VEOLIA ENVIRONNEMENT
Form 20-F
April 19, 2010

As filed with the Securities and Exchange Commission on April 19, 2010

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, 2009

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 s name into English)	75116 Paris, France	(Jurisdiction of incorporation or organization)
	(Address of principal executive offices)	

Olivier Orsini, Secretary General, 36/38 avenue Kléber, 75116 Paris France 011 33 1 71 75 01 26

(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:

493,630,374 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, Item 8. Financial Information Consolidated Statements and Other Financial Information Significant Changes 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 with IFRS 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]	**2009**	**2009**	**2008**	**2007**	**2006**	**2005**
INCOME STATEMENT DATA:						
Revenue	49,774.2	34,551.0	35,764.8	31,574.1	27,653.1	24,684.9
Operating income	2,910.2	2,020.1	1,960.8	2,461.1	2,108.4	1,867.7
Net income from continuing operations	1,274.5	884.7	570.0	1,273.9	985.1	801.4
Net income (expense) from discontinued operations	(61.7)	(42.8)	139.2	(19.1)	9.8	(6.3)
Minority interest	371.4	257.8	304.1	326.9	236.2	172.9
Net income attributable to equity holders of the parent	841.5	584.1	405.1	927.9	758.7	622.2
Net income attributable to equity holders of the parent per share Basic[2]	1.79	1.24	0.88	2.13	1.88	1.55
Net income attributable to equity holders of the parent per share Diluted[3]	1.79	1.24	0.87	2.11	1.86	1.55
Net income from continuing operations attributable to equity holders of the parent per share Basic[2]	1.92	1.33	0.71	2.19	1.87	1.58
Net income from continuing operations attributable to equity holders of the parent per share Diluted[3]	1.92	1.33	0.71	2.17	1.85	1.57
Dividends per share	1.74	1.21[4]	1.21	1.21	1.05	0.85
Number of shares (adjusted to reflect changes in capital)	493,630,374	493,630,374	472,576,666	471,762,756	412,626,550	407,872,606
BALANCE SHEET DATA (AT PERIOD						

END):

Equity attributable to equity holders of the parent	10,747.7	7,460.6	7,001.2	7,612.9	4,360.8	3,790.2
Minority interests	3,846.5	2,670.1	2,530.5	2,577.8	2,192.6	1,888.0
Total assets	71,765.9	49,816.7	49,126.1	46,306.9	40,123.7	36,381.0
Total non-current assets	42,634.6	29,595.0	30,041.8	28,970.4	25,100.0	22,834.9
Total non-current liabilities	31,734.8	22,028.9	21,320.0	18,045.4	18,056.3	16,934.0

CASH FLOW DATA:

Net cash flow from operating activities	5,707.9	3,962.2	3,750.0	3,634.6	3,389.6	3,163.7
Net cash from (used in) investing activities	(2,394.1)	(1,661.9)	(3,335.1)	(4,018.4)	(2,904.0)	(2,407.6)
Net cash used in financing activities	(776.9)	(539.3)	289.6	940.8	(71.5)	(3,152.8)
Purchases of property, plant and equipment	(3,552.1)	(2,465.7)	(2,780.6)	(2,518.7)	(2,017.6)	(1,837.1)

(1)

For your convenience, we have converted the euro amounts of our selected financial data into U.S. dollars using the December 31, 2009 rate of $1.00 = €0.69415. 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)

Pursuant to IAS 33, the weighted average number of shares outstanding taken into account for the calculation of 2008, 2007, 2006 and 2005 net income per share was adjusted following the distribution of a share dividend in June 2009 (cf. Note 26 of our Consolidated Financial Statements). Based on the weighted average number of shares outstanding in each period for the calculation of basic earnings per share, equal to 471.7 million shares in 2009, 462.2 million shares in 2008, and 434.8 million shares in 2007, 403.6 million shares in 2006, and 400.4 million shares in 2005.

(3)

Pursuant to IAS 33, the weighted average number of shares outstanding taken into account for the calculation of 2008, 2007, 2006 and 2005 net income per share was adjusted following the distribution of a share dividend in June 2009 (cf Note 26 of our Consolidated Financial Statements). Based on the weighted average number of shares outstanding in each period for the calculation of diluted earnings per share equal to 471.7 million shares in 2009, 464.0 million shares in 2008 and 439.8 million shares in 2007, 407.2 million shares in 2006, and 402.4 million shares in 2005.

(4)

Amount of dividend distribution per share to be proposed to the Annual Shareholders Meeting of May 7, 2010.

(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;

the entities of the U.S. waste-to-energy activity in Environmental Services (Montenay International) and Freight activities (essentially in France, Germany and the Netherlands) divested in the second half of 2009;

Transportation activities in the United Kingdom and renewable energy activities in the process of divestiture at the year end 2009, are presented in a separate line, Net income from discontinued operations, for the years ended December 31, 2009, 2008, 2007, 2006 and 2005.

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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, 2010, our shareholders will decide on a dividend payment proposed to be €1.21 per share in respect of our 2009 fiscal year, which will be paid beginning on June 9, 2010. 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 14, 2010 and end on May 31, 2010. Subject to the approval of the general shareholders meeting, new shares will be issued with a discount of 10% off the average opening price on Euronext Paris of the shares over the twenty trading days prior to the day of the general shareholders meeting approving the dividend, 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 June 8, 2009, we paid a dividend of €1.21 per share in respect of our 2008 fiscal year. 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.

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 2005 through April 2010 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	**Period**	**Average**		
U.S. dollar/Euro	**End**	**rate***	**High**	**Low**
April 2009 (through April 9th, 2010)	1.35	1.34	1.36	1.33
March 2010	1.35	1.36	1.38	1.33
February 2010	1.37	1.37	1.40	1.34
January 2010	1.39	1.42	1.45	1.39
December 2009	1.43	1.45	1.51	1.42
November 2009	1.49	1.49	1.50	1.46
October 2009	1.47	1.48	1.50	1.45
Year				
U.S. dollar/Euro				
2009	1.43	1.39	1.51	1.25
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

*

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 = €0.69415, the Noon Buying Rate on December 31, 2009. On April 9th, 2010, the exchange rate as published by Bloomberg at approximately 1:00 p.m. (New York time) was $ 1.3468 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.

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 16.2% of total Group revenue in 2009), 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.

Some of our activities could cause damage to persons or property

Some of our activities could cause damage to persons (including injury or death), business disruption, and damage to real or personal property. It is our general policy to contractually limit our liability and to take out insurance policies that cover our main accidental and operational risks. However, these precautions may prove to be insufficient, and this could generate significant costs for us. For more information, please refer to the risk factors describing environmental, health and safety compliance, below.

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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. For example, Dalkia generates the bulk of its operating results in the first and fourth quarters of the year, corresponding to periods in which heating is used in Europe, while in the water sector, household water consumption tends to be highest between May and September in the northern hemisphere. Accordingly, these two businesses may be affected by significant deviations from seasonal weather patterns. This risk is offset in certain cases, first by the variable compensation terms included in contracts, and second by the geographical coverage of our businesses. The impact of weather conditions, together with the seasonal nature of the Group s 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 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 was set up in 2005, led to the creation of National Allowance Allocation Plans (NAAP).

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

The risk 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.

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

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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 proven 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 amounts sufficient to cover the resulting additional

costs, or of obtaining such amounts only after the passage of time.

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.

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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 sign 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 we provide. 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 damages or lead us to incur liability 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, for serious environmental damage or threat of damage. This directive was enacted into French law on August 1, 2008 and extends the scope of strict liability for certain serious environmental damage. 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 certain sites at the end of their operating life, making the accrual of provisions mandatory under certain conditions. In addition, we may be required to pay fines, repair damage or undertake improvement work, even when we have conducted our activities with all due 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.

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 programs, or may be only partially covered. The obligation to take certain measures or compensate for such damage might have a material adverse effect on our activities, our resources, or our profitability. Accordingly, the Group focuses considerable attention on controlling health risks, whether relating to the operation of its installations or resulting from environmental pollution which conventional treatment methods cannot fully correct. In particular, this may concern the development of air- or water-borne bacteria, which are increasingly well identified, or the exposure of individuals (Company employees or third parties) to chemical and/or dangerous products or substances.

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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.

In France, the Group operates installations with characteristics similar to those covered by the Seveso regime (only certain of which are classified as AS under the ICPE system). We have decided to apply all or part of the Seveso regime at certain of these sites, such as at the hazardous waste incineration facility operated by SARP Industries (Veolia Environmental Services) in Limay in the Yvelines. As a result, we are subject to the same care standards and bear the associated costs as at sites that are covered by the Seveso regime.

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.

We are also subject to risks related to fluctuations in interest rates. As of December 31, 2009, approximately 48.7% of our outstanding financial debt bore interest at floating rates, after taking into account hedging instruments (see Note 29.1.1 to our consolidated financial statements). Fluctuations in interest rates may also affect our future growth and investment strategy since a rise in interest rates may force Veolia Environnement to finance acquisitions or investments or refinance existing debt at a higher cost in the future.

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

The prices of our energy and other commodity supplies are subject to significant fluctuations and represent major operating expenses in our businesses. Although most of our contracts include tariff adjustment provisions that are intended to pass on any changes in the price of supplies, often using price indexing formulas, certain events may prevent us from being fully protected against such increases, such as time lags between fuel price increases and the date when we are authorized to increase prices to cover the additional costs, or a mismatch between the price-increase formula and the cost structure (including taxes). 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.

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 recycled raw

materials (paper and ferrous and non-ferrous metal). A significant and long-term drop in the price of recycled raw materials, combined with the impact of the current economic crisis on volumes, has affected and could continue to affect our operating results.

Changes in certain cogeneration contracts may affect our business

We are exposed to risks associated with fluctuations in electricity prices, primarily through Dalkia, which is a power producer with approximately 7,151 MW of installed power capacity. While a majority of the production installations are operated under purchasing regimes that insulate us from electricity market risks, we have direct market exposure with respect to production in the United Kingdom and Italy (73 MW installed capacity), as well as exposure to local market fluctuations with respect to approximately 2,000 MW of installed capacity, principally in the United States and Central and Eastern Europe. In addition, purchase commitments in France with respect to a total of approximately 736 MW of installed capacity are scheduled to expire between January 2011 and November 2013, increasing our potential risk. While we intend to manage this risk through the use of contracts with counterparties active in these markets, we cannot assure you that these methods will be effective to protect us from these risks.

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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. 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.

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 J. Clarke. He can be reached at Veolia Water America LLC, 200 E. Randolph St., Suite 7900, Chicago, IL 60601.

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), as well as a 50-year concession for Paris (1860) and its suburbs (1869).

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

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

In April 1999, in order to better distinguish the separate existence of its two main businesses, communications and environmental services, Vivendi created our Company under the name Vivendi Environnement to conduct all of its environmental management activities, which were then conducted under the names Veolia Water (Water), Onyx (Environmental Services), Dalkia (Energy Services) and Connex (Transportation).

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

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

From 2002 to 2004, Vivendi Universal progressively decreased its stake in our Company through successive disposals and dilution and held only 5.3% of our shares by December 2004. Since July 6, 2006, Vivendi no longer holds any shares in our Company.

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

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

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In November 2005, we rolled out a new brand system aimed at increasing consistency between our Divisions and our visibility by strengthening the identity and common culture of Veolia Environnement around our service values. Our Water, Environmental Services and Transportation Divisions are now united under a single brand, Veolia , which is linked to the name of their activity. Our Energy Services Division primarily operates under the brand Dalkia .

BUSINESS OVERVIEW

Our Market

Environmental management services, comprising drinking water treatment and distribution, wastewater treatment and collection, waste management, energy services (excluding the production, trading and sale of electricity) and transportation are now recognized as a separate business sector. Private customers view these services as similar and seek the expertise of a service provider able to supply a comprehensive service. Public sector customers are also aware of the benefits of grouping together these services, however, such customers are often constrained to contract separately for these services due to administrative and budgetary structures or regulatory restrictions regarding contract awards. The need to take action to prevent further damage to the environment has, nonetheless, become a global reality. There is a growing need for excellence and efficiency, which has led decision-makers to seek a global approach to the management of activities having an impact on the environment with a view to developing solutions that allow interaction between and optimization of these environmental management services. These measures, now widely accepted, 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 on a lower cost basis; they therefore seek the legal security offered by an operator that accepts responsibility for the management of these activities. Expertise in environmental regulations is a determining factor in the choice of operators and an asset that sets us apart from the competition.

In addition, public demand, which now widely reflects a concern for sustainable development, must 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 sustainable management, are needed in order to provide growing urban populations with tailored environmental services and to replace obsolete environmental infrastructures.

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

However, these financial constraints could also encourage public authorities and private 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, who is able to provide performance commitments. This offers numerous opportunities to companies who are able to propose a wide range of integrated environmental management services. Increasingly, they expect service offers that reflect their specific requirements, are adaptable, and 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 high-quality services at competitive prices.

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Our Customers

We provide environmental management services to a wide range of public authorities, industrial and service-sector customers and private individuals around the world.

Public Authorities

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

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 Partnership, or PPP) based on whether operating rights are transferred and the extent to which we assume operating risks, and depending on whether the contract focuses on a service to be provided or the construction of infrastructure.

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 recovering them at the end of the contract. Two main categories of these contracts have emerged, although, together, they are often referred to as PPPs. In the first category, which includes contracts belonging to the market category, the resources intended to cover the cost of infrastructure and 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 category, which includes contracts equivalent to concessions under European Union law, the resources must be obtained through the commercial operation of the public service (i.e. the public or general-interest service whose operation has been delegated), which is the main purpose of the contract, with the construction of infrastructure only providing the necessary means. Different IFRS accounting treatments apply in each case (depending on whether a financial asset corresponding to a receivable from the public authority is recognized or not). It is also possible 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, the public authorities decided to encourage a type of global PPP contract whereby public authorities contract with a private enterprise that undertakes the financing, construction, maintenance and/or operation (or provision of services directly to the end-user) in exchange for periodic installment payments from the public authorities. To this end, the Order of June 17, 2004 created a new category of public works contract, classified as a partnership contract (*contrat de partenariat*). This reform was introduced to address restrictions arising under prior regulations. In particular, public bodies had previously not been authorized to enter into contracts governed by private law when those contracts delegated both the construction and operating responsibilites to the private entitiy; similarly, under the prior French regulations, private law could not govern contracts that included project financing, whenever there was no accompanying operating concession or delegation of public interest services paid by users.

