VEOLIA ENVIRONNEMENT
Form 20-F
April 16, 2009

As filed with the Securities and Exchange Commission on April 16, 2009

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g)

OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

for the fiscal year ended December 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-15248

VEOLIA ENVIRONNEMENT

(Exact name of Registrant as specified in its charter)

N/A	36/38, avenue Kléber,	Republic of France
(Translation of Registrant sname into English)	75116 Paris, France	(Jurisdiction of incorporationor organization)

(Address of principal executive offices)

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

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

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

Title of each class	Name of each exchange on which registered
Ordinary shares, nominal value €5 per share represented by American Depositary Shares (as evidenced by American Depositary Receipts), each American Depositary Share representing one ordinary share*	The New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

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

472,536,448 ordinary shares, nominal value €5 per share

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

Item 17 Item 18

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

Yes No

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

FORWARD-LOOKING STATEMENTS

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION SELECTED FINANCIAL DATA

You should read the following selected financial data together with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements. Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union. See Item 5. Operating and Financial Review and Prospects for a discussion of accounting changes, business combinations and dispositions of business operations that affect the comparability of the information provided below.

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	At and for the year ended December 31,					
	(in US$)[1]	(in €)				
(millions, except per share amounts) [5]	**2008**	**2008**	**2007**	**2006**	**2005**	**2004**
INCOME STATEMENT DATA:						
Revenue	50,387.2	36,205.5	31,932.2	27,941.0	24,917.5	22,097.5
Operating income	2,715.6	1,951.3	2,482.5	2,124.2	1,890.2	1,491.8
Net income from continuing operations	730.6	525.0	1,266.6	987.3	794.0	643.5
Net income (expense) from discontinued operations	256.4	184.2	(11.8)	7.6	1.1	(41.6)
Minority interest	423.2	304.1	326.9	236.2	172.9	212.1
Net income attributable to equity holders of the parent	563.8	405.1	927.9	758.7	622.2	389.8
Net income attributable to equity holders of the parent per share Basic[2]	1.24	0.89	2.16	1.90	1.57	0.97
Net income attributable to equity holders of the parent per share Diluted[3]	1.22	0.88	2.13	1.89	1.56	0.97
Net income from continuing operations attributable to equity holders of the parent per share Basic[2]	0.86	0.62	2.19	1.89	1.57	1.27
Net income from continuing operations attributable to equity holders of the parent per share Diluted[3]	0.86	0.62	2.17	1.87	1.56	1.27
Dividends per share	1.68	1.21[4]	1.21	1.05	0.85	0.68
Number of shares (adjusted to reflect changes in capital)	472,576,666	472,576,666	471,762,756	412,626,550	407,872,606	406,421,983
BALANCE SHEET DATA (AT PERIOD END):						
Equity attributable to equity holders of the parent	9,743.6	7,001.2	7,612.9	4,360.8	3,790.2	3,211.2

Minority interest	3,521.7	2,530.5	2,577.8	2,192.6	1,888.0	1,728.7
Total assets	68,368.8	49,126.1	46,306.9	40,123.7	36,381.0	35,899.3
Total non-current assets	41,809.2	30,041.8	28,970.4	25,100.0	22,834.9	20,733.3
Total non-current liabilities	29,671.0	21,320.0	18,045.4	18,056.3	16,934.0	14,836.4
CASH FLOW DATA:						
Net cash flow from operating activities	5,218.9	3,750.0	3,634.6	3,389.6	3,163.7	3,384.3
Net cash from (used in) investing activities	(4,641.5)	(3,335.1)	(4,018.4)	(2,904.0)	(2,407.6)	318.9
Net cash used in financing activities	403.0	289.6	940.8	(71.5)	(3,152.8)	(1,795.5)
Purchases of property, plant and equipment	(3,869.8)	(2,780.6)	(2,518.7)	(2,017.6)	(1,837.1)	(1,723.0)

(1) For your convenience, we have converted the euro amounts of our selected financial data into U.S. dollars using the December 31, 2008 rate of $1.00 = €0.71855. This does not mean that we actually converted, or could have converted, those amounts into U.S. dollars on this or any other date.

(2) Based on the weighted average number of shares outstanding in each period for the calculation of basic earnings per share, equal to 457.3 million shares in 2008, 430.0 million shares in 2007, 398.8 million shares in 2006, 395.6 million shares in 2005 and 401.5 million shares in 2004.

(3) Based on the weighted average number of shares outstanding in each period for the calculation of diluted earnings per share, equal to 459.2 million shares in 2008, 435.0 million shares in 2007, 402.4 million shares in 2006, 397.6 million shares in 2005 and 401.6 million shares in 2004.

(4) Amount of dividend distribution per share to be proposed to the Annual Shareholders Meeting of May 7, 2009.

(5) In accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*, the results of operations of the Clemessy and Crystal entities in the Energy Services Division, divested in December 2008, are recorded as Net income from discontinued operations, in the 2008 financial statements and in comparative data for 2007, 2006, 2005 and 2004.

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Dividends

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

At our general shareholders meeting on May 7, 2009, our shareholders will decide on a dividend payment proposed to be €1.21 per share in respect of our 2008 fiscal year, which will be paid beginning on June 8, 2009. The dividend will be payable in cash or in shares, and the period during which shareholders may choose the option of the payment of the dividend in cash or in shares, subject to applicable legal restrictions, will begin on May 13, 2009 and end on May 28, 2009. Subject to the approval of the general shareholders meeting, new shares will be issued with a maximum discount of 10% on the average opening price on Euronext Paris of the shares over the twenty trading days prior to the day of the general shareholders meeting, less the amount of the dividend. We expect that Bank of New York Mellon as depositary will make this option available to ADR holders. On May 27, 2008, we paid a dividend of €1.21 per share in respect of our 2007 fiscal year. On May 15, 2007, we paid a dividend of €1.05 per share in respect of the 2006 fiscal year. On May 29, 2006, we paid a dividend of €0.85 per share in respect of the 2005 fiscal year. On May 27, 2005, we paid a dividend of €0.68 per share in respect of the 2004 fiscal year. On May 28, 2004, we paid a dividend of €0.55 per share in respect of the 2003 fiscal year.

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

Exchange Rate Information

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

The following table shows the euro/U.S. dollar exchange rate from 2004 through April 2009 based on the noon buying rate expressed in U.S. dollars per euro. The information concerning the U.S. dollar exchange rate is based on the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate). We provide the exchange rates below solely for your convenience. We do not represent that euros were, could have been, or could be, converted into U.S. dollars at these rates or at any other rate. For information regarding the effect of currency fluctuations on our results of operations, see Item 5. Operating and Financial Review and Prospects.

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Month **U.S. dollar/Euro**	**Period End**	**Average rate***	**High**	**Low**
April 2009 (through April 10, 2009)	1.31	1.33	1.35	1.31
March 2009	1.33	1.30	1.37	1.25
February 2009	1.27	1.28	1.31	1.25
January 2009	1.28	1.32	1.39	1.28
December 2008	1.39	1.35	1.44	1.26
November 2008	1.27	1.27	1.30	1.25
October 2008	1.27	1.33	1.41	1.24
Year **U.S. dollar/Euro**				
2008	1.39	1.47	1.60	1.24
2007	1.47	1.38	1.49	1.29
2006	1.32	1.26	1.33	1.19
2005	1.18	1.24	1.35	1.17
2004	1.36	1.25	1.36	1.18

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

Solely for the convenience of the reader, this annual report contains translations of certain euro amounts into U.S. dollars. These translations should not be construed as representations that the converted amounts actually represent such U.S. dollar amounts or could have been or will be converted into U.S. dollars at the rate indicated or at all. The translations from euro to U.S. dollars in this annual report are based on $1.00 = €0.71855, the Noon Buying Rate on December 31, 2008. On April 15, 2009, the exchange rate as published by Bloomberg at approximately 1:00 p.m. (New York time) was $1.3222 per one euro.

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RISK FACTORS

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

Risks Relating to Our Operations

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

Our business is highly competitive and requires substantial human and capital resources and cutting-edge technical expertise in numerous areas.

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

In addition, we perform a substantial portion of our 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 we may not be retained even though we may have incurred significant expenses in order to prepare the bid.

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

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

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

While our operations are concentrated mainly in Europe and the United States (sales generated outside of these regions represented approximately 15.1% of our total revenue in 2008), we conduct business in markets around the world. The risks associated with conducting business in some countries, in particular outside of Europe, the United States and Canada, can include the non-payment or slower payment of invoices, which is sometimes aggravated by the absence of legal recourse for non-payment, nationalization, employee-related risks, political and economic instability, increased foreign exchange risk and currency repatriation restrictions. We may not be able to insure or hedge against these risks. Furthermore, we may not be able to obtain sufficient financing for our operations in these countries. The setting of public utility fees and their structure may depend on political decisions that can impede for several years any increase in fees, such that they no longer cover service costs and appropriate compensation for a private operator.

Unfavorable events or circumstances in certain countries may lead us to record exceptional provisions, write-downs and/or impairments, which could have a material adverse effect on our results.

Changes in the prices of energy and other commodities or in the price of recyclable materials may reduce our profits.

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

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In addition, a substantial portion of our 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 our results of operations.

Some of our activities could cause damages to persons or property

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

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

As part of our external growth strategy, we have conducted and continue to carry out acquisitions of varying sizes, some of which are significant at the Group level. These acquisitions involve numerous risks, including the following: (i) the assumptions underlying the business plans supporting the valuations may prove inaccurate, in particular with respect to synergies and expected commercial demand; (ii) we may fail to successfully integrate the companies acquired and their technologies, products and personnel; (iii) we may fail to retain key employees, customers and suppliers of the companies acquired; (iv) we may be required or wish to terminate pre-existing contractual relationships, which could prove costly and/or be performed at unfavorable terms and conditions; and (v) we may increase our 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 our financial condition.

Our business is affected by variations in weather conditions.

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

Our business is subject to CO_2 market and emission allowance risks.

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

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

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The risk we face firstly relates to our 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 our installations into line with allocated allowances. Secondly, our ability 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 we have adopted an active approach to managing carbon emissions and allocated allowances by implementing appropriate structures and setting up an entity dedicated to the purchase, sale and pricing of the various types of greenhouse gas credits, the potential overrun by us of allocated emission allowances and the resulting purchase of additional allowances could generate significant additional costs compared with those we anticipate.

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

Water is a strategic resource that contributes to public health. Accordingly, our activities must comply with laws and regulations that seek to safeguard water resources, production sites and treatment facilities against criminal or terrorist acts. In the areas of waste management, energy services and public transportation our installations and vehicles may become terrorist targets around the world. In addition, our 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 us and the insurance policies subscribed, a criminal or terrorist attack could negatively affect our reputation or operating results.

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

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

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

Through Veolia Water Solutions & Technologies, we perform turnkey contracts for the design and construction of infrastructure in the water sector, compensated at non-revisable fixed prices. The risks to which we are 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 we seek to place these risks contractually with the customer. We may, however, encounter difficulties over which we have 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 our revenue or contractual penalties.

In certain cases, we 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 we may be required to use existing infrastructure with poorly-defined operating characteristics.

While contracts generally include clauses providing for the payment of compensation, should events such as those detailed above occur, we are exposed to the risk of not obtaining, or only obtaining after the expiration of a period of time, the amounts necessary to cover the resulting additional costs.

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

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

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

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

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

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

We have incurred and will continue to incur significant costs and other expenditures to comply with our environmental, health and safety obligations as well as to manage the sanitary-related aspects of the services it provides. We are continuously required to incur expenditures to ensure that the installations that we operate comply with applicable legal, regulatory and administrative requirements, including specific precautionary and preventative measures, or to advise our customers so that they undertake themselves the necessary compliance work.

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

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

The increasingly broad laws and regulations expose us to greater risks of liability, in particular environmental liability, including in connection with assets that we no longer own and activities that have been discontinued. For example, the European Directive of April 21, 2004 on environmental liability introduces throughout the European Union a

framework of environmental liability to the competent authority, for serious environmental damage or threat of damage. This directive, as enacted into French law, extends the scope of liability, regardless of fault, for certain serious damage to the environment. With regard to the prevention of technological and environmental risks and the conduct of remediation activities, the French law of July 30, 2003 strengthens obligations to restore installations at the end of their operating life, making the recording of provisions mandatory in certain instances. In addition, we may be required to pay fines, repair damage or undertake improvement work, even when we have conducted our activities with care and in full compliance with operating permits. Regulatory authorities may also require us 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, we often operate installations that do not belong to us, and therefore do not always have the power to make the investment decisions required to bring these installations into compliance. Where the customer on whose behalf these installations are operated refuses to make the required investments, we may be forced to terminate our operations.

