

Operating and Financial Review

Consolidated Financial Statements

As of June 30, 2008

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1. RESULTS OF OPERATIONS FOR THE FIRST HALF OF 2008

1.1. GENERAL CONTEXT

The Group's strategy of developing environmental businesses through long-term contracts enabled it, once again, to record a marked increase in activity, with a 17% rise in revenue based on current exchange rates (19.5% at constant exchange rates).

The rise is attributable to the steady level of organic growth and the contribution of acquisitions carried out in 2007 and in early 2008. It results from the growth of all group activities and specifically the substantial increase in engineering and construction activities in the water sector (seawater desalination) and recent acquisitions in Europe, the Group's main market. It is also related to the pursuit of the development strategy and particularly the acquisition of the Bartin group (effective in February 2008), active in waste recycling and recovery and, in the energy sector, the acquisition of the Praterm group in Poland in February 2008.

Group operating results (operating cash flow and operating income) are also up. However, they were affected by the appreciation of the euro against certain currencies in countries where the Group has a significant presence (United States, United Kingdom and the Asia zone) and the sharp increase in prices of oil products (average price of a barrel increasing from \$63.3 in the first half of 2007 to \$110.3 in the first half of 2008), even though this is for a significant part passed on over time through contractual indexation formulas. Lastly, the contribution of certain acquisitions and recent developments (Germany) did not meet expectations.

These cyclical events do not call into question the Group's strategy and its outlook for the medium term. The Group has implemented a new cost-cutting plan (Veolia 2010) and is conducting a review of its asset portfolio. These actions should help improve Group profitability by 2010.

1.2. NEW COMMERCIAL SUCCESSES WITHIN GROWTH MARKETS

New contracts:

Several major contracts were won during the first half of 2008:

- In January 2008, Veolia Eau won two installation contracts in Dubai for the treatment and recycling of briny wastewater, via its subsidiary Veolia Water Solutions & Technologies, for a total estimated amount of €22.4 million in terms of the Group share.
- At the end of January 2008, Veolia Eau won a contract in Nantes for the modernization of a wastewater treatment facility attributed to a business grouping. The contract represents a total of approximately €29 million, of which €13.7 million for the segment carried out by Veolia Eau.
- In February 2008, Veolia Eau won a contract for the modernization and extension of a Warsaw wastewater treatment plant as part of a consortium. The contract represents cumulative revenue estimated at €500 million, including €148 million for the Veolia Eau share.
- On February 13, 2008, Veolia Propreté won a 25-year Private Finance Initiative (PFI) for the recycling of waste in the borough of Southwark (London) in the UK, representing revenue estimated at €900 million.
- On March 17, 2008, Veolia Propreté won a 25-year PFI contract for the recycling of waste in the UK's West Berkshire district, representing cumulative revenue of €667 million.
- On April 29, 2008, Veolia Eau, via its subsidiary Veolia Water AMI, was awarded the first delegated water management contract in Saudi Arabia. The six-year contract represents estimated aggregate revenues of €40 million.
- On May 19, 2008, Veolia Eau, via OTV, a subsidiary of Veolia Water Solutions & Technologies, was awarded two major contracts with the *Syndicat interdépartemental pour l'assainissement de l'agglomération parisienne* (SIAAP). The two contracts represent total cumulative revenues of €224.1 million over the term for the Veolia Eau portion

- On June 9, 2008, Veolia Eau was awarded a new contract in India covering the design, construction and operation of a drinking water treatment plant in the city of Nagpur, representing estimated cumulative revenues of €24 million.
- On June 12, 2008, Veolia Transport won the management contract for the urban bus network of the city of Bilbao, Spain (400,000 inhabitants). The contract has a term of 8 years with an additional two years under option and represents estimated cumulative revenues of €305 million over the first eight years.

Major acquisitions and divestitures:

The Group also proceeded with the following acquisitions:

- On November 19, 2007, Veolia Propreté announced the signature of an agreement for the acquisition of the entire share capital of Bartin Recycling Group, a company specializing in the collection and recovery of industrial waste and in particular the recycling of ferrous and non-ferrous metals. The transaction represents an investment of €189.9 million in terms of the enterprise value and was finalized on February 13, 2008. The acquisition's contribution to Group revenue for the period ended June 30, 2008 amounts to €136 million.
- In February 2008, following a takeover bid launched on December 17, 2007, Dalkia became the majority shareholder in Praterm, a heat production and distribution company in Poland, with a stake of 97.9%. This transaction will further strengthen Dalkia's positioning in this country, where it already owns two of the largest heating networks in Poznan and Lodz. The operation represents an investment of €17 million for Dalkia in terms of the enterprise value (Group share). The Praterm contribution to Group revenue for the period ended June 30, 2008 amounts to €6 million (Group share).
- In February 2008, Veolia Cargo, a subsidiary of Veolia Transport specialized in rail freight transport, signed an agreement relating to the acquisition of Rail4Chem, a railway company specialized in international rail freight transport. Owned by four private shareholders, Rail4Chem generated revenues of more than €80 million in 2007. The acquisition was finalized on April 18, 2008 for an investment of €40 million in terms of the enterprise value.