At EU level, on November 19, 2009, the European Commission published a major communication recommending the development of Public Private Partnerships (PPP). According to the Commission, this term encompasses all long-term contracts where a private enterprise is charged with construction, operation and financing, irrespective of whether the contract takes the legal form of a concession or a procurement contract. It highlights the economic benefits of PPPs which should respond to the need for current and future investments in public services.

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This model, characterized by a contract between the public entity responsible for a service and the company operating this service, whatever its legal form, is frequently used, but is not the only model available. The expansion 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 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, which are 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 with and maintenance of privately-owned water installations (located on private property after the water meter) and heating and gas installations.

Industrial and Service Sector Companies

We offer our industrial and service sector customers a wide range of services, covering two major environmental goals: on the one hand, providing customers with and optimizing consumption of the utilities necessary for their industrial processes (steam, industrial heating and cooling, process water, demineralized water, compressed air, etc.) and, on the other hand, 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 allow for variation in services to account for changes in the customer s needs and 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 creation, our strategy has been aimed at strengthening our position as a global reference in the expanding environmental services market. Going forward, our ambition is to set the corporate standard in sustainable development.

We are the sole international company focused entirely on the environmental services business, operating through four Divisions: Water, Environmental Services, Transportation and Energy Services. We operate both in France and abroad, serving a customer base primarily composed of public authorities, but also including industrial and service sector customers.

We provide most of our services under secured long-term contracts that generate recurring income. The services rendered must be tailored to the specific requirements of each customer. Achieving both economic efficiency and environmental performance is time-consuming and the length of the contract term allows performance gains to be generated over time as part of an overall strategy encompassing technical, management and social considerations.

Over the past fifteen years, we have demonstrated our ability to develop management models adapted to different countries and, as a result we now carry on over half of our business outside of France. 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 Europe, the historical home of our businesses, we are also focusing on the countries of North Asia, particularly China, where there is an important need for service requirements linked to urban growth that meet environmental standards. We are also focused on North America and the Middle East and the Persian Gulf.

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Over-and-above improving economic and financial performance, essential to a solid balance sheet and creating shareholder value, we aim to maintain and strengthen our performance with innovation, helping us to stay substantially ahead of the competition and anchor our corporate performance in the long-term, thanks to which the employability and professional satisfaction of employees can be maintained in a spirit of solidarity as technology evolves. We also aim to improve our contribution to society, by supporting the common good on behalf of customers in territories where we operate. Veolia Environnement aims to be an exemplary company, adopting a balanced and responsible approach in all areas.

Adapting our strategy to the economic climate

In order to maintain this potential over the long-term, we must continually adapt. We are therefore strengthening our efficiency and cost reduction program, maintaining our efforts in the Environmental Services sector, primarily with a view to turning around activities in Germany and Italy and continuing to rotate our asset portfolio through a structured arbitrage policy.

Until 2007, Group growth was mainly organic and profitable. External growth transactions in 2007 and 2008 were financed by a share capital increase in 2007 and internally generated profits. As such, we currently enjoy a healthy financial structure. No major debt repayments are due before 2012 and the average maturity of debt is ten years, with 64% of net debt in the form of bonds.

Our profitability suffered a mechanical dilution due to strategic acquisitions focused on providing high quality platforms, notably in Germany, to strengthen the Group s positions and assets with a longer pay-back, which represent an inherent part of the Group s long-term contracts, but which enable us to continue our development in growth sectors, particularly in the United States and China. We hope to achieve an increase in Group profitability from the improved profitability of recent acquisitions and a more balanced split between assets with a longer pay-back and other Group assets. In addition, measures already implemented in 2009 and which will be continued in 2010 (reduction in the cost base and rotation of the asset portfolio) will help accelerate a return to higher profitability in the short-term. (see Item 5 Operating and Financial Review and Prospects).

Investment activity will be subject to increased vigilance, with the application of more stringent selection criteria. This explains our decision to encourage profitable organic growth offering high added value, which mobilizes our discriminating expertise in complex, global challenges. We are also continuing our asset disposal plan. The disposal of assets with a value of some €3 billion is now scheduled for the period 2009-2011 (after generating €1.3 billion in 2009), in order to internally generate the resources necessary for long-term growth. Finally, we plan to accelerate the cost reduction program launched pursuant to strategic objectives set in 2007, in order to adapt the Company to the global economic crisis. Cost savings are targeted to reach €250 million in 2010. This program to reduce the cost base will become a permanent program that will be overseen by the newly created Operations Department.

We believe that the decentralized structure of the Group allows us to be highly reactive. The success of the measures described above will require substantial efforts at all levels of Veolia Environnement, which will be placed under greater pressure. This decentralized structure, organized along geographical lines, was reinforced in 2008. It is based on the appointment of Company 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 transversal and primarily involves, at a local level, the coordination and implementation of the strategy and commercial policy of the Company and its subsidiaries, the representation of the Group and its businesses and the implementation of shared and mutualized resources. Coordination within each region will be the responsibility of persons chosen notably among Division Chief

Executive Officers that are members of the Group s Executive Committee. The aim is to satisfy the demands of our customers for a single contact able to provide a comprehensive response to major transversal challenges, such as climate change and taking account of the rarity of essential resources such as water, air and energy.

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By adapting to 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 of growth opportunities 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%.

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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 from 500 to 650 kg per inhabitant. 30% of current energy consumption could be optimized without the need for any major technological change.

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

The Group has taken a proactive approach to these challenges and offers ways of accelerating or facilitating the necessary or foreseeable changes that may be decided by its partners and, more generally, by our companies and all other players. This approach is primarily reflected by a research and development policy and the practical development of technological innovations. We are also focused on the systematic development of synergies between current and future components of our activities and businesses and pay constant attention to optimizing our teams. We concentrate on best practices and professional skills of team members and contractual engineering that progressively integrates a thriftier management of natural resources (water, energy, raw materials, public spaces, etc.)

We must build on our strengths, which include our presence in markets that are structurally buoyant, our large asset base, our major competitive advantages, our reactivity and proximity to customers, in order to become the corporate benchmark for sustainable development. Within this framework, the Group aims to restore profitability, in order to achieve profitable organic growth, without increasing debt, thereby achieving a balance between growth and profitability.

Our Strategy by Division

Water

Our Water Division intends to continue expanding its services around the world, while striving to ensure the quality and safety of the water it provides, the conservation of natural resources and the protection of the environment.

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

population growth and higher urban density;

the tightening of environmental standards and health regulations;

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

the on-going refocusing of industrial customers on their core business.

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. We focus, in particular, on developing employee skills to enable us 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, business trends in the Water Division are characterized by the continued sustained pace of long-term international development opportunities (despite the current economic climate), the maturity of its larger contracts and productivity gains resulting from efficiency programs that have been implemented (encompassing purchases, information systems and sharing of best practices).

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Environmental Services

Through our Environmental Services Division, we intend to continue expanding as the global benchmark in this sector.

Demand in this sector is rising, driven by growing environmental awareness resulting in increased regulation and higher public expectations in a number of countries and the dawn of a new age where raw materials and energy are rare, accelerating the transformation of waste treatment and recovery methods. As a result, experts who can provide long-term services under cost-effective conditions and in compliance with environmental regulations are highly sought after.

In this favorable market environment in Europe, the United States and the Asia-Pacific region, Veolia Propreté will focus its efforts to:

increase the profitability of its activities by renegotiating fees, maximizing the use of its production tools and reducing structural costs, while seeking, wherever possible, to generate economies of scale with the Group s other businesses.

enhance its waste processing capabilities, by accompanying the transformation of waste processing methods and developing its recovery technologies;

strengthen its competitive advantages and the added value offered by its services, while developing the technical content of its businesses and capitalizing on its command of the entire waste management chain, in order to offer industrial and municipal customers comprehensive waste management solutions.

Energy Services

Through our Energy Services Division, we are a world leader in the management of energy services. The Energy Services Division specializes in the provision of energy services and is present in forty-one countries around the world. The opportunities in this sector are significant, due to the increase over a long period of energy prices and greater public awareness of environmental problems. These are linked, in particular, to the risk of climate change and have led to the search for solutions such as Dalkia s initiatives to reduce the production of greenhouse gases and encourage energy conservation. Political and regulatory developments in 2009 (European Union energy-climate package, global negotiations in preparation of the Copenhagen conference), further strengthened this favorable context.

Dalkia s development strategy is focused primarily on heating and cooling networks, energy management in service sector buildings and retail centers, handling of industrial utilities, as well as 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 we make the pursuit of these two objectives a priority, while providing expertise and service.

Dalkia s development strategy focuses on the following geographical priorities:

continued growth in Europe across all its business sectors;

the development of large cooling networks in the Middle East, as well as entering the Russian market for heating networks;

the strengthening of its presence in North America, particularly the United States, by offering management services for networks, industrial utilities, shopping malls and health centers;

the business development in China (networks and industrial utilities).

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

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Transportation

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

Between 2000 and 2030, the proportion of the world population living in urban areas is expected to increase from 50% to 60%, and urban transportation needs are expected to increase by 50% by 2020 (source: International Association of Public Transport). These demographic changes raise concerns regarding the environment and urban congestion and help make public transportation services a major concern for local authorities and city dwellers. In addition, the Transportation business is linked to the environmental performance of towns and regions, regional competitiveness, development and growth, the identity and solidarity of citizens and quality of life.

The major challenges in this sector are related to the ever-increasing need for new transport infrastructure and the growing demand to customize mass transport, create attractive public transport networks, address environmental concerns and deal with the direct and indirect costs of automobile congestion.

Veolia Transport s strategy focuses on improving performance in our core business of passenger transportation, with the following priorities:

continuing efforts in marketing, innovation and sustainable development to constantly improve customer satisfaction;

constantly improving business expertise in all local land transportation methods;

giving geographical priority to a small number of countries based on the attractiveness of markets and the intensity of local competition;

innovating both in new mobility sectors (e.g. bikes, car-sharing, collective taxis) and in information and energy technologies.

Furthermore, we are currently discussing a combination of our Transportation business with Transdev, owned by the Caisse des Dépôts et Consignations and the RATP (see Item 8: Financial Information Consolidated Statements and Other Financial Information Significant Changes , below).

Our Services

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.[1] In addition, Veolia Eau, through its subsidiary Veolia Water

Solutions & Technologies, is a world leader in the conception of technological solutions and the construction of structures for the performance of such services. Veolia Eau provides drinking water to more than 95 million people, and supplies 66 million people with wastewater services.

As of December 31, 2009, Veolia Eau has 95,789 employees around the world.[2] The Water Division is present in more than sixty-six countries, principally in France for historical reasons, but also in the United Kingdom, Germany, Italy, Belgium, the Netherlands, the Czech Republic, Slovakia and Romania. The Asia-Pacific region (mainly China, Korea, Japan and Australia) also remains an important development objective, with the signing of a number of significant contracts with municipal and industrial customers over the past several years. Veolia Eau also has a presence in the United States through its contracts for the operation and maintenance of water and wastewater treatment plants, including its contract with the cities of Indianapolis and Milwaukee. Finally, we have established a presence in the Middle East and Africa, primarily in Morocco and Gabon. Thanks to our coordination of a network of research centers in France and abroad, Veolia Eau has mastered numerous major technologies and tools within the water sector. Veolia Eau is therefore able to offer highly skilled services in the areas of sanitary protection, spillage reduction, productivity enhancement of water networks and plants and preservation of resources.

1

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

2

Employees managed as of December 31, 2009, including 3,633 Proactiva employees allocated to its Water business.

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Combined with our strong local presence and more than 150 years of experience providing services to public authorities and industrial customers, Veolia Eau s technical expertise is a significant advantage in the extremely competitive water services market. Increased demand within the water services market has been substantially driven by customers seeking to optimize the management of their existing resources, whether they be public authorities seeking to respond to the trend towards urbanization, or industrial customers. New solutions, such as desalination of seawater, a sector where Veolia Eau recently excelled in the Middle East, or the re-use of treated water, may represent an appropriate response to specific situations.

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

Water *

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

*

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

Overview of 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 Veolia Environnement to integrate more elaborate mechanisms into its contracts allowing it a share of the added value (productivity gains, improvement in the level of services, efficiency criteria, etc.). Public authorities often rely on Veolia Eau to manage customer relations and we are constantly improving the efficiency of our services and specific information systems. In certain countries where public authorities have sought to either implement new water and wastewater treatment systems or to improve the functioning of existing ones, Veolia Eau offers feasibility studies and technical assistance, which may include research plans, coordination and acceptance, network modeling and financial analysis. Outsourcing contracts with industrial and commercial customers generally have a term of three to ten years, although certain contracts have terms of up to twenty years.

Service Contracts with Public Authorities and Industrial Customers

The main focus of 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, we are 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. Through VE Industries, Veolia Eau also contributes to the development of our common service offerings, in particular in Europe.

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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 provide 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 designed to treat water for municipal and industrial uses, which is both reliable and high-performing. 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.

Key factors

The key factors that may influence Veolia Eau s business are of a technical, contractual and economic nature. The key factors potentially impacting the service contracts with public authorities and industrial customers business are the following. From an economic point of view, we will be affected by trends in volumes billed and the ability to obtain price increases, within the planned time-period in line with our objectives. From a technical point of view, our ability to satisfy service commitments negotiated with the customer or regulator will have an impact. From a commercial point of view, we will be affected by our ability to renew existing contracts under satisfactory terms and conditions in a highly competitive environment.

In contrast, the Engineering and Technological Solutions business is potentially affected, at an economic level, by the rate of projects launched by public authorities and certain major industrial companies, as trends in demand levels have a direct impact on the order book. Continued technological leadership in tender bids and the ability to manage constraints and master technical solutions in the performance of contracts are also determining factors. Finally, at a contractual level, rigor in the negotiation and performance of contracts are also key in this sector (particularly the ability to meet deadlines and cost budgets).

