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 be successful in winning or renewing 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 8% of our total revenue in 2002. 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 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. Finally, unfavorable events and circumstances in these countries may affect the value of our assets and investments in those countries. These events and circumstances, which may include material adverse changes in the general economic environment, may lead us to reassess our assumptions and objectives in respect of our operations in these countries and to reexamine the actual value of our assets and investments in these countries. As a result, we may record exceptional provisions or depreciation charges in connection with our operations in these countries, which could have a material adverse effect on our results.

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 us from obtaining 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 may increase 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.

Our compliance with environmental, health and safety laws and regulations is costly and may become more so in the future, and we may incur liability under these laws and regulations.

We have made and will continue to make the necessary capital and other expenditures to comply with applicable environmental, health and safety laws and regulations. We are continuously required to incurexpenditures to ensure that the installations that we operate comply with all applicable legal, regulatory and administrative requirements, including general precautionary obligations. These expenditures mainly relate to air pollution (including, for example, the control of emissions from our transportation vehicles, our heat generation plants and our waste incineration facilities), the quality of our potable water, the disposal of wastewater and other effluents and the protection of land and biodiversity (including through restrictions on waste disposal and the use of landfills). Each of our operations, moreover, may become subject to stricter laws and regulations, 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.

The scope of application of environmental, health, safety and other laws and regulations is also becoming increasingly broader. These laws and regulations govern, among other things, any discharges in a natural environment, the collection, treatment and discharge of all types of waste, and the rehabilitation of old sites. These increasingly broader laws and regulations expose us to the risk of liabilities, including in connection with assets that we no longer own and activities that have been discontinued. In some circumstances, we could be required to pay fines or damages under these laws and regulations or undertake remedial action even if we exercise due care in conducting our operations and we comply with all applicable laws and regulations.

In addition, courts or regulatory authorities may require us to conduct investigations and undertake remedial activities, curtail operations or close facilities temporarily or permanently in connection with applicable laws and regulations, including to prevent imminent risks or in light of expected changes in those laws and regulations. In the event of an accident or other incident, we could also become subject to claims for personal injury, property damage or damage to natural resources. Being required to take those actions or to pay these damages could hurt our business or significantly affect our capabilities.

We may not be able to retain or obtain required 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 or additional expenditures. The occurrence of any of these events could increase our costs of operations and, in certain cases, require us to withdraw from a project or contract, which could hurt our business and adversely affect our operations and profitability.

We may be required to sell our interest in FCC in the event of a hostile takeover or to finance an acquisition of the remaining shares of FCC and its holding company.

We have an indirect 25.7% stake in Fomento de Construcciones y Contratas (FCC), a leading provider of environmental management and other services in Spain and Latin America. FCC is listed on the Madrid Stock Exchange. Our interest consists of a 49% stake in a holding company that owns 52.48% of FCC’s outstanding shares. Ms. Esther Koplowitz owns the remaining 51% of FCC’s holding company. 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. See “Item 4. Information on the Company—Business Overview—Our Services” and “Item 5. Operating and Finance Review and Prospects.”

Pursuant to the agreements governing our participation in FCC, Ms. Koplowitz has the right to buy our interest in FCC’s holding company in the event that our company is subject to a “hostile takeover.” This agreement defines a “hostile takeover” as any direct or indirect acquisition of 25% or more of our shares that is effected by a direct competitor of FCC in Spain without the approval of our board of directors (formerly of our supervisory board and our management board). The purchase price would be equal to the average of the price we paid for the acquisition of our participation in FCC (€691 million) and the market value of our interest in FCC’s holding company, which is determined by reference to the average trading price of FCC’s shares during the 3-month period preceding the hostile takeover. If this option is exercised at a time when the market price of FCC’s 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 and, to a lesser extent, in Latin America.

Pursuant to these agreements, Ms. Koplowitz also has the option, exercisable at any time through October 16, 2008, to require us to purchase the remaining interest in FCC's holding company at a price determined at the time of exercise based on the average market price of FCC's common stock over the prior 3 months, subject to a cap equal to the higher of 7 times FCC's EBITDA and 29.5 times FCC's earnings per share in the prior fiscal year. If this option is exercised, we would ultimately own 100% of the holding company that controls FCC. Under these circumstances, Spanish law may require us to launch a public tender offer for all of the shares of FCC not owned by FCC's holding company, which represent approximately 47.52% of FCC outstanding shares, at a price per share to be approved by the Spanish stock exchange authorities. Based on the price of FCC's common stock on March 3, 2003, the price for the remaining 47.52% of FCC would be approximately €1.4 billion, subject to adjustment by the Spanish stock exchange authorities. The cost of purchasing the remaining interest in FCC and of consummating the tender offer for the remaining public interest in FCC may be substantial. We will explore the alternative financing options available to us to cover these costs, if any, at the appropriate time and may decide to finance these costs by incurring additional debt, issuing additional common stock, selling assets or a combination of any of these financing alternatives, which could adversely affect our net income or the market price of our shares.

See "Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions—Other Agreements—FCC Agreements" for a description of the agreements governing our participation in FCC.

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

We hold assets, incur 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 interests held in foreign currencies, particularly in the United States, where we have significant operations carried out in U.S. dollars.

