

Consolidated Financial Statements

for the half-year ended June 30, 2008

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CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET - ASSETS (€million)	Notes	As of June 30, 2008	As of December 31, 2007
Goodwill	4	7,190.9	6,913.2
Concession intangible assets	5	2,992.6	2,989.2
Other intangible assets	6	1,676.9	1,706.4
Property, plant and equipment	7	9,460.5	9,203.2
Investments in associates		304.5	292.1
Non-consolidated investments		242.1	256.1
Non-current operating financial assets	8	5,236.4	5,272.4
Non-current derivative instruments - Assets	23	187.7	123.7
Other non-current financial assets	9	896.8	746.0
Deferred tax assets		1,490.9	1,468.1
Non-current assets		29,679.3	28,970.4
Inventories and work-in-progress	10	1,039.2	839.4
Operating receivables	10	12,873.8	12,459.4
Current operating financial assets	8	399.9	355.2
Other current financial assets	11	292.1	330.0
Current derivative instruments - Assets	23	64.0	114.4
Cash and cash equivalents	12	2,771.5	3,115.6
Current assets		17,440.5	17,214.0
Assets classified as held for sale		6.2	122.5
Total assets		47,126.0	46,306.9
CONSOLIDATED BALANCE SHEET - EQUITY AND LIABILITIES (€million)	Notes	As of June 30, 2008	As of December 31, 2007
Share capital		2,362.7	2,358.8
Additional paid-in capital		9,196.9	9,179.5
Reserves and retained earnings attributable to equity holders of the parent		(4,165.6)	(3,925.4)
Minority interests		2,494.4	2,577.8
Equity	13	9,888.4	10,190.7
Non-current provisions and other debt	14	2,189.5	2,138.9
Non-current borrowings	15	15,498.5	13,948.0
Non-current derivative instruments - Liabilities	23	290.8	163.8
Deferred tax liabilities		1,846.5	1,794.7
Non-current liabilities		19,825.3	18,045.4
Operating payables	10	13,142.3	12,944.8
Current provisions	14	826.4	825.7
Current borrowings	16	2,694.2	3,805.0
Current derivative instruments - Liabilities	23	46.2	34.0
Bank overdrafts and other cash position items		698.5	459.4
Current liabilities		17,407.6	18,068.9
Liabilities directly associated with assets classified as held for sale		4.7	1.9
Total equity and liabilities		47,126.0	46,306.9

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

(€million)	Notes	Half-year ended June 30, 2008	Half-year ended June 30, 2007	Year ended December 31, 2007
Revenue	17	18,091.7	15,461.6	32,628.2
o/w revenue from operating financial assets		181.4	174.5	345.1
Cost of sales		(14,976.5)	(12,671.6)	(26,929.6)
Selling costs		(318.2)	(248.2)	(551.3)
General and administrative expenses		(1,503.6)	(1,280.7)	(2,757.0)
Other operating revenue and expenses		12.3	10.7	106.6
Operating income	18	1,305.7	1,271.8	2,496.9
Finance costs	19	(501.2)	(461.6)	(969.6)
Finance income	19	74.9	70.0	152.5
Other financial income and expenses	20	(9.4)	(11.3)	1.4
Income tax expense	21	(226.5)	(235.0)	(420.1)
Share of net income of associates	Erreur ! Source du renvoi introuva ble.	9.0	10.7	16.9
Net income from continuing operations		652.5	644.6	1,278.0
Net income from discontinued operations	Erreur ! Source du renvoi introuva ble.	(1.8)	(8.2)	(23.2)
Net income for the period		650.7	636.4	1,254.8
Minority interests	22	150.2	143.4	326.9
Attributable to equity holders of the parent		500.5	493.0	927.9

(in euros)				
Net income attributable to equity holders of the parent per share				
Diluted		1.09	1.21	2.13
Basic		1.09	1.22	2.16
Net income from continuing operations attributable to equity holders of the parent per share				
Diluted		1.09	1.23	2.19
Basic		1.10	1.24	2.21

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(€million)	Notes	Half-year ended June 30, 2008	Half-year ended June 30, 2007	Year ended December 31, 2007
Net income for the year attributable to equity holders of the parent		500.5	493.0	927.9
Minority interests	22	150.2	143.4	326.9
Operating depreciation, amortization, provisions and impairment losses		917.3	836.2	1,816.7
Financial amortization and impairment losses		2.9	6.9	8.0
Gains (losses) on disposal and dilution		(39.3)	(68.3)	(173.5)
Share of net income of associates		(9.0)	(10.7)	(16.9)
Dividends received	20	(6.5)	(6.5)	(8.8)
Finance costs and finance income	19	426.3	391.6	817.1
Income tax expense	21	226.5	235.0	420.1
Other items		(5.7)	(11.3)	101.9
Operating cash flow before changes in working capital		2,163.2	2,009.3	4,219.4
Changes in working capital	10	(249.1)	(245.7)	(167.1)
Income taxes paid		(168.0)	(140.4)	(417.7)
Net cash from operating activities		1,746.1	1,623.2	3,634.6
Capital expenditure		(1,235.9)	(1,193.6)	(2,518.7)
Proceeds on disposal of intangible assets and property, plant and equipment		196.6	110.4	212.9
Purchases of investments		(542.3)	(276.9)	(1,835.4)
Proceeds on disposal of financial assets		46.7	65.1	181.7
Operating financial assets:	8			
New operating financial assets		(203.0)	(151.6)	(404.1)
Principal payments on operating financial assets		193.7	176.2	360.7
Dividends received		9.4	9.3	15.3
New non-current loans granted	9	(133.2)	(27.6)	(65.0)
Principal payments on non-current loans	9	18.9	25.1	61.6
Net decrease(increase) in current loans	11	7.9	(10.5)	(27.4)
Net cash used in investing activities		(1,641.2)	(1,274.1)	(4,018.4)
Net increase/(decrease) in current borrowings	16	(1,571.9)	346.8	(1,534.5)
New non-current borrowings and other debt	15	2,310.9	1,078.3	2,060.4
Principal payments on non-current borrowings and other debt	15	(141.7)	(212.5)	(1,362.9)
Change in capital *		(102.5)	102.0	3,039.2
Purchases of treasury shares		(1.8)	16.8	18.9
Dividends paid		(726.9)	(502.1)	(564.3)
Interest paid		(472.0)	(388.4)	(716.0)
Net cash from(used in) financing activities		(705.9)	440.9	940.8
Net cash at the beginning of the year		2,656.2	2,202.0	2,202.0
Effect of foreign exchange rate changes		17.8	12.2	(102.8)
Net cash at the end of the year		2,073.0	3,004.2	2,656.2
Cash & cash equivalents	12	2,771.5	3,688.5	3,115.6
Bank overdrafts and other cash position items		698.5	684.3	459.4
Net cash at the end of the year		2,073.0	3,004.2	2,656.2

The accompanying notes are an integral part of these consolidated financial statements.

* The amount of -€102.5 million corresponds for -€131.2 million to the settlement of the rainwater receivable issue related to Berlin contract in the Water Division.

STATEMENT OF RECOGNIZED INCOME AND EXPENSE

(€million)	Half-year ended June 30, 2008	Half-year ended June 30, 2007	Year ended December 31, 2007
Net income for the year	650.7	636.4	1,254.8
Actuarial gains or losses on pension obligations	(84.7)	120.3	88.0
Fair value adjustments on available-for-sale assets	(1.8)	(1.1)	33.7
Fair value adjustments on cash flow hedge derivative instruments	32.6	26.1	8.8
Foreign exchange gains and losses:			
on the translation of the financial statements of subsidiaries drawn up in a foreign currency	(116.5)	(21.3)	(251.5)
on the net financing of foreign investments	34.5	(1.4)	(5.5)
Income and expenses recognized directly in equity	(135.9)	122.6	(126.5)
Total income and expenses recognized	514.8	759.0	1,128.3
Attributable to equity holders of the parent	305.4	605.0	778.5
Attributable to minority interests	209.4	154.0	349.8

The accompanying notes are an integral part of these consolidated financial statements.

1 ACCOUNTING PRINCIPLES AND METHODS**1.1 BASIS OF PREPARATION AS OF JUNE 30, 2008**

The condensed consolidated interim financial statements of the Veolia Group (the “Group”) for the half-year ended June 30, 2008 were prepared in accordance with IAS 34 *Interim financial reporting*. They do not include all the disclosures required under IFRS and must be read in conjunction with the Group financial statements for the year ended December 31, 2007.