Description of Activities in 2009

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

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

In France, Veolia Eau provides approximately 25 million inhabitants with drinking water and 16 million with wastewater services. Public service delegated management contracts renewed in 2009 represent estimated total cumulative revenue of almost €614 million. In France, despite a highly competitive environment, Veolia Eau enjoyed several commercial successes. These included a new contract for the management of water and wastewater services

for the town of Chaumont and concession arrangements for the City of Chartres wastewater treatment plant and the Roquebrune Cap Martin wastewater treatment plant. Other than the return of Paris water services to local public authority control, Veolia Eau renewed all major contracts that expired during the year. In the drinking water sector, the Roche-sur-Yon, Garrigues Campagne, Bergerac and La Vallette public authorities renewed their confidence in Veolia. In the wastewater treatment sector, the contracts with the Val Maubuée Authority in the Paris region and the City of Nantes were successfully renewed.

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

Activity contracted slightly in Europe, due mainly to a decrease in activity on completion of construction work at sites in The Hague and Belfast.

In Asia, 2009 was marked by the ramp-up of the Tianjin Shibei contract, further organic growth in Shenzhen and robust construction activity in Shanghai in the run-up to the World Expo2010 in China, while the Gold Coast and Sydney Desalination construction contracts came to an end in Australia.

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Principal Contracts

The following table shows the principal contracts signed or renewed in 2009 with either public authorities or industrial or commercial companies.[1]

Public authority or company and location thereof	**Month of signature of contract**	**New contract or renewal**	**Contract term**	**Estimated cumulative revenue** *(in euros)*	**Services provided**
France					
Chartres	June	New	20 years	156 million	Concession arrangement to build and operate a wastewater treatment plant
Roquebrune Cap Martin	June	New	20 years	50 million	Concession arrangement to build and operate a wastewater treatment plant
Europe (excl. France)					
Görlitz (Germany)	January	Renewal	20 years / 7 years	310 million	Distribution of electricity and gas (20 years) and heat (7 years)
Burg (Germany)	January	New	15 years	20 million	Management of water and wastewater services
Madrid (Spain)	March	New	4 years	16 million	Operation of a wastewater treatment plant
Asia					
Chiba (Japan)	March	New	3 years 4 years	35 million 28 million (excl. option)	Operation of a wastewater treatment plant
Sydney (Australia)	May	Renewal	(plus 3 years at the customer s option)	51 million (incl. option)	Network maintenance

South America					
Petrobras (Brazil)	September	New	2 years	123 million	Design and construction of a water treatment and reuse plant at Ipojuca
Middle-East					
Doha Ashghal (Qatar)	May	New	7 years (plus 3 years at customer s option)	44 million (excl. option) 61 million (incl. option)	Operation and maintenance of two wastewater treatment plants
Tyr Sour (Lebanon)	August	New	5 years	31 million	Construction and operation of a wastewater treatment plant
North America					
Duke Energy (USA)	August	New	3 years	29 million	Construction of a wastewater treatment plant for an electrical power plant

1

Estimated cumulative revenue represents Veolia Eau s share in these contracts, converted into euros at the closing exchange rate as of December 31, 2009. As such, amounts indicated may differ from those reported in our press releases.

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Principal Acquisitions and Divestitures in 2009

The main acquisition and divestitures during the year include:

in France, the acquisition of Homerider, a specialist in radio meter reading;

in Europe, the buyout in Italy of the minority interest held by EMIT in SIBA, and the buyout (in April and July 2009) of a 51% stake in Stirling Water Seafield Holding (Edinburgh), increasing our holding in this project to 100%. In addition, the EBRD acquired an additional interest (6.88%) in the share capital of Veolia Voda, the holding company for water activities in Central and Eastern Europe, increasing its 10% stake in this company held since 2007 to 16.88%;

in Asia, the acquisition in China by Shenzhen Water Group (in which the Group holds a total direct and indirect interest of 25%) of five companies which manage drinking water services for a Shenzhen administrative district (Baoan);

on December 22, 2009, Veolia Eau reviewed certain economic aspects (financial restructuring) and the governance rules of its partnership with Mubadala Development Company in our operating activities in North Africa and the Middle East. The joint venture, which was formerly fully consolidated, is now under proportionate consolidation due to these changes. This operation resulted in a €189 million reduction in Group debt as of December 31, 2009;

•

in Morocco, sale of an additional 5% stake in Veolia Environmental Services Morocco to AAIF;

in the United States, sale of three Enerserve entities operating in the Caribbean by Veolia Water North America.

Following the creation, acquisition or consolidation of 36 companies in 2009 and the liquidation, divestiture or transfer of 19 companies, the Water Division (excluding Proactiva) was composed of 728 companies as of December 31, 2009 compared to 711 in 2008. The main movements in the scope of consolidation include the acquisition or creation of companies carrying operating contacts that came into effect in 2009.

Environmental Services

Through our Veolia Propreté subsidiary, we are the number one reference in the environmental services sector,[1] where we are involved in waste collection, recycling and processing and handling of 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, 2009, Veolia Propreté employed 85,600 people[2] around the world, in approximately thirty-three countries. Veolia Propreté partners with over 750,000 industrial and sector customers[3] and serves more than 73 million inhabitants on behalf of public authorities.

In 2009, Veolia Propreté estimates that it collected nearly 43 million tons of waste and processed nearly 62 million tons of waste. As of December 31, 2009, Veolia Propreté managed approximately 861 waste processing units.

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

1

Sources: Internal studies and Eurostat.

2

Employees managed as of December 31, 2009, including 7,023 Proactiva employees allocated to its environmental services business.

3

The commercial figures appearing in this section (in terms of number of customers, number of inhabitants served, tonnages collected, etc.) do not include Proactiva, unless otherwise indicated.

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

Environmental Services*

(in millions of euro)	**2009**	**2008****	**Change 2009/2008**
Revenue	9,055.8	9,972.5	-9.2%
Operating income	453.8	265.2***	+71.1%

*

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

**

In accordance with IFRS 5, Non-current assets held for sale and discontinued operations, results of operations of the Waste-to-Energy entities in the Environmental Services Division, partially divested in August 2009, are recorded as Net income from discontinued operations, in 2009 financial statements.

***

Includes €405.6 million of impairment charges in respect of goodwill and intangible assets of Environmental Services in Germany.

Overview of Environmental Services

Our Environmental Services Division, Veolia Propreté, furnishes waste management and logistical services, which include waste collection, waste processing, cleaning of public spaces, maintenance of production equipment, treatment of polluted soil, and management of waste discharge at industrial sites. Downstream, our Environmental Services Division conducts basic or more complex waste processing operations in order to reduce pollution and transform waste into a resource. Thus, Veolia Propreté:

sorts and processes waste in order to create new raw materials, 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;

processes waste in the least damaging way possible, through landfill sites or incineration;

produces electricity or heat using waste in landfill sites or incineration, 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.

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

a presence at all points of the waste value chain, from pre-collection through to processing and recovery, in an appropriate range of geographical areas at different stages of maturity, enabling the identification and control of innovative, tailored solutions for proposal to customers and setting us apart from the competition in the market;

the management of risks relating to the protection of the environment and the safety of individuals and installations (see the Risk Factors above and the section on Environmental Regulations, Policies and Compliance, below);

the quality of employee management in sectors which are often labor-intensive (limiting absenteeism and industrial action, developing skills and training);

the ability to innovate using new technologies (processing, rolling stock) and processes (sorting-recycling), founded on an effective technology, regulatory and competition watch system;

operating efficiency (purchases, sales, logistics, maintenance management) enabling the optimization of unit costs and the utilization rate of equipment, while ensuring the high level of quality required for products and services delivered.

investment management in certain capital-intensive activities (selectivity, risk analysis, installation size).

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the quality of contractual management for long-term contracts (major clauses, price review formulae, guarantees and deposits, etc.). (see the Risk Factors above)

management of economic and financial risks: volatility of raw material prices (fuel, materials sold such as paper and metals), customer risk, foreign exchange and interest rate risk. (see the Risk Factors above)

Environmental Services and Logistics for Local Authorities and Industrial Companies

Maintenance of Public Spaces and Urban Cleaning

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

Cleaning and Maintenance of Industrial Sites

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

Liquid Waste Management

Through its specialized subsidiary SARP, Veolia Propreté provides liquid waste management services that consist primarily of pumping and transporting sewer network liquids and oil residues to treatment centers. Veolia Propreté has developed liquid waste management procedures that emphasize environmental protection, such as on-site collection and the recycling and reuse of water during the processing of liquid waste. Used oil, which is hazardous for the environment, is collected before processing and re-refining by a Veolia 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 2009, Veolia Propreté collected approximately 43 million tons of waste from private individuals, local authorities and commercial and industrial sites. More than 73 million people around the world benefited from Veolia Propreté s

waste collection services. Veolia Propreté collects household waste through door-to-door pickup or through pickup at designated drop-off sites, and collects commercial and non-hazardous industrial waste. It maintains the cleanliness of green 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 hazardous waste. Veolia Propreté also offers related services to its service sector and industrial customers, such as preliminary studies of future waste collection needs and waste tracking after collection.

Transfer and 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.

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Sorting and Recycling of Materials

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

Veolia Propreté received approximately 10.3 million tons of solid waste at its 352 sorting and recycling units in 2009, of which 7.7 million tons were recovered. Veolia Propreté also provides decomposition services for complex waste products at specialized treatment centers, such as electric and electronic products and fluorescent lamps. Veolia Propreté works upstream in partnership with industrial customers and with 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 2009, Veolia Propreté processed nearly 62 million tons of waste in its sorting and recycling centers, composting units, hazardous waste treatment centers, incineration units and landfill sites.

Composting and Recovery of Organic Material from Fermentable Waste

Veolia Propreté and Veolia Eau work together to recover sludge from wastewater treatment plants. At its 122 composting units, Veolia Propreté processes urban and industrial sludge, part of which is then re-introduced into the agricultural cycle through land spreading, with a related tracking service offered.

Incineration and Waste-to-Energy Recovery

Veolia Propreté operates seventy-nine waste-to-energy recovery and incineration plants, which process non-hazardous solid waste (mainly urban waste). Energy is generated from the heat created by incinerating waste at these plants. Veolia Propreté uses this energy to supply urban heating networks or sells it to electricity providers.

Landfilling and Waste-to-Energy Recovery

In 2009, Veolia Propreté had 147 non-hazardous waste landfill sites. Veolia Propreté has developed the expertise to process waste through methods that reduce emissions of liquid and gas pollutants. 85 landfill sites have recovery systems to transform biogas emissions into alternative energies.

Processing of Hazardous Waste

In 2009, Veolia Propreté had 24 incineration units for specialized industrial waste, 70 processing units using physico-chemical and stabilization methods, 14 class 1 landfill sites and 36 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.

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Description of Activities in 2009

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

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

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

Revenue fell more significantly in Germany, mainly due to the fall in paper and cardboard prices and the decrease in non-hazardous industrial waste volumes collected.

North American revenue fell due to the decrease in industrial and commercial waste collection and landfill volumes, partially offset by the efficiency of price increase measures. Revenue was also affected by the impact of the economic crisis on the industrial services and hazardous waste sectors. Major contracts lost in 2009 include the waste collection and processing contracts for the New York City boroughs of Manhattan and Queens, the contract for the maintenance of green areas in Birmingham, Alabama, and the Airbus industrial services contract in the United Kingdom. These contracts represented total estimated annual revenue of €26 million.

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Principal Contracts in 2009

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

Public authority or company and location thereof	**Month of signature of contract**	**New contract or renewal**	**Contract term**	**Estimated cumulative revenue** *(in euros)*	**Services provided**
France					
COBAN Atlantique (Arcachon basin)	May	New	5 years	18 million	Collection of household waste and equivalent
Chevreuse Valley SIOM	November	Renewal	8 years	72 million	Collection of household waste and equivalent
Limoges City Conurbation	June	Renewal	6 years	37 million	Collection of household waste and equivalent
Rouen Conurbation	October	Renewal	6 years	29 million	Collection of household waste and equivalent
Val de France Conurbation	November	Renewal	8 years	24.5 million	Collection of household waste and equivalent
Azur Provence Conurbation	October	Renewal	5 years	23 million	Collection of household waste and equivalent
Nevers Conurbation	February	New	20 years	17.5 million	Construction and operation of a drop-off center for professionals
Europe (excl. France)					
Merseyside Waste Disposal Authority (United Kingdom)	May	New	20 years	720 million	Integrated comprehensive waste management contract
North America					
Seminole County (Florida)	November	New	8 years	16 million	Collection of household waste and equivalent
Asia Pacific					
Hong-Kong Special Administrative Region	November	Renewal	10 years	174 million	Operation and maintenance of a hazardous waste treatment facility
North Africa					
Nador (Morocco)	February	New	7 years	18 million	Collection of household waste and equivalent and urban cleaning services

1

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

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Main Acquisitions and Divestitures in 2009

In July 2009, an agreement was signed with Covanta Holding Corporation for the sale of Montenay International, the portfolio of North American waste-to-energy contracts. This divestiture encompasses the management and maintenance contracts for seven sites. The transaction was finalized in 2009, with the exception of one site, the sale of which was completed in February 2010. In August 2009, Veolia Propreté Nettoyage et Multiservices (VPNM) was sold to the TFN Group. VPNM provides site cleaning services and waste sorting and collection services at sites mainly located in France. These transactions form part of the multi-year divestiture program announced by the Group on March 6, 2009.

Following the creation, acquisition or consolidation of 20 companies in 2009 and the liquidation, divestiture or transfer of 94 companies, the Environmental Services Division (excluding Proactiva) comprised 692 companies as of December 31, 2009, compared to 766 in 2008.

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, 2009, Dalkia had 52,557 employees in 42 countries around the world and particularly in Europe.

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

Energy Services

(in millions of euro)	**2009**	**2008****	**Change 2009/2008**
Revenue*	7,078.6	7,446.3	-4.9%
Operating income*	415.5	434.4	-4.4%

*

Including our share of revenue and operating income in industrial multi-service entities.

**

In accordance with IFRS 5, Non-current assets held for sale and discontinued operations, the results of operations from the Clemessy and Crystal entities and renewable energy activities in the Energy Services Division, respectively divested in December 2008 and in the process of divestiture in 2009, are recorded as Net income from discontinued operations, in the 2009 financial statements.

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.

This business is focused on optimal energy management, and 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 we form 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 2009 by virtue of the innovative services we propose to local authorities.

Heating and Cooling Networks

Dalkia is one of Europe s leading operators of large urban heating and cooling networks. Dalkia currently manages 810 urban heating and cooling networks worldwide, particularly in the United States, France, the United Kingdom, Italy, Germany, Eastern and Central Europe and the Baltic states. The networks operated by Dalkia provide heating, sanitary hot water and air conditioning to a wide range of public and private facilities, including schools, health centers, office buildings and residences.