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Despite this restrictive trend towards increasing regulation and constant efforts to improve risk prevention, accidents or incidents may still occur and we could be the subject of legal action to compensate damage caused to individuals, property or the environment (including the ecosystem). In such instances, these potential liabilities may not be covered by insurance, or may be only partially covered. The obligation to compensate for such damage might have a material adverse effect on our activities, our resources, or our profitability.

Specific measures are required in connection with certain technological risks.

Our subsidiaries in France or abroad may, under environmental services outsourcing contracts, perform activities at certain environmentally sensitive sites known as high threshold Seveso sites (classified AS under the French ICPE, Installations Classified for the Protection of the Environment system) or low threshold Seveso sites (or the foreign equivalent), operated by industrial customers (particularly petroleum or chemical industry sites). In these instances, we 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 us to customer sites. The regulatory regime governing Seveso facilities applies only within the European Union, but we operate several similar sites outside of this region that are often subject to the same level of stringent regulation.

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

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

We hold assets, earn income and incur expenses and liabilities in a variety of currencies. Our financial statements are presented in euros. Accordingly, when we prepare our financial statements, we must translate our 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 euros, of our investments held in foreign currencies.

At December 31, 2008, approximately 51.8% of financial debt was floating-rate and 48.2% fixed-rate, including 0.2% at capped floating rates, all after taking into account hedging instruments (see note 30.1.1 to our consolidated financial statements for the year ended December 31, 2008). In addition, our cash balances are typically invested in short-term instruments, with yields that change as short-term market interest rates change. Fluctuations in interest rates may also affect our future growth and investment strategy since a rise in interest rates may force us to finance acquisitions or investments or refinance existing debt at a higher cost in the future.

Risks Relating to Our Shares and ADSs

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

Under French law, shareholders have preemptive rights (*droits préférentiels de souscription*) to subscribe, on a pro rata basis, for cash issuances of new shares or other securities giving rights to acquire additional shares. U.S. holders of our shares may not be able to exercise preemptive rights for our shares unless a registration statement under the U.S. Securities Act of 1933, as amended (Securities Act), is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not required to file registration statements in connection with issues of new shares or other securities giving rights to acquire shares to our shareholders. As a result, we may from time to time issue new shares or other securities giving rights to acquire additional shares at a time when no registration statement is in effect. For example, in 2007 we launched a capital increase through the issuance of rights to acquire new shares to all of our shareholders, but those rights were generally exercisable only by persons located outside the United States. Holders of our ADSs were not permitted to exercise the rights corresponding to the shares underlying the ADSs and received the net proceeds of the sale of these rights in the French market by the ADS depositary. If we undertake future unregistered capital increases, holders of our ADSs and U.S. holders of our shares may be subject to dilution, which may not be fully compensated by the proceeds from the sale of rights.

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

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

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

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

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ITEM 4: INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

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

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

Our operations are conducted through four divisions, each specializing in a single business sector: water, environmental services, energy services and transportation. Our principal operating subsidiaries in each division are Veolia Eau Compagnie Générale des Eaux (water), Veolia Propreté (environmental services), Dalkia (energy services) and Veolia Transport (transportation). When referring to the activities of our divisions, we refer to the division names, and when referring to entities within the group, we refer to their legal names.

Historical Background

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

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

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

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

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

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

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

In April 2003, we changed our name to Veolia Environnement.

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

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In November 2005, we unveiled a new branding system for our group aimed at increasing consistency between our divisions and our visibility by strengthening our identity and common culture around our service values. Our Water, Environmental Services and Transportation Divisions currently operate under the same name: Veolia. Our Energy Services Division primarily operates under the Dalkia brand.

BUSINESS OVERVIEW

Our Market

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

We believe 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 parties do not always have the necessary technical or operational resources that specialist private operators can mobilize to deal with environmental problems effectively and at a lower cost. They also 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 us apart from the competition.

In addition, public demand, which now widely reflects a concern for sustainable development, is faced with the need to respect commitments made at the 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 effective management, are needed in order to provide growing urban populations with adequate environmental services and replace existing environmental infrastructure.

Nonetheless, the financial difficulties that plague all parties, whether public authorities or companies, could lead to certain decisions being postponed, especially relating to new investments.

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

We believe that each of these trends, taken individually, offers significant opportunities and, taken as a whole, they enable us 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, we must, more than ever, strive to offer competitive prices.

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Our Customers

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

Public Authorities

Demand from public authorities (often small local authorities that are increasingly pooling resources) is influenced and strengthened by the search for quality, efficiency, innovation, the rationalization of public procurement and cost reduction (by integrating operating concerns from the design stage), and by a commitment to assuming their responsibility for the environment and particularly the management of water resources, air pollution, mass transportation policies and energy consumption. These trends, combined with a movement towards greater urbanization, are increasing the need for essential environmental services.

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

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

In the last few years, a new trend has emerged whereby public authorities in all countries, including France, have asked companies to manage not only the design and construction of the necessary public infrastructure, 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 they are transferred back to the public authorities at the end of the contract. Two main categories have emerged from these contracts, which, together, are often qualified as PPPs. In the first case, which includes contracts belonging to the market category, the resources intended to cover the cost of infrastructure and their financing are similar to a price paid or guaranteed by the public authority, and the service is provided to the public authority using the completed infrastructure. In the second case, which includes contracts equivalent to concessions as defined by the European Union, the resources must be obtained through the commercial operation of the public service (the public or general-interest service whose operation has been delegated) which is the main purpose of the

contract, the construction of infrastructure only providing the necessary means. Different IFRS accounting treatments apply in each case (recognition or not of a financial asset corresponding to a receivable from the public authority). We prefer to distinguish these PPPs based on the nature of the services entrusted, such as Build Operate Transfer (BOT) with financing, or Design, Build, Operate (DBO), with design but excluding financing.

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

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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. We therefore offer our 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. We may seek to acquire a stake in such operators.

Services Sold Directly to Individuals

We also offer household services directly to private individuals through our 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 or Commercial Services Companies

We offer our industrial and service sector customers a wide range of services, covering two major environmental protection 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.

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

We believe that the further development of our industrial customer base offers considerable growth potential. In particular, the importance of multi-service contracts with industrial customers is constantly increasing.

Our Overall Strategy

Since our founding, our strategy has been based on the goal of strengthening our position as a global reference in the expanding environmental services market

We are the sole international company focused entirely on the environmental services business, operating through four divisions with expertise in water, environmental services, transportation and energy services. We operate both in

France and abroad, serving a customer base primarily comprised of public authorities, but also industrial and service sector customers.

We provide the majority of our services under long-term contracts that are secure and generate recurring income. Services rendered are tailored to the specific requirements of each customer. Achieving both economic efficiency and environmental performance is time-consuming and the contract term enables such performance as part of an overall strategy encompassing technical, management and social considerations.

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

While continuing to expand in France and Western Europe, we are also focusing on Eastern and Central European countries, i.e. the new members of the European Union and certain Asian countries and particularly China, where service requirements linked to growing urbanization and rising environmental standards are considerable. Other targets include major markets still relatively closed to the delegated management model, such as the United States and Japan, but where mid-term potential is significant. Finally, we also seek growth in the Middle East and the Persian Gulf.

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Operating performance in 2008 was in line with final objectives published in the fall of 2008, despite a major downturn in the economic and financial context

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

This slowdown was, nonetheless, partially offset by the healthy resistance of other businesses. Our lack of concentration on a limited number of techniques or activities confirms our excellent growth potential. The demand for improved and increased services in our sector is unprecedented in the service industry throughout the world.

When the economy emerges from current uncertainties, these long-term trends should continue to hold true. However, even at the heart of a crisis exceptional in nature and intensity, the potential demand for services provided by us will continue to grow, as all support and recovery plans announced by public authorities provide for substantial investments in environmental infrastructure.

Adapting our strategy to the economic climate

Attaining this potential in the long-term requires certain adjustments to be made. We are therefore strengthening our efficiency program, focusing particularly on the Environmental Services sector and notably on our activities in Germany.

The challenge for the coming quarters is to improve cash flow, while preserving the key balances of our financial structure.

With regard to the second point, the significant growth enjoyed in recent years has been primarily internal. Our access to financial resources has been strengthened by operating results and, in 2007, by a share capital issue that refinanced our investments in external growth transactions. In 2009, we believe we have a healthy financial structure. Group liquidity as of December 31, 2008 exceeded €7.6 billion, and the ratio of (i) net financial debt to (ii) cash flow from operations plus cash generated from principal paymnents on operating financial assets was 3.6. Furthermore, no major debt repayments are due before 2012, and the average maturity of our debt is nine years, with 68% of net debt in the form of bonds. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Sources of Funds Liquidity.

Our profitability suffered a mechanical dilution effect following strategic acquisitions focused on providing high quality platforms to strengthen our positions, particularly in Germany and the United States. Our recovery will be achieved through a series of measures already launched, aimed at achieving improved free cash flow in 2009.

Achieving this objective requires increased attention to investment, whether for internal or external growth purposes. We are planning a reduction in investment net of divestitures of at least €1.6 billion in 2009 compared to 2008 (decrease of over 40%). We have also intensified our asset disposal plan, which should yield some €3 billion for the period 2009-2011, with an objective of €1 billion for 2009 alone, in order to generate, organically, the resources necessary for long-term growth.

This commitment also calls for an acceleration of the cost reduction program launched pursuant to strategic objectives set in 2007, in order to adapt our business to the global economic crisis. Cost savings are targeted to total €280 million

in 2009, including €180 million under the 2010 Efficiency Plan and €100 million under the adjustment plan launched by the Environmental Services Division in addition to measures already taken in Germany.

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

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Operating activities will also be strengthened by the progressive roll-out of the geographical structure launched in 2008. This development is based on the appointment of our managers in charge of one or several countries in each geographical region where we are 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 multi-faceted and primarily involves, at a local level, the coordination and implementation of our and our subsidiaries strategy and commercial policy, the representation of the group and its businesses and the implementation of shared and pooled resources. Managers appointed, in particular, from among division CEOs and members of our Executive Committee, will be responsible for coordination within each region. The aim is to satisfy the demand of our customers for a single contact able to provide a comprehensive response to major transversal challenges, such as climate change.

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

Our businesses offer strong growth potential in the medium- to long-term as a result of demographical growth, particularly in urban areas, and increasingly strict environmental standards

Some examples include:

According to a report by an independent third party, by 2015, the potential market for seawater desalination, a market in which we have a leadership position due to our technological expertise, could represent $5 billion per year, while used water recycling capacity could increase by an average annual rate of over 10% (according to one of our competitors).

According to the OECD, household waste production, which has been increasing steadily in OECD countries over the last two decades, is expected to continue to increase through 2020.

In the urban transportation sector, a possible 30% increase in the proportion of the population living in urban areas over the next 30 years according to the United Nations Population Information Network, combined with undoubtedly increasing commitments to reducing greenhouse gas emissions, opens up significant development opportunities.

We have taken a proactive approach to these challenges and offer ways of accelerating or facilitating the necessary or foreseeable changes that may be decided by our 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, the systematic development of synergies between current and future components of our activities and businesses, constant attention to the best way of organizing and forming Group teams and promoting the excellence of practices and professional skills of their members, and finally by the development of engineering contracts progressively integrating a growing natural resource efficient management component (water, energy, raw materials, public spaces, etc.) and increasingly placing the emphasis on the quality of services offered by us.

Our Strategy by Division

Water

Our Water Division intends to continue the expansion of 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;

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

the refocusing of industrial customers on their core business.

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Given this growth potential, we will continue to adopt a selective approach to optimize the allocation of our resources, our operating costs and our 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 foresee the future needs of public authorities. It focuses, in particular, on developing employee skills to enable it to meet future challenges. The development of technical expertise in areas such as desalination and wastewater recycling solutions, represents a major effort to adapt to ongoing changes in the market. Going forward, the Water Division will seek to capitalize on long-term international development opportunities, the maturing of its larger contracts and productivity gains resulting from efficiency programs that have been implemented (encompassing purchases, information systems and sharing of best practices).