The Veolia Environnement condensed consolidated interim financial statements for the half-year ended June 30, 2008 were prepared under the responsibility of the Board of Directors on August 6, 2008.

1.2 MAIN ACCOUNTING METHODS

The accounting principles used for the preparation of the condensed consolidated interim financial statements are in accordance with the IFRS standards and interpretations adopted by the European Union and approved by the IASB on June 30, 2008. These accounting principles are identical to those used for the preparation of the consolidated financial statements for the year ended December 31, 2007, except for the adoption of the following new standards and interpretations: IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*, which had no impact on the Group consolidated financial statements for the half-year ended June 30, 2008.

It should be noted that the Group opted for the early adoption as from fiscal 2006 of the interpretation IFRIC 12 *Service Concession Arrangements* which is now mandatory as of January 2008, but which has yet to be approved by the European Union.

The interpretation IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* is subject to mandatory adoption in fiscal periods beginning on or after January 1, 2008, but has not yet been approved by the European Union. It had no impact on the Group consolidated financial statements for the half-year ended June 30, 2008.

The Group has not opted for the early adoption of the standard IFRS 8 *Operating segments*, which supersedes IAS 14 *Segment Reporting* and is applicable to the Group as of January 1, 2009. The Group is currently assessing any possible impacts.

Climatic conditions combined with the seasonality of the Group’s activities may impact the Company’s results. Some of the Company’s activities are subject to seasonal changes. Dalkia generates most of its operating income in the first and fourth quarters corresponding to heating periods in Europe. In the Water sector, water consumption for domestic use and wastewater treatment is more significant between May and September in the Northern hemisphere where Veolia Water conducts most of its business. Finally, in Transportation, SNCM conducts most of its business during the summer.

1.3 TRANSLATION OF FOREIGN SUBSIDIARIES' FINANCIAL STATEMENTS

The exchange rates of the major currencies of non-euro countries used in the preparation of the consolidated financial statements were as follows:

Period-end exchange rate	As of June 30, 2008	As of June 30, 2007	As of December 31, 2007
U.S. dollar	1.5764	1.3505	1.4721
Pound sterling	0.7923	0.6740	0.7334
Czech crown	23.8930	28.7180	26.6280

Average exchange rate	Average rate Half-year ended June 30, 2008	Average rate Half-year ended June 30, 2007	Average annual rate 2007
U.S. dollar	1.5444	1.3341	1.3797
Pound sterling	0.7795	0.6756	0.6873
Czech crown	25.1365	28.2722	27.7325

2 USE OF MANAGEMENT ESTIMATES IN THE APPLICATION OF GROUP ACCOUNTING STANDARDS

The preparation of the condensed consolidated interim financial statements may require Veolia Environnement to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Future results could differ significantly from these estimates.

Underlying estimates and assumptions are determined based on past experience and other factors considered reasonable given the circumstances. They act as a basis for making judgments necessary to the determination of the carrying amount of assets and liabilities, which cannot be obtained directly from other sources. Actual values could differ from these estimates.

In preparing the condensed consolidated interim financial statements, the significant judgments made by management when applying Group accounting methods and the main sources of uncertainty with respect to estimates were identical to those disclosed in the consolidated financial statements for the year ended December 31, 2007.

3 SIGNIFICANT EVENTS

- On November 19, 2007, Veolia Environmental Services announced the signature of an agreement to acquire the Bartin Recycling Group, which specializes in the collection and recovery of industrial waste, particularly in the recycling of ferrous and non-ferrous metals. This acquisition, representing an investment of €147 million for Veolia Environmental Services, was finalized on February 13, 2008. The contribution of Bartin to Group revenue for the half-year ended June 30, 2008 totaled €136 million.
- In February 2008, following the completion of a public offer launched on December 17, 2007, Dalkia became the majority shareholder of Praterm, a Polish heating company, with 97.9% of shares. This transaction strengthened Dalkia's positions in Poland where it already owns two of the country's largest heating networks in Poznan and Lodz. The transaction represents an investment of €109 million for Dalkia. The contribution of Praterm to Group revenue for the half-year ended June 30, 2008 totaled €6.1 million.
- To more efficiently finance the Group's operations in the United States, and particularly in relation to the acquisition of TNAI (Energy Services Division) in 2007, Veolia Environnement issued on May 21, 2008 SEC-registered fixed-rate bonds totaling U.S.\$1.8 billion in three tranches (U.S.\$700 million maturing in 5 years, U.S.\$700 million

maturing in 10 years and U.S.\$400 million maturing in 30 years). This first ever issue by Veolia Environnement on the US bond market will improve the balance between long-term cash flows and long-term U.S. dollar native debt.

- The increase in fuel costs (average price of a barrel crude oil was U.S.\$63.3 for the half-year ended June 30, 2007 against U.S.\$110.3 for the half-year ended June 30, 2008) has a significant impact on the half-year results, especially in the Environmental Services Division and Transportation Division. The formulae of indexation included in our contracts will allow to get back partially these costs from the second part of year 2008. On the other hand, the increase of the power prices has a positive impact on Dalkia's activity.
- The half-year ended June 30, 2008 has been affected by the decline of the US dollar and the currencies which are linked to it and the Pound Sterling, each relative to the Euro. Due to the significant presence of the Group in these areas (United States, China and United Kingdom), the half-year consolidated figures have been significantly impacted, especially since the level of profitability in the United States and in the United Kingdom is above the average level within the Group, in the Environmental Services Division. Therefore, the change in the currency exchange rate has a negative impact of €391 million on the Group revenue as of June 30, 2008.

No material transactions led to reclassifications in assets and liabilities held for sale.

4 GOODWILL

Goodwill is as follows:

(€million)	As of June 30, 2008	As of December 31, 2007
Gross carrying amount	7,291.5	7,013.3
Cumulative impairment losses	(100.6)	(100.1)
Net carrying amount	7,190.9	6,913.2

As of **June 30, 2008**, cumulative impairment losses mainly relate to goodwill from the Transportation Division in Scandinavia (€70 million in 2004).

The main goodwill balances by cash-generating unit (amounts in excess of €100 million) are as follows:

(€million)	As of June 30, 2008	As of December 31, 2007
Environmental Services United Kingdom	770.4	824.2
Environmental Services Germany	750.8	748.2
Water France Distribution	743.0	760.5
Environmental Services North America Solid Waste	537.8	567.8
Dalkia France	338.4	342.8
Environmental Services France Solid Waste	301.6	179.8
Water Central and Eastern Europe	297.1	266.9
Water Solutions and Technologies	257.4	206.1
Water United Kingdom	227.1	245.3
Dalkia Italy	180.7	139.9
Water China	179.5	145.5
Transportation North America	155.4	145.5
Water Germany (excluding Berlin)	138.8	138.8
Water Berlin	134.4	134.4
Water France joint venture subsidiaries	133.6	133.6
Veolia Energy Services United States	130.3	139.6
Transportation Sweden, Norway, Finland	121.7	124.5
Transportation France	120.6	117.7
Veolia Energy Poland	116.7	71.7
Environmental Services Italy	110.7	114.6
Environmental Services Marius Pedersen	101.4	90.0
Goodwill balances > €100 million in 2008	5,847.4	5,637.4
Goodwill balances < €100 million in 2008	1,343.5	1,275.8
Goodwill	7,190.9	6,913.2

Changes in the net carrying amount of goodwill by Division during the **half-year ended June 30, 2008** are as follows:

(€million)	As of June 30, 2008	As of December 31, 2007
Water	2,301.1	2,208.2
Environmental Services	3,118.7	3,049.5
Energy Services	1,180.5	1,098.1
Transportation	580.8	556.7
Other	9.8	0.7
Goodwill	7,190.9	6,913.2

The €277.8 million increase in goodwill is mainly attributable to the impact of changes in the scope of consolidation in the amount of €375.4 million and foreign exchange losses of -€107.9 million.

The changes in the scope of consolidation mainly relate to the following acquisitions:

- Environmental Services: €68.3 million, including the acquisition of Bartin Recycling in France for €20.3 million, partially offset by foreign exchange losses of -€102.9 million ;
- Energy Services: €75.1 million, including the acquisition of Praterm in Poland for €34.7 million, and GEFI and Emicom in Italy for a global amount of €40.8 million ;
- Water: €9.7 million, including the acquisition of Biothane for 47.3 million.

The opening balance sheets related to the acquisitions that occurred during the first half-year 2008, including Bartin Recycling and Praterm, are preliminary.