Thermal and Multi-Technical Services

Thermal services consist of operating heating, sanitary hot water and air conditioning systems to provide comfortable living and working environments, as well as improving the operation of existing systems to optimize their efficiency. Dalkia provides public, industrial and service sector customers with integrated energy services including plant design, construction and improvement, energy supply, and plant management and maintenance. Dalkia provides customers with a wide range of technical services and implements new service offerings to satisfy demands for improved energy efficiency. It manages more than 115,000 energy plants throughout the world.

Industrial Utilities, Installation and Maintenance of Production Equipment

Dalkia has become a leading provider of industrial utilities services in Europe and has developed expertise in the analysis of industrial processes, the enhancement of productivity and the operation, maintenance and repair of equipment. Dalkia provides services at approximately 4,100 industrial sites.

Integrated Facilities Management

Facilities management contracts combine a range of services, in a single comprehensive service relationship, from the maintenance of thermal, electrical and mechanical equipment to logistics. Accordingly, the various needs of customers are satisfied by a single company. Dalkia provides facilities management services for industrial and service sector customers (business premises, corporate offices, health institutions, etc.), covering a total surface area of over 100 million square meters.

Street Lighting Services

Citélum, a subsidiary of Dalkia, has earned a worldwide reputation for the management of urban street lighting, 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 and cooperative housing customers through Proxiserve, a joint subsidiary (energy/water services), including the maintenance of heating systems, plumbing and renewable energy services and meter-reading services. The activities of the Energy Services Division may be influenced by the following key factors, which are primarily of a technical, contractual or economic origin:

contract management, enabling the identification of risks borne by the Company and those borne by our customers. Contract management takes account of necessary regulatory developments, which are monitored by the Division, and the implementation of a research and development program, enabling further improvements to our performance and competitive advantage (see Risk Factors above);

procurement management: primarily purchases of raw materials, to optimize costs and secure fuel supplies for the installations we manage (see Risk Factors above).

environmental protection: optimization of energy efficiency, control of atmospheric emissions and a renewable energies-based offering (see Risk Factors, above, and Environmental Regulations, Policies and Compliance below)

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Description of Activities in 2009

In 2009, the Energy Services Division reported a slight fall in revenue. This decrease was mainly due to a fall in energy prices.

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

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

The large number of new contracts and the development of contracts in portfolio, at a rate over twice that of erosion, enabled the Division to grow its business portfolio. Overall, contracts not renewed in 2009 represent less than 1% of Dalkia revenue in France.

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

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

Finally, Dalkia signed its first energy performance contract, following the implementation of the Grenelle 1 recommendations.

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

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

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

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Principal Contracts in 2009

The following table shows the principal contracts signed or renewed in 2009 with either public authorities or industrial or commercial companies.[1]

Public authority or company and location thereof	**Month of signature of contract**	**New contract or renewal**	**Contract term**	**Estimated cumulative revenue** *(in euros)*	**Services provided**
France					
Marne La Vallée/ Val Maubuée (77)	May	Renewal	24 years	82 million	Heating network using geothermal energy
City of Plaisir (78)	February	Extension	15 years	69 million	Heating network
City of Roubaix (59)	July	Renewal	24 years	196 million	Heating network
City of Belfort (90)	May	Renewal	12 years	22 million	Glacis du Château district heating network in Belfort
City of Ales (30)	October	New	20 years	44 million	Heating network
City of Lyon (69)	June	Renewal	12 years	30 million	La Duchère heating network
					Couronneries, Touffenet and St Éloi district heating networks.
City of Poitiers (86)	July	Renewal	15 years	72 million	Construction of a biomass-powered heating plant
City of Limoges (87)	February	Extension	10 years	154 million	Construction of a biomass-powered heating plant
SFR	July	Renewal	3 years	105 million	Network life maintenance contract geographical extension
Europe (excl. France)					
TERSA Tractament i Seleccio de Residus SA (Spain)	December	New	30 years	492 million	Heating and cooling network for the Marina district, Barcelona Multi-energy (gas, biomass, photovoltaic)

City of Madrid (Spain)	December	New	4 years	22 million	Public lighting maintenance
City of Hamburg (Germany)	September	New	10 years	83 million	Production and distribution of heat generated using renewable energies for the HafenCity district
Santa Maria della misericordia University Hospital, Udine (Italy)	October	New	30 years	394 million	Heating network and facilities management and thermal and multi-technical services hospital PPP
Latin America					
Secretario de Salud del Estado de Mexico Zumpango (Mexico)	July	New	23 years	68 million	Facilities management hospital PPP
North America					
Venetian Group (USA)	February	Renewal	10 years	30 million	O&M of the Venetian Casino in Las Vegas

1

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

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Acquisitions and Divestitures in 2009

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

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

In total, over the course of 2009, the Energy Services Division consolidated or purchased forty-seven companies, and sold, liquidated or merged twenty-nine companies. As a result, it held 547 consolidated companies, including 328 foreign companies, as of December 31, 2009, compared to a total of 528 consolidated companies as of December 31, 2008.

Transportation

Through our Transportation Division, Veolia Transport, we are a leading private operator of public transportation in Europe.[1] Veolia Transport operates passenger transportation services on behalf of national, regional and local authorities.

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

Veolia Transport estimates that the worldwide transportation market currently represents revenue of €340 billion, of which only 31%, or approximately €105 billion, is currently open to competition. Europe and North America are expected to account for nearly two-thirds of the growth potential over the next five years, with market expansion that could be significant between 2010 and 2015. Asia, particularly China, accounts for a substantial portion of new emerging markets and the current opening of markets is evidenced by a recent wave of calls for tender.

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

As of December 31, 2009, Veolia Transport had 77,591 employees around the world and a presence in more than twenty-seven countries. It conducts business mainly in Europe, North America and Asia. While continuing to strengthen its position in France and the French overseas departments and territories, Veolia Transport also has a strong presence outside of France, where it earns approximately 60% of its revenue. In 2009, Veolia Transport continued its growth in North America, Asia and Europe.

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

Transportation*

(in millions of euro)	**2009**	**2008**	**Change**

			2009/2008
Revenue	5,860.7	5,788.1	+1.3%
Operating income**	152.9	170.5	-10.3%

*

In accordance with IFRS 5, Non-current assets held for sale and discontinued operations, the results of operations of the Freight business entities in the Transportation Division, divested in December 2009, and UK Transportation activities in the process of divestiture in December 2009, are grouped together in a separate line, Net income from discontinued operations, in the 2009 financial statements.

**

The 2008 figure includes badwill resulting from our purchase of minority interests in SNCM. See Item 5 Operating and Financial Review and Prospects , below.

1

Sources: annual reports of main competitors and internal studies.

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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, who generally retain ownership of the infrastructure. Contracts are awarded following public tenders.

Veolia Transport primarily conducts its business through the outsourced management of transportation activities, under conditions and structures that differ from one country to another due to varying legal and regulatory requirements. The relationship between the public authority and the transportation company is governed by fixed-term contracts that determine the risks to be borne by each party and the remuneration of the transportation company. Given that the fares charged by Veolia Transport to passengers on its transportation networks are generally 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 two to twelve years, with the exception of operating concessions, which have an average term of 30 years.

Veolia Transport s activities fall into four main categories:

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

intercity and regional transportation;

infrastructure management and airport services;

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

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

managing contractual risks: we exercise our activity under long-term contracts, which may hinder our ability to react rapidly and appropriately to new, financially unfavorable situations (see Risk Factors above);

managing the various aspects of sustainable-development policy, which are increasingly included in transportation authority requirements (see Risk Factors and Environmental Regulations Policies and Compliance above);

the ability to control contractual changes (see Risk Factors above);

the ability to carry out our activities in densely-populated, vast and increasingly complex areas, which entails increasing operating complexity and a greater need for inter-modality.

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 in urban areas where the networks are managed by several different operators at once, such as Stockholm, Sydney, Düsseldorf and the suburbs of Paris.

In various urban areas, Veolia Transport also operates ferry services in tandem with its bus services. This is notably the case of services provided in Toulon harbor and services to the Morbihan islands in France, as well as services provided in the Netherlands and in Sweden.

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Urban and Suburban Transportation

In France, Veolia Transport operates the tramway, bus and light rail networks in Rouen, Saint-Etienne, Nancy and Nice. In addition, during 2009, Veolia Transport was awarded the contract for the operation of the existing network in Valenciennes, composed of a tramway line and the planned construction of a trolleybus public transport line. The contract for the operation of the suburban network in the Aix area was also renewed. Veolia Transport also manages bus networks in some forty French cities.

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

In Northern and Central Europe, Veolia Transport operates tramway, metro and light rail networks in Görlitz and Berlin (Germany), Dublin (Ireland), Trondheim (Norway) and Norrköping (Sweden). It also operates bus routes in Scandinavia, Switzerland, Belgium, the Czech Republic and several cities in Poland. In the Netherlands, in addition to regional transport in the Hague, Veolia Transport also began operating the bus network serving this city s suburbs in 2009. Veolia Transport also operates all integrated (inter-modal) public transport networks in Limburg province (bus, transportation-on-demand, suburban rail transportation).

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

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

In Australia, Veolia Transport operates the Sydney monorail and light rail network and bus services in Perth, Brisbane and Sydney. In New Zealand, Veolia Transport operates regional train services around Auckland. In Asia, Veolia Transport operates the bus networks of five cities in the Jiangsu and Anhui Chinese provinces, as well as the Hong Kong tramway. In Korea, Veolia Transport began operating the Seoul metro line 9 in July 2009. In the rest of the world, Veolia Transport operates, through partnerships with other operators, a high-frequency right-of-way bus system (BRT: Bus Rapid Transit) in Bogotá (Colombia) and a network of bus lines in Santiago, Chile. In Israel, in addition to the three urban bus networks and inter-city bus lines already managed, Veolia Transport won the contract for the Lod urban network in March 2009. This contract began operations on January 1, 2010.

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

Veolia Transport offers innovative transportation services in certain cities that supplement traditional transportation networks. For example, Veolia Transport offers Créabus, an on-demand minibus service that is tracked by a Global Positioning System, or GPS, which operates in France in Dieppe, Vierzon, Bourges, the Greater Paris region, as well as in Fairfax, Viginia (United States).

Several contract wins in 2009 further strengthened transportation-on-demand services in the United States. These include the following: all transportation-on-demand airport services in Raleigh-Durham, North Carolina (starting March 1, 2009), student transportation to the Stanford University campus (starting September 1, 2009) and transportation of Continental Airlines employees to Newark airport (starting October 1, 2009).

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

In addition, since 2009, via its specialist subsidiary, Veloway, Veolia Transport has operated self-service bike rental systems in the city of Vannes and Greater Nice.

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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. It is also charged with providing security personnel, ticketing personnel and providing customer service.

In France, Veolia Transport has a strong presence in the intercity and school transportation markets. Veolia Transport is present in all regions of France and saw the renewal of intercity and school transportation contracts in the Gard, Moselle, Var, Sarthe, Orne and Cher regions. Veolia Transport also operates a number of regional rail networks, covering approximately 300 kilometers, through contracts with regional public authorities (notably in the Provence-Alpes-Côte-d Azur region) and through sub-contracts with the French national railroad company, SNCF (notably in Brittany).

Through its subsidiary, Eurolines, Veolia Transport provides transport by motor coach on regular international routes serving over 1,500 cities throughout Europe. Since the opening of the Swedish market to competition in 2009, Veolia Transport operates a rail network between Stockholm and Malmö. Veolia Transport has a strong presence in Germany, with over 2,500 kilometers of regional railway lines. Veolia Transport continues to develop ferry transportation services in areas such as Finnmark and Norrland (Norway), Zeeland province (Netherlands) and Gothenburg (Sweden), as well as through its 66% shareholding in the Société Nationale Maritime Corse Méditerranée (SNCM), which manages passenger and freight maritime transportation services between Marseille, Nice, Corsica and North Africa.

In the rail transportation sector in the United States, Veolia Transport operates suburban networks in Boston and Los Angeles, the Sprinter network in South Los Angeles and the Miami suburban network (Tri-Rail).

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 regional airports in France: Beauvais and Lille-Lesquin. These operations are carried out in partnership with the Oise Chamber of Commerce and Industry (for Nimes-Garons), and the Greater Lille Chamber of Commerce and Industry and SANEF (for Lille-Lesquin).

In December 2008, the Greater Lille Chamber of Commerce and Industry was chosen to continue managing and operating the regional airport hub with Veolia Environnement and SANEF though a company that is 34% owned by Veolia Environnement.

In both Beauvais and Lille, the competencies of all of our Divisions are brought to bear in the context of ambitious environmental programs: recycling, waste-to-energy conversion for non-recyclables, air-quality preservation, optimized water and energy consumption, planned solar-panel farms in Lille, and diversified transport options (shuttle-buses, transport-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 aircraft 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 through our subsidiary, VE Airport. Veolia Transport also manages airline passenger transportation services inside airports.

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

Description of Activities in 2009

In 2009, the Transportation Division reported modest revenue growth compared to 2008.

In the urban transportation sector, Veolia Transport strengthened its presence during 2009, by winning the contract for the operation of the existing Valenciennes network composed of one tramway line and the planned construction of a future second trolleybus public transport line. Veolia Transport also won contracts for the operation of the Montceau-Le-Creusot and Louviers-Val de Reuil networks. Veolia Transport was also awarded a public service delegation contract for the construction and operation of the infrastructure and shuttle service for Mont Saint Michel, as well as the Mobility Center set-up by the Alsace Regional Council. In the intercity and school transportation sector Veolia Transport renewed its contracts in the Gard, Moselle, Var, Sarthe, Orne and Cher regions. Finally, in January 2009 Veloway, a subsidiary of Veolia Transport, was awarded a contract by the City of Nice to set-up and manage a self-service bike rental system. This contract is composed of several firm and optional tranches and concerns the set-up of 120 bike stations and the supply of nearly 1,200 bikes.

Veolia Transport strengthened its presence in the United States by winning and renewing several contracts, including an operating contract for all urban transportation systems in New Orleans. In the Netherlands, Veolia Transport has operated the bus network for suburbs of the Hague since 2009, using environmentally-friendly vehicles (CNG buses). Veolia Transport continues its expansion in Asia including the operation of the Seoul metro line 9 in Korea begun in July 2009.

