

dollars.

The following table shows the French franc/U.S. dollar exchange rate for 1997 and 1998 based on the noon buying rate expressed in French francs per \$1.00, and the euro/U.S. dollar exchange rate for 1999 through 2001 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 French francs or euro were, could have been, or could be, converted into U.S. dollars at these rates or at any other rate. The Federal Reserve Bank of New York has ceased publishing the Noon Buying Rates for French francs and other constituent currencies of the euro. 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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Year	Period End	Average rate*	High	Low
<b>U.S. dollar/Euro</b>				
April 2002	0.90	0.89	0.90	0.88
March 2002	0.88	0.88	0.89	0.86
February 2002	0.87	0.87	0.88	0.86
January 2002	0.86	0.88	0.90	0.86
2001	0.89	0.89	0.95	0.84
December 2001	0.89	0.89	0.90	0.88
November 2001	0.90	0.89	0.90	0.88
2000	0.93	0.92	1.04	0.83
1999	1.00	1.06	1.18	1.00
<b>U.S. dollar/French franc</b>				
1998	5.62	5.90	6.17	5.41
1997	5.99	5.84	6.35	5.21

\* For yearly figures, the average of the noon buying rates for French francs or euro, as the case may be, on the last business day of each month during the relevant period.

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 euros to U.S. dollars in this annual report are based on €1.136 per U.S. dollar, 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 on December 31, 2001. On May 14, 2002, the Noon Buying Rate was U.S.\$0.90 per euro.

#### 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. Large international competitors and local niche companies serve each of the markets in which we compete. From time to time, our competitors may reduce their prices in an effort to expand market share or win a competitively bid contract. Competitors may also introduce new technology or services or improve the quality of their service. We may lose business if we are unable to match the prices, technologies or service quality offered by our competitors.

We perform a substantial portion of our business under contracts with governmental authorities and industrial and commercial clients. These contracts are often awarded and renewed through periodic competitive bidding. We may not be the successful bidder in the competition to obtain or renew these contracts. Our inability to replace a significant number of contracts lost through the competitive bidding process with comparable contracts or other revenue sources within a reasonable time could be harmful to our business and financial performance. Furthermore, we must commit substantial resources before we are assured of winning or renewing a contract. We may not win or successfully renew a contract despite incurring substantial expenses.

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

While our operations are concentrated mainly in Europe, we conduct business in markets around the world. Sales generated in countries outside of Europe and North America represented approximately 5% of our total revenues in 2001. The risks associated with conducting business in some countries outside of western Europe, the United States and Canada can include slower payment of invoices, nationalization, social, political and economic instability, increased currency exchange risk and currency repatriation restrictions, among other risks. We may not

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be able to insure or hedge against these risks. Furthermore, financing in countries with less than investment grade sovereign credit ratings may not be available. As a result, it may be difficult to create profit-making operations in developing markets.

##### ***Changes in energy prices and taxes may reduce our profits***

Fuel is a significant operating expense for our transportation and waste management businesses. Fuel prices are subject to sudden increases as a result of variations in supply and demand. Although most of our contracts contain tariff escalation provisions that are intended to compensate us for increased costs incurred as a result of increased fuel prices, there may be developments, including delays between fuel price increases and the time we are allowed to raise our prices to cover the additional costs, that prevent those provisions from entitling us to full compensation. A sustained increase in energy prices could hurt our business to the extent we are not able to increase our prices sufficiently to cover the additional costs. Furthermore, governmental authorities from time to time impose increases in fuel taxes. Increases in fuel prices or taxes could raise our costs and reduce our profitability.

##### ***Governmental authorities could terminate or modify some of our contracts***

Contracts with governmental authorities make up a significant percentage of our revenue. We are subject to various laws

that apply to companies contracting with governmental authorities that differ from laws governing private contracts. In civil law countries such as France, for instance, government contracts often allow the governmental entity to modify or terminate a contract unilaterally in certain circumstances. Although we are generally entitled to full indemnification in the event of a unilateral modification or termination of a contract by a governmental authority, such modifications or terminations could reduce our revenue and profits if full indemnification is not available.

### ***We may incur environmental liability in connection with our past, present and future operations***

Each of our businesses is subject to extensive and increasingly stringent environmental laws and regulations. These laws and regulations govern, among other things, the quality of water intended for human consumption, the collection, treatment and discharge of waste water, the operation of landfills, the collection and disposal of hazardous waste and the operation of municipal waste incineration and co-generation plants. In some circumstances, we could be required to pay fines or damages under these environmental laws and regulations even if:

- we exercise due care in conducting our operations;
- we comply with all applicable laws and regulations; and
- the quantity of pollutant at issue is very small.