The opening balance sheets related to acquisitions that occurred during 2007 which were preliminary as of December 31, 2007 (SULO in Germany in the Environmental Services Division, non regulated activities of Thames in the Water Division in United Kingdom, VES Tecnitalia in Italy in the Environmental Services Division and TNAI in the United States in the Energy Services Division) have not been impacted by significant charges; some of them are still preliminary as of June 30, 2008.

5 CONCESSION INTANGIBLE ASSETS

Changes in the net carrying amount of concession intangible assets during the **half-year ended June 30, 2008** are as follows:

(€million)	As of June 30, 2008	As of December 31, 2007
Gross carrying amount of concession intangible assets	4,277.7	4,191.9
Amortization and impairment losses	(1,285.1)	(1,202.7)
Net carrying amount of concession intangible assets	2,992.6	2,989.2

Concession intangible assets by Division are as follows:

(€million)	As of June 30, 2008			NCA as of December 31, 2007
	Gross carrying amount	Amortization and impairment losses	Net carrying amount	
Water	3,142.4	(813.2)	2,329.2	2,336.1
Environmental Services	347.6	(116.6)	231.0	242.7
Energy Services	753.0	(343.2)	409.8	388.8
Transportation	-	-	-	-
Other	34.7	(12.1)	22.6	21.6
Concession intangible assets	4,277.7	(1,285.1)	2,992.6	2,989.2

The changes in the net carrying amount of concession intangible assets are mainly attributable to additions in the amount of €155 million (including €20.2 million by the Water Division and €32.6 million by the Energy Services Division), partially offset by charges to amortization of -€4.9 million.

6 OTHER INTANGIBLE ASSETS

Other intangible assets are as follows:

(€million)	As of June 30, 2008	As of December 31, 2007
Intangible assets with an infinite useful life, net	76,5	82.8
Intangible assets with a finite useful life, gross	3,252.0	3,168.6
Amortization and impairment losses	(1,651.6)	(1,545.0)
Intangible assets with a finite useful life, net	1,600.4	1,623.6
Intangible assets	1,676.9	1,706.4

Changes in the net carrying amount of other intangible assets during the **half-year ended June 30, 2008** are as follows:

(€million)	As of June 30, 2008	As of December 31, 2007
Intangible assets with an infinite useful life, net	76.5	82.8
Fees paid to local authorities	606.6	634.5
Contractual rights	560.0	595.9
Purchased software	127.9	131.4
Purchased customer portfolios	74.9	50.4
Other purchased intangible assets	200.8	181.7
Internally generated intangible assets	30.2	29.7
Intangible assets with a finite useful life, net	1,600.4	1,623.6
Other intangible assets	1,676.9	1,706.4

The -€9.5 million decrease in other intangible assets is mainly due to charges to amortization of -€13.2 million, partially offset by additions of €50.4 million (including €18.4 million in the Water Division and €10 million in the Energy Services Division) and by changes in the scope of consolidation for €1.7 million (including €38.5 million in the Water Division and €8.4 million in the Energy Services Division).

7 PROPERTY, PLANT AND EQUIPMENT

Changes in the net carrying amount of property, plant and equipment during the **half-year ended June 30, 2008** are as follows:

(€million)	As of June 30, 2008	As of December 31, 2007
Gross carrying amount of property, plant and equipment	19,632.3	18,885.9
Depreciation	(10,171.8)	(9,682.7)
Net carrying amount of property, plant and equipment	9,460.5	9,203.2

The €257.3 million increase in property, plant and equipment is a result of the following items:

- **Additions** of €26.4 million (including €43.2 million by the Environmental Services Division, €200.4 million by the Water Division, €179.6 million by the Transportation Division and €5.1 million by the Energy Services Division);
- **Foreign exchange losses** of -€15.2 million (including -€8.2 million in the Water Division, -€78.4 million in the Environmental Services Division and €51.4 million in the Energy Services Division);
- The impact of **changes in scope of consolidation** for €27.4 million (including €98.7 million in the Energy Services Division, €77.1 million in the Environmental Services Division and €43.9 million in the Transportation Division);
- And charges to amortization of €18.6 million.

Property, plant and equipment by Division are as follows:

(€million)	As of June 30, 2008			NCA as of December 31, 2007
	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	
Water	4,427.5	(2,170.2)	2,257.3	2,250.9
Environmental Services	8,149.1	(4,479.2)	3,669.9	3,638.1
Energy Services	3,169.4	(1,405.3)	1,764.1	1,617.3
Transportation	3,706.4	(2,028.3)	1,678.1	1,603.0
Other	179.9	(88.8)	91.1	93.9
Property, plant and equipment	19,632.3	(10,171.8)	9,460.5	9,203.2

Property, plant and equipment by class of assets is as follows:

(€million)	As of June 30, 2008			Net carrying amount as of December 31, 2007
	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	
Land	1,387.3	(526.7)	860.6	859.8
Buildings	3,012.9	(1,397.1)	1,615.8	1,660.3
Technical installations, plant and equipment	7,700.5	(4,038.2)	3,662.3	3,499.8
Traveling systems and other vehicles	4,833.1	(2,837.7)	1,995.4	1,954.0
Other property, plant and equipment	1,966.1	(1,362.0)	604.1	615.9
Returnable assets	25.3	(6.8)	18.5	6.4
Owned property, plant and equipment in progress	705.2	(3.2)	701.9	604.0
Property, plant and equipment in progress	1.9	-	1.9	3.0
Property, plant and equipment	19,632.3	(10,171.8)	9,460.5	9,203.2

8 NON-CURRENT AND CURRENT OPERATING FINANCIAL ASSETS

Operating financial assets include financial assets resulting from the application of IFRIC 12 on accounting for concession contracts and from the application of IFRIC 4.

Changes in the net carrying amount of non-current operating financial assets during the **half-year ended June 30, 2008** are as follows:

(€million)	As of June 30, 2008	As of December 31, 2007
Gross carrying amount	5,242.4	5,278.4
Impairment losses	(6.0)	(6.0)
Non-current operating financial assets	5,236.4	5,272.4
Gross carrying amount	399.9	355.2
Impairment losses	-	-
Current operating financial assets	399.9	355.2
Current and non-current operating financial assets	5,636.3	5,627.6

The changes in new operating financial assets during the **half-year ended June 30, 2008** mainly concern:

- new operating financial assets for €18.4 million concerning mainly the increase in value of pre-existing contracts (mainly in the Water Division for €136.4 million);
- repayments of operating financial assets for €193.7 million (mainly in energy - cogeneration services for €75.1 million and in the Water Division for €81.5 million) ;
- reclassification from non-current operating financial assets to current operating financial assets for €230.5 million.

Non-current operating financial assets by Division are as follows:

(€million)	Non-current		Current		Total	
	As of June 30, 2008	As of December 31, 2007	As of June 30, 2008	As of December 31, 2007	As of June 30, 2008	As of December 31, 2007
Water	3,792.2	3,719.4	167.4	165.1	3,959.6	3,884.5
Environmental Services	814.1	858.1	48.4	44.3	862.5	902.4
Energy Services	520.0	585.4	160.7	126.9	680.7	712.3
Transportation	87.5	104.3	23.3	18.7	110.8	123.0
Other	22.6	5.2	0.1	0.2	22.7	5.4
Operating financial assets	5,236.4	5,272.4	399.9	355.2	5,636.3	5,627.6

9 OTHER NON-CURRENT FINANCIAL ASSETS

Changes in the carrying amount of other non-current financial assets during the **half-year ended June 30, 2008** are as follows:

(€million)	As of June 30, 2008	As of December 31, 2007
Gross carrying amount	723.9	572.6
Impairment losses	(53.9)	(57.6)
Non-current financial assets under loans and receivables	670.0	515.0
Other non-current financial assets	226.8	231.0
Total other non-current financial assets	896.8	746.0

As of **June 30, 2008**, the principal non-current financial assets in loans and receivables primarily correspond to the non-Group portion of loans granted to companies consolidated on a proportionate basis for €252.8 million (Dalkia International).

10 WORKING CAPITAL REQUIREMENTS

Changes in net working capital requirements ("WCR") during the **half-year ended June 30, 2008** are as follows:

(€million)	As of June 30, 2008	As of December 31, 2007
Inventories and work-in-progress (net)	1,039.2	839.4
Operating receivables (net)	12,873.8	12,459.4
Operating payables (net)	13,142.3	12,944.8
Net changes in WCR	770.7	354.0

Net working capital includes "operating" working capital (inventories, trade receivables, trade payables and other operating receivables and payables), "tax" working capital (current tax receivables and payables) and "investment" working capital (receivables and payables in respect of capital expenditure). Changes in business net of impairment losses of €348.0 million comprise a change of €249.1 million in operating working capital, of -€38.7 million in tax working capital and of €137.6 million in investment working capital.