Veolia Transport renewed 74% of all major contracts, which expired during the year, representing combined estimated annual revenue of €260 million. However, Veolia Transport lost the operating contracts for the Melbourne train service, the Stockholm metro and the Bordeaux urban network. These contracts represented combined estimated annual revenue of €791 million.

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Principal Contracts in 2009

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

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

North America

Tempe, Arizona	April	Renewal	4 years and 2 months (plus 4 years at the customer s option)	94.7 million	Operation of regular bus passenger transportation routes and maintenance services
New Orleans, Louisiana	July	New	5 years (plus 5 years at the customer s option)	202.4 million	Management, operation and maintenance of all urban passenger transportation systems of the city of New Orleans (turnkey contract)
North Africa					
Rabat (Morocco)	February	New	15 years (plus 7 years at the customer s option)	1,095.7 million	Operation of suburban bus routes around the city of Rabat

1

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

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Acquisitions and Divestitures in 2009

In France, Veolia Transport sold all its shares in its specialist freight rail-transport subsidiary, Veolia Cargo (including this company s foreign subsidiaries), to TFH (Geodis Group) on November 30, 2009. At the same time, Veolia Cargo sold its French subsidiaries to Eurotunnel Group. Veolia Transport received total consideration for these transactions of €103 million. In addition, SNCM, a subsidiary of Veolia Transport, sold its 45% stake in CMN on December 1, 2009 for total consideration of €45 million.

Veolia Transport strengthened its activities in Asia, primarily through its joint venture with RATP Développement, which is active in China, Korea and India. In April 2009, Veolia Transport acquired a 50% stake in Hong Kong Tramways and commenced operating the sole Hong Kong tramway. In the United Kingdom, Veolia Transport rationalized its structure by grouping together in two single entities all transportation activities, in England, as Veolia Transport England plc and, in Wales, as Veolia Transport Cymru plc.

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

As of December 31, 2009, Veolia Transport was composed of 521 consolidated companies, compared to 549 as of December 31, 2008. During the year, twenty-nine companies were consolidated for the first time, twenty-nine companies were merged and twenty-eight companies were liquidated or sold.

Development of Synergies: Multiservice Contracts to Benefit Industrial and Commercial Services Clients

Outsourcing and Multiservices Market

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

This outsourcing trend applies to several of our businesses, including energy services, management of the water cycle, waste processing and recovery and on-site logistics management. We offer a multi-service alternative to our customers, which involves the provision of services by several of our 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 entrusting us with such a broad range of activities, PSA Peugeot Citroën is able to ensure that its sites comply with

environmental 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 activities that were previously subcontracted, and the implementation of a new energy policy. In 2005, the economic and operational success of this partnership led the PSA group to seek the same scope of services from us at its facility in Trnava (Slovakia).

Our Organizational Structure for the Provision of Multiservices

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

The project structure Veolia Environnement Industries (VEI) manages our bids for multiservice contracts, and a project manager from VEI is appointed for each multi-service contract. Commercial projects and bids are prepared with the collaboration of our Divisions, and are then reviewed by a commitments committee before being presented to customers. The contract is then performed by a special purpose entity managed in part by the Divisions involved in the project, especially when our personnel is outsourced to the customer.

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Multiservices Business Activity

Our activities in the multi-service market primarily consist of approximately fifteen major contracts, which together generate average annual revenue of more than €420 million and are estimated to generate cumulative revenue over their term of around €2.7 billion. The average contract term is ten years.

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

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

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

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

A multi-service contract with Novartis was renewed for seven years in December 2007. It relates to the pharmaceutical group’s site in Basel (Switzerland), where we renovated and took over in 2008 the operation of what is today the largest waste incinerator in Switzerland. In addition, a twenty-year contract was signed in December 2008 with the industrial departments of the City of Basle (IWB) for the recovery of inevitable energy produced by the incinerator to feed a heating network for a neighboring shopping mall.

In April 2008, we signed a contract with Artenius, a subsidiary of La Seda de Barcelona chemical group, for its new site in Sines, South of Lisbon, in Portugal. There, we will construct and operate a production plant encompassing 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 second quarter of 2011. The operation of this plant will involve optimization of the environmental impact, in particular through the use of an anaerobic effluent treatment process used to reduce the volume of waste and recover biogas. The biogas will be used instead of natural gas to produce steam. This contract is set to last 15 years and to generate cumulative revenue estimated at €730 million.

Following the signature of a fifteen-year multi-service contract with ArcelorMittal in 2002 in Vega do Sul (Brazil), we were involved through Clé Brésil (our special purpose entity formed for the project) in the expansion of the ArcelorMittal plant. An initial construction contract representing annual revenue of US$8 million was awarded to us for the design and construction of utilities production technical units. The work was accepted in November 2009.

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Multiservices Contracts Signed in 2009

We entered into the following multiservices contracts in 2009 with industrial clients.[1]

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

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 our markets, our competitive advantages include our technological and technical expertise, our financial position, our geographical reach, our experience in providing all 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 in particular energy, water and waste management. In the energy sector, the GDF-Suez merger does not significantly change our competitive position, despite the merger of Cofatech (GDF) and Elyo (Suez) to form Cofely. Certain players, who originally operated in neighboring industrial sectors, are seeking to extend the scope of their business. This is the case for the subsidiaries of certain energy providers, notably in the heating network sector (Vattenfall, RWE). Companies specialized in electronic installation, such as Cegelec, have also expanded their environmental services offering. Finally, among new competitors, GE announced its intention to expand its business into the water sector. However, the vast majority of competitors do not offer the same range of technical expertise in environmental

services that we do. Therefore, in certain cases, our competitors are required to set up *ad hoc* alliances of companies to cover the service scope required by customers.

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

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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 customers to outsource larger portions of their business. Thus we have observed the development of companies with worldwide capabilities focusing on multi-site and international tenders, such as Johnson Controls or Jones Lang Lasalle in facilities management. Industrial service providers are also moving towards greater consolidation by creating multi-service subsidiaries. This is the case of Voith in Germany.

A new form of competition has developed over the last few years due to the growing role of financial groups such as infrastructure funds (Macquarie Bank, etc.) or private equity funds. Although they are not global or strategic competitors, these players are often present in privatization tenders and asset sales and can occasionally compete with the Group for growth opportunities. The development of 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 like 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 regard to the provision of environmental services to public authorities, there has been a tendency in France in recent years towards a return to local government control, which has reduced the number of delegated management contracts available on the market. In Germany, public entities (*Stadtwerke*) play a leading role in the environmental services market (in the areas of water, waste management and energy services). In a number of countries in Eastern Europe, markets are slowly opening to competition, albeit partially. This trend nonetheless remains limited. Finally, new players from the public works and building sectors could look to offer services in the service market involving major and/or complex new investment, which subsequently require the provision of services (e.g. construction of a hospital which then requires operation and maintenance of common and technical services). These new players may provide services as part of BOT or concession contracts or, in France, as part of partnership contracts as authorized by the new June 2004 regulation. The emergence of such new players is a natural outgrowth of the development of a global service market integrating the construction and financing of the infrastructures necessary to the performance of services, which then revert to the customer at the end of a contract.

Water Division

Veolia Eau confirmed its role as leader in the water and wastewater treatment sectors,[1] where its main competitor across all markets is Suez Environnement.

In national and regional markets, Veolia Eau has a number of local competitors, including both public and mixed private-public operators.

Its main competitors in France are Lyonnaise des Eaux (Suez Environnement), Saur (Séché Environnement) and local public authorities. The year 2009 was also marked by Gelsenwasser increasing its investment in Nantaise des Eaux Services to 100% and by the arrival of new competitors from the environmental services sector (Derichebourg, Pizzorno).

In Spain, our main competitors are Suez Environnement (via Aguas de Barcelona; which Suez Environnement acquired control of in October 2009 after several years as a long-term shareholder) and construction and public works companies such as Aqualia-FCC, ACS, Sacyr and Acciona, which are also intending to grow internationally.

In the rest of Europe, aside from Suez Environnement, our main competitors include Acea in Italy, companies such as Gelsenwasser in Germany and Remondis, which broke into the market in Russia.

In the United States, American Water (which is relaunching after completing its demerger from RWE), United Water (Suez) and Aqua America are the main purely American players.

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

1

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

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

Environmental Services Division

Our main competitors in this sector are either regional players, or only compete for part of the services offered by Veolia Propreté. In Europe (including Central and Eastern Europe), where Veolia Propreté conducts the majority of its business, its principal competitors are Suez Environnement (acting through its subsidiary SITA), Remondis and Biffa. North America represents a promising growth market for Veolia Propreté. The North American market is highly concentrated, with only two major competitors, Waste Management Inc. and Republic Services Inc. (the new entity formed by the merger of Allied Waste Industries and Republic Services at the end of 2008). Finally, in the Asia-Pacific region, 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 therefore face strong competition composed of sector-specific players. Only the group formed by the GDF-Suez merger, primarily with Cofely, has the ability to offer a diversified and comprehensive range of services with a strong international presence that is comparable to Dalkia s presence and services. Cofely represents a major competitor, mastering a range of expertise similar to that of Dalkia. Competition was intense in 2009, particularly in France, with a clear policy to win market share.

Among sector-specific players, Dalkia faces the active presence of large local competitors such as ENEL, Vattenfall, Fortum, ATEL and EON. In the service sector, competition takes many forms, and comes from specialized companies (in the areas of cleaning, food services, etc.) seeking to expand their offering to include multi-technical services, and from companies focusing on technical maintenance and electrical installations. In addition, we face historical but 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 and British but also Asian, and public companies (national or local) operating public monopolies.

The main private competitors on the global stage are the British groups Firstgroup, Arriva, National Express and Stagecoach, the French groups Keolis and Transdev (see Item 8 Financial Information Consolidated Statements and Other Financial Information Significant Changes , below) and the Hong Kong company, MTR Corporation.

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

market listing of the Group s Transport business.

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

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

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

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

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

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.

These so-called general economic interest services or public services are considered in numerous countries to be the responsibility of the competent public authority. This authority is therefore responsible not only for implementing regulations and exercising oversight, but also plays an active role in the management of the services, through one of the following approaches:

the public authority can decide to directly operate public services (direct or internal management) with its own resources or resources transferred to a 100% subsidiary over which it exercises control similar to that exercised over its own departments or agencies;

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 transfer responsibility for providing the public services to a company, to which it delegates or transfers, under the terms of a contract comprising technical performance commitments, the right and the obligation to operate the service, providing staff, equipment and financing necessary and, where appropriate, financing and building the infrastructure. Third parties selected by the public authority may be either private operators, mixed-ownership public-private joint ventures 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 (i) whether we are entrusted with full responsibility for providing the public service and (ii) whether we have a financial and commercial relationship with end users:

When the public authority chooses to manage and provide public services on its own (direct management), but has only limited means, it may therefore call upon a private operator to provide certain limited services or work for which it pays a contractually-agreed price. In such circumstances the public authority may enter into a variety of contracts for the supply of construction work and services.

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

When the public authority entrusts a company with responsibility for fully providing a public service, and the company assumes all or part of the operational risks, generally, the service is then financed by the fees and charges paid by the end user. The contractor, who has financial and operating responsibility for providing the service, must do so in accordance with the terms set by the public authority which include minimum service thresholds, expected performance and prices charged to end users. These arrangements are known as delegated management contracts or concession arrangements under EU law (a type of Public Private Partnerships PPP). Characteristically, they entail a transfer to the concession holder of the risks and perils or risks and benefits of the activity, to the extent compensation is linked to operating results.

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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. Such a situation 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.

Depending on the country in which we are operating, historic traditions will tend to lead to the predominance of one of the above-mentioned contract types over the others. In France, for example, where there is a long-standing tradition of granting concessions, and delegated public service management is often the preferred approach. Current practices in various countries are converging, however, with public authorities adopting one or another of the above-mentioned contract types depending on the situation. In most cases, all contracts have the common feature of being long-term agreements. They increasingly include the building of infrastructure (or at least an upgrade of existing infrastructure) and its maintenance and may also incorporate the financing thereof.

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

Despite differences relating to the nature of customers, the services contracted, and the nature of the legal systems in which we operate, the expectations of our customers tend to convege on the same goals: a demand for transparency during the bid process and during contract performance, formation of a real partnership in search of productivity and performance gains, and a desire to achieve performance targets with 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 and financial departments of our Divisions are involved in the negotiation and preparation of tender bids and then 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 sets up a general a framework, across the European Union, 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 strict liability for certain serious damage to the environment.

In addition, the Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), 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. This has implications for the Group as a user of such substances. It also targets the strengthening of cooperation and exchange

of information with suppliers and customers. It involves improving risk management at all stages of the life cycle of chemical substances and strengthening the prevention of chemical risks concerning Group employees. The Classification, Labeling, Packaging (CLP) regulation has the same end purpose as the REACH regulation, and came into effect on January 20, 2009. This regulation makes certain amendments to existing provisions concerning the classification, labeling and packaging of dangerous substances.

At the end of 2008, European MPs adopted a climate-energy package, in order to ensure European Union compliance with climate objectives by 2020: 20% reduction in greenhouse gas emissions, 20% improvement in energy efficiency and 20% share of energy consumption in the European Union produced from renewable sources. This climate-energy package is composed of six new legislative initiatives: 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 (adopted on April 23, 2009 and currently being enacted by Member States), a directive on fuel quality, and a directive on reducing CO_2 emissions by cars.

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Finally, in order to carry out decisions regarding the Convention on Biological Diversity, in May 2006 the European Commission implemented an action plan comprising objectives aimed at halting the decline in biodiversity and measures enabling the achievement of objectives by the end of 2010. This action plan is based on an evaluation of lost biodiversity in Europe and elsewhere in the world and measures already taken by the European Union to resolve this problem. In October 2009, the Conference of the Parties (COP) revised the strategic action plan of the Convention, in order to set new objectives for the period 2010-2020; its main focus was an analysis of how ecosystems contribute to human well-being.

Water

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

The quality of drinking water is strictly regulated at the European Union level by directive 98/83/EC of November 3, 1998, on the quality of water intended for human consumption, which has been enacted by EU member states. It was transposed into French law by various provisions in 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 in 2007, resulting in new water quality limits and references. The recovery of rainwater is also governed by a strict regulatory framework, covering, in particular, the use of rainwater in buildings and which introduces specific provisions aimed at protecting the quality of groundwater from the introduction of dangerous substances. For installations serving 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 protected marine areas in order to contribute to achieving healthy ecological conditions in the European Union marine environment by 2020 and by European directive 2006/7/EC of February 15, 2006 concerning bathing water , which imposes new restrictions on the oversight and management of bathing water and information provided to the general public.