Environmental Services

Through the Environmental Services Division, we intend to maintain our position among the world leaders in this sector.

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

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

enhance its waste processing capabilities and develop its technological expertise in waste processing and recovery;

strengthen its service offering to industrial customers by capitalizing on its command of the entire waste management chain, while seeking wherever possible to generate synergies with the Group s other businesses;

increase the profitability of its activities by renegotiating fees, maximizing the use of its production tools and reducing structural costs, while ensuring that all of its activities contribute to the development of high value-added services.

Energy Services

Through our Energy Services Division (Dalkia), we are a world leader in the management of energy services. The opportunities in this sector are significant, due to the possible increase over the long-term in energy prices and greater public awareness of environmental problems. These are linked in particular to the risk of climate change and have led to the search for solutions such as Dalkia s initiatives to reduce the production of greenhouse gases and encourage energy conservation.

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

Dalkia has fully embraced the objectives of reducing energy consumption and promoting renewable energy sources discussed internationally as part of the fight against climate change, and offers its expertise and services, in priority, in line with these two principles.

Dalkia s development strategy focuses on the following geographical priorities:

growth in Southern Europe (Italy, Spain etc) by participating in the trend toward market consolidation and by developing the Group s multi-service offers aimed at the private sector;

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

establishing a presence in North America by offering management services for networks, industrial utilities and shopping malls; and

the development of activities in China (networks and industrial utilities) and in Australia.

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These priorities are based on our ability to offer, with the deregulation of energy markets in Europe, innovative technical solutions focused on energy efficiency, that often combine our expertise in several areas. They also depend on our ability to promote integrated outsourcing services to private customers in the service sector and industry and for public infrastructure, by combining optimized services for facilities management (heating, air-conditioning, utilities, electricity, lighting).

Transportation

Through our specialized subsidiary, Veolia Transport, we aim to become a major transportation service provider on a worldwide scale.

The proportion of the world population living in urban areas is expected to increase by approximately 30% over the next 30 years, and urban transportation needs are expected to increase by 50% by 2020, according to the International Association of Public Transport (UITP). These demographic changes raise concerns regarding the environment and urban congestion, with public transportation services a major concern for local authorities and inhabitants of large cities. As such, transportation increasingly impacts the image and identity of a large city, its economic development, urban renewal projects, and local solidarity.

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

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

Continued efforts in marketing, innovation and addressing environmental concerns to constantly improve customer satisfaction;

A focus on local or regional passenger transportation;

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

Continued growth in related activities such as railway freight given potential economies of scale and their importance for the environment.

Our Services

We are 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.

Our operations are conducted through four Divisions, each specializing in a single business sector: Water, Energy Services (Dalkia), Environmental Services and Transportation. Through these divisions, we currently provide drinking water to more than 80.4 million people and treat wastewater for 58.5 million people in the world, process nearly 68 million tons of waste, satisfy the energy needs of hundreds of thousands of buildings for our industrial, public authority and private individual customers and transport approximately 2.6 billion passengers each year. We strive to develop service offers combining several of our businesses, either through several individual contracts or by combining services within a multi-service contract.

[1] Unless otherwise indicated, information and statistics presented herein regarding market trends and our market share relative to our competitors have been estimated by us based on revenue figures published by competitors or by analysts.

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

(in millions of euros)	Water	Environmental Services	Energy Services	Transportation	Total
Europe	**8,611.4**	**7,666.0**	**6,769.0**	**4,651.4**	**27,697.8**
of which:					
France	*4,883.5*	*3,693.9*	*3,628.2*	*2,317.3*	*14,522.9*
Germany	*1,376.7*	*1,108.8*	*57.8*	*621.9*	*3,165.2*
United Kingdom	*671.5*	*1,667.7*	*487.9*	*128.2*	*2,955.3*
Other Europe	*1,679.7*	*1,195.6*	*2,595.1*	*1,584.0*	*7,054.4*
United States	**612.2**	**1,350.4**	**322.0**	**760.4**	**3,045.0**
Rest of the World	**3,334.3**	**1,127.7**	**358.4**	**642.3**	**5,462.7**
of which:					
Middle East	*862.1*	*79.9*	*60.6*	*24.2*	*1026.8*
Asia Oceania	*1,335.4*	*706.0*	*109.4*	*556.8*	*2,707.6*
Rest of the World	*1,136.8*	*341.8*	*188.4*	*61.3*	*1,728.3*
Total	**12,557.9**	**10,144.1**	**7,449.4**	**6,054.1**	**36,205.5**

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Water

Through Veolia Eau Compagnie Générale des Eaux, we are the world s leading provider of water and wastewater services for public authorities and industrial companies and are a world leader in the design of technological solutions and the construction of infrastructure for the performance of such services, via our subsidiary Veolia Water Solutions & Technologies. Veolia Eau provides drinking water to more than 80.4 million people and supplies 58.5 million people with wastewater serves and manages more than 4,400 operating contracts.

As of December 31, 2008, Veolia Eau had 93,433 employees around the world.[2] The Water Division is present in more than 64 countries and principally 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 a key business development objective, with the signing of a number of major 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 contracts with the city of Indianapolis and more recently Milwaukee. Finally, Veolia Eau also has established a presence in the Middle East and Africa, primarily in Morocco and Gabon. Thanks to its network of research centers in France and abroad coordinated by us, Veolia Eau has mastered numerous major technologies and tools, enabling it to offer highly skilled services in the areas of sanitary protection, spillage reduction, productivity enhancement of water networks and plants and preservation of resources.

Combined with its strong local presence and more than 150 years of experience providing services to public authorities and industrial customers, Veolia Eau s technical expertise is a significant advantage in the extremely competitive water services market. Increased demand within the water services market has been substantially driven by clients seeking to optimize the management of their existing resources, whether they be public authorities seeking to respond to the trend towards urbanization, or industrial clients. Optimizing the management of existing resources represents a major new way of satisfying increasing demand in the water services market, whether from public authorities in response to increasing urbanization, or industrial customers. New solutions, such as the desalination of seawater, a sector where Veolia Eau won a tender offer in 2008 for the supply of ten desalination units in Ras Laffan (Qatar), or the re-use of treated water, may represent an appropriate response in certain circumstances.

The following table presents the consolidated revenue and operating income of the Water Division, after elimination of inter-division transactions.

Water*

(in millions of euro)	**2008**	**2007**	**Change 2008/2007**
Revenue	12,557.9	10,927.4	14.9%
Operating income	1,198.5	1,267.7	(5.5)%

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

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

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Overview of Water Division

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

Service Contracts with Public Authorities and Industrial Customers

The main focus of our water business is the management of water and wastewater 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 market in France, the United Kingdom, Germany and the Czech Republic, as well as in Asia (South Korea and China in particular) and the United States. Veolia Eau also contributes to the development of our common service offerings, in particular in Europe.

Engineering and Technological Solutions for the Treatment of Water

Through Veolia Water Solutions & Technologies, Veolia Eau develops technical solutions and designs/builds the infrastructure 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 infrastructure, in France and around the world. SADE s services cover each stage of the water cycle, from collection to release, and its public and industrial customers benefit from SADE s experience in this area.

Description of Activities in 2008

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

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

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

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

In the Middle East, business was marked by the creation at the end of the year of a joint venture with Mubadala Development Company, aimed at developing a strategic partnership. The joint venture, named NAM 1, brings together the operating activities of Veolia Eau in Morocco and the Middle East, and is held 51% by Veolia Eau and 49% by Mubadala. The Middle East continues to be a major growth area for the engineering and construction business. After several contract wins in 2007, notably for seawater desalination in Fujairah (United Arab Emirates) and Jubail (Saudi Arabia), two new major contracts were signed in 2008 in Ras Laffan (Qatar) and Abu Dhabi.

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

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Principal Contracts in 2008

The following table shows the principal contracts signed or renewed in 2008 with either public authorities or industrial or commercial companies.[3]

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					
Public authorities					
Achères	May	New	55 months	135 million	Compliance work on a wastewater treatment plant
Les Grésillons 2	May	New	55 months	89 million	Second tranche of the Seine Grésillons wastewater treatment plant
Europe					
Public authorities					
Czajka (Poland)	June	New	28 months	150 million	Modernization and extension of a wastewater treatment plant
Mafra (Portugal)	December	New	15 years	93 million	Management of municipal waste water services
Mullingar (Ireland)	November	New	22 years	48 million	Renovation and operation of the Mullingar wastewater treatment plant near Dublin
Castlebar (Ireland)	November	New	22 years	26 million	Renovation and operation of a wastewater treatment plant
Asia					
Public Authorities					
Changle (China)	December	New	30 years	294 million	Operation of municipal drinking water services
Nagpur	May	New	15 years	20 million	

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

[3] Estimated cumulative revenue represents Veolia Eau s share in these contracts, converted into euros at the closing exchange rate as of December 31, 2008. As such, amounts indicated may differ from those reported in our press releases.

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Principal Acquisitions and Divestitures in 2008

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

In the Middle East, as part of the strategic partnership with the commercial development and investment company Mubadala, 49% of the share capital of NAM 1, created to house Veolia Eau s investments in Morocco and the Middle East, were sold to Mubadala.

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

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

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

Following the creation, acquisition or consolidation of 59 companies in 2008 and the liquidation, divestiture or transfer of 32 companies, the Water Division (excluding Proactiva) comprised 711 companies as of December 31, 2008, compared to 684 in 2007.The main movements in the scope of consolidation include the acquisition or creation of new companies carrying operating contacts that came into effect in 2008.

Environmental Services[4]

Through our Veolia Propreté subsidiary, we are the number one reference in the environmental services sector, where we are 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 and non-hazardous and hazardous waste (with the exception of nuclear waste) from collection to recovery, on behalf of both public authorities and industrial customers.

As of December 31, 2008, Veolia Propreté employed 105,267 people[5] around the world, in approximately 32 countries. Veolia Propreté is a partner of over 740,000 industrial and service sector customers and serves nearly 70 million inhabitants on behalf of public authorities.

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

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

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

[4] Unless otherwise indicated, commercial data reported in this subsection (number of customers, number of inhabitants served, tonnage collected, etc.) excludes Proactiva activities.

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

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Environmental Services*

(in millions of euro)	**2008**	**2007**	**Change 2008/2007**
Revenue	10,144.1	9,214.3	10.1%
Operating income	285.5	803.5	(64.5)%

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

Overview of Environmental Services

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

Downstream, our Environmental Services Division conducts basic or more complex waste processing operations in order to reduce pollution and transform waste into a resource. Our Environmental Services Division:

sorts and processes waste in order to create new raw materials, which we refer to as recycling or material recovery;

transforms organic material into compost to be returned to the soil, which we refer to as composting or agronomic recovery;

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

produces electricity or heat using waste in landfill sites or incinerated, which we refer 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.

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 service sector, Veolia Propreté provides these services in train stations, subway networks, airports, museums and commercial centers.

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

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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 Propreté subsidiary specializing in the management of hazardous waste.

Soil Decontamination

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

Collection

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

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

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

Transfer and Grouping of Waste

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

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

Sorting and Recycling of Materials

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

Waste Recovery and Treatment through Composting, Incineration and Landfilling

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

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Composting and Recovery of Organic Material from Fermentable Waste

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

Incineration and Waste-to-Energy Recovery

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

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

Landfilling and Waste-to-Energy Recovery

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

Processing of Hazardous Waste

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

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

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

Description of Activities in 2008

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

Growth in France reached 11.2 % (including organic growth of 3.8%), as a result of the acquisition of the Bartin Recycling Group, the third largest company in France specializing in the recycling and recovery of ferrous and

non-ferrous metal, and the commercial development of industrial services and incineration activities, sectors in which new contracts were won or came into effect in 2008. Waste Electrical and Electronic Equipment (WEEE) activities continued to develop in 2008. A ship dismantling unit was created in Bordeaux and the first production unit to produce biomethane fuel from biogas was brought on-line in the Greater Paris region in 2008.