The charge in operating working capital includes the settlement of the rainwater receivable of Berlin contract in the Water Division for €157 million.

Securitization of receivables in France

The French receivable securitization program is governed by an agreement signed in June 2002 for five years with a securitized debt fund. This agreement was renewed on May 31, 2007 for an additional 5 years. Veolia Environnement decided to renew this agreement and include 16 new transferor companies in the Water Division (France), bringing the number of transferor companies to 24 and total securitized receivables to €491.4 million.

Assignment of receivables

No amount was recognized in respect of the assignment of discounted receivables ("Cession de créances Dailly") as of June 30, 2008.

In the Energy Services Division, discounted receivables in Italy were sold for €23 million as of June 30, 2008, compared to €25.5 million as of December 31, 2007.

11 OTHER CURRENT FINANCIAL ASSETS

Changes in the carrying amount of other current financial assets during the **half-year ended June 30, 2008** are as follows:

(€million)	As of June 30, 2008	As of December 31, 2007
Gross carrying amount	165.6	174.1
Impairment losses	(22.3)	(21.3)
Current financial assets under loans and receivables (net)	143.3	152.8
Other current financial assets	148.8	177.2
Total other current financial assets (net)	292.1	330.0

Other current financial assets as of **June 30, 2008** primarily comprise the non-Group portion of loans and current accounts to non-fully consolidated companies, the pre-financing of assets in the Transportation Division and the current part of an investment under escrow account with a view to the acquisition of Tianjin Shibeishan shares in China for €11.1 million.

12 CASH AND CASH EQUIVALENTS

Changes in cash and cash equivalents during the **half-year ended June 30, 2008** are as follows:

(€million)	As of June 30, 2008	As of December 31, 2007
Cash at bank and in hand	1,461.7	1,449.5
Cash equivalents	1,309.8	1,666.1
Cash and cash equivalents	2,771.5	3,115.6

As of June 30, 2008, cash equivalents of Veolia Environnement SA (€1,045.2 million) mainly include cash mutual fund investments of €272.5 million, treasury notes of €585.3 million and cash notes for €73.3 million.

13 EQUITY

(€million)	Number of shares	Share capital	Additional paid-in capital	Treasury shares	Consolidated reserves and retained earnings	Foreign exchange translation reserves	Fair value reserves	Equity attributable to equity holders of the company	Minority interests	Total equity
As of January 1, 2007	412,626,550	2,063.1	6,641.2	(479.6)	(3,986.7)	144.6	(21.8)	4,360.8	2,192.6	6,553.4
Issue of share capital of the parent company	2,901,770	14.5	73.1	-	-	-	-	87.6	-	87.6
Elimination of treasury shares	-	-	-	16.8	(0.1)	-	-	16.7	-	16.7
Share purchase and subscription options	-	-	-	-	1.9	-	-	1.9	-	1.9
Third party share in share capital increases by subsidiaries and changes in consolidation scope	-	-	-	-	-	-	-	-	23.3	23.3
Parent company dividend distribution	-	-	-	-	(419.7)	-	-	(419.7)	-	(419.7)
Third party share in dividend distributions by subsidiaries	-	-	-	-	-	-	-	-	(82.4)	(82.4)
Foreign exchange translation adjustments	-	-	-	-	-	(18.3)	-	(18.3)	3.0	(15.3)
Fair value adjustments	-	-	-	-	-	(1.6)	22.6	21.0	3.0	24.0
Actuarial gains (losses) on pension obligations	-	-	-	-	107.0	-	-	107.0	13.3	120.3
Net income for the period	-	-	-	-	493.0	-	-	493.0	143.4	636.4
Other changes	-	-	-	-	(11.6)	2.9	(0.6)	(9.3)	0.3	(9.0)
As of June 30, 2007	415,528,320	2,077.6	6,714.3	(462.8)	(3,816.2)	127.6	0.2	4,640.7	2,296.5	6,937.2
As of January 1, 2008	471,762,756	2,358.8	9,179.5	(460.7)	(3,367.2)	(119.1)	21.6	7,612.9	2,577.8	10,190.7
Issue of share capital of the parent company	773,693	3.9	17.4	-	-	-	-	21.3	-	21.3
Elimination of treasury shares	-	-	-	(1.8)	1.7	-	-	(0.1)	-	(0.1)
Share purchase and subscription options	-	-	-	-	7.6	-	-	7.6	-	7.6
Third party share in share capital increases by subsidiaries and changes in consolidation scope	-	-	-	-	-	-	-	-	(116.9)	(116.9)
Parent company dividend distribution	-	-	-	-	(553.5)	-	-	(553.5)	-	(553.5)
Third party share in dividend distributions by subsidiaries	-	-	-	-	-	-	-	-	(173.0)	(173.0)
Foreign exchange translation adjustments	-	-	-	-	-	(207.7)	-	(207.7)	49.7	(158.0)
Fair value adjustments	-	-	-	-	-	75.4	18.7	94.1	11.3	105.4
Actuarial gains (losses) on pension obligations	-	-	-	-	(80.0)	-	-	(80.0)	(4.7)	(84.7)
Net income for the period	-	-	-	-	500.5	-	-	500.5	150.2	650.7
Other changes	-	-	-	-	0.4	(2.3)	0.8	(1.1)	-	(1.1)
As of June 30, 2008	472,536,449	2,362.7	9,196.9	(462.5)	(3,490.5)	(253.7)	41.1	7,394.0	2,494.4	9,888.4

The dividend distribution per share was €1.21 in 2008, €1.05 in 2007 and €0.85 in 2006.

13.1 SHARE CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

Veolia Environnement manages its share capital within the framework of a prudent and rigorous financial policy that seeks to ensure easy access to French and international capital markets, to enable investment in projects that create value, and to provide shareholders with a satisfactory remuneration.

This policy has led Veolia Environnement to define the following objectives:

- (i) The ratio of (Net financial indebtedness) / (EBITDA+ repayment of operating financial assets) between 3.5 and 4; and
- (ii) Dividend distribution rate of greater than 50% of recurring net income.

13.2 EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

13.2.1 Share capital:

The share capital is fully paid up.

Share capital increases:

As of June 30, 2007, Veolia Environnement performed a share capital increase in the amount of €87.6 million following the exercise of share purchase and subscription options.

As of June 30, 2008, Veolia Environnement performed a share capital increase in the amount of €21.3 million following the exercise of share purchase and subscription options.

Number of shares outstanding:

471,762,756 shares were outstanding as of December 31, 2007 and 472,536,449 as of June 30, 2008 (including treasury shares).

13.2.2 Offsetting of treasury shares against equity:

As of June 30, 2007, 109,259 shares were sold for €4.1 million and subscription rights to treasury shares were sold for €2.6 million. The Group held 15,145,049 treasury shares as of June 30, 2007.

As of June 30, 2008, Veolia Environnement has bought 125,661 shares for €4.4 million and at the same time has sold 115,409 shares within the framework of shares call options for €2.6 million. The Group held 15,130,906 treasury shares as of June 30, 2008.

13.2.3 Share options:

In accordance with IFRS 2, expenses of €1.9 million in the first half of 2007 and €7.6 million in the first half of 2008, respectively, were recognized in respect of share option plans granted to employees.

13.2.4 Appropriation of net income and dividend distribution:

A dividend distribution of €553.5 million was paid out of 2007 net income attributable to equity holders of the parent of €927.9 million. The residual balance of 2007 net income (€374.4 million) was transferred to Veolia Environnement's consolidated reserves.

13.2.5 Foreign exchange translation reserves:

As of June 30, 2007, negative translation differences of €17.0 million (portion attributable to equity holders of the parent) concerned the U.S. dollar in the amount of €6.6 million.

Accumulated foreign exchange translation reserves as of June 30, 2007 are positive: €27.6 million (portion attributable to equity holders of the parent), including €27.5 million in respect of the Korean won, €56.7 million in respect of the Pound Sterling, €44.1 million in respect of the Czech crown and negative €62.5 million in respect of the U.S. dollar.

As of June 30, 2008, negative translation differences of -€134.6 million (portion attributable to equity holders of the parent) concerned mainly the pound sterling in the amount of -€105.9 million, the U.S. dollar in the amount of -€93.9 million and the Czech crown in the amount of +€9.6 million.