In addition, courts or regulatory authorities may require us to undertake investigatory and/or remedial activities, curtail operations or close facilities temporarily or permanently in connection with applicable environmental laws and regulations. We could also become subject to claims for personal injury or property damage. Being required to take those actions, or to pay environmental damages, could hurt our business substantially or affect our ability to obtain new business.

### ***Our compliance with environmental laws is costly and may become more so in the future***

We have made and will continue to make capital and other expenditures to comply with applicable environmental laws. For instance, governmental authorities may require us from time to time to incur expenditures for pollution control devices, or to upgrade, remove or retrofit equipment used in our operations. Each of our operations, moreover, may become subject to stricter laws, and correspondingly 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.

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### ***We may not be able to retain or obtain required environmental licenses, permits and approvals***

We need to maintain, renew or obtain a variety of permits and approvals from regulatory authorities to conduct each of our businesses. The process for renewing or obtaining these permits and approvals is often lengthy, complex and unpredictable. We may invest substantial resources in a project only to have a regulatory authority deny us a permit or approval necessary to complete or operate it. Moreover, a regulatory authority may grant a necessary permit or approval only after substantial delays and/or additional expenditures. The occurrence of any of these events could adversely affect our operations.

### ***We may be required to sell our interest in FCC or to finance an investment in FCC.***

We have an indirect 27.9% stake in Fomento de Construcciones y Contratas (FCC), a leading provider of environmental management services in Spain and Latin America listed on the Madrid Stock Exchange. Our interest consists of a 49% stake in a holding company that owns 57% of FCC's outstanding shares. We have also created a number of joint ventures with FCC that operate a significant part of our environmental management business in Spain and Latin America. With our acquisition of our participation in FCC from Vivendi Universal, we became a party to an agreement with the controlling shareholder of FCC, Ms. Esther Koplowitz, who is a member of our supervisory board and owner of the remaining 51% of the holding company, pursuant to which Ms. Koplowitz has the right to buy our interest in FCC's holding company in the event that Vivendi Universal ceases to hold a majority interest in our company (the "call option"). The exercise price of the call option would be equal to the purchase price we paid to Vivendi Universal or, if lower, the market value of FCC's shares. If the call option is exercised at a time when the market price of those shares is low, we would be required to sell our interest in FCC upon disadvantageous terms. In addition, a sale of our interest in FCC could impede our efforts to expand our activities in Spain.

The agreement also gives Ms. Koplowitz an option (the "put option"), exercisable at any time through October 6, 2008, to sell to Vivendi Universal the remaining interest in the holding company at a price based on the average market price of FCC's common stock over the three months prior to exercise. The exercise price of the put option is capped at the lower of seven times FCC's EBITDA and 29.5 times FCC's earnings per share in the last fiscal year. We have agreed to purchase from Vivendi Universal any stake it acquires under the put option. Pursuant to that agreement, if the put option is exercised, we would ultimately own 100% of the holding company that controls FCC. Under these circumstances, Spanish law would require us to launch a public tender offer for all the shares of FCC not owned by the holding company, which represent approximately 43% of FCC outstanding shares. The price per share of the offer would be determined by the Spanish stock exchange authorities. If based on the price of FCC's common stock on February 28, 2002, the price for the remaining 43% would be approximately €1.29 billion, subject to adjustment by the Spanish stock exchange authorities. The costs of purchasing the remaining interest in FCC and of consummating the tender offer for the remaining public interest in FCC may be substantial.

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

We hold assets and liabilities, earn income and pay expenses of our subsidiaries in a variety of currencies. Our financial statements are presented in euro. Therefore, when we prepare our financial statements, we must translate our assets, liabilities, income and expenses in other currencies into euro at then-applicable exchange rates. Consequently, increases and decreases in the value of the euro in respect of these other currencies will affect the value of these items in our financial statements, even if their value has not changed in their original currency. For example, an increase in the value of the euro may result in a decline in the reported value, in euro, of our interestsheld in foreign currencies, particularly in the United States, where we have recently made a number of significant acquisitions of companies and assets that are valued in U.S. dollars. Although we seek to limit the impact of these fluctuations in currency exchange rates by financing our local operations and acquisitions, to the extent possible, in local currency, we may not be able to fully offset the effects of these fluctuations on our financial statements. To the extent these fluctuations have a negative effect on our financial condition as presented in our financial statements, the price of our shares could decline.