Public authorities also impose strict regulations concerning industrial wastewater likely to 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.

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France has numerous laws and regulations concerning water pollution, as well as numerous administrative agencies involved in the enforcement of those laws and regulations. Certain discharges, disposals, and other actions with a potentially negative impact on the quality of surface or ground water sources require authorization or notification. For instance, public authorities must be notified of any facility that pumps groundwater in amounts that exceed specified volumes and French law prohibits or restricts release of certain substances in water. The law of December 30, 2006 on water and aquatic environments addresses EU requirements for high quality water and significantly modifies French legislation on water, also addressing EU water quality objectives for 2015. In addition to measures to preserve the quality and quantity of resources, the Planning Law no. 2009-967 of August 3, 2009 to implement the *Grenelle de l environnement*[1] decisions (known as the Grenelle 1 Law) provides for the implementation of a blueprint to preserve the ecological continuity of surface water masses. This blueprint must be taken into account in the territorial planning process, via urban-planning and water-planning documents. With regard to public health, measures must be taken to protect drinking water catchment areas of strategic supply importance and certain toxic emissions into water sources must be reduced by 2013. In the wastewater treatment sector, treatment plants must be brought up to standard by 2012 at the latest. Autonomous wastewater treatment is subject to strict regulation to protect the quality of the receiving environment, sanitary conditions and public health. The violation of these texts is punishable by both civil and criminal penalties and the corporation responsible may itself also be found criminally liable.

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

Environmental Services

In numerous countries, waste processing facilities are subject to laws and regulations that require service providers to obtain permits from public authorities to operate most of their facilities. The permit process requires 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 applicable in France since March 18, 2004, 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 hazardous and non-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 NO_x in particular.

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

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

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

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

Following the repeal of European regulation 2037/2000/EC, a new European regulation 1005/2009/EC, dated September 16, 2009, sets a timetable for the elimination of substances that destroy the ozone layer, in particular refrigerating fluids such as chlorofluorocarbon and hydro-chlorofluorocarbon that are used in cooling plants.

As a result of the Kyoto Protocol, European regulation 842/2006/EC of May 17, 2006 requires stringent confinement and traceability measures for greenhouse gases, whether HFC refrigerating liquids or SF6 electrical insulators. Two European regulations clarify leakage control measures for refrigeration equipment containing hydro-fluorocarbons (European regulation 1516/2007/EC of December 19, 2007) and fire protection systems (European regulation 1497/2007/EC of December 18, 2007).

Our Energy Services business is affected by European directive 2003/87/EC of October 13, 2003 on greenhouse gases emission allowances, as amended by European directive 2009/29/EC of April 26, 2009. Given that we have combustion installations with thermal output greater than 20 MW, these are also affected by EU member state national plans for the allocation of greenhouse gas emission allowances, which have been in effect 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.

All of the directives and regulations mentioned above must be transposed into local law 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 French 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 strictly comply with the terms of such permits. For large combustion installations (thermal output greater than 20 MW), new regulations were imposed in 2002 (for new installations) and in 2003 (for existing installations) with respect to emission limits, in application of European directive 2001/80/EC of October 23, 2001 and by the increasingly systematic application of best available techniques .

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

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

Decree no. 2007/737 of May 7, 2007, also integrated in the Environmental Code, completes Regulation 842/2006/EC and regulates the conditions of 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.

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, the royal decree 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 collection of descriptive procedures set out the actions to be taken and the situations where liability attches. 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 fully applicable and has had a great influence on similar procedures applicable in Belgium, the Netherlands, Ireland and at EWGLI. Similarly, regulations exist in the Asia-Pacific region, which have been largely inspired by laws and regulations in effect in New Zealand and Australia.

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

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

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Transportation

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

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

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

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

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. Further information concerning our commitment to sustainable development may be found in our Sustainable Development Report.

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 came into force in February 2005 and gave the European Union the objective of reducing greenhouse gas emissions in the European Union by 8% over the period 2008-2012, compared with 1990 emission levels. Directive 2003/87/EC of October 13, 2003 created an emission allowance trading system within the European Union, known as Emission Trading Scheme (ETS). The resulting system operates in parallel with the Kyoto Protocol system, which came into operation in 2005 and led to the creation of National Allowance Allocation Plans (NAAP) for an initial period

(2005-2007) followed by a second period (2008-2012), corresponding to the Kyoto Protocol commitment period. European directive 2009/29/EC of April 26, 2009 amended the ETS directive and extended the allowance trading system to cover a third period (2013-2020), which provides for a progressive reduction in allowances granted and new grant procedures.

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The Group is active in this field at European Union level and internationally, as well as at a national level (see Note 42 to our Consolidated Financial Statements).

In the European Union, all large combustion installations with thermal output greater than 20 MW are subject to the new allowance trading scheme. For the Group, this primarily affects the Energy Services Division, which manages over 80,000 combustion installations in Europe, including nearly 250 installations concerned by emission allowances. Allowances awarded to Dalkia represent approximately 1% of total European allowances. Dalkia has adopted an active approach to managing carbon dioxide emissions and allowances, by implementing an appropriate structure and creating a special-purpose entity, VEETRA, to purchase, sell and price different types of greenhouse gas credits. These initiatives have enabled it to be an early participant in the allowance trading market, in order to minimize the cost of carbon restrictions and in some cases finance new investments that help reduce greenhouse gas emissions.

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

At international level (Kyoto Protocol), the Group seeks to generate emission credits that can be traded on the market, by participating in projects in partnership with other European or developing countries that help to reduce greenhouse gas emissions. Veolia Propreté has completed six projects classified as Clean Development Mechanisms (CDM) by the CDM Executive Council: two in Brazil and one each in Egypt, Mexico, Argentina and Colombia. The experience gathered during these projects is now used for new projects under development. Approximately ten projects are expected to be carried out in South America, most of which relate to sites operated by Proactiva, and others are under consideration or currently ongoing in Asia and Africa. Veolia Energie-Dalkia has developed a joint project currently in progress in Hungary. Veolia Propreté is assessing CDM project opportunities, primarily in Asia, while Dalkia assesses opportunities in China, South America, the Middle East, Israel and North Africa concerning heating networks, renewable energies and energy efficiency.

Application in the transportation sector is subject to the existence of reliable measurement tools. Veolia Transport actively participated in developing an initial tool that would apply to business transportation, in collaboration with EpE (*Entreprise pour l Environnement*) and ADEME (*Agence de Protection de L environnement et de la Maîtrise de L energie*). Veolia Transport is also involved in international climate negotiations. At the time of the United Nations Climate Change Conference (UNCCC) in Copenhagen in December 2009, Veolia Transport launched the Bridging the gap: pathways for transport in the post-Kyoto process initiative with GTZ (an international cooperation enterprise for sustainable development), the German Technical Cooperation Agency, Transport Research Laboratory (TRL) and International Association of Public Transport (UITP). This initiative is intended to find ways for carbon finance trading to fund sustainable urban transportation projects. A series of three seminars was organized in 2009 to place transportation on the agenda of international climate negotiations.

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 began the operational phase of our research program on the capture, transportation, use and storage of CO_2 and launched preliminary geological studies at industrial sites in the Paris region at which Veolia Propreté operates non-hazardous waste recovery installations and landfill sites. The study phase of this project was launched in 2005. This solution should contribute in 2050, to a 20 to 30% reduction in greenhouse gases worldwide. In this area, we pay particularly close attention to regulations governing the capture and sequestration of CO_2, the legal framework for which is set at European level by the directive of April 23, 2009.

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

Overall, we contributed to reducing greenhouse gas emissions by 23.4 million CO_2equivalent tons in 2009, compared to 26.9 million CO_2equivalent tons in 2008. We accomplished this through both the daily management of sites that we operate and through the use of renewable and alternative energies (in particular biomass, landfill gas and geothermal energy).

We actively follow regulatory developments, which will undoubtedly become more restrictive in the future. We view these 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 across all businesses, recovering and processing biogas emissions at our landfill sites or using low-emission fuels in our fleet of public or private transport vehicles, we are actively involved in the main environmental challenges currently facing our planet. We are applying our 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 legionnaires disease in public or industrial facilities, thereby improving public environmental sanitation. Similarly, improved waste management has a positive impact on quality of life, the environment and public health. The 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 2009, 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. For example, for a number of years we have contributed our expertise to drafting public/private partnership guidelines covering access to essential services and this work reached a decisive milestone in July 2009 when it was presented at the United Nations Economic and Social Council (ECOSOC) meeting held in Geneva. We remain a member of the group of experts responsible for operational aspects and one of our contracts will be used as a test area. This approach is particularly important to the definition of principles of non-discrimination and will provide the poorest in society with access to basic services (water, wastewater treatment, environmental services, energy services and transportation).

As part of the International Water Forum held in Istanbul (Turkey), we took part in the launch of a multi-partner initiative including the Prince Albert II of Monaco Foundation and the United Nations Environment Programme (UNEP) Blue Plan, seeking to set-up a Water Think Tank to consider water management in the Mediterranean and focusing on the regulation of disputes over use. The principle of sharing best practice was continued, thanks to the participation of the Mayor of Guayaquil (Ecuador), who presented his approach to the integrated management of urban and port water. In Asia, a joint project with the Asian Development Bank enabled the distribution of a guide comprising considerable wastewater treatment data, for use by towns in the region, at the time of the Annual Congress of Citynet, an association of Asian regional authorities, of which Veolia is a partner member (Yokohama-Japan-September 2009). In addition, we continued to participate in the UNITAR program for strengthening local governance, which brought together over 500 public authority managers in 2009 from Asia, Africa, South America and Central Europe.

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

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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. The Foundation was initially created for a period of five years and was extended in 2009 for a further five years. Since its creation, the Veolia Environnement Foundation has supported over 800 projects, each sponsored by a Group employee. The Foundation calls on the expertise of the four Group Divisions for the purpose of its charity work and benefits from the support of all Group employees. Among the projects selected in 2009, the Foundation launched 145 new projects while continuing those initiated in previous years. The larger projects include a number of major importance. In Moldavia, for example, at the request of UNICEF, the Foundation provides financial support and expertise in the water and energy sectors to the Child-Friendly Schools project, which seeks to improve the educational system and renovate basic school infrastructures (water, wastewater treatment, heating and thermal insulation). Another major project in the United States, sponsored by the Sky Island Alliance association, seeks to protect and rehabilitate the Madrean archipelago in Arizona, an exceptional ecosystem which is under threat. The Foundation is acting in partnership with American and Mexican NGOs, the University of Arizona, the US Environmental Protection Agency and volunteer American employees of the Group. Finally, in the Democratic Republic of Congo, the Foundation participates, alongside the Congolese Health Ministry, the French ambassador, AFD, UNICEF, various NGOs and a network of scientific institutions, in a program to eliminate cholera. This program is active in seven towns in the Eastern region of the country, located in lacustrine areas identified as the source of epidemics and their spread, in order to improve drinking water production and distribution capacity, strengthen treatment of the illness and promote hygiene and health education.

In Romania, the Foundation is assisting the association *Atelier sans frontières* (Workshops Without Borders) create a computer hardware maintenance, repackaging and recycling workshop in Bucharest, offering job training to individuals facing extreme hardship and a way back to work. In Senegal, the Foundation supports the *Samu Social International* (an NGO) which is building a home-centre for street children in Dakar. In France, the Foundation will assist the development of *Petite Reine*, a back-to-work company specializing in the cargocycle transportation of goods in urban areas (using electrically-powered three-wheelers). The Foundation also created the Environmental Book Prize (*Prix du Livre sur l Environnement*) in 2006. Now in its fourth year, this prize this year was awarded to the The Green Economy How to save our planet by Philippe Jurgensen. In addition the Foundation created a student solidarity prize open to school and university associations. In the biodiversity sector the Foundation will support Tara Océan, a three-year oceanographic expedition organized by the Tara Foundation and an international scientific consortium to model the impact of climate warming on the oceans. The Foundation contributes both financial support to this project and the skills of Veoliaforce experts.

In 2008, the Foundation integrated the Group s humanitarian assistance and international cooperation departments, Veolia Waterforce and Veolia Waterdev, within a single structure, Veoliaforce. The network of Veoliaforce volunteer employees, which joined the Foundation in 2008, took part in several emergency humanitarian operations in 2009. The following operations this year involved volunteers from France and abroad. Following the violent earthquake in Indonesia, which lay waste to the Island of Sumatra, Veoliaforce volunteers assessed equipment needs and provided technical support for the rebuilding of damaged water infrastructures. Veoliaforce volunteers got involved in refugees camps hosting escapees of ethnic conflicts in the Central African Republic and in the North of Congo Brazzaville. In Mali, they supported a program to convey drinking water to nine villages. In Sri Lanka they aided in supplying drinking water to a camp of 90,000 refugees. They got involved in Zimbabwe following a cholera epidemic and in Latin America to improve reaction speeds in the event of disasters by setting up an emergency equipment hub. For the first time, with the assistance of Veolia Propreté volunteers, Veolia Waterforce also went to the Philippines, where its assistance was requested by UNICEF and the Metropolitan Waterworks and Sewerage System to provide expertise and training. The aim of the mission was to organize the clean-up, clearing and collection of debris, rubbish and other

waste produced by the recent cyclones which ravaged the country. Volunteers also contributed their technical expertise to development projects in over ten different countries, primarily in the water and wastewater treatment sector but also in the processing of plastic waste in Mauritania and with respect to heating and energy problems in Moldavia.

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

Human management of the environment represents a major challenge that requires the mobilization of a large number of resources and the commitment of all stakeholders at local, national and international levels. This strong conviction led Veolia Environnement to create the Veolia Environnement Institute (VEI) in 2001. The Institue is set up to encourage forward-looking analysis of central themes, such as: the economic dimension of the environment; the link between health and the environment; climate change, lifestyles and the challenges of urban growth; society and the environment. This is achieved through exchanges between academe and civil society in order to develop autonomous scientific expertise to support Veolia Environnement s long-term vision and improve our ability to plan ahead. Through its work, the VEI sheds light on the challenges that will mark the Environmental Services sector over the coming decades.