Accumulated foreign exchange translation reserves as of June 30, 2008 are negative: -€253.7 million (portion attributable to equity holders of the parent), including -€20.1 million in respect of the U.S. dollar, -€167.7 million in respect of the pound sterling, +€140.3 million in respect of the Czech crown.

Changes in foreign exchange translation reserves (attributable to equity holders of the parent and minority interests)

(€million)	Total	Attributable to equity holders of the parent
As of December 31, 2007	(62.9)	(119.1)
Exchange differences on the translation of the financial statements of subsidiaries drawn up in a foreign currency	(116.5)	(172.1)
Exchange differences on the net financing of foreign investments	34.5	37.5
Changes during the first six months of 2008	(82.0)	(134.6)
Exchange differences on the translation of the financial statements of subsidiaries drawn up in a foreign currency	(142.6)	(256.9)
Exchange differences on the net financing of foreign investments	(2.3)	3.2
As of June 30, 2008	(144.9)	(253.7)

Foreign exchange translation reserves attributable to equity holders of the parent by currency

(€million)	As of December 31, 2007	Change	As of June 30, 2008
U.S. dollar	(126.2)	(93.9)	(220.1)
Pound sterling	(61.8)	(105.9)	(167.7)
Czech crown	80.7	59.6	140.3
Chinese yuan	(46.0)	6.3	(39.7)
Other currencies	34.2	(0.7)	33.5
Total	(119.1)	(134.6)	(253.7)

13.2.6 Fair value reserves:

Fair value reserves attributable to equity holders of the parent amounted to -€1.8 million as of January 1, 2007, €1.6 million as of December 31, 2007 and €41.1 million as of June 30, 2008.

As of June 30, 2008, fair value reserves mainly include fair value adjustments to interest-rate derivatives, hedging floating-rate borrowings, and, to a lesser extent, fair value adjustments to available-for-sale securities.

13.2.7 Actuarial gains or losses on retirement commitments:

The actuarial losses on retirement commitments amounts to €80 million as of June 30, 2008 and are mainly due to the decline of the financial markets (i.e., real return on the hedge assets lower than the expected return).

13.3 MINORITY INTERESTS

The changes in minority interests are presented in the statement of changes in shareholders' equity.

In 2008, the decrease of the minority interests is mainly due to the contribution of the minority [not clear] in the share capital reduction of the Company holding the contract of Berlin.

14 NON-CURRENT AND CURRENT PROVISIONS

Pursuant to IAS 37, provisions maturing after more than one year are discounted. Discount rates used were as follows:

Discount rates (excluding provisions for pensions and other employee benefits, see hereunder)

	As of June 30, 2008	As of December 31, 2007
Euros		
2 to 5 years	5.67%	5.27%
6 to 10 years	5.97%	5.52%
After 10 years	6.65%	6.04%
U.S. dollar		
2 to 5 years	4.95%	4.35%
6 to 10 years	5.75%	4.94%
After 10 years	6.82%	5.84%
Pound sterling		
2 to 5 years	6.13%	5.51%
6 to 10 years	6.40%	5.66%
After 10 years	6.46%	5.88%

Changes in provisions during the **first half of 2008** are as follows:

(€million)	Non-current		Current		Total	
	As of June 30, 2008	As of December 31, 2007	As of June 30, 2008	As of December 31, 2007	As of June 30, 2008	As of December 31, 2007
Provisions excl. pensions and other employee benefits	1,426.3	1,493.1	826.4	825.7	2,252.7	2,318.8
Provisions for pensions and other employee benefits	763.2	645.8	-	-	763.2	645.8
Total	2,189.5	2,138.9	826.4	825.7	3,015.9	2,964.6

The decrease in provisions excluding pensions and other employee benefits is mainly due to the discount rate of the provisions, the change in the scope consolidation and the foreign exchange translation.

The increase in provisions for pensions and other employee benefits is mainly due to actuarial losses on the hedge assets (due to the decline of the financial markets since the beginning of the year) and, to a lesser extent, on the actuarial debt (i.e., review of the assumptions of the discount and inflation rate).

The assumptions used to determine the pensions as of June 30, 2008 have been reviewed in order to reflect the increase in interest rates and of the long term level of inflation which occurred during the half-year ended June 30, 2008. The review has been done only on United Kingdom and Euro Zone provisions; the interest rates used are as follows: actuarial rate for United Kingdom 6.3% and for the Euro Zone 5.65%; inflation rate for United Kingdom 4% and for the Euro Zone 2.6%.

15 NON-CURRENT BORROWINGS**Non-current borrowings**

(€million)	As of June 30, 2008	As of December 31, 2007
Bonds	10,501.3	9,009.6
Other non-current borrowings	4,997.2	4,938.4
Non-current borrowings	15,498.5	13,948.0

Non-current bond issues by maturity:

(€million)	As of June 30, 2008	As of December 31, 2007
Publicly offered or traded issuances	9,714.7	8,191.1
Private placements	271.6	288.8
Three Valleys bond issue	247.7	267.6
Other < €100 million	267.3	262.1
Bonds	10,501.3	9,009.6

During the half-year ended June 30, 2008, Veolia Environnement launched new bond issues in Pound Sterling, U.S. dollar and Euro for a total of €1,702 million equivalent:

- January 8th, 2008, Veolia Environnement drew down £150 million maturing in 2037 (Series 24). As a result, the total of the Series 24 bond issue is now £650 million (€20 million as of June 30, 2008) ;
- On March 14th, 2008, Veolia Environnement drew down €140 million maturing in 2017 (Series 21). As a result, the total of the Series 21 bond issue is now €1,140 million ;
- On April 1st, 2008, Veolia Environnement made the first draw ever by a corporation in Europe by increasing the linker of €75 million maturing in 2015 (Series 15). As a result, the total of the Series 15 bond issue is now €875 million;
- Due to the strengthening of the Group in the United States, mainly with the acquisition of TNAI (Energy Services Division) made at the end of 2007, Veolia Environnement launched on May 21st, 2008, under the « SEC registered » format, U.S.\$1.8 billion (€1,142 million as of June 30, 2008) bond issue on fixed rate made up with three tranches (U.S.\$700 million on 5 years basis, U.S.\$700 million on 10 years basis and U.S.\$400 million on 30 years basis).

This first ever issue on the U.S. bond market will improve the balance between long-term cash flows generated in the United States and U.S. dollar native debt.

Other non-current borrowings by main components:

(€million)	As of June 30, 2008	As of December 31, 2007
BWB and SPE debts	1,420.8	1,234.8
Finance lease obligations	783.9	754.5
Syndicated credit facility in CZK	376.7	338.0
Minority interest put options	206.8	309.9
Aquiris	184.2	184.2
Redal	168.5	161.3
Cogevolt	166.4	259.7
VSA Tecnitalia	122.1	164.6
Delfluent	105.3	118.3
Other < €100 million	1,462.5	1,413.1
Other non-current borrowings	4,997.2	4,938.4

Non-current borrowings by original currency (before swap transactions):

(€million)	As of June 30, 2008	As of December 31, 2007
Euro	10,986.9	10,701.8
U.S. Dollar (*)	1,688.7	641.7
Pound Sterling	1,381.4	1,290.1
Czech Crown	451.3	418.7
Moroccan dirham	263.3	241.6
Renminbi (Chinese Yuan)	216.7	218.1
Polish Zloty	105.7	88.2
Other	404.5	347.8
Non-current borrowings	15,498.5	13,948.0

(*) including bond issue on May 21st, 2008 in the amount of U.S.\$1.8billion.

16 CURRENT BORROWINGS

Changes in current borrowings during the **half-year ended June 30, 2008** (amortized cost or fair value) are as follows:

(€million)	As of June 30, 2008	As of December 31, 2007
Current borrowings	2,694.2	3,805.0

Current borrowings total €2,694.2 million as of June 30, 2008, compared to €3,805.0 million as of December 31, 2007.

This decrease is mainly due to:

- the repayment of the Berlin acquisition debt in the amount of €600 million maturing January 15, 2008,
- the repayment of the EMTN Series 20 bond issue in the amount of €300 million maturing February 15, 2008,
- the repayment of the outstanding of EMTN Series 1 bond issue in the amount of €700 million maturing June 27, 2008,
- partially offset by the increase of treasury notes of €176 million.

Current borrowings in respect of Group finance leases totaled €183.7 million as of June 30, 2008, compared to €25.6 million as of December 31, 2007.