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

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

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

In the Asia-Pacific region, organic growth was 16.6%, boosted by industrial service activities, ground soil decontamination, and liquid waste processing in Australia and by the start-up of new incineration contracts in Asia. In 2008, Veolia Propreté signed a 20-year contract for the management and maintenance of a waste-to-energy incineration unit in YongKang, Taiwan, which will process household and industrial waste from the county of TaiNan and generate electricity for the neighboring areas.

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

Overall, Veolia Propreté s activities were affected by a significant drop in recyclable material prices in the closing months of 2008. Since the end of 2008, industrial and commercial waste volumes have fallen in line with general economic activity.

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Principal Contracts in 2008

The following table shows the principal contracts signed or renewed in 2008 with either public authorities or industrial or commercial companies.[6]

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

Rushmoor Borough Council (United Kingdom)	June	Renewal	7 years	34 million	Collection of household and equivalent waste, recyclable products and urban maintenance and cleaning services
North America					
Public Authorities					
Pinellas County (Florida)	August	Renewal	7 years	39 million	Operation and maintenance of the Pinellas landfill site
Sarasota County (Florida)	May	Renewal	5 years	15 million	Operation and maintenance of the Sarasota landfill site
Orange County (Florida)	April	Renewal	7 years	35 million	Collection of household and equivalent waste, and recyclable products
Asia Pacific					
Public Authorities					
TaiNan County (Taiwan)	March	New	20 years	62 million	Management and maintenance of the YongKang incineration and waste-to-energy plant

[6] Contract revenue represents Veolia Propreté s share in these contracts, converted into euros at the closing exchange rate as of December 31, 2008. As such, amounts indicated may differ from those reported in our press releases.

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Acquisitions and Divestitures in 2008

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

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

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

Energy Services

We conduct our energy services 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. We seize opportunities offered by the development of the energy and greenhouse gas emission reduction markets. Dalkia joins forces with its customers, helping them optimize their energy purchases and improve the efficiency of their installations (both in terms of cost and atmospheric emissions).

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

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

Energy Services

(in millions of euro)	**2008**	**2007***	**Change 2008/2007**
Revenue	7,449.4	6,200.4	20.1%
Operating income	429.7	384.3	11.8%

* In accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*, the results of operation of the Clemessy and Crystal entities in the Energy Services Division, divested in December 2008, are recorded as Net income from discontinued operations, in the 2008 financial statements and in comparative data for 2007.

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 30 years, while contracts for the operation of thermal and multi-technical installations for public or private customer may have terms of up to 16 years. Contracts to provide industrial utilities services generally have shorter terms (six to seven years on average), while contracts in the facilities management sector generally have terms of three to five years.

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

Heating and Cooling Networks

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

Thermal and Multi-Technical Services

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

Industrial Utilities, Installation and Maintenance of Production Equipment

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

Integrated Facilities Management

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

Public Lighting Services

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

Services to Individuals

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

Description of Activities in 2008

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

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

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

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Principal Contracts in 2008

The following table shows the principal contracts signed or renewed in 2008 with either public authorities or industrial or commercial companies.[7]

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					
Public Authorities					
Bordeaux Urban Community	December	New	12 years	127 million	Operation of a heating network using biomass energy
City of Martigues	July	New	24 years	43 million	Operation of the Canto Perdrix public service heating network
City of Saint Dié des Vosges	June	Renewal	25 years	54 million	Public service delegation contract for the production and distribution of heat via the Kellermann neighborhood network. Creation of a biomass heating plant
Seclin Hospital Center (59)	August	Renewal	13 years	22 million	Contract for the supply of cogenerated energy, the operation of heating, ventilation, cooling and sanitary hot water production installations and the cleaning of hydraulic networks
France					
Industrial and service sector companies					
Alès University Hospital	January	New	20 years	41 million	Construction and operation of hospital energy facilities, networks and sub-stations
Rungis SEMMARIS International Market	June	New	6 years	7 million	Management and maintenance of production installations and the market heat distribution network
Solvay site, Tavaux	June*	New	20 years	500 million	Biomass electricity production plant

SMURFIT plant Facture, Gironde	August	New	20 years	1,002 million	Biomass electricity production plant
Europe					
(excluding France)					
Nova Karolina (Czech Republic)	June	New	30 years	26.6 million	Contract for the supply of cooling services to the new Nova Karolina neighborhood in Ostrava
OC Forum (Czech Republic)	December	New	25 years	22 million	Supply of heating and cooling services to the new shopping mall, OC Forum in Usti
FINEP (Czech Republic)	July	New	15 years	25.7 million	Construction and operation of thermal installations for new residential accommodation in Prague
Rest of the World					
Asia					
Myongji Medical Foundation Hospital (South Korea)	February	New	5 years	6.5 million	Installations management contract: supply of heating, cooling and electricity services to the Hanbul hospital
Queensbay Mall, Penang (Malaysia)	July	New	5 years	15 million	Contract for the supply of energy, the maintenance of electrical and mechanical installations and facilities management
South America					
City of Sao Luis (Brazil)	May	Renewal	5 years	26 million	Comprehensive management of the city s public lighting
Middle East					
Bahrain City center shopping mall (Bahrain)	December	New	3 years	4.5 million	Contract for the operation and maintenance of the site, energy monitoring and optimization and mechanical, electrical and plumbing maintenance services

* Date of contract award and granting of the operating license.

[7] Contract revenue represents Dalkia s share in these contracts, converted into euros at the closing exchange rate as of

December 31, 2008. As such, amounts indicated may differ from those reported in our press releases.

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Acquisitions and Divestitures in 2008

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

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

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

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

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

Transportation

Through our Transportation Division, Veolia Transport, we are a leading private operator of public transportation in Europe. Veolia Transport operates passenger transportation services on behalf of national, regional and local authorities.

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

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

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 Group Divisions, represents a major and steady contributor to Veolia Environnement's integrated environmental services offering.

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

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

Transportation

(in millions of euro)	**2008**	**2007**	**Change 2008/2007**
Revenue	6,054.1	5,590.1	8.3%
Operating income	145.4	130.3	11.6%

Overview of Transportation

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 infrastructure). Contracts are awarded following public tenders.

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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 Transport to passengers of its transportation networks are usually insufficient to cover costs, the public authority typically provides Veolia Transport with a payment or other compensation for services rendered. Moreover, in the case of certain contracts, Veolia Transport is paid a flat fee for its transportation services and consequently does not bear the risks associated with lower receipts or decreased passenger use (such contracts are referred to as Public Market contracts in France).

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

Veolia Transport s activities fall into five main categories:

urban mass transportation (urban transport, urban beltway and other specific transportation services);

intercity and regional transportation;

industrial markets (rail freight and related logistic services);

infrastructure management and airport services; and

transportation management (passenger information services, clearing-houses, call centers).

Urban Mass Transportation

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

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

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

Urban and Suburban Transportation

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

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

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

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

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

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

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

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

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

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

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

Intercity and Regional Transportation

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

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

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

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

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

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

Industrial Markets

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

Rail freight transportation

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

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

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

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

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

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

Hub management and airport services

Management of airport infrastructure

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

Paris-Beauvais Airport, which specializes in the development of a low-cost offering, welcomes some 2.4 million passengers annually. With growing traffic volumes, the construction of a second terminal and the installation of a new ILS (instrument-landing system) is necessary. The operation and maintenance of the Beauvais Airport hub was

awarded for a period of 15 years, commencing March 1, 2008, to SAGEB, a company in which the Oise Chamber of Commerce and Industry owns 51% and Veolia Transport owns 49%. This contract also encompasses the operation of a coach service linking Beauvais and Paris, and the maintenance of installations and the construction of commercial infrastructure at the hub.

The Lille-Lesquin Airport is a general hub that receives both regular and occasional (charter) traffic. With over 68,000 tons of freight in 2007, it is also a major air-truck freight hub. 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.

[8] Since December 15, 2008, Veolia Transport s equity stake in SNCM is 66% (compared to 28% previously). The other shareholders are the French State (25%) and company employees (9%).

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

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 VE Airport.

Veolia Transport also manages airline passenger transportation services inside airports.

Transportation Management

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

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

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

Description of Activities in 2008

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

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

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

Key events of 2008 include Veolia Transport's continued development of airport hub management and operating activities, with the signature of operating, management and maintenance contracts for the two largest French regional airports, Beauvais-Tillé and Lille-Lesquin, following the Nimes Garons airport contract signed in 2007. In addition to airport hub management and comprehensive operating services, Veolia Transport also offers shuttles services, notably in the United States, Germany and France.

Through our various Divisions, we are now present in over 20 airports in France and abroad, with inter-divisional synergies offering a real competitive edge.

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

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Principal Contracts in 2008

The following table shows the principal contracts signed or renewed in 2008 with either public authorities or industrial or commercial companies.[9]

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					
Beauvais Airport	March	New	15 years	238 million	Management and operation of the Beauvais-Tillé airport hub
Lille Airport	December	New	10 years	61 million	Management and operation of the Lille Lesquin airport hub
Oise Department	December	New	12 years	334 million	Operation of the Oise department bus transportation network (inter-city)
Europe					
(excluding France)					
Bilbao (Spain)	July	New	8 years (plus 2 years at the customer s option)	305 million	Management of the Bilbao urban bus network
Dublin (Ireland)	October	Extension	5 years	175 million	Operation and management of the Dublin tramway
North America					
Seattle	May	Partial renewal	5 years	74 million	Renewal of the Seattle para-transit contract
Los Angeles	May	New	5 years	36 million	Operation of regular bus passenger transportation routes and maintenance services
Baltimore	August	Renewal	3 years	39 million	Renewal of the Baltimore para-transit contract
California	October	New	6 years	82 million	Maintenance of the railway lines and infrastructure relating to the Metrolink

					passenger rail transportation contract in South California
Australia and New Zealand					
Auckland	December	Extension	4 years	110 million	Passenger rail transportation in the Auckland suburbs
Sydney	August	Extension	5 years	30 million	Passenger transportation by light rail and monorail in Sydney and its surrounding suburbs
Asia					
Mumbai (India)	December	New	8 years (including 5 years of operation)	70 million	Operation from 2012 of the Mumbai metro line 1

Acquisitions and Divestitures in 2008

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

[9] Contract revenue represents Veolia Transport s share in these contracts, converted into euros at the closing exchange rate as of December 31, 2008. As such, amounts indicated may differ from those reported in our press releases.

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

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

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

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

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

Development of Synergies: Multiservice Contracts

to Benefit Industrial and Commercial Services Clients

Outsourcing and Multiservices Market

The position we have forged over several years in the industrial services market and, more recently, the public and private service sector market, reflects the synergies that exist between our four Divisions, which enable us to provide management services with a range of offerings. Growth in this market is primarily driven by the expansion of outsourcing, as industrial companies seek to confer the management of certain ancillary activities to third party service providers.

This outsourcing trend applies to several of our businesses, including energy services, management of the water cycle, waste processing and recovery, on-site management of rail junctions and rail freight transport. We offer a multi-service alternative to our customers, which involves the provision of services by several of its Divisions under a single contract. This option enables us 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.

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

Our Organizational Structure for the Provision of Multiservices

In order to develop this multi-service activity, we set up a specific structure, Veolia Environnement Industries (VEI), 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.

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VEI manages our 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 our Divisions, and are then reviewed by a commitments committee before being presented to customers.

The contract is then performed by a dedicated, special purpose entity managed in part by the Divisions involved in the project, in particular if we decide to take over the customer s personnel.

Multiservices Business Activity

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

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

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

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

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

In September 2008, we signed a multi-service contract with General Motors at its Luton site, north-west of London. This site houses the head office of General Motors UK and produces 100,000 utility vehicles annually. Services provided by us encompass the management and maintenance of utilities (water and energy) and installations (management of buildings and roads, excluding industrial maintenance). This five-year contract will generate cumulative revenue estimated at 16 million British pounds.

In April 2008, we joined forces with Clairvoyant Energy, a U.S. company specializing in the development of photovoltaic solar projects, and the government of Aragon, for the construction and operation of the world s largest

rooftop photovoltaic solar power station at the General Motors plant in Figueruelas, near Zaragosa in Spain. With installed power of 12 megawatts, annual output is expected to reach 15.1 million KWh, sufficient to satisfy the electricity requirements of some 4,600 households. The solar power station will feed electricity into the local Red Electrica grid, which will then be sold to Endesa under a contract guaranteeing a preferential rate for 25 years. The construction phase, led by us, lasted less than one year and the plant was brought online at the end of September 2008.