Through its Foresight Committee, composed entirely of individuals of international reputation and standing, VEI benefits from the contribution of leading outside expertise on different key subjects (including climate science, public health, the economy and human sciences) while remaining firmly anchored in the daily realities of Veolia Environnement s different businesses. This dual capability represents both the originality and the strength of VEI, which intends to be a leading figure in the main environmental debates and issues of the 21st century. For this purpose, the Institute calls on a network of multidisciplinary experts thereby collecting the most relevant ideas on global trends. In 2009, the VEI strengthened its international network of academic partners, notably in emerging countries and developed its program of forward-looking studies. It is also working with the College of Europe (Belgium), the Wuppertal Institute (Germany) and the Veolia Environnement delegation to European Institutions in a study of the comparison of carbon inventory tools of European cities that seeks to establish a unified framework. This study will subsequently be presented to the World Bank Urban environment and climate change working group, and advance the work being carried out by other international players (World Bank, UNEP, UN-Habitat, IDDRI) on defining a standard greenhouse indicator for cities. At the same time, the IVE continued its innovative scientific publication policy with two new e-journals. *Surveys and Perspectives Integrating Environment and Society* (*SAPIENS*) is a multidisciplinary review publishing articles from top specialists in order to set forth recent advances in the field of sustainable development and *FACTS Reports* is a journal dedicated to field work, which seeks to collect, circulate and capitalize on the knowledge and good practices of people in the field (NGOs, international organizations, etc.).

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

analyses of Chinese realities and priorities and contributed their insight to provide a comprehensive assessment of these challenges.

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

As of the date of this annual report on Form 20-F, the IVE Foresight Committee had seven members: Hélène Ahrweiler, historian, President of the University of Europe and a social and human sciences expert advisor to UNESCO, Harvey Fineberg, President of the United States Institute of Medecine, Philippe Kourilsky, biologist, member of the Academy of Sciences and professor at the Collège de France, Pierre Marc Johnson, lawyer and physician and former prime minister of Quebec, a specialist in major environment challenges, Rajendra K. Pachauri, President of GIEC, 2007 Nobel Peace prize laureate and Director-General of TERI, Mamphela Ramphele, physician and anthropologist, former President of the University of Cape Town and former Director-General of the World Bank and Amartya Sen, economist,1998 Nobel prize laureate and professor of economics and philosophy at Harvard University.

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Environmental Compliance (Information regarding article 116 of the French NRE Law)

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. Pursuant to the provisions of the NRE Law (French law n°2001-420 of May 15, 2001) and in addition to the description of the Company s businesses provided above and the financial statements provided below, Veolia Environnement therefore considers it appropriate to highlight below some of the more significant environmental actions that we have undertaken without any regulatory or contractual obligation to do so. For further information on our sustainable development policy and actions, the information below should be read together with our 2009 Sustainable Development Report.

As concerns the use of water resources, raw materials and energy, measures implemented to improve energy efficiency and the use of renewable energies, conditions of use of ground soil, air, water and soil pollution, noise and olfactory pollution and waste, the following measures should be noted:

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 541.7 million cubic meters in 2009. 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).

Wastewater

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

Energy efficiency and the use of renewable energies

We contribute to the reduction of primary energy consumption. Dalkia optimizes energy management for more than 118,000 energy installations worldwide, from urban heating networks to housing, commercial or industrial building boilers. Optimizing the energy efficiency of such thermal installations focuses on operating and maintenance quality

and their modernization.

Heating networks that offer optimized energy performances by concentrating production on a single site and involving co generation (the simultaneous production of thermal energy and electricity) represent strong growth areas for Dalkia. Efforts in the renewable energy field affect all of 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 171.89 million MWh in 2009, as a result of the development of our activities.

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Use of soils

In 2003, we integrated all activities relating to the treatment and recovery of sludge within a single entity, SEDE Environnement. 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 engage 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 1,293.6 thousand tons of compost in 2009. 54% of sludge produced was used in agricultural activities. 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, as amended by directive 2009/29/EC dated April 26, 2009. Direct emissions (including biogas generated at landfill sites) and indirect emissions (linked to energy use and heating purchases) at sites managed by us in 2009 amounted to 49.4 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. Ninety-four waste landfill sites for which we control investment are equipped with biogas collection and processing systems. In 2009, our efforts contributed to a total decrease in emissions of 23.4 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.

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 SO_x from waste incineration units (hazardous and non-hazardous waste) amounted to approximately 91 grams per ton of incinerated waste in 2009, as a result a result of our growth by acquisition of new installations whose performance is still in the process if being optimized. In particular, Veolia Transport is pursuing research, in partnership with ADEME, into identifying and assessing the market systems best able to reduce NO_x emissions by its bus and coach fleet.

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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 2009 bus and coach fleet. Emission reduction targets were set for the end of 2011: 8% for carbon monoxide unit emissions (CO), 24% for hydrocarbons (HC) and 27% for particles. Veolia Transport remains committed to providing drivers with environmental performance training, which notably enables a reduction in polluting emissions. In 2008, the number of employees having received training increased to 61%. With regards to NO_x emissions, over the last few years Dalkia has carried out an evaluation program covering available technologies (fuel oil low emissions, recycling of fumes, air terracing, combustion modeling, etc.). The relative stability of this indicator compared to 2008 is based on the fact that it is now measured on a three year basis, rather than the five-year basis used previously. Moreover, the three years used have experienced relatively low growth.

Veolia Propreté developed a semi-permanent dioxin emission control method during waste incineration, allowing for 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 our 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.

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.).

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Environmental evaluation or certification

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 85% of relevant activities by the end of 2011. Subject to the circumstances of each of the entities concerned, this voluntary approach leads to the general application of ISO 14001 certification standards. Some 21,826 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 us 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 attaining, between now and 2011, 95% regulatory compliance in priority installations audited in the preceding 5 years. As of December 31, 2009, increased by 6%and the rate of regulatory compliance audits carried out reached 87%.

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

Investments undertaken 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 €2,493 million in 2009 and included growth and maintenance investments. We invested in employee training, certification programs and the implementation of the environmental management system. Our Research and Development budget was also renewed (see note 19 to the consolidated financial statements). Given the current economic environment, we are implementing a restrictive investment policy which sharply reduces our financial investments without jepordizing industrial investments or investments called for by contractual commitments. The decrease in investments primarily concerned Veolia Propreté.

As concerns the use of internal environmental management services, training and information for employees on the environment, methods for reducing environmental risks and the structure implemented to handle accidents with an impact beyond the confines of the Company, the following neasures should be noted:

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, 2009, provisions for site closure and post-closure costs (encompassing provisions for site restoration, the dismantling of installations and environmental risks) totaled €686.3 million.

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Compensation paid in 2009 in execution of legal decisions relating to the environment and actions taken to repair environmental damage

Provisions for litigation used in 2009 totaled €88.5 million, including all types of litigation (tax, employment and other litigation).

International environmental targets

The roll-out of the Environmental Management System continued in 2009 and now covers 78% 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 mainly known under the name Dalkia . As a result, the companies at the head of the Water, Environmental Services and Transportation Divisions, as well as most companies in the countries and regions where the Group is based, are progressively modifying their corporate names in order to include the word 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 has 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

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

Fuel prices (mainly gas and coal) can be subject to significant fluctuations. Energy prices have fluctuated widely in the past few years. After a lull at the end of 2006, the price of a barrel of Brent crude nearly tripled from its low in January 2007 (US$49.00) to its high in the summer of 2008 (US $145), spurred by fears of potential supply problems in light of geopolitical tensions within the major oil producing countries (Nigeria, Venezuela) and the reluctance of OPEC (Organization of the Petroleum Exporting Countries) to raise production quotas in response to strong global growth. During the fourth quarter of 2008, following the eruption of the global economic crisis, the price of crude oil plummeted, falling in just two months to below its level at the beginning of the year. In 2009, despite a twofold increase in the price of crude oil (US$78.30 as of December 31, 2009) compared to its low in February 2009 (US$39.50), the average price of North Sea Brent crude oil in 2009 (US$61.90) remained below that of 2008 (US$97.20). This change in the price of Brent crude oil not only had an effect on fuel prices, but also on gas prices (particularly in France, where changes in STS gas prices track petroleum prices with a three month lag). Thus average 2009 French gas prices also went down by about €9/MW compared to 2008, which represents a decreased of 27%. The general consensus 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, as in 2008 and 2009, energy prices should remain volatile in 2010.

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

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

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

In the Transportation and Environmental Services Divisions, the fall in fuel prices in 2009 compared to 2008 had a positive impact on fuel expenses of approximately €67 million in 2009, including the cost of swap hedging arrangements.

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

A portion of Environmental Services Division revenue is generated by its sorting-recycling and trading businesses, which are particularly sensitive to fluctuations in the price of secondary raw materials (paper, cardboard, ferrous and non-ferrous metal). The economic crisis in 2009 impacted demand for recycled materials, and the average annual price of these secondary materials fell substantially compared to 2008, despite a progressive rise in paper and cardboard prices from the third quarter of 2009. The results of the Environmental Services Division were therefore impacted in 2009 by the substantial fall in the price of secondary raw materials compared to 2008.

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

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

Finally, with respect to its building activities, particularly in the Water Division, the Group may also purchase financial instruments to hedge against increases in the price of nickel and copper notably. For further information, please refer to our Consolidated Financial Statements, particularly Note 29.1.3 to the consolidated financial

statements.

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Insurance

Objectives of Insurance Procurement Policy

Our insurance procurement policy, for all of our Divisions, has the following objectives:

subscribing common insurance policies to implement a coherent risk transfer and coverage policy designed to maximize economies of scale, while taking into account the specific characteristics of the Group s businesses and legal or contractual constraints; and

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

Implementation of Insurance Procurement Policy

Policy

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

Implementation

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

The main actions undertaken in 2009 primarily concerned:

the extension, at equivalent or improved terms and conditions, of insurance programs covering property damage and operating losses,

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

the ongoing roll-out of Group programs;

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

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

For all Group subsidiaries worldwide, an insurance program provides excess coverage of up to €400 million per claim and per year, in addition to the basic coverage of €100 million outside the U.S. and Canada and of €450 million in the U.S. and Canada in addition to the basic coverage of U.S.$50 million 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 is included in the general liability program, which was set-up for three years on July 1, 2008, with coverage of up to €150 million per claim and per year, excluding the U.S. and Canada. Coverage for the U.S. and Canada is €100 million per claim and per year, in addition to coverage of U.S.$50 million.

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

Property Damage and Business Interruption Policies

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

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

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

Self-Insured Retention and Deductibles

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

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

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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 Item 4: Information on the Company History and Development of the Company for a description of the history of the creation of our organizational structure.

PROPERTY, PLANT AND EQUIPMENT

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

The total gross value of our non-current assets (excluding other intangible assets) as of December 31, 2009 was €30,824.3 million (net value of €18,659 million as of December 31, 2009, representing 38% of total consolidated assets), compared to €30,239 million as of December 31, 2008 (net value of €18,816 million).

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

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

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

The Group is also the outright owner of industrial installations, in particular for activities undertaken outside comprehensive contracts in the Environmental Services Division (landfill sites and special waste processing plants), the Energy Services Division (co-generation plants) and the Transportation Division (buses, boats and trains). These assets are classified in the consolidated balance sheet as property, plant and equipment. Our property, plant and

equipment are subject to certain charges, such as maintenance and repair costs and closure or post-closure costs.

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

Finally, assets purchased under finance leases fall into all three asset categories detailed above and represented a net amount of €795 million as of December 31, 2009 (see Note 17 to the consolidated financial statements).

The main insurance policies subscribed by the Company are described in the Insurance section above.

Environmental issues may also influence the Company s use of property, plant and equipment, as detailed in the heading Environmental Regulations, Policies and Compliance, above.

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RESEARCH AND DEVELOPMENT (R&D)

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

If technology did not advance, we would not be able to meet today s challenges. It is therefore only by leaning fully on the capacity for innovation of our research teams that the Group plans to rise to the environmental challenge, by proposing innovative solutions at an affordable cost.

The four-pronged approach of the R&I department composed of the following: (i) managing and preserving resources, (ii) limiting impacts on the environment, (iii) improving the quality of life of populations and (iv) developing renewable energies sources. Fighting against climate change also occupies a leading place in this framework. Research efforts are concentrated on optimizing energy consumption at Group installations, developing alternative energy sources (bioenergies, biomass, waste-to-energy, alternative fuels), the desalination of sea water and the improvement of treatment processes, the prevention of legionnaires disease, the recycling of urban waste, the capture and storage of carbon dioxide and the optimization of urban transportation.

In each of these areas, our know-how and technologies are complementary. This is the case, for example, in the areas of sludge, biomass, biofuels, prevention of legionnaires disease and the treatment of industrial effluents.

In addition, by mobilizing a network of international experts and implementing research programs at test sites around the world, Veolia Environnement benefits from solutions to specific local problems and contexts that may be applied to other regions of the world.

The Reorganization of Research and Innovation Activities

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

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

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

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Research and Innovation Resources

Our research activities are overseen by Veolia Environnement Recherche et Innovation (VERI). In 2009, these R&I activities comprised nearly 850 experts worldwide (including 425 researchers and 425 on-site developers), with a total budget of approximately €89.8 million[1].

The Veolia Environnement Research Department works on behalf of all Group Divisions, as their needs are similar. In particular, all seek to solve environmental and health problems with the support of numerous tools, such as modeling and chemical and bacteriological analysis. By working on behalf of all Divisions, the Research Department helps ensure better consistency of R&D activities with the Group s strategy.

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

In 2003, we set up an international network of Research and Innovation officers, to identify innovation needs in each region of the world and communicate local technical developments. Certain research centers abroad have acquired specialized expertise and have partnered with centers in France. These research units have become showcases for Veolia Environnement s technological expertise. In the Water sector, the Berlin Water Center (*Kompetenzzentrum Wasser Berlin*) is a center of excellence for the protection of water resources and our activities in Australia have become a benchmark for the reuse of wastewater.