17 REVENUE

Revenue components are as follows:

(€million)	Half-year ended June 30, 2008	Half-year ended June 30, 2007
Services rendered	14,901.9	13,192.8
Sales of goods	1,041.8	1,269.6
Revenue from operating financial assets	181.4	174.5
Construction	1,966.6	824.7
Total revenue	18,091.7	15,461.6

Sales of goods mainly concern sales of technological solutions in the Water Division and sales of products relating to recycling activities in the Environmental Services Division.

The large increase in Construction revenue is mainly due to the growth of the Veolia Water Solutions & Technologies and works activities in France.

18 OPERATING INCOME

Operating income is calculated as follows:

(€million)	Half-year ended June 30, 2008	Half-year ended June 30, 2007
Revenue	18,091.7	15,461.6
Cost of sales	(14,976.5)	(12,671.6)
o/w: Impairment losses on goodwill and negative goodwill recorded in the income statement	6.2	23.1
Restructuring costs	(2.2)	(5.4)
Selling costs	(318.2)	(248.2)
General and administrative expenses	(1,503.6)	(1,280.7)
Other operating revenue and expenses	12.3	10.7
o/w: Capital gains and losses on disposal	12.3	10.7
Operating income	1,305.7	1,271.8

Replacement costs total €81.4 million for the first six months of 2008, compared to €87.8 million for the first six months of 2007. All replacement costs for concession assets in the context of public service delegation contracts in France are considered in the cash flow statement as investments, irrespective of whether the infrastructure was originally financed by the concession holder. As such, in the transition from net income (loss) to net cash from operating activities, all replacement costs are eliminated under adjustments for operating depreciation, amortization, provisions and impairment losses.

The impact of changes in the discount rates of provisions amounts to €17.1 million for the first six months of 2008, compared to €14.9 million for the first six months of 2007.

Personnel costs including employee profit-sharing amounted to €5.3 billion for the six months of 2008, compared to €4.9 billion for the six months of 2007.

19 NET FINANCE COSTS

The income and expense balances making up net finance costs are as follows:

(€million)	Half-year ended June 30, 2008	Half-year ended June 30, 2007
Finance income	74.9	70.0
Finance costs	(501.2)	(461.6)
Net finance costs	(426.3)	(391.6)

Finance costs and finance income represent the cost of borrowings net of cash and cash equivalents. In addition, net finance costs include net gains and losses on derivatives allocated to borrowings, irrespective of whether they qualify for hedge accounting.

(€million)	Half-year ended June 30, 2008	Half-year ended June 30, 2007
Expenses on gross indebtedness	(508.4)	(435.0)
Assets at fair value through the income statement (fair value option)*	68.7	60.8
Net gains and losses on derivative instruments and hedging relationships	13.4	(17.4)
Net finance costs	(426.3)	(391.6)

* Cash equivalents are valued at fair value through the income statement.

The increase of the net finance costs is mainly due to:

- the increase of the net average finance costs;
- the increase of the financing rate linked to the pressure on the inter-bank markets and to the extension of the average maturity of the debt following the issue of the long maturity particularly in the Pound Sterling.

20 OTHER FINANCIAL INCOME AND EXPENSES

(€million)	Half-year ended June 30, 2008	Half-year ended June 30, 2007
Net gains on loans and receivables *	22.1	4.2
Net gains and losses on available-for-sale assets (including dividends)	7.5	7.6
Assets and liabilities at fair value through the income statement	13.5	(0.1)
Unwinding of the discount on provisions	(27.7)	(32.8)
Foreign exchange gains and losses	(18.6)	10.7
Other expenses	(6.2)	(0.9)
Other financial income and expenses	(9.4)	(11.3)

* including impairment losses of €2.9 million for the half-year ended June 30, 2008, compared to €6.6 million for the half-year ended June 30, 2007.

Other financial income and expenses improved from a net expense of €1.3 million for the half-year ended June 30, 2007 to net income of €9.4 million for the half-year ended June 30, 2008.

The slight improvement of the other financial income and expenses is mainly due to:

- the increase in net gains on loans and receivables of €17.9 million due to the improvement of the return on financial assets;
- the reversal of the foreign exchange positions for -€29.3 million due to the improvement of the euro against the other currencies earned by foreign subsidiaries ;
- the remeasurement of embedded derivatives for €13.6 million in particular in certain industrial contracts in South Korea.

21 INCOME TAX EXPENSE**Analysis of the income tax expense**

(€million)	Half-year ended June 30, 2008	Half-year ended June 30, 2007
Pre-tax income	870.0	868.9
Income tax expense	(226.5)	(235.0)
Effective tax rate	26.0%	27.0%

A number of French subsidiaries elected to form a consolidated tax group with Veolia Environnement as the head company, with effect from January 1, 2001 (five-year agreement, renewed in 2006). Veolia Environnement is liable to the French treasury department for the full income tax charge, calculated based on the group tax return. Any tax savings are recognized at Veolia Environnement SA level.

Veolia Environnement reorganized its U.S. tax group in 2006 and 2007. This reorganization is still being reviewed by the U.S. tax authorities.

In the first half of 2008, the Group reports a net consolidated tax expense of €226.5 million compared to a net consolidated tax expense of €235.0 million in the first half of 2007.

The change in the tax expense as of June 30, 2008 is due to:

- An improvement in the probability of using ordinary tax losses of the U.S. tax group, generating an additional deferred tax credit corresponding to the consumption of the first half-year.
- An improvement in the probability of using ordinary tax losses of the French tax group, due to the extinction of certain risks.

22 NET INCOME FOR THE YEAR ATTRIBUTABLE TO MINORITY INTERESTS

Net income attributable to minority interests for the half-year ended June 30, 2008 amounts to €150.2 million, compared to €143.4 million for the half-year ended June 30, 2007. This amount is mainly attributable to the minority shareholders of subsidiaries in the Water Division (€63.6 million), the Environmental Services Division (€12.8 million), the Energy Services Division (€68.2 million) and the Transportation Division (€4.9 million). This slight increase in the share of net income attributable to minority interests is in line with the improvement of the result.

23 DERIVATIVE INSTRUMENTS

The fair values of derivative instruments recognized in the balance sheet are as follows:

(€million)	As of June 30, 2008		As of December 31, 2007	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	39.2	250.1	71.1	113.0
Fair value hedges	5.9	218.6	21.2	48.9
Cash flow hedges	10.1	10.4	11.8	41.0
Derivatives not qualifying for hedge accounting	23.2	21.1	38.1	23.1
Foreign exchange derivatives	65.2	26.8	105.2	49.2
Net investment hedges	25.1	1.4	78.3	13.6
Derivatives not qualifying for hedge accounting	40.1	25.4	26.9	35.6
Other derivatives including commodities	147.3	60.1	61.8	35.6
Total derivatives	251.7	337.0	238.1	197.8
o/w non-current derivatives instruments	187.7	290.8	123.7	163.8
o/w current derivatives instruments	64.0	46.2	114.4	34.0

Changes in derivative instruments compared with December 31, 2007 are mainly due to:

- the variability of new loans by derivatives qualified as fair value hedge and by a rate impact on the existing derivatives instruments (i.e., operations qualified as fair value hedge).
- the change in fair value operations on commodities (electricity and carbon) dedicated to the contract of Braunschweig and to the implementation by the SNCM of a certain number of fuel hedge contracts.

24 GREENHOUSE GAS EMISSION RIGHTS

The Kyoto protocol, adopted in 1997, entered into force on February 2005, with a commitment period from 2008 to 2012. At the European level, the Union decided to implement, via Directive 2003/87/EC of October 13, 2003, a trading system for carbon gas emission rights. This trading system came into effect at the beginning of 2005. The first allocation period expired at the end of 2007.

The second period, in connection with the Kyoto protocol, covers 2008-2012.

The impact of these regulatory measures mainly concerns, within the Group, the Energy Services Division.

By optimizing installations, the Group may be able to create value from its energy supply [?] surpluses or, on the contrary, in situations with energy supply [?] deficits, the Group may decide to contract hedges for its requirements.

As of June 30, 2008, the Group anticipates no ____ deficit at consolidated level.

25 TAX AUDITS

In the normal course of their business, the Group entities in France and abroad are subjected to regular tax audits.