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Multiservices Contracts Signed in 2008

We entered into the following multiservices contracts in 2008 with industrial clients.[10]

Company	Location	Month of Signature of Contract	New Contract or Renewal	Duration of Contract	Estimated Total Cumulative Revenue (in euros)	Services Provided
Artenius (La Seda de Barcelona)	Sines (Portugal)	April	New	15 years	730 million	Supply of utilities: steam, electricity, demineralized water, industrial gas, treatment of effluents
General Motors	Luton (UK)	September	New	5 years	16.8 million	Maintenance of utilities (water and energy) and installations (management of buildings and roads)
Diageo	Scotland	May and July	New	15 years	210 million	Management and treatment of waste and effluents at the Elgin and Cameron Bridge distilleries

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 we participate is based primarily on the quality of the products and services provided, and the suppliers reliability, customer service, financial position, technology, price, reputation and experience in providing services. Additional considerations include the ability to adapt to changing legal and regulatory environments, as well as the ability to manage employees accustomed to working for public authorities or non-outsourced departments of industrial or service sector companies. In each of the markets in which we operate, our competitive advantages are our technological and technical expertise, our financial position, our geographical reach, our experience in providing environmental management services, our management of outsourced employees, and our 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 our competitive position, even if the merger of Cofatech (GDF) and Elyo (Suez) not only produced the most powerful competitor but also simplified the market. Certain players are originally from neighboring industrial sectors and are seeking to extend the scope of their business. This is the case for the subsidiaries of certain energy providers, notably in the heating network sector (Vattenfall, RWE). Companies specialized in electric installation, such as Cegelec, have also expanded their environmental services offering. In the facilities management sector, companies such as Johnson

Controls seek to provide multi-service offers to their commercial clients. Cleaning companies, such as ISS, are looking to expand their offerings and to provide solutions that extend beyond the cleaning business. Finally, among new competitors, GE announced its intention to expand its business into the water sector. However, the vast majority of competitors do not offer the same range of technical expertise in environmental services as us. Therefore, in certain cases, our competitors are required to set up special purpose entities to cover the service scope required by customers.

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

[10] Revenues expected under foreign contracts won during 2008 have been converted into euros at the rate of exchange prevailing on December 31, 2008. Accordingly, these amounts may differ from the amounts announced in earlier press releases.

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A new form of competition has developed over the last few years due to the growing role of financial groups such as infrastructure funds (Macquarie Bank, etc.) or private equity funds. Although they are not global or strategic competitors, these players are often present in privatization tenders and asset sales and can occasionally compete with the Group for growth opportunities. The development of PPP has also resulted in the emergence of new players from the construction sector that are able to manage the major construction and financing challenges required by these operations. Service providers such as us 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 our main competitor is often the customer itself. Customers systematically compare the benefits and advantages of outsourcing with maintaining the status quo.

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

Water Division

The main international competitor of Veolia Eau is Suez Environnement.

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

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

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

In North African, Middle East, Chinese and Indian markets, Veolia Eau is in competition with Asian companies (Singaporean companies such as Hyflux, Japanese companies such as Marubeni and Mitsui and Malaysian companies

such as Ranhill) and Spanish companies (Acciona, Aqualia-FCC, ACS), as well as conglomerates, notably General Electric and Siemens, which have long shown their international ambitions in the market for water treatment technologies.

Environmental Services Division

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

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

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

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

Energy Services Division

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

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

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

Transportation Division

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

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

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

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

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

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

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

the metro operator in Hong Kong, which participated in several railway calls for tenders in Asia and Europe.

Contracts

Contracts with public authorities under which we provide 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.

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

the public authority can decide to directly manage and provide public services on its own (direct or internal management);

the public authority can decide to provide the service itself, but use private operators as subcontractors to manage the service on its behalf, or to provide limited services;

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

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

the public authority chooses to manage and provide public services on its own (direct management), but has only limited means and therefore calls upon a private operator to provide certain limited services or work. It pays the operator a contractually-agreed set price;

where new infrastructure is necessary for the provision of the services, the public authority may prefer a more comprehensive build/operate contract, which may include the financing of required infrastructure. These are known as public market contracts under EU law and also referred to as Build, Operate, Transfer (BOT) contracts, or since 2004 in France, as partnership contracts ,

the public authority entrusts a company with responsibility for the full provision of a public service, with the company assuming all or part of the operational risks. Generally, the provision of the service is then financed by fees or charges paid by the end user of the service. The contractor has financial and operating responsibility for provision of the service, but must do so in accordance with the terms set by the public authority encompassing needs to be satisfied, expected performance and prices charged to end users. This is the structure 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 us, most often through acquisition of a private operator already serving a given area.

The historic traditions of the various countries in which we operate 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 their maintenance and may also comprise the financing thereof.

We also enter into outsourcing contracts for the management of complex services with 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.

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Despite differences relating to the nature of customers, the services contracted and the nature of the legal systems in which we operate, the expectations of our 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.

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

Environmental Regulation, Policies and Compliance

Environmental Regulation

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

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

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

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

Water

Water and wastewater treatment activities are highly sensitive to regulation. In Europe and North America, governments have enacted significant environmental laws at national and local level in response to public concern

over the environment. The quality of drinking water and the treatment of wastewater are increasingly subject to regulation in developing countries as well, both in urban and rural areas.

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

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

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

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

The violation of these texts is punished by both civil and criminal law and a company may even be found criminally liable.

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

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Environmental Services

In numerous countries, waste processing facilities are subject to laws and regulations that require service providers to obtain permits from public authorities to operate most of their facilities. The permitting process requires us 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 henceforth applicable in France, strictly regulates the composting of material produced by the treatment of wastewater.

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

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

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

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

The major statutes governing our waste management activities in the United States include the Resource Conservation and Recovery Act of 1976, the Clean Water Act, the Toxic Substances Control Act, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (also known as CERCLA or Superfund), and the Clean Air Act, all of which are administered either by the EPA or state agencies to which the EPA delegates enforcement powers. Each state in which we operate also has its own laws and regulations governing the

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In relation to managing the risk of legionnaires 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.

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

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

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

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

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

Transportation

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

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

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

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

Environmental Policies

We strive to help enhance the quality of life wherever we operate, and have placed the challenges of sustainable development at the heart of our strategy. For this purpose, we focus not only on the preservation of the environment and the protection of natural resources and biodiversity, but also assume its economic and social responsibilities, particularly at a local level where we are committed to stimulating progress.

Our action regarding greenhouse gases

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

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

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

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

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

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

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

In 2008, we commenced the operational phase of our research program on the capture, transportation, use and storage of CO2 and launched preliminary geological studies at industrial sites in the Paris region at which Veolia Propreté operates non-hazardous waste recovery installations and landfill sites (see Chapter 11, Section 11.1.5 above). The study phase of this project was launched in 2005. This solution should contribute in 2050, to a 20 to 30% reduction in greenhouse gases worldwide.

Direct greenhouse emissions on sites that the Group managed in 2008 totaled 47.2 million tons of CO_2 (carbon dioxide) equivalents (compared to 42.8 million tons in 2007).

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

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

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Preserving ecological balances

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

Preserving economic and social balances

We also consider the economic and social factors that underlie the course of development in the countries where we operate, and work to develop solutions that are adapted to local restrictions and to transfer know-how in the geographical areas where our Divisions have operational responsibilities. We favor 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 enables the development of model plans that can be reproduced. In each of our projects, we seek to create a beneficial and educational dimension for the improvement of public health and the protection of the environment. We also try to assist in the development of areas where we provide services.

In 2008, we continued our strategy of forming partnerships with international institutions, reflecting our active participation in the United Nations Global Compact. Projects are focused on themed actions which involve us working alongside UN agencies, local authorities and civil society.

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

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

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

Finally, aware of the need to mutualize resources to a maximum in order to achieve the Millennium Objectives, we joined forces with international financial backers: the International Finance Corporation (IFC), a World Bank

institution, and the *Agence Française de Développement* (French Development Agency) acquired equity stakes in Veolia Water Africa, Middle East and India. Dalkia also entered into a partnership with the Asian Development Bank (ADB) to finance heating and cooling networks in China, and stepped-up its cooperation with the European Bank for Reconstruction and Development (EBRD) for future urban infrastructure in Russia and Ukraine

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

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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 of our employees.

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

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

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

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

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

Through its Foresight Committee, composed entirely of individuals of international reputation and standing, VE Institute 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 our different businesses. This dual capability represents both the originality and the strength of the VE Institute, which intends to be a leading figure in the main environmental debates and issues of the 21st century. For this purpose, the Institute calls on a network of multidisciplinary experts thereby collecting the most relevant ideas on global trends. The VE Institute strengthens its network of academic partners, particularly in emerging countries and develops its program of forward-looking studies. It continued its collaboration with The Energy and Resources Institute (Delhi, India), the Energy Research Institute (Beijing, China) and Tsinghua University (Beijing, China) on a study of the carbon footprint concept in Asian cities and its measurement in two cities, Jaipur in the State of Rajasthan in India and Shijiazhuang in Hebei Province in China. It worked in partnership with the Poverty Action Lab at MIT (Massachusetts Institute of Technology) on a study of air pollution in a poor State of India.

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

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

Together, the work undertaken by the VE Institute 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.

Environmental Compliance

As a specialist in environmental management services, we are naturally concerned about the environmental consequences of each of our businesses, both in France and worldwide. In this respect, we consistently seek to comply with applicable regulations, to meet the needs and demands of our customers and to optimize the techniques we implement. We highlight below some of the more significant environmental actions that we have undertaken without any regulatory or contractual obligation to do so.

Water

Use of Water Resources

We preserve water resources by working to prevent wasteful usage in our own installations and in those of our customers. In this respect, the progressive roll-out of our environmental management system provides, in particular, for the monitoring of water consumption and quality in all of our 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, we installed an indicator to monitor the quality and compliance with regulatory standards of our drinking water. Our industrial water consumption amounted to 530.3 million cubic meters in 2008. Climate changes in certain regions of the world heighten strains on water resources. We study and promote 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).

Waste water

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

Energy efficiency and the use of renewable energies

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

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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 our businesses. We are not only developing biomass, geothermal and solar energy offerings, but are also capturing energy from incineration plants and biogas from landfill sites.

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

Our total energy consumption amounted to 169.6 million MWh in 2008, as a result of the development of our activities.

Use of soils

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

We continue our 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 our 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, we promote 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. We produced 1,231.5 thousand tons of compost in 2008. 51.8% of sludge produced was used in agricultural activities, due to the development of other processing and recovery outlets. We have initiated a quality enhancement program for organic material produced from organic waste and a program to evaluate our agricultural impact (the Quali-Agro program led by CRPE our center for research for environmental and energy services - in coordination with INRA). We are also active in the rehabilitation of polluted soils. Using several processes, including thermal absorption, Veolia Propreté processes almost all the pollutants present in the soil at industrial sites.

Air Pollution

Limiting Greenhouse Gas Emissions

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

Given the differing national and international methods for measuring the production and emission of methane at waste landfill sites, we are unable to provide a reliable measure at this time. Within this context, we decided to further our 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.

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

Furthermore, we actively participate 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.

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Other Emissions

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

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

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

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

Noise and olfactory pollution

We have also developed new processing and storage techniques for odors, particularly in wastewater treatment plants and landfill sites for household waste. We 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

We integrated the protection of biodiversity into the first undertaking of our Sustainable Development Charter and since 2004 have 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, we call on an internal expert who is primarily responsible for analyzing biological tools used to evaluate the ecological state of marine and land life. Moreover, we work with a number of universities and institutions in order to further its knowledge through innovative research programs covering the interaction of its activities and the functioning of ecosystems.

We also carry out a management measures aimed at raising employee awareness and best practices. Such measures include the Geographical Biodiversity Information System, which enables the location of our 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, we are currently working on defining a methodology enabling sites to carry out their own biodiversity appraisals and to implement an appropriate action plan.

In 2008, we 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 us with the integration of biodiversity into our corporate strategy, strengthen our R&D strategic cap thanks to a network of recognized experts and participate in raising awareness among our employees through training measures. IUCN France comprises 44 members (government ministries, public institutions and NGOs) and a network of approximately 250 experts. At the international level, IUCN has been a United Nations observer since 1999.