Innovation: a rationalized approach

The research teams seek to provide innovative practical solutions within their areas of expertise, which are crucial for our competitiveness. R&I is carried out as part of a rationalized approach enabling technological risks to be controlled and enabling rapid progress and the creation of successful commercial applications that are both reliable and effective. The main steps in the innovation process are:

Strict monitoring of regulations and, technology as well as the competition enables the Group to foresee future needs and launch new research programs as quickly as possible;

Laboratory or field tests to verify the feasibility of the research. At this stage, analytical modeling[2] may be carried out, depending on the circumstances (i.e., exploring functionality while containing costs);

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

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

At each step in the innovation process, the collaboration of various parties (research teams, university or private laboratories) is necessary and determines the successful outcome of the research project.

Veolia Environnement s R&I teams are part of an international network of researchers. They forge links with fundamental research teams, each drawing benefit from the expertise of colleagues. While this collaboration enriches the knowledge of the Group R&I department and keeps it informed of recent developments, it also provides effective outlets for scientific progress and feedback to our partners. R&I teams also work with several top universities and participate in research programs led by national and international institutions. They also share their technological knowledge with industrial players.

1

Research and development expenditure totaled €89.8 million for the fiscal year ended December 31, 2009 (see Note 19 to our consolidated financial statements) and represents, together with other operational development costs, a total budget estimated at €150 million.

2

At each step of the innovation process, researchers implement sophisticated tools, such as digital fluid mechanics. This technology enables researchers to simulate the operation of installations and test a larger number of scenarios to improve efficiency. Over a shorter period, such software enables researchers to optimize test protocols for process development.

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Main Research & Development Areas

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

Managing and preserving natural resources

The sector that will be most affected by climate change is Water. Research into sea water desalination processes, collection of rain water and the re-use of wastewater after treatment, is aimed at meeting the expected increase in water requirements. In order to preserve natural resources, it is also essential to find solutions to decrease consumption. The mechanization and automation of sorting processes for used materials, as well as the design of recycling processes for end-of-life products or industrial effluents, encourage in this way the re-use and recovery of materials found in waste at a competitive cost.

Limiting environmental impacts

The improvement of treatment techniques for industrial effluents and hazardous waste makes it possible to limit the dispersion of pollutants in the environment and better respect biodiversity and public health. As a leader in Environmental Services, we must set the example with regards to reducing the impact of its activities. Current efforts are therefore focused on reducing emissions from our facilities, decreasing noise and olfactory pollution and developing even cleaner means of transportation.

Improving quality of life worldwide

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

Developing alternative energy sources

As carbon dioxide emissions continue to exceed the absorption capacity of the biosphere, the production of substitute fuels and biofuels, the recovery of biomass as energy, the development of industrial applications for fuel cells and the optimization of the performance of our waste incineration plants help limit greenhouse gas emissions. These measures also help respond to the increasing global demand for energy and address the depletion of fossil fuel reserves by replacing them with clean energies.

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

Improvements for 2009

Veolia Environnement partnership with the Cleantech network

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

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

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

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

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

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

ARISTOT (Advanced and Relevant Investigation Sampler for Taste & Odor at Tap): initially called Twister Tap , this tool captures organic components and particularly odorant components directly at the consumer s tap;

PLATON (Programmable and Local Analysis of Taste & Odor in Networks): initially called Twister Network or Integrator , this tool traps organic components in network water;

ISOCRATE (In Situ Off-flavors Capture by Recurring and Automated Twister Extractions): this tool extracts molecules in a network or reservoir (surface water, plant, etc).

Hydrogen doping system for cogeneration engines

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

Today, a country like Denmark produces over 50% of its electricity by cogeneration, compared to only 3% in France, at a time when the optimal performance of power plants would appear to have hit a ceiling. In order to improve the attraction and efficiency of cogeneration engines, Veolia Environnement R&I perfected and patented a procedure to dope the engines by injecting hydrogen. Thanks to the local production of hydrogen using catalytic effect, the research teams successfully increased gas-engine combustion efficiency, to produce more electrical and thermal energy from the same quantity of natural gas. This procedure could become widely available as it requires only limited investment and can be implemented without a fundamental change to existing installations.

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

Veolia Transport has always sought to minimize its impact on the environment. This has led to the use of proprietary measurement tools (such as the Eco-Efficient Travel[1] indicator) and produced concrete and quantifiable results: 4.1 million metric tons of CO_2 equivalents avoided in 2009.

In a effort to reduce fuel consumption and CO2 emissions of our fleet vehicles even further, our experts noted a 35% differential in fuel consumption between the two extremes in driving styles very environmentally-friendly and extremely sporty. Based on this observation, and after three years of research, our experts produced an ecodriving

assistant, which enables a further reduction in the fuel consumption and CO2 emissions of the Veolia fleet.

The ecodriving assistant uses pre-recorded algorithms to process a range of parameters, model changes in the vehicle and calculate in real-time the optimal speed and acceleration. The man-machine interface then reports a simple and intuitive instruction to the driver using a system of diodes. Green lights indicate that the driver is appropriately controlling his/her speed and acceleration. Conversely, when the driver drives too fast or accelerates or breaks too hard, the green lights disappear and are replaced by red lights, or even flashing red lights. Initial operating tests produced promising results, with fuel consumption savings of 4% and suggest a potential gain of 7% with individual training to drivers.

1

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

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

The experts all agree that in order to reduce the use of private vehicles and thereby transport-related greenhouse gas emissions, it is essential to encourage the development of public transportation. However, public transportation is sometimes considered complicated to use and unreliable. To win over those who remain reticent, decrease traffic and reduce travel time, Veolia Environnement experts have been considering a new system based on mobile-phone technology.

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

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

We are fully committed to programs to preserve biodiversity, particularly in regions where we operate, and therefore we wished to strengthen our expertise by joining forces with the prestigious French engineering school, *Ecole Polytechnique*, the French National Museum of Natural History and the *École Polytechnique* Foundation, to create the international Mathematical Biodiversity Modeling teaching and research chair.

The chair was created on June 17, 2009 by a public-private partnership in which the Museum and *Ecole Polytechnique* will supply outstanding teams of researchers and teachers, Veolia Environnement will contribute funding and technical expertise. The *Ecole Polytechnique* Foundation will provide its experience in industrial relations and assistance in project management. Working from an international perspective, the aim of the chair is to develop a synergy between applied mathematics, ecology, biodiversity and evolution in both research and teaching. Ultimately, the goal is to put in place and support an innovative, topical project with a strong scientific, social and economic impact. Taking a multidisciplinary approach to modeling ecosystems, such a project will address key environmental issues, such as adaptive evolution, spatial colonization and ecological niches, as well as analyze the dynamics of communities and build biodiversity scenarios.

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

Development of an automated sorting system

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

recycling opportunities.

In 2007, Veolia Propreté developed and patented an innovative procedure, the Self-Adapting Sequential Sorting process (*Tri Séquentiel Auto Adaptif, TSA*). Thanks primarily to an algorithm which guides the sorting machine based on the waste flow composition, this process enables several categories of objects to be sorted by a single sorting machine. After the feasibility of this system had been demonstrated, industrial pilot studies were launched in April 2008. Following validation in 2009, the TSA 2 system can now be rolled-out and twenty installations are already planned by 2011. The TSA 2 system makes multi-task sorting machines feasible and particularly facilitates more efficient, detailed and extensive sorting of plastic materials. The process therefore enables the recovery of more used materials and increases the efficiency of sorting centers by close to 10%. Overall, TSA 2 therefore enables a reduction in recycling costs, which is fundamental to developing new competitive recovery outlets.

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

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Waste-to-energy biomethane production

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

In an energy production context, performance optimization and the diversification of biogas recovery methods at non-hazardous waste landfill sites, form part of the research programs we have undertaken. In 2009, Veolia Propreté Ile-de-France successfully brought the first French biomethane fuel production plant online, using biogas produced at the non-hazardous waste landfill site in Claye-Souilly (Seine et Marne). Eight light vehicles and a household refuse collection truck, fitted with NGV (Natural Gas Vehicle) engines, now fuel up on Méth OD® (100% methane of waste origin) directly at Veolia Propreté s Claye-Souilly site.

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

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

Improving living conditions and the quality of indoor air

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

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

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

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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 below 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 with IFRS as adopted by 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 2009

Overview

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

significant exchange rate fluctuations, which modified the contribution of businesses from outside the Euro zone, particularly in Eastern Europe and in countries that use the U.S. dollar (or currencies tied to the U.S. dollar);

the volatility in energy prices and the decrease in both the volume and market price of CO_2 emission rights;

the fall, followed by the stagnation or rise, in the price of certain recycled raw materials (particularly paper and cardboard);

the slowdown in activity, affecting volumes in the Environmental Services business lines, and, to a lesser extent, new construction orders in the Water and Energy Services Division;

the difficult financial situation of industrial companies and, to a lesser extent, public entities, which affected the performance of certain growth projects and the solvency of some customers.

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

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

Overall, revenue for the year ended December 31, 2009 fell 3.4% compared to the year ended December 31, 2008 (-2.7% at constant scope of consolidation and exchange rates). Adjusted operating cash flow (a non-GAAP measure that we use to assess performance, as discussed in more detail below) declined by 3.6% from 2008 to 2009, primarily in the Environmental Services Division (down 10.3%), despite the implementation of a cost-cutting plan. Adjusted operating income (another non-GAAP measure that we discuss below) declined by 15.1%, or 12.4% at constant exchange rates, again reflecting primarily a decline in the Environmental Services Division. Operating income increased by 3.0%, or 6.1% at constant exchange rates, primarily because substantial goodwill impairment charges (which do not affect adjusted operating cash flow or adjusted Operating Income) were recorded in the Environmental Services Division in 2008.

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Commercial Overview

We won several major contracts in 2009:

On January 21, 2009, Veolia Transport and RATP Développement formed a 50/50 joint venture to boost growth potential in Asia, primarily targeting China, South Korea and India. The joint venture was formed for an initial period of 20 years and will generate estimated annual revenue of approximately €100 million (full-year basis), with a business objective of €500 million of annual revenue in 2013.

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On March 26, 2009, the consortium comprising Veolia Transport and its Moroccan partners won a 15-year contract to operate the collective transportation service for the Greater Rabat region, made up of 14 communes. This contract commenced in August 2009. The contract represents estimated total revenue of approximately €1,096 million.

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On April 21, 2009, Veolia Eau announced that Canal Isabel II, the public company in charge of water services in the Madrid area, awarded a contract for the management of Spain s biggest wastewater treatment plant (in terms of daily flows treated) to a consortium headed by Veolia Eau. This 4-year contract, which has a 2-year extension clause, covers the operation and maintenance of the main treatment plant for Madrid. The contract represents estimated total revenue of approximately €16 million for Veolia Eau**.**

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On May 19, 2009, Veolia Environmental Services announced the win by its subsidiary, Veolia Environmental Services (UK), of a 20-year waste management and recycling contract, following a public tender launched by the Merseyside Waste Disposal Authority (MWDA). MWDA is a public body representing five Merseyside district councils located in the north-west of England and including the city of Liverpool. The contract, which commenced in June 2009, includes the development of a flagship materials recovery facility (MRF) at Gilmoss, Liverpool, with an annual capacity of 100,000 metric tons and a refurbishment program for existing infrastructure including improvements to the efficiency and yield of the Bidston MRF and the renovation and management of a network of 16 household waste recycling centers. The contract represents estimated total revenue of approximately £640 million (€720 million).

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On May 28, 2009, Veolia Eau announced the signature with the public works authority of the city of Doha, the capital of Qatar, of a 7-year contract (with a 3-year extension clause) for the operation and maintenance of two wastewater treatment plants with respective daily waste capacity of 112,000 m^3 and 12,000 m^3 respectively. Once recycled, the wastewater will be reused for irrigation and agricultural purposes. This contract represents estimated total revenue of approximately €44 million.

On June 23, 2009, Veolia Eau announced the award by the Joint District Authority of the city of Chartres in France of a contract to build and operate the city s new wastewater treatment plant. When the plant comes into service (34 months after the launch of studies), it will have a treatment capacity of 164,000 population equivalent, which may be extended to a 200,000 population equivalent by the end of the contract. The design and construction of the plant will be contracted-out by Veolia Eau to a consortium made up of OTV/Veolia Water Solutions & Technologies (a subsidiary of Veolia Eau and the lead company) and Ternois. This contract represents estimated total revenue of €156 million, including €54 million for construction activities and €102 million for the 20-year concession contract.

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In July 2009, Veolia Transport was informed of the decision not to renew the Melbourne contract (train network). This contract represented annual revenue of approximately €410 million.

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On July 7, 2009, the Group announced the signature by Veolia Transport of a 10-year contract (initial term of 5 years, with renewal for a further 5 years based upon performance goals) with the New Orleans Regional Transit Authority (RTA). Veolia Transportation, the U.S. subsidiary of Veolia Transport, will be responsible for all aspects of public transportation in New Orleans under a delegated management contract, including operations, safety, maintenance, customer care, routes and schedules, capital planning and grant administration. The contract represents estimated total revenue of approximately €202 million for Veolia.

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On September 15, 2009, Veolia Eau announced that the Brazilian oil company Petrobras had awarded its subsidiary Veolia Water Solutions & Technologies, under a 50/50 joint venture with Enfil, a Brazilian water treatment engineering company, a contract for the design and construction of a water treatment and recycling plant at the Abreu e Lima Refinery, in Ipojuca, Pernambuco State, Brazil. This contract represents estimated total revenues for Veolia Eau of €123 million.

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On September 24, 2009, Veolia Transport announced it had won the bus operating contract for the Västra Götaland Region, west of Göteborg, Sweden. This 8-year contract will commence in June 2010 and represents annual revenues estimated at approximately €30 million.

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On October 7, 2009, Veolia Transport announced it had won the public service delegation and transport contract for Mont Saint Michel in France. The joint authority with responsibility for the Bay of Mont Saint Michel selected Veolia Transport to operate public services to welcome and transport visitors to the site. The contract is for 13 years, three of which will be spent on the construction of the off-site parking lots and the operations center. It will generate estimated cumulative revenue of approximately €91 million.

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In October 2009, Dalkia announced the signature of a contract with the Santa Maria della Misericordia University Hospital in Udine, Italy for the management of a heating network, integrated facilities management and thermal and multi-technical services. This 30-year contract represents estimated total revenue of €394 million.

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On November 9, 2009, the Group announced the signature of a partnership between Dalkia and CEZ, the number-one electricity producer in the Czech Republic, to develop industrial cooperation that could potentially lead to asset transfers. As a first step, the Group will transfer 15% of Dalkia Czech Republic