In France, the tax authorities have carried out nearly 50 tax audits in respect of both consolidated tax groups and individual entities. These tax audits are not all definitively closed: certain issues giving rise to proposed assessments are still under discussion as part of the normal process and other assessments have not been called for collection. When an audit is closed and the tax amount agreed with the tax authorities, tax bases are adjusted accordingly. The Veolia Group has recorded a risk reserve in respect of revised assessments under discussion with the tax authorities, where the issue in question does not merely represent a timing difference and a cash outflow is probable in accordance with IAS 37. The largest provisions concern the Group's largest companies in France.

Outside France, the Group is present in numerous countries and is constantly the subject of tax audits. Among the countries where the Group has a strong presence, tax audits are in progress in Germany and Morocco covering to years 2000 to date. No significant event has occurred since December 31, 2007 which has modified the weighting of the risk. Where necessary, proposed assessments and identified uncertain tax positions in respect of which a revised assessment has not been yet issued are adequately provided, and reserve amounts are regularly reviewed in accordance with IAS 37 criteria.

In the United States, the Group has initiated a pre-filing agreement procedure with the Internal Revenue Service (IRS) in order to validate the amount of tax losses as of December 31, 2006, following the reorganization of Water Division activities. This reorganization led to the recognition of losses relating to the operations and disposal of the former U.S. Filter activities in recent years as ordinary tax losses, in an amount which could exceed U.S.\$4 billion (the "Worthless Stock Deduction"). Despite holding several external opinions confirming its position, the Group decided to request immediate validation of these tax losses by the IRS, given the amount in question. The scope of the examination of the Worthless Stock Deduction by the IRS could not be accomplished under the time limits provided for in the pre-filing procedure. Therefore, during the half-year ended June 30, 2008, the pre-filing agreement procedure has been replaced by a common tax review. During the course of the exchanges with the IRS, no element has been identified which has changed the company assessment of the issue.

In addition, the Group is also subject to a tax review in the United States covering its ordinary activities in 2004 and 2005. This tax review is complicated by the numerous legal reorganizations which accompanied the successive sale of U.S. Filter assets. The duration and outcome of this review are difficult to estimate precisely. Nonetheless, the majority of potential tax uncertainties, if confirmed, would have a limited impact on the consolidated financial statements of the Group due to the tax losses generated by the reorganization of the Water Division activities.

26 OFF-BALANCE SHEET COMMITMENTS

Specific commitments given

➤ Berlin contractual commitments ("Servitudes")

Under the Berlin water contract, the Group is planned to purchase rights of way for water pipes from landowners. Considering the uncertainty of the amounts to be spent, the gross anticipated amount of this investment, minus the amounts to be refunded by the Land of Berlin and the associated debt, was recorded as off-balance sheet commitments as of December 31, 2007 (i.e., €26 million at 50%, less approximately €75 million to be reimbursed by the Land of Berlin).

More precise estimates have been made during the first half of the year 2008 leading to a valuation of €13 million (100%) from which a part, estimated at €7 million, will be repaid by the Land of Berlin. Thus, the Group recorded

an asset and an operating payable of €13 million. The amounts which will be paid until 2011, less the amounts to be reimbursed by the Land of Berlin, will be recorded as a financial operating asset and be part of the remuneration of the contract.

➤ **Agreements with EDF**

Veolia Environnement granted EDF a call option covering all of its Dalkia shares in the event an EDF competitor takes control of Veolia Environnement. Likewise EDF granted Veolia Environnement a call option covering all of its Dalkia shares, exercisable in the event of a change in the legal status of EDF or should a Veolia Environnement competitor, acting alone or in concert, take control of EDF. Failing an agreement on the share transfer price, this would be decided by an expert.

Other commitments given

Other commitments given include neither collateral guarantees supporting borrowings nor specific commitments and contingencies described above.

Other off-balance sheet commitments given are as follows:

(€million)	As of December 31, 2007	As of June 30, 2008	Maturity		
			Less than one year	One to five years	More than five years
Operational guarantees including performance bonds	5,591.4	5,898.4	1,286.9	2,699.4	1,912.1
Financial guarantees					
Debt guarantees	355.6	312.4	114.1	122.0	76.3
Vendor warranties given	480.0	399.0	155.3	111.6	132.2
Commitments given					
Purchase commitments	589.9	339.7	191.7	109.9	38.1
Sales commitments	27.2	28.5	18.6	7.9	2.0
Other commitments given					
Letters of credit	573.8	621.0	488.0	128.3	4.7
Other commitments given	383.5	410.7	176.7	121.5	112.5
Other commitments given	8,001.4	8,009.7	2,431.3	3,300.6	2,277.8

Operational guarantees: in the course of their normal activities, the Group's subsidiaries give guarantees to their customers. If the company does not reach its specified targets, it may have to pay penalties. This commitment is often guaranteed by an insurance company, a financial institution, or the parent company of the Group. These guarantees included in contracts are performance commitments. The insurance company or the financial institution often requires counter guarantees from the parent company. The commitment is the amount of the guarantee anticipated in the contract and given by the parent company to the customer or the counter guarantee given by the parent company to the insurance company or to the financial institution.

Insurance companies have issued performance bonds in connection with the activities of the Group's U.S. subsidiaries (operating guarantees, site restoration guarantees), which have been underwritten by Veolia Environnement up to a maximum amount of U.S.\$1.1 billion (€182.7 million of which has been drawn as of June 30, 2008).

Debt guarantees: these relate to guarantees given to financial institutions in connection with the financial debt of non-consolidated companies, equity associates, or proportionately consolidated companies.

Vendor warranties: these include warranties linked to the sale in 2004 of Water activities in the United States in the amount of €242 million.

Purchase commitments: these include commitments given by Group companies to purchase shares in other companies or to invest.

Letters of credit: letters of credit delivered by financial institutions to Group creditors, customers and suppliers

guaranteeing operating activities.

Other commitments given by Division are as follows:

(€million)	As of June 30, 2008	As of December 31, 2007
Water	4,922.9	4,368.3
Environmental Services	852.1	1,171.1
Energy Services	682.1	755.7
Transportation	459.6	398.3
Proactiva	42.2	39.8
Holding company	1,023.0	1,241.5
Other	27.8	26.7
Total	8,009.7	8,001.4

The increase of the commitments given by the Water Division is due to the guarantee given in 2008 on the construction contract of Fujairah for €390 million.

The acquisitions of Bartin Group and Praterm Group having been finalized during the half-year ended June 30, 2008, the purchase commitments recorded in December 31, 2007 have been reversed for €47 million (Environnemental Services Division) and €10 million (Energy Services Division) respectively.

Commitments received

(€million)	As of June 30, 2008	As of December 31, 2007
Guarantees received	1,756.1	1,459.7
Debt guarantees	225.5	266.6
Vendor warranties received	362.2	53.6
Other guarantees received	1,168.4	1,139.5

The increase in these commitments is due to commitments received from our partners in respect of construction contracts in the Middle East and new acquisitions of the period.

In addition, the Group has undrawn medium- and short-term credit lines and syndicated loans in the amount of €5 billion.

27 RELATED PARTY TRANSACTIONS

During the half-year ended June 30, 2008, there were no significant related party transactions except the acquisition of Bartin Recycling by the Group in which (i) investments funds from the Lazard Group hold 36% of the share capital (ii) M. Georges Ralli, chairman of Lazard and board member of Veolia Environnement, holds personally 0.35% of the share capital. The transaction has been done at market value.

28 SEGMENT REPORTING

Pursuant to IAS 14, Veolia Environnement provides primary information by business segment and secondary information by geographical area. The business segments are Water, Environmental Services, Energy Services and Transportation.

The **Water** segment integrates drinking water and wastewater activities such as water distribution, water and wastewater treatment, industrial process water, manufacturing of water treatment equipment and systems.

The **Environmental Services** segment collects, processes and disposes of household, trade and industrial waste.

The **Energy Services** segment includes heating production and distribution, energy optimization and related services, and electricity production.

The **Transportation** segment focuses on the operation of passenger transportation services.