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In addition, because we have a significant amount of debt outstanding, our results of operation and financial condition may be affected by changes in prevailing market rates of interest. We manage this exposure to interest rate risk by setting a target fixed rate for a significant part of our debt, which we achieve either through fixed rate debt or interest rate hedging activities. Including debt covered by our hedging activities, at December 31, 2001 approximately €9 billion of our debt (representing 49% of our total debt outstanding) was subject to fixed interest rates. Fluctuations in interest rates may also

affect our future growth strategy. A rise in interest rates may force us to finance acquisitions or operations or refinance existing debt at a higher cost in the future, which may lead us to decide to curtail or delay our then current expansion plans.

## **Risks Relating to Our Relationship with Vivendi Universal**

### ***We are controlled by Vivendi Universal***

Vivendi Universal owns approximately 63% of our outstanding shares. See “Item 7. Major Shareholders and Related Party Transactions – Major Shareholders.” Accordingly, under French law and our by laws (statuts), Vivendi Universal will be able to control all decisions to be taken by our shareholders (unless its ownership interest subsequently falls below 50%), except those that require a super-majority vote. The matters Vivendi Universal will continue to control, either directly through its majority voting power or indirectly through its control of the membership of our supervisory board and management board, include, but are not limited to, the following:

- any transaction substantially affecting our scope of activities;
- any determinations with respect to mergers or other business combinations;
- our acquisition or disposition of substantial assets;
- our financing and;
- changes to the agreements relating to our relationship with Vivendi Universal and the enforcement of those agreements against Vivendi Universal.

### ***Members of our supervisory board and management board may have conflicts of interest***

Some of the members of our supervisory and management boards have a substantial amount of their personal financial portfolios in Vivendi Universal ordinary shares and options to purchase Vivendi Universal ordinary shares. Their ownership of Vivendi Universal ordinary shares could create conflicts of interest when they are faced with decisions that could have different implications for Vivendi Universal and us. Conflicts could arise when the supervisory or management boards make decisions with respect to, for example, dividends to be paid by our company and transactions between our company and Vivendi Universal.

### ***We could lose use of the “Vivendi” trademark***

We entered into a 5-year licensing contract with Vivendi Universal that allows us to use the name “Vivendi Environnement” on June 20, 2000, effective as of January 1, 2000, and which is renewable for additional 5-year periods. This contract, however, could be terminated in the event that Vivendi Universal ceases to hold a controlling interest in our company. See “Item 7. Major Shareholders and Related Party Transactions – Related Party Transactions.” If this contract is not renewed upon its expiration, or is terminated, we would be required to change our corporate name within two years of non-renewal or termination.

## **Other Risks**

### ***Preemptive rights may not be available for U.S. persons***

Under French law, shareholders have preemptive rights (droits préférentiels de souscription) to subscribe for cash issuances of new shares or other securities giving rights to acquire additional shares on a pro rata basis. 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, is effective with respect to those rights or an exemption from the registration requirements imposed by the Securities Act is available. 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 and no Securities Act exemption is available. For example, in December 1999 we issued warrants to acquire new shares to all our shareholders, but those warrants are only exercisable outside the United States or by “qualified institutional buyers” in the United States.

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## ***We are permitted to file less information with the 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 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 U.S. Securities and Exchange Commission 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 than there is for those U.S. companies.

### ***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 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 shareholder meetings.

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## **ITEM 4: INFORMATION ON THE COMPANY**

### **HISTORY AND DEVELOPMENT OF THE COMPANY**

The legal and commercial name of our company is “Vivendi Environnement.” Vivendi Environnement is a *société anonyme à directoire et conseil de surveillance*, a form of stock corporation, incorporated in 1995 pursuant to the French commercial code for a term of 99 years. Our registered office is located at 36-38 avenue Kléber, 75116 Paris, France, and the phone number of that office is 33 1 71 75 0000. Our agent in the United States is Stephen P. Stanczak. He can be reached at United States Filter Corporation, 40-004 Cook Street, Palm Desert, CA 92211.

### **Historical Background**

On December 14, 1853, Compagnie Générale des Eaux was founded by Imperial decree and won its first public service concession for the distribution of water in the city of Lyon, France. Compagnie Générale des Eaux continued to develop its