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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 our different businesses (waste treatment, decontamination stations, combustion facilities, rolling stock depots, etc.).

Evaluation or certification regarding the environment

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

Compliance with applicable legal and regulatory provisions

Our 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 our standards. We have 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, we set an objective of remaining above the threshold of 90% of priority installations audited in the preceding 5 years. As of December 31, 2008, 91.5% of priority installations had been the subject of a regulatory compliance audit.

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

Expenses incurred to preserve the environment

Given the nature of its services, a large majority of our expenditures and investments have a direct impact on the environment. Our industrial investments amounted to €2,893 million in 2008 and include not only investments of a contractual nature, but also expenditures incurred for Research and Development, employee training, our certification program and the implementation of the environmental management system.

Prevention of environmental risks

In addition to the measures described above for the reduction of environmental risks, such as research and development or employee training, we have 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 our 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 our Executive Committee on an annual basis. In addition, our risk department is in charge of identifying, assessing and managing risks. It relies on the work of the Group Risk

Committee.

We have 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 for site closure and post-closure costs

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

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

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

International environmental targets

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

Intellectual Property

We own a number of brands, including the Veolia brand. Since November 2005, we have adopted a new brand strategy aimed at uniting the Water, Environmental Services and Transportation Divisions under the Veolia banner. Three of our divisions remain identifiable according to their business descriptions: Water , Environmental Services or Transportation , while our Energy Services Division is known under the name Dalkia . As a result, the companies at the head of the Water, Environmental Services and Transportation Divisions, as well as most of companies in the countries and regions where the Group is based, are progressively modifying their corporate names in order to include Veolia . This strategy, as implemented by our senior management, illustrates our desire to increase the global consistency of our divisions and our visibility, by strengthening our identity and global culture based on our service values. Accordingly, the Veolia brand will become an international reference for trust, reliability and expertise in the environmental services sector.

Innovation is essential to our growth and profitability. We hold a portfolio of patents protecting the know-how of our Water, Environmental Services, Transportation and Energy Services Divisions and also innovative discoveries of our Research Department. With this patent portfolio and the associated expertise, we set ourselves apart from the competition and strengthen our position as a reference for environmental services.

We believe our business is not dependent on the existence or validity of one or several of these patents nor on any contract covering one or more intellectual property rights. Furthermore, we are not dependent on any customer, major license or industrial, commercial or financial supply contract.

Seasonality

Certain of our 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 our operations and our worldwide presence, our results are, in general, not significantly affected by seasonal variations.

Raw Materials

Fuel prices (mainly gas and coal) can be subject to significant fluctuations. Energy prices have fluctuated widely in the past few years. After a lull at the end of 2006, the price of a barrel of Brent oil nearly tripled from its low in January 2007 ($49) to its high in the summer of 2008 ($145), spurred by fears of potential supply problems in light of geopolitical tensions within the major oil producing countries (Nigeria, Venezuela) and OPEC s reluctance to raise its

production quotas in response to strong global growth. During the fourth quarter of 2008, following the eruption of the global economic crisis, the price of crude oil plummeted, falling in just two months to below its level at the beginning of the year. The general consensus of opinion among energy product analysts is, however, that energy price will increase significantly in the long-term, due to the increasing rarity of known oil reserves, a marked increase in extraction costs and the need to adopt new energy sources in response to growing environmental requirements. However, the timing of this upturn is difficult to forecast, due to the limited visibility of market participants regarding economic growth. Therefore, the possibility of a further drop in commodity prices cannot be excluded. In any event, 2009 should, like 2008, be marked by considerable volatility.

In this context, our 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 us generally include price review and/or indexation clauses which enable us 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.

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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, we are entitled to full compensation in the event of an increase in fuel prices. Approximately 70% of costs are covered by contractual indexing clauses. For those contracts not containing indexing clauses, a fuel hedging policy was implemented in 2008 in order to manage fluctuations in fuel costs. We use derivative instruments for this purpose, whose characteristics (notional, maturity) are defined in accordance with forecast fuel requirements (based on firm orders or highly probable forecast flows). The majority of derivatives used are swaps.

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

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

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

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

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

Finally, with respect to its building activities, particularly in the Water Division, we purchase financial instruments to hedge against increases, in particular relating to the prices of nickel and copper.

Insurance

Objectives of Insurance Procurement Policy

Our insurance procurement policy for all of our operating 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 our businesses and legal or contractual constraints; and

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

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

Implementation of Insurance Procurement Policy

Policy

The aim of our insurance policy is to (i) implement a global insurance coverage policy encompassing all of our 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.

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Implementation

The policy of covering risks through insurance is implemented in coordination with our global risk management process. Implementation takes into account the insurability of risks associated with our activities, the availability of insurance and reinsurance coverage on the market and the premiums proposed compared with the level of coverage, exclusions, limits, sub-limits and deductibles.

The main actions undertaken in 2008 mainly related to:

the renegotiation of third-party liability insurance with recourse to the Group captive reinsurance company, Veolia Environnement Services-Ré;

the adjustment of retention levels under the third-party liability insurance program (retained risk), based on an appraisal of risks and past claims and the evaluation of costs and coverage proposed by insurers;

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

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

the ongoing roll-out of our programs;

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

Main Group Insurance Policies

General 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 our subsidiaries, up to a maximum of U.S.$50 million per claim and per year.

For all our subsidiaries worldwide, an insurance program provides excess coverage of up to €400 million per claim and per year, in addition to the basic coverage of €100 million outside the U.S. and Canada and of €450 million in the U.S.

and Canada in addition to the basic coverage of U.S.$50 million in these countries. This program encompasses liability resulting from environmental damage sustained by third parties as a result of a sudden and accidental event.

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

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

Property Damage and Business Interruption Policies

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

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

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Self-Insured Retention and Deductibles

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

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

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

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

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

We ensure that the main accidental and operating risks brought to our attention are covered by the insurance markets, where insurance is available on the market and it is economically feasible to do so.

ORGANIZATIONAL STRUCTURE

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

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

PROPERTY, PLANTS AND EQUIPMENT

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

The total gross value of our operating assets (including concessions intangible assets, property, plants and equipment and operating financial assets) as of December 31, 2008 was €30,239.4 million (net value of €18,816 million as of December 31, 2008, representing 38% of total consolidated assets), compared to €28,711 million as of December 31, 2007 (net value of €17,820 million).

In the course of our concession businesses, we must ensure the provision of public services (such as distribution of drinking water, heat, transport networks or household waste collection services), for payment for the services

rendered. We usually manage these collective services (also referred to as general services, general economic services or public services) under contracts signed at the request of public entities that maintain the control of assets relating to such collective services. These concession contracts are characterized by the transfer of an operating right for a fixed term, under the control of the public authorities, through appropriate installations built by us or put at our disposal, either free of charge or for a fee. These installations normally consist of pipelines, water treatment and purification plants and pumps in our Water Division, incineration plants in our Environmental Services Division, and heating and co-generation plants in our Energy Services Division.

We are usually contractually bound to maintain and repair assets managed under these public service contracts. In some cases, the related repair and maintenance costs are covered by a performance bond or deposit that can be drawn in the event of delays in work. The nature and duration of rights acquired and our obligations in respect of these contracts differ depending on the nature of the public services we provide.

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

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

Our property, plants and equipment are subject to certain charges, such as maintenance and repair costs and closure or post-closure costs. We own relatively few real estate assets and do not seek to own offices.

Assets financed through direct financing leases, which fall under any of the three categories mentioned above, represented a net amount of €900 million as of December 31, 2008.

RESEARCH AND DEVELOPMENT (R&D)

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

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

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

Research and Development Resources

Our research activities are overseen by Veolia Environnement Recherche et Innovation (VERI). In 2008, this department consisted of nearly 800 professionals worldwide (including 400 researchers and 400 on-site developers) with a total budget of approximately €153.5 million.[11]

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

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

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

[11] Research and development expenditure totaled €92.1 million for the fiscal year ended December 31, 2008 and represents, together with other operational development costs, a total budget estimated at €153.5 million.

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

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

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

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

Innovation: a rationalized approach

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

Strict regulatory, technological and commercial monitoring that enables us to anticipate future needs and proceed with the launch of new research programs as quickly as possible. Laboratory or field tests are then carried out to verify the feasibility of the research. At this stage, analytical modeling[12] may be carried out, depending on the circumstances (that is, exploring functionality and cost containment potential).

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

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

A each step in the innovation process, the collaboration of various entities (research teams, university or private laboratories) is necessary and determines the successful outcome of the research project. Our R&D teams are part of an international network of researchers. They forge links with fundamental research teams, each drawing benefit from

the expertise of colleagues. While these collaborations enriches the knowledge of our R&D department and keeps it up to date, they also provide effective outlets for scientific progress and feedback to our partners. Researchers also work with several top universities and participate in research programs led by national and international institutions. They also share their technological knowledge with industrial players.

Main Research & Development Areas

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

The management and preservation of natural resources

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

[12] 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.

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Limitation of environmental impacts

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

Improving quality of life

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

The development of alternative energy sources

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

More than 70% of our research programs have the goal of limiting greenhouse gas emissions. Relying on an approach aimed at, first, not generating greenhouse gases, and, when that is impossible, reducing those emissions, we aim to control needs, improve processes and energy efficiency and to make use of more renewable energy sources. We also strive to put in place processes to capture, store and upgrade greenhouse gases and anticipate future constraints resulting from climate change.

Improvements for 2008

Inauguration of the Toulouse laboratory and presentation of its activities

On April 10, 2008, a new laboratory was inaugurated at the Environmental Analysis Center (EAC) in Toulouse. This laboratory forms part of a network of seven regional laboratories overseen by the Saint-Maurice central laboratory in Val-de-Marne. The central laboratory directs our analytical research and coordinates this network, which has focused on the environmental quality of our businesses since 2003. It comprises nearly 200 individuals, working on the development of increasingly high-performance analytical techniques and on perfecting existing models. The EAC laboratories are accredited for nearly 80 parameters. The Toulouse laboratory is accredited in the areas of physicochemical measurement, water micro-biology and the analysis of incineration clinker and treatment reagents.

In 2008, the Toulouse laboratory analyzed approximately 212,000 samples and issued over 1.5 million analyses. In five years, the time period for analysis has been reduced from fifteen to six days. In June, the laboratory was authorized by the Ministry for Ecology, Energy, Development and Sustainable Infrastructures to perform fresh and residual water analyses. The laboratory is now qualified to respond to public authority requests relating to the policing

of water, the monitoring of water environments and the verification of wastewater treatment yields. This authorization is the first step in a program covering all EAC laboratories.

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Launch of the French operating phase of a research program focused on the capture, transportation, recovery and storage of carbon dioxide

In March 2008, as part of a research initiative into the capture, transportation, recovery and storage of carbon dioxide, we announced the selected industrial sites in the Paris region where Veolia Propreté operates waste-to-energy recovery installations and non-hazardous waste landfill sites. This selection enables the beginning of the operational phase of the research program and the launch of preliminary geological studies, in partnership with Geogreen. These studies will commence at the Claye-Souilly site in Seine et Marne, which presents favorable geological characteristics for this operation. This solution, the subject of a research program launched in 2005, is expected contribute a reduction in greenhouse gas emissions. The goal of this program is to create a new means of reducing our greenhouses gas emissions, increase our expertise and explore new markets, as well as to enable the offer of a comprehensive range of services relating to the reduction of greenhouse gas emissions.

Commissioning of the automated sorting system

Sorting is a strategic stage in the waste management process, in particular for recycling. Recycling reduces the quantity of final waste and any potential pollution. In addition to reduced use of new raw materials, recycling generally enables energy and water savings in industrial processes and a reduction in greenhouse gas emissions. Using increasingly complex technologies, R&D activities focus on automating sorting centers, whether for waste pre-sorted by households or bulk non-hazardous industrial waste. By improving the quality of sorting activities, automation increases recycling opportunities for materials.

The Self-Adapting Sequential Sorting process was patented by Veolia Propreté in 2007. This process enables several categories of objects to be sorted by a single sorting machine, by re-circulating flows not ejected. As the feasibility of this system has been demonstrated, industrial pilot studies were launched in April 2008. After approval, the system will be industrialized, enabling more detailed sorting and the recovery of more used materials. The goal is to optimize recycling costs, which is fundamental to developing new recovery outlets that are competitive with the processes producing these materials.