In addition, because we have a significant amount of debt outstanding, our results of operations 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. At December 31, 2002 our outstanding total long-term debt amounted to €12.9 billion, of which 49% was subject to fixed interest rates (including debt covered by our hedging activities). 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 Shares and ADSs

The substantial number of shares that will be eligible for sale in the near future may cause the market price of our shares or ADSs to decline.

In connection with the sale of a part of its interest in our company in June 2002, Vivendi Universal entered into a lock-up agreement in respect of its remaining 40.8% interest in our company that generally prevented it from offering or selling, directly or indirectly, these shares for a period of 545 days. This period expires on December 23, 2003. On December 24, 2002, Vivendi Universal sold half of its remaining 40.8% interest in our company to a designated group of institutional investors, which agreed to assume Vivendi Universal's obligations under the lock-up agreement for the remainder of the lock-up period. In addition, Vivendi Universal granted this designated group of investors options to acquire its remaining 20.4% interest in our company at a fixed price at any time before December 24, 2004. These options and the underlying shares are subject to the same lock-up agreement. See "Item 7. Majority Shareholders and Related Party Transactions—Majority Shareholders" for a description of these transactions. Following the expiration of this lock-up agreement, a substantial number of shares will be eligible for sale in the public market. If several of these investors or, if a significant portion of the options are not exercised, Vivendi Universal commence selling shares of our company on the market, these sale activities could adversely affect prevailing market prices of 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, or 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, is effective with respect to those rights or an exemption from the registration requirements imposed by 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 sec urities giving rights to acquire additional shares at a time when no registration statement is in effect. For example, in July 2002 we effected a capital increase through the issuance of rights to acquire new shares to all of our shareholders, but those rights were generally exercisable only by persons located outside the United States. Holders of our ADSs were not permitted to exercise the rights corresponding to the shares underlying the ADSs and received the net proceeds of the sale of these rights in the French market by the ADS depositary.

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 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 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's meetings.

ITEM 4: INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

We are the leading global provider of environmental management services, which are defined as water and wastewater services, waste management services, energy services (excluding the production, trading and sale of electricity) and transportation services. Our clients include a wide range of public authorities, industrial and commercial 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 0000. Our agent in the United States is Stephen P. Stanczak. He can be reached at USFilter, 40-004 Cook Street, Palm Desert, CA 92211.

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. Early on, it commenced developing its municipal water distribution activities in France by obtaining concessions in Nantes (1854), Nice (1864), Paris (1860) and its suburbs (1869), and launched its international expansion by obtaining concessions in Venice (1880), Constantinople (1882) and Porto (1883). In addition to water distribution, Compagnie Générale des Eaux has also provided water treatment services since 1884.

After more than a hundred years of providing water and wastewater services around the world, Compagnie Générale des Eaux expanded its business during the 1980's with the acquisition of Compagnie Générale d'Entreprises Automobiles, a waste management and transportation services provider, and Compagnie Générale de Chauffe, an energy services provider. At the same time, Compagnie Générale des Eaux reorganized its water activities by regrouping all of its design, engineering and execution activities relating to potable water and wastewater treatment facilities under its subsidiary OTV.

Following the acquisition of several communications and media activities in the late 1990's, Compagnie Générale des Eaux changed its name to "Vivendi" in 1998 and renamed its main water subsidiary "Compagnie Générale des Eaux" to distinguish the separate existence of its two main businesses. During the same year, Vivendi continued to extend the geographic reach of its environmental management services activities through the purchase of a 49% interest in the holding company that controls Fomentos de Construcciones y Contratas (FCC), a Spanish public company that is the leading provider of waste management services and the second largest provider of water and wastewater services in Spain. In addition, in April 1999 Vivendi acquired United States Filter Corporation, or USFilter, which is the leading water and wastewater treatment services and equipment company in the United States.

In 1999, Vivendi created our company under the name "Vivendi Environnement" to conduct all of its environmental management activities, which were conducted through four main companies: "Vivendi Water" (water), of which Compagnie Générale des Eaux is a subsidiary, "CGEA Onyx" (waste management), "Dalkia" (energy services) and "CGEA Connex" (transportation). At the time of our formation, Vivendi contributed or sold substantially all of these environmental management activities to our company.

On July 20, 2000, our shares were listed on the Premier Marché of Euronext Paris in connection with an initial public offering of our shares in France and in an international private placement. Vivendi, which was renamed "Vivendi Universal" in 2000, continued to hold over 72.3% of our share capital after our initial public offering. In addition, in December 2000 Dalkia entered into an agreement with Eléctricité de France (EDF), the French state-owned electricity utility, pursuant to which Dalkia's energy services operations were consolidated with those of EDF.

During 2001, our shares were included in the CAC 40, the main equity index published by Euronext Paris, and we listed our shares, in the form of American Depositary Shares, for trading on The New York Stock Exchange. In addition, in December 2001 our main shareholder, Vivendi Universal, sold a block of our shares representing 9.3% of our total share capital, reducing its equity participation in our company from 72.3% to 63.05%. We also distributed in December 2001 free warrants to all of our shareholders, which are exercisable until March 2006. See "Item 7. Major Shareholders and Related Party Transactions — Major Shareholders."