BUSINESS SEGMENTS

Revenue by segment (€million)	Half-year ended June 30, 2008	Half-year ended June 30, 2007
Water	5,987.7	5,220.7
Environmental Services	5,085.4	4,195.9
Energy Services	4,049.1	3,320.7
Transportation	2,969.5	2,724.3
Revenue as per the consolidated income statement	18,091.7	15,461.6

Operating income by segment (€million)	Half-year ended June 30, 2008	Half-year ended June 30, 2007
Water	599.0	576.1
Environmental Services	404.2	389.1
Energy Services	293.8	259.7
Transportation	63.4	73.3
Total business segments	1,360.4	1,298.2
Unallocated operating income	(54.7)	(26.4)
Operating income as per the consolidated income statement	1,305.7	1,271.8

Capital expenditure by segment (€million)	Half-year ended June 30, 2008	Half-year ended June 30, 2007
Water	479	390
Environmental Services	464	358
Energy Services	183	175
Transportation	196	289
Other	28	7
Total capital expenditure by segment	1,350	1,219

Assets by segment as of June 30, 2008 (€million)	Water	Environ- mental Services	Energy Services	Transporta- tion	Unalloca- ted amounts	Total assets in the consolidated balance sheet
Goodwill, net	2,301.1	3,118.7	1,180.5	580.8	9.8	7,190.9
Intangible assets and property, plant and equipment, net	5,651.0	4,264.8	2,294.2	1,770.7	149.3	14,130.0
Operating financial assets	3,959.5	862.5	680.7	110.9	22.7	5,636.3
Working capital assets including DTA	5,992.3	3,607.4	3,639.3	1,544.6	620.3	15,403.9
Total segment assets	17,903.9	11,853.4	7,794.7	4,007.0	802.1	42,361.1
Investments in associates	133.3	86.2	26.0	54.6	4.4	304.5
Other unallocated assets					4,460.4	4,460.4
Total assets	18,037.2	11,939.6	7,820.7	4,061.6	5,266.9	47,126.0

Assets by segment as of December 31, 2007 (€million)	Water	Environ- mental Services	Energy Services	Transporta- tion	Unalloca- ted amounts	Total assets in the consolidated balance sheet
Goodwill, net	2,208.2	3,049.5	1,098.1	556.7	0.7	6,913.2
Intangible assets and property, plant and equipment, net	5,658.3	4,292.4	2,112.0	1,694.2	141.9	13,898.8
Operating financial assets	3,884.5	902.4	712.3	123.0	5.4	5,627.6
Working capital assets including DTA	5,847.8	3,257.4	3,755.2	1,321.1	585.4	14,766.9
Total segment assets	17,598.8	11,501.7	7,677.6	3,695.0	733.4	41,206.5
Investments in associates	137.2	75.5	25.5	53.9	-	292.1
Other unallocated assets					4,808.3 *	4,808.3
Total assets	17,736.0	11,577.2	7,703.1	3,748.9	5,541.7	46,306.9

* Including Assets classified as held for sale of €122.5 million (Transportation Division for €103.9 million and Environmental Services Division for €18.6 million).

Liabilities by segment as of June 30, 2008 (€million)	Water	Environ- mental Services	Energy Services	Transporta- tion	Unalloca- ted amounts	Total liabilities in the consolidated balance sheet
Provisions for contingencies and losses	998.7	917.0	499.9	436.2	164.1	3,015.9
Working capital liabilities including DTL	7,083.0	3,157.7	2,782.7	1,756.8	208.6	14,988.8
Other segment liabilities	-	-	-	-	-	-
Total segment liabilities	8,081.7	4,074.7	3,282.6	2,193.0	372.7	18,004.7
Other unallocated liabilities					29,121.3	29,121.3
Total liabilities	8,081.7	4,074.7	3,282.6	2,193.0	29,494.0	47,126.0

Liabilities by segment as of December 31, 2007 (€million)	Water	Environmental Services	Energy Services	Transportation	Unallocated amounts	Total liabilities in the consolidated balance sheet
Provisions for contingencies and losses	1,013.9	873.6	476.1	456.7	144.3	2,964.6
Working capital liabilities including DTL	6,855.4	3,138.3	2,996.7	1,544.1	205.0	14,739.5
Other segment liabilities	-	-	-	-	-	-
Total segment liabilities	7,869.3	4,011.9	3,472.8	2,000.8	349.3	17,704.1
Other unallocated liabilities					28,602.8 *	28,602.8
Total liabilities	7,869.3	4,011.9	3,472.8	2,000.8	28,952.1	46,306.9

* Including Liabilities directly associated with assets classified as held for sale of €1.9 million (Veolia Environnement SA).

GEOGRAPHICAL AREAS

Revenue

Half-year ended June 30, 2008 (€million)	France	Germany	United Kingdom	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	Total
Water	2,482.5	663.7	333.4	806.6	253.0	188.8	429.5	310.3	519.9	5,987.7
Environmental Services	1,885.7	603.1	831.0	585.2	626.1	246.8	108.7	35.9	162.9	5,085.4
Energy Services	2,169.8	38.8	232.4	1,269.5	179.2	27.2	20.2	28.6	83.4	4,049.1
Transportation	1,137.6	305.0	68.1	787.9	350.5	275.9	2.7	11.7	30.1	2,969.5
Revenue	7,675.6	1,610.6	1,464.9	3,449.2	1,408.8	738.7	561.1	386.5	796.3	18,091.7

Half-year ended June 30, 2007 (€million)	France	Germany	United Kingdom	Rest of Europe	United States	Oceania	Asia	Rest of the world	Total
Water	2,478.3	633.1	279.8	664.4	278.6	119.7	319.2	447.6	5,220.7
Environmental Services	1,635.9	77.9	889.6	471.5	645.7	200.4	87.1	187.8	4,195.9
Energy Services	1,859.2	30.0	226.5	1,058.2	6.6	35.2	15.6	89.4	3,320.7
Transportation	1,062.4	275.7	55.0	716.9	354.2	222.2	2.6	35.3	2,724.3
Revenue	7,035.8	1,016.7	1,450.9	2,911.0	1,285.1	577.5	424.5	760.1	15,461.6

Segment assets

As of June 30, 2008 (€million)	France	Germany	United Kingdom	Rest of Europe	United States	Rest of the world	Total
Water	5,603.3	4,288.9	1,957.3	2,113.0	467.1	3,474.3	17,903.9
Environmental Services	3,710.5	1,330.7	2,327.4	1,872.4	1,729.6	882.8	11,853.4
Energy Services	3,496.1	131.0	226.2	3,049.8	619.7	271.9	7,794.7
Transportation	1,864.2	415.5	113.6	953.7	377.8	282.2	4,007.0
Unallocated amounts	384.3	-	47.3	20.3	219.8	130.4	802.1
Segment assets	15,058.4	6,166.1	4,671.8	8,009.2	3,414.0	5,041.6	42,361.1

As of December 31, 2007 (€million)	France	Germany	United Kingdom	Rest of Europe	United States	Rest of the world	Total
Water	5,559.2	4,510.0	1,914.7	1,999.6	407.0	3,208.3	17,598.8
Environmental Services	3,396.2	1,337.4	2,380.0	1,819.1	1,806.8	762.2	11,501.7
Energy Services	3,774.9	115.8	232.3	2,678.0	661.8	214.8	7,677.6
Transportation	1,748.5	354.3	116.5	846.8	385.0	243.9	3,695.0
Unallocated amounts	322.0	-	20.3	13.4	249.4	128.3	733.4
Segment assets	14,800.8	6,317.5	4,663.8	7,356.9	3,510.0	4,557.5	41,206.5

Capital expenditures

Half-year ended June 30, 2008 (€million)	France	Germany	United Kingdom	Rest of Europe	United States	Rest of the world	Total
Water	241	18	95	36	7	82	479
Environmental Services	189	48	78	65	44	40	464
Energy Services	102	11	2	49	11	8	183
Transportation	83	6	2	90	8	7	196
Other	22	-	-	-	-	6	28
Capital expenditure	637	83	177	240	70	143	1,350

Half-year ended June 30, 2007 (€million)	France	Germany	United Kingdom	Rest of Europe	United States	Rest of the world	Total
Water	208	10	56	34	9	73	390
Environmental Services	148	2	40	55	70	43	358
Energy Services	99	5	6	58	2	5	175
Transportation	168	14	18	55	8	26	289
Other	3	-	-	-	-	4	7
Capital expenditures	626	31	120	202	89	151	1,219

29 MAIN SUBSIDIARIES

As of June 30, 2008, the Group consolidated 2,618 companies.

The scope of consolidation has not significantly changed since December 31, 2007, except for the first consolidation of Bartin Recycling (acquisition of 100% of the shares) and its 19 subsidiaries and Praterm consolidated under proportionate consolidation method.

30 SUBSEQUENT EVENTS

The Veolia Transport's acquisition of 28% of the SNCM, carried out subject to the condition subsequent of the approval of the European Commission concerning the terms of the privatization in relation to government subsidiaries, was reviewed by the Commission as of December 31, 2007. As of July 8, 2008, the European Commission gave a favourable decision for Veolia Environnement. However, this decision can be the object of an appeal to the Country court.