (PSR) (**) Capital increase for a particular category of beneficiary (resolution 25)	18 months November 7, 2011	0.2% of the share capital (the issuances are allocated to the aggregate nominal maximum amount of 1,727)
Issuances reserved for employees (*) Award of stock options (resolution 26)	26 months July 7, 2012	1% of the share capital (use allocated to the aggregate nominal maximum amount of 1,727)
Cancellation of treasury shares (resolution 27)	26 months July 7, 2012	10% of the share capital by 24-month periods
Issuances reserved for all shareholders during a public offer period Awards of stock warrants under preferential conditions (resolution 28)	Applicable to all public acquisition offers initiated before November 7, 2011	25% of the share capital

(*) The total amount of the capital increases that are liable to be performed pursuant to this authorization will be allocated to the total cap of 1,727 million euros authorized by the combined general meeting of May 7, 2010.

(**) Capital increase for the benefit of a company held by a lending 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).

21.1.5 Other securities that grant access to the capital

Potential dilutive effect of options and stock warrants[1]

At December 31, 2009, the Company had granted a total of 19,482,535 subscription options that grant the right to subscribe to 10,926,573 Company shares after adjustments and exercise (cf. chapter 17, § 17.3.3 above).

On December 12, 2007, the Company's chairman and chief executive officer, with the authorization of the board of directors, acting pursuant to the eleventh resolution adopted by the combined general meeting on 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 sub-scribed for by this FCPE within the scope of the implementation of the leveraged, low-risk package for 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, 2009, the Company had 493,599,363 shares. On this date, if all the BSAs (52,531) and all the subscription options (plans 3 to 7) had been exercised, 10,979,104 new shares would have been created, representing a dilution ratio of 2.22%.

[1] *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 above).*

21.1.6 Table of changes in capital at December 31, 2009

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
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

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
6/21/2000 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
8/06/08 (recorded 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
May 7, 2009 (recorded by the chairman and chief executive officer on June 4, 2009)	Capital increase related to the payment of the dividend in shares	20,111,683	5	100,558,415	222,435,213.98	2,463,441,745	492,688,349
May 7, 2009 (recorded by the chairman and chief executive officer on August 5, 2009)	Capital increase reserved for a category of beneficiaries	911,014	5	4,555,070	14,831,307.92	2,467,996,815	493,599,363
June 21, 2000 April 25, 2002 May 12, 2004 (recorded by the board of directors on March 4, 2010)	Capital increase reserved for a category of beneficiaries	31,011	5	155,055	208,755	2,468,151,870	493,630,374

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, 2009 are as follows:

Issue date	Nominal issue amount	Complementary issuances		Nominal amount outstanding at December 31, 2009	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 23, 2008		GBP 150 million				
April 24, 2009	€1.250 billion			€1.250 billion	5.25%	April 24, 2014
April 24, 2009	€750 million			€750 million	6.75%	April 24, 2019
June 29, 2009	€250 million			€250 million	5.70%	June 29, 2017

During the 2009 fiscal year, Veolia Environnement undertook new issuances for a nominal equivalent amount of €2,250 million at December 31, 2009, broken down as follows:

- On April 24, 2009, Veolia Environnement issued:
  - €1,250 million principle amount of new bonds, bearing fixed-rate interest at 5.25% per annum and maturing on April 24, 2014 (series 25);
  - €750 million principle amount of new bonds, bearing fixed-rate interest at 6.75% per annum and maturing on April 24, 2019 (series 26);
- On June 29, 2009, Veolia Environnement issued €250 million principle amount of new bonds, bearing fixed-rate interest at 5.70% per annum and maturing on June 29, 2017 (series 27).

Moreover, during the 2009 fiscal year, the Company made the following reimbursements:

- the issuance of U.S. $27 million at a rate of LIBORUSD 3 months plus 0.55% dated March 4, 2004 was reimbursed at maturity on March 4, 2009;

- the issuance of CZK660 million at a rate of PRIBOR 3 month plus 0.67% in two tranches dated respectively April 29, 2002 for an amount of CZK400 million and on February 21, 2003 for an amount of CZK260 million, was reimbursed at maturity on April 29, 2009; and

At December 31, 2009, the nominal amount outstanding on the EMTN program was €11,229 million, of which €11,207 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 issuance	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, 2009, the nominal outstanding amount of this loan was €299 million, all of which will mature in more than one year (cf. chapter 20, § 20.1, note 17 to the consolidated financial statements).

Public issue 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 issuance	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, 2009 the outstanding amount of this loan was €1,249 million, all of which will mature in more than one year.

Commercial paper

At December 31, 2009 the outstanding amount of the commercial paper issued by the Company was €302 million, the average maturity of which is one month.

21.2 PROVISIONS OF THE BYLAWS

Please refer to the information set out in Chapter 5, § 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, involves:

- 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;
- 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 carried out 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 Attendance at 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 day 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 spouse or another shareholder;
- vote by post;
- 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 stipulated in the relevant laws 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 the Board's decision to use telecommunication methods 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 beneficial ownership is exercised by the income beneficiary in ordinary general meetings and by the bare title owner 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 pro-vided for by the law and regulations in force. However, when the owner of the shares does not reside in France or French Overseas Territories, 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 per year on average.

Failure by the holders of securities or their intermediaries to comply with their data disclosure obligations set forth in Articles L.228-2 et seq. of the French Commercial Code causes, under the conditions provided for by law, will result in 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 four 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 will be 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 aforementioned notice 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[1]

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), but 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 contracts concluded with public and private clients (particularly abroad, including the water contract in Berlin), 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 (see chapter 20, § 20.1, notes 36 and 39.3 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 become immediately exercisable without condition in the event a public tender offer is launched on the Company.

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(1) *Article L.225-100-3 of the French Commercial Code.*

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 6.1.3 above and in Chapter 20, paragraph 20.1, note 43 to the consolidated financial statements.

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