Employee and human aspects are also fully integrated into the research approach. The automation of sorting activities is a major research area for improving the work, health and safety conditions of sorting employees. Furthermore, the optimization of sorting activities will, in the long-term, open up new job opportunities in the recycling sector, with the emergence of new recovery markets.

High Performance Drinking Water Production Processes

In 2008, in Annet-sur-Marne (Seine et Marne), we opened a new test platform with pilot processes for testing and optimizing membrane-based drinking water production procedures. This marks a step-up in our efforts to develop high-performance drinking water treatment processes. This platform enables the comparison of three different membrane processes using a common resource and the assessment of the impact of the quality of water produced on changes in supply networks all the way to the customer s tap.

The main objectives of this new facility are to reduce levels of natural organic matter, eliminate micro-pollutants such as pesticides and medical residues, reduce the disadvantages of chlorination, notably with regards to taste and detrimental by-products, and also to control emerging health risks.

The results obtained, in respect of which several patents have been filed, will be used by us to configure high-performing processes minimizing construction and operating costs. Therefore, as environmental round tables are held to discuss the environment and solutions for sustainable development, the search for high-performing technologies is combined with energy and environmental assessments to select the most viable solutions.

Industrial wastewater - Zero Nuisance Piggeries

We and our partners, the Rennes National School of Chemistry (*Ecole Nationale Supérieure de Chimie de Rennes*) and the Finistere Chamber of Agriculture, with the support of European Union joint financing, have developed a Zero Nuisance Piggery (ZNP) prototype, which improves pig slurry treatment so as to better protect the environment. The results of the new process, which enables the recycling of fresh manure flushing water using a membrane bioreactor and the centrifugal treatment of slurry, is of considerable interest to the industry. This process has been patented and is currently being industrialized, with the first examples expected in 2009. Development possibilities are planned in other areas, such as bovine farms.

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Launch of a comparative test platform for photovoltaic solar technologies (Narbonne)

The Group s Energy Research Center is building experimental photovoltaic solar farms at a number of sites. These test farms, one of which has already been installed at an operating site with a second farm scheduled at the research center, will enable a technical and economic assessment of commercialized photovoltaic solutions under real-life conditions, connected to an electricity grid. They will also enable the development of decision-making tools to help size comprehensive solutions adapted to different levels of sunshine. The commercial technologies tested are representative of the leading categories available on the market. This research will also enable the identification of emerging solutions and opportunities to be seized to set us apart in this market.

Measuring uncontained methane emissions at landfill sites

R&D work undertaken by us on measuring uncontained methane emissions at landfill sites was presented to the Global Waste Management Symposium (GWMS), held between September 7 and 10, 2008 in Colorado (United States). The questions raised by this project generate significant interest in the United States, where there is growing awareness of the challenges associated with reducing greenhouse gas emissions and, in particular, emissions from landfill sites. We intend to play a key role in this area through an uncontained emissions measurement program. Three measurement campaigns performed at French and US sites have already enabled several techniques to be tested and a number of techniques that could benefit from specific industrial developments to be identified. This program is supported by ADEME, the U.S. Environmental Protection Agency (EPA) and the EREF foundation.

Protecting drinking water pumped from rivers: development of a crisis management tool for operators based on the modeling of river-based pollution (RIPOST)

Drinking water production plants using surface water are regularly victims of accidental pollution. In a crisis situation, faced with accidental pollution, operators must adopt installation management strategies which reflect the level of resource contamination, such as increasing the treatment rate or momentarily stopping pumping activities. In order to implement tailored solutions, the operator must assess as quickly as possible the impact of the pollution. However the spreading of pollutants in a river depends on a number of complex physicochemical and hydraulic factors. In 2004, our R&D department began developing tailored decision-making tools using recent advances in digital modeling techniques and computing. RIPOST (RIver POllution Simulation Tool) is adapted to the specific needs of our operators of drinking water production plants and models the transfer of pollutants in the watercourse using a bi-dimensional approach. Based on the time and place of pollution, the tool can assess its current position at any time and the period during which it will remain in the area water is pumped. An initial version of RIPOST was developed in 2008 for conservative and dissolved pollution. Other versions, integrating the transfer of complex pollutants such as hydrocarbons or microbiological pollution, will be developed in the coming years.

Veolia Environnement and the Ruppin Institute launch a research partnership in Israel

We have invested in our first research program with the Ruppin Academic Center School of Marine Science and the Environment in Israel. The aim of this program is to develop a new method of monitoring bacterial contamination of seawater using molecular biology techniques. Using detailed knowledge of genetic components, this method is expected to enable the detection and quantification of fecal germs and the determination of their activity level, in order to assess the duration of their presence in seawater and therefore the likely date of contamination. This three-year program is expected to produce a tool which can be used in the field. This development should be of interest to numerous organizations around the world involved in the management of bathing water. It represents an advance on the Coliplage system, currently implemented by us in over 70 coastal sites in France. We and Ruppin are already

partners for the development of the Veolia Environnement Campuses.

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ITEM 4A: UNRESOLVED STAFF COMMENTS

Not Applicable.

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ITEM 5.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

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

OVERVIEW

Major Developments in 2008

Overview

In 2008, we continued our strategy of developing our environmental businesses, while adapting to the consequences of the financial crisis and the economic downturn in the second half of the year. The development of our activities was reflected by a 13.4% increase in revenue (15.8% at constant exchange rates), despite a slowdown in business in the second half, in particular in the fourth quarter in the Environmental Services Division.

This increase in revenue was attributable to acquisitions completed in 2007 and early 2008, as well as revenue growth in all business segments, including a strong increase in engineering and construction activities in the Water Division (including seawater desalination). Organic growth in 2008 was 9.6%.

Our overall operating performance, as measured by operating cash flow at constant exchange rates, also improved. While operating cash flow before changes in working capital declined by 1.0% in 2008, the decline was primarily attributable to foreign exchange rate variations. In contrast, operating cash flow before changes in working capital was positively impacted by the activities of our divisions and holding company, which increased their operating cash flow contribution by 2.0% at constant exchange rates. The improvement was realized despite occasional operating difficulties (in particular delays in passing on price increases in connection with rising costs in the Water Division) and a difficult economic environment (primarily impacting the Environmental Services Division and, to a lesser extent, the Energy Services and Transportation Divisions).

Adjusted operating income declined by 4% at constant exchange rates and by 7% at current exchange rates in 2008, reflecting the same factors that affected operating cash flow, as well as an increase in operating depreciation and amortization charges resulting from recent acquisitions and new contracts. Operating performance was affected by the appreciation of the euro against certain currencies of countries where we have a strong presence (the United States, the

United Kingdom and the Asia-Pacific region), the price of oil products during the first six months and of recyclable materials at the end of the year, and a downward trend in volumes in the Environmental Services Division. Finally, the positive contribution of certain acquisitions (in particular in Germany in the Environmental Services Division) and recent developments (such as new contracts in China) was less significant than expected. We define adjusted operating income below under Presentation of Financial Information in this Section Non-GAAP Measures.

As a result of the downturn in the credit and liquidity markets, access to financial resources was both more difficult and more costly for many companies. However, as a result of the structure and maturities of our debt, we will not face any significant refinancing deadlines until 2012.

In response to the current difficult context, we are implementing a new cost reduction plan (2010 Efficiency Plan) designed to adapt to the current business climate in the Environmental Services Division, and a non-strategic asset divestiture program. As part of this program, we sold Clemessy and Crystal in the Energy Services division in 2008, for an enterprise value (net of cash) of €226.3 million.

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New commercial success within growth markets

We won several major contracts in 2008:

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In February 2008, Veolia Eau, as part of a consortium, won a contract to upgrade and extend a wastewater treatment plant in Warsaw. This contract represents estimated cumulative revenue of €500 million, including €150 million for Veolia Eau.

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On February 13, 2008, Veolia Propreté won a new 25-year PFI contract (Private Finance Initiative) to provide waste recycling in Southwark (London) in the United Kingdom, representing estimated cumulative revenue of €700 million.

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In March 2008, Veolia Transport signed a contract to manage the Beauvais-Billé airport in France. This 15-year contract represents estimated cumulative revenues of €238 million.

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On March 17, 2008, Veolia Propreté won a new 25-year PFI contract to provide waste recycling in West Berkshire, United Kingdom, representing cumulative revenue of €533 million.

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In April 2008, Veolia Environnement signed a contract with Artenius, a subsidiary of the chemical group La Seda de Barcelona, for its Sines plant in Portugal. Veolia Environnement will build and manage the plant for the production of all utilities (steam, electricity, demineralized water, industrial gas and waste water treatment). This 15-year contract represents cumulative revenue of €730 million.

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On April 29, 2008, Veolia Eau, through its subsidiary Veolia Water AMI, won Saudi Arabia’s first ever delegated management contract in the water sector. This six-year contract represents total estimated cumulative revenue of €43 million.

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In May 2008, Veolia Eau, through OTV, a subsidiary of Veolia Water Solutions & Technologies, signed two major contracts with SIAAP, the wastewater authority for Paris. These two construction contracts (Achères and Les Gresillons 2) represent total cumulative revenue of €224 million for Veolia Eau.

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In May 2008, Veolia Eau won a new design-build-operate contract in India for a drinking water production plant in Nagpur, representing estimated cumulative revenue of €20 million over 15 years.

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In June 2008, Veolia Eau signed a contract to build ten water desalination plants in Ras Laffan (Qatar). This contract represents estimated revenue of €305 million.

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In June 2008, Dalkia signed a contract to build and operate an electricity plant based on biomass at the Solvay site in Tavaux (France). This 20-year contract represents estimated cumulative revenue of €500 million.

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On June 12, 2008, Veolia Transport won a contract to manage the Bilbao urban bus transport system (population of 400,000). The contract is for eight years with an additional option for two years and represents estimated cumulative revenue of €305 million for the first eight years.

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On July 8, 2008, Veolia Environnement announced the creation of a joint venture for the construction of the world's largest rooftop solar power station. Annual output from the solar power station, located near Zaragossa (Spain) and operational since the end of September 2008, will be 15.1 million KWh.

On July 30, 2008, Veolia Eau won a contract for the financing, design, construction and operation of two new wastewater treatment plants in Abu Dhabi and Al Ain. This 25-year contract represents estimated cumulative revenue of €461 million.

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In August 2008, Dalkia signed a contract with Smurfit, a paper products company, to build and operate an electricity plant based on biomass. This 20-year contract represents estimated cumulative revenue of € 1 billion.

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On September 2, 2008, Veolia Transport, through its German subsidiary NordWestBahn, won a contract to manage, from December 2010, the entire regional express system (S-Bahn) linking the states of Bremen and Lower Saxony in Germany. This 11-year contract represents estimated cumulative revenue of €500 million.

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On September 25, 2008, Veolia Eau, as a consortium member, won a contract for the first private scheme for recycled water to supply a network of multiple industrial users in Australia. This contract represents estimated cumulative revenue of €99 million over a 20-year period.

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On November 6, 2008, Veolia Eau won two Design, Build & Operate contracts for major wastewater treatment plants in Mullingar and Castlebar in Ireland. These contracts represent estimated cumulative revenue of approximately €74 million over 22 years.

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On December 8, 2008, Veolia China Limited, the Chinese subsidiary of Veolia Transport, signed a partnership agreement with Nanjing Zhongbei. This agreement provides for the creation of a joint venture to operate the transportation systems of six Chinese cities over a period of 30 years. The resulting joint venture is expected to generate revenue in 2009 of over CNY 400 million, or €40 million (including approximately €20 million for Veolia Transport).

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On December 17, 2008, Veolia Environnement, through a consortium formed by its subsidiaries Soval and Dalkia, was awarded the delegated public service contract for the operation of the thermal complex of Hauts de Garonne in France. This 12-year contract represents cumulative revenue of approximately €127 million for Veolia Environnement.

