

RISK FACTORS

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

Risks Relating to Our Operations

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

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

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

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

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

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

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

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

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

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

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

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

Some of our activities could cause damages to persons or property

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

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

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

Our business is affected by variations in weather conditions.

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

Our business is subject to CO₂ 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 CO₂ allowance system introduced by the European Union and the Kyoto Protocol. The rise in greenhouse gases in the atmosphere led certain States and the international community to introduce regulatory provisions to limit further increases. At the international level, the Kyoto Protocol, finalized in 2005, came into force in February 2005. Directive 2003/87/EC of October 13, 2003 implementing the Kyoto Protocol, created an emission allowance trading system within the European Union, known as ETS (*Emission Trading Scheme*). The resulting system, which came into operation in 2005, led to the creation of National Allowance Allocation Plans (NAAP).

In France, NAAP 1 was adopted for the period 2005-2007 and was followed by NAAP 2 covering the period 2008-2012. In 2006, the European Union launched a review of Directive 2003/87/EC aimed at extending its application scope, strengthening controls and introducing an allowance trading scheme linked with the Kyoto protocol. At the beginning of 2008, the European Commission published a revised draft directive on the CO₂ emissions allowance scheme for the period 2013-2020. This led to the adoption by the European parliament, at the end of 2008, of a "climate-energy" package which seeks to ensure compliance within the European Union of climate objectives by 2020: 20% cut in greenhouse gas emissions, 20% improvement in energy efficiency and 20% energy consumption in the European Union produced from renewable sources. This "climate-energy package" includes six new texts: a directive on renewable energies, a directive on the emission trading scheme (ETS), an effort-sharing decision on greenhouse gas emissions (outside ETS), a directive on the capture and storage of CO₂, a directive on fuel quality and a directive on reducing CO₂ 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.

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

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

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

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

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

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

In accordance with standard contractual practice, to the extent possible we seek to place these risks contractually with the customer. We may, however, encounter difficulties over which we have no control, relating, for example, to the complexity of certain infrastructure or construction contingencies, the purchase and ordering of equipment and supplies, or changes in performance schedules. These may lead to non-compliance with contract specifications or generate additional costs and construction delays, triggering, in certain cases, reductions in our revenue or contractual penalties.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Specific measures are required in connection with certain technological risks.

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

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

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

We hold assets, earn income and incur expenses and liabilities in a variety of currencies. Our financial statements are presented in euros. Accordingly, when we prepare our financial statements, we must translate our foreign currency-denominated assets, liabilities, income and expense items into euros at applicable exchange rates. Consequently, fluctuations in the exchange rate of the euro against these other currencies can affect the value of these items in the financial statements, even if their intrinsic value is unchanged in the original currency. For example, an increase in the value of the euro may result in a decrease in the reported value, in euros, of our investments held in foreign currencies.

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

Risks Relating to Our Shares and ADSs

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

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

ITEM 4: INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

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

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

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

Historical Background

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

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

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

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

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

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

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

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

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