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On December 18, 2008, Veolia Transport, as a consortium member, won a contract for the operation of the future Line 1 of the Mumbai subway. Veolia Transport India will be responsible for all operating activities as well as system maintenance via a joint venture with the Indian company Reliance Infrastructure (70% 30% respectively). The consortium, comprising Reliance Energy (69%), Veolia Transport (5%) and Mumbai Metropolitan Region Development Authority (26%), is responsible for the financing and construction of Line 1, and will hold the relevant assets. This eight-year contract represents estimated cumulative revenue of €70 million.

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In December 2008, Veolia Eau signed a contract to provide drinking water services to the city of Changle in China. This 30-year contract represents estimated cumulative revenue of €294 million.

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In December 2008, Veolia Transport signed a contract to manage the Oise administrative region (*Département de l'Oise*) bus transport system in France. This 12-year contract represents estimated cumulative revenue of €334 million.

As in 2007, a significant number of contracts were renewed in 2008, such as the contracts for the town of Toulon and the Cergy-Pontoise region in France in the Water Division, the contracts for London Borough of Croydon in the

United Kingdom, Montbeliard in France and Pinellas County in the United States in the Environmental Services Division, the contracts for the Town of Saint-Dié in France, Sao Luis in Brazil in the Energy Division, the contracts for Baltimore and Seattle in the United States in the Transportation Division.

The City of Paris has announced its intention to take over responsibility for the management of water distribution activities, when the existing delegation contracts expire in 2009. The Paris contract represented revenue of €140 million in 2008 for Veolia Eau.

We have taken legal action (which is currently pending) relating to the legality of the tender processes that led to the renewal of contracts in favor of other operators in Bordeaux (bus network) and Stockholm (subway management), which were not awarded to us at the end of 2008.

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

On November 19, 2007, Veolia Propreté announced the signature of an agreement for the acquisition of the entire share capital of Bartin Aero Recycling Group, a company specializing in the collection and recovery of industrial waste and in particular the recycling of ferrous and non-ferrous metals. This transaction represents an investment for Veolia Propreté of €189 million (enterprise value). The acquisition was finalized on February 13, 2008 and contributed €246.6 million to Group revenue in 2008.

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In February 2008, following a takeover bid launched on December 17, 2007, Dalkia took a 100% stake in Praterm, a heat production and distribution company in Poland. This transaction enabled Dalkia to strengthen its position in this country, where it already owns two of the largest heating networks in Poznan and Lodz. This transaction represents an investment with an enterprise value of €128 million for Dalkia (group share). The contribution of Praterm to Group revenue for the year ended December 31, 2008 was €37.0 million (Group share).

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In May 2008, Veolia Eau Solutions & Technologies acquired the Biothane Group, which specializes in the biological treatment of wastewater, for $80.5 million (€53.3 million).

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On October 1, 2008, Veolia Environnement purchased Ridgeline Energy in the United States, a specialist in the development of wind energy projects, for an amount of €49.6 million for 100% of the share capital and a potential additional sum for 1,500 MW of ready-to-build capacity.

In December 2008, following approval by European competition authorities, Veolia Transport bought out the 37.71% interest previously held by BCP (Butler Capital Partners) in SNCM (Société Nationale Maritime Corse Méditerranée, which operates ferries between Corsica and mainland France) for an amount of €73 million, thereby increasing the Group's stake in SNCM to 66%.

The divestiture program was stepped up in the second half of 2008 and totaled €761 million for the year (including net borrowings). This amount includes industrial divestitures of €330 million and financial divestitures of €431 million.

The main divestitures in 2008 were as follows:

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We sold the Jean Nicoli boat used by SNCM under a public service delegation contract for €105 million in the first half of 2008.

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On December 16, 2008, we sold the Clemessy and Crystal businesses in the Energy Services Division for an enterprise value of €226.3 million (€299.6 million of proceeds, after deducting net cash balances of the sold businesses). These businesses contributed €696 million to Group revenue in 2007.

Veolia Environnement and MDC V Holding Sarl (Mubadala) formed a joint venture with a view to developing a strategic partnership. This joint venture, owned 51% by Veolia Eau and 49% by Mubadala, will focus on water production and wastewater collection and treatment in the Middle East and North African regions. The transaction was finalized on December 30, 2008.

Presentation of Information in this Section

Definition of organic and external growth

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

The term external growth includes growth through acquisitions (completed in the period or which had only partial effect in the prior period), net of divestitures, of entities that hold multiple contracts and/or assets used in one or more markets.

Non-GAAP Measures

We use a number of non-GAAP financial measures to manage our business and to supplement our financial information presented in accordance with IFRS. Non-GAAP financial measures exclude amounts that are in the nearest IFRS measures, or include amounts that are not in the nearest IFRS measures. We discuss below the non-GAAP financial measures that we use, the reasons why we believe they provide useful information and the location in this Section where they are reconciled to the nearest IFRS measures. You should not place undue reliance on non-GAAP financial measures or regard them as a substitute for the nearest IFRS measures. Further, these non-GAAP financial measures may not be comparable to similarly titled measures used by other companies, and are not meant to be predictive of future trends in results of operations, financial condition or cash flow.

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

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

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

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

In addition, we use adjusted operating income as a tool to manage our business, for purposes of evaluating our performance and allocating resources internally. Adjusted operating income is a component of the calculation of ROCE (defined below), which is one of the elements that we use to determine compensation of our senior executives. Adjusted operating income and Adjusted net income attributable to equity holders of the parent are reconciled to operating income and net income attributable to equity holders of the parent, in each case for the years ended December 31, 2006, 2007, and 2008 under Results of Operations Year ended December 31, 2008 compared to Year ended December 31, 2007 and Results of Operations Year ended December 31, 2007 compared to Year ended December 31, 2006.

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

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

Critical accounting policies

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

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

Pension Liabilities

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

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In accordance with IFRS requirements, we use market yields of high quality corporate bonds with a maturity similar in duration to the pension liabilities to determine the discount rate at the balance sheet date when available. If no such market yields are available, then we use the yields on government bonds with a maturity similar in duration to the liabilities. We estimate future compensation based on inflation rates estimated using a combination of the spread between index linked and non-index linked bonds, current inflation rates, and published statements of central banks and economists with respect to inflation prospects. We use mortality tables published by national statistical agencies in our evaluations, reviewed periodically to ensure that the latest available tables are being used. The assumptions used to measure pension liabilities as of December 31, 2008 are described in Note 32 to the consolidated financial statements.

As of December 31, 2008, a 1% increase in the discount rate would have decreased our aggregate pension benefit obligation by €191 million and our current service costs by €9 million. A 1% decrease in the discount rate would have increased the benefit obligation by €226 million and the current service costs by €12 million.

As of December 31, 2008, a 1% increase in the inflation rate would have increased our aggregate pension benefit obligation by €206 million and our current service costs by €9 million. A 1% decrease in the inflation rate would have decreased the benefit obligation by €179 million and the current service costs by €8million.

Asset Impairment

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

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

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

As of December 31, 2008, a 1% increase in the discount rate applied to each cash generating unit would have resulted in an increased goodwill impairment charge of approximately €360 million (including €143 million for the "Environmental Services – Germany" cash generating unit, and €28 million for the "Transportation – Other European" cash generating unit), and a 1% decrease in the perpetual growth rate applied to each cash generating unit would have resulted in an increased goodwill impairment charge of approximately €256 million (including €110 million for the "Environmental Services – Germany" cash generating unit, and €19 million for the "Transportation Other European cash generating unit).

Deferred Taxes

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

A deferred tax asset is recognized to the extent that it is probable that we will 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.

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Financial Instruments

The recognition and measurement of financial assets and liabilities is governed by IAS 39, *Financial instruments: recognition and measurement*. Financial assets are classified as available-for-sale, held to maturity, assets at fair value through profit and loss, asset derivative instruments, loans and receivables and cash and cash equivalents. Financial liabilities include borrowings, other financing and bank overdrafts, liability derivative instruments and operating payables. These categories and their implications for our consolidated financial statements are described in Note 1.15 to our consolidated financial statements.

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

Derivative Financial Instruments

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

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

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

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

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

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

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

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

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

the effectiveness of the hedge is demonstrated at inception and by regular verification of the offsetting nature of movements in the market value of the hedging instrument and the hedged item. The ineffective portion of the hedge is recorded at fair value through profit and loss.

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The use of hedge accounting has the following consequences:

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

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

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

Accounting for concessions

Concession agreements are accounted for in accordance with IFRIC 12, *Service Concession Arrangements*, published in November 2006. This interpretation, which was approved by the European Union on March 26, 2009, is applicable to periods beginning on or after January 1, 2008. In fiscal year 2006, Veolia Environnement elected to adopt IFRIC 12 early, and this change in accounting method was applied retrospectively in accordance with IAS 8 on changes in accounting method.

The application of IFRIC 12 is complex and is described in detail in Note 1.21 to our consolidated financial statements. As a general matter, a contract is considered a concession agreement under IFRIC 12 if a public sector customer (the grantor) controls or regulates the services that we must provide with the infrastructure that we use, to whom the services must be provided and at what price, and if the grantor controls a significant residual interest in the infrastructure. Pursuant to IFRIC 12, the infrastructure used in a concession is not considered to be part of our property, plant and equipment, but instead we recognize financial assets or intangible assets (depending on the nature of our payment rights) in respect of the concession contracts.

Discontinued operations

In accordance with IFRS 5, the 2007 income statement (and comparative 2006 data) has been restated to take into account the divestiture of Clemessy and Crystal in the Energy Services Division in December 2008, which are presented in Net income from discontinued operations (figures in this section for those periods are restated). In accordance with the reciprocal purchase and sale agreement signed on December 19, 2008 between Suez Environnement and Veolia Environnement, completion of which is expected in 2009, certain assets jointly held with

Suez Environnement were also reclassified in the balance sheet as Assets classified as held for sale and Liabilities directly associated with assets classified as held for sale .

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RESULTS OF OPERATIONS

Year ended December 31, 2008 compared to year ended December 31, 2007

Revenue

Overview

The following table shows a breakdown of our revenues in 2007 and 2008:

2008 *(in € millions)*	2007 *(in € millions)*	% change 2008/2007	of which organic growth	of which external growth	of which currency fluctuation
36,205.5	31,932.2	+ 13.4%	+9.6%	+6.2%	-2.4%

Our consolidated revenue increased by 13.4% (15.8% at constant exchange rates) to €36,205.5 million in 2008 compared with €31,932.2 million in 2007. Organic growth amounted to 9.6%, boosted by dynamic commercial development within all the Group's businesses and highlighted by work on new engineering and construction contracts in the Water Division. The increase in energy prices contributed €473 million of additional revenue within the Energy Services Division.

External growth was 6.2%, particularly due to acquisitions by Veolia Propreté in Germany, Italy and France (total contribution of €828.6 million in 2008), by Veolia Energie in the United States (€303.5 million) and by Veolia Eau, primarily in the United Kingdom and Japan (total contribution of approximately €268.4 million).

Revenue from outside France amounted to €21,682.6 million in 2008, or 59.9% of total revenue, compared with 57.5% in 2007.

The net negative impact of foreign exchange rates of €778.3 million mostly reflected the depreciation of the US dollar (negative €191.4 million) and the British pound (negative €437.3 million), partially offset by the appreciation of the Czech Koruna (€109.0 million).

The following table shows a breakdown of our revenues by division in 2007 and 2008:

(in € millions, except for %)	2008	2007	% change 2008/2007
Water	12,557.9	10,927.4	**+ 14.9 %**
Environmental Services	10,144.1	9,214.3	**+10.1 %**
Energy Services	7,449.4	6,200.4	**+ 20.1 %**
Transportation	6,054.1	5,590.1	**+ 8.3 %**
Total revenue	36,205.5	31,932.2	**+ 13.4 %**
Total revenue at constant 2007 exchange rates	**36,983.8**	**31,932.2**	**+ 15.8 %**

Water

The following table shows a breakdown of our revenues within the water division in 2007 and 2008:

2008 *(in € millions)*	2007 *(in € millions)(1)*	% change 2008/2007	of which organic growth	of which external growth	of which currency fluctuation
12,557.9	10,927.4	+14.9 %	+ 13.4 %	+3.3 %	- 1.8 %

In France organic growth amounted to 3.4% (excluding foreign construction subsidiaries and entities), as a result of price indexing, a wider service offering and growth in engineering work, which offset the approximately 1.9% drop in the volume of water distributed in 2008 as compared to 2007.

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