The Group sold the ship *Jean Nicoli* for €105 million in the first half of 2008. The ship, which was owned by Veolia Transport, had been leased to the SNCM in the context of a public service delegation.

2. ACCOUNTING AND FINANCIAL INFORMATION

2.1. DEFINITIONS AND ACCOUNTING CONTEXT

The term “organic growth” includes growth resulting from:

- the expansion of an existing contract, particularly resulting from an increase in prices and/or volumes delivered or processed,
- new contracts,
- the acquisition of operating assets attributed to a particular contract or project.

The term “external growth” includes growth through acquisitions (those occurring during the current financial year and those with a partial impact on the past year), net of divestitures, of entities and/or assets used in one or more markets and/or that hold multiple contracts.

Net financial debt represents gross financial debt (long-term borrowings, short-term borrowings, bank overdrafts and other cash position items), net of cash and cash equivalents and excluding fair value adjustments to derivatives hedging debt.

Net finance costs represent the cost of gross financial debt, including related gains and losses on interest rate and foreign exchange hedges, less income on cash and cash equivalents.

Net income (loss) from discontinued operations is the total of income and expenses, net of tax, related to businesses sold or in the process of being sold, in accordance with IFRS 5. It is equal to the net income (loss) generated in the period by the assets and liabilities reported in the balance sheet headings, “Assets of discontinued operations” and “Liabilities of discontinued operations.”

Recurring net income attributable to equity holders of the parent is defined as follows: recurring portion of operating income + recurring portion of financial items + recurring portion of the share of net income of associates + recurring portion of net income attributable to minority interests + recurring portion of the income tax expense. An accounting item is non-recurring if it is unlikely to recur during each period and if it substantially changes the economics of one or more cash-generating units.

Accounting context

The accounting policies used to approve the financial statements for the first half of 2008 have not changed in relation to the fiscal year 2007 financial statements.

2.2. REVENUE

2.2.1. Overview

As of June 30, 2008 (in €millions)	As of June 30, 2007 (in €millions)	% change 2008/2007	of which internal growth	of which external growth	of which currency effect
18,091.7	15,461.6	17.0%	11.1%	8.4%	(2.5)%

Veolia Environnement’s consolidated revenue at June 30, 2008, was €18,091.7 million, up 17.0% (+19.5% at constant exchange rates), versus €15,461.6 million at June 30, 2007.

Internal growth of 11.1% was driven by the strong commercial development in all Group activities and boosted by the start-up of engineering and construction contracts in the Water division. The increase of energy prices within the Energy division contributed approximately €89 million in revenue.

External growth of 8.4% was primarily led by the contribution from acquisitions completed by Veolia Environmental Services (the waste management division) in Germany, Italy and France (for a total revenue contribution of €18 million euros), by Veolia Energy in the United States (revenue contribution of €72 million euros) and Veolia Water mainly in the United Kingdom and Japan (for a total revenue contribution of approximately €148 million euros).

The share of recorded revenue outside France totaled €10,416.2 million, or 57.6% of the total at June 30, 2008 versus 54.5% at June 30, 2007

The negative impact of exchange rate movements for €91.3 million primarily reflects the depreciation of the US dollar for -€95.3 million and the pound sterling for -€94.6 million, partially offset by the appreciation of the Czech crown for +€63.7 million.

2.2.2. Revenue by division

(€million)	As of June 30, 2008	As of June 30, 2007	% change 2008/2007
Water	5,987.7	5,220.7	14.7%
Environmental Services	5,085.4	4,195.9	21.2%
Energy Services	4,049.1	3,320.7	21.9%
Transportation	2,969.5	2,724.3	9.0%
Revenue	18,091.7	15,461.6	17.0%
Revenue at 2007 exchange rates	18,483.0	15,461.6	19.5%

WATER

As of June 30, 2008 (in €millions)	As of June 30, 2007 (in €millions)	% change 2008/2007	of which internal growth	of which external growth	of which currency effect
5,987.7	5,220.7	14.7%	12.8%	3.8%	(1.9)%

- In **France**, organic growth was 3.3%⁽¹⁾, supported by a wider offering of services and by growth in the engineering works business that offset the decline in volumes in production due to the weather conditions during the second quarter of 2008.
- **Outside France**, excluding Veolia Water Solutions & Technologies, revenue increased 19.0% (up 15.2% at constant consolidation scope and exchange rates). In Europe, growth of 15.1% benefited from the new unregulated activities in the water business acquired in the United Kingdom and price increases in the Czech Republic and the provisional admission of the Brussels facility. Business was brisk in the Africa/Middle East region, increasing 22.7% at constant consolidation scope and exchange rates, mainly due to the BOT contract for Oman Sûr (Build, Operate and Transfer). In Asia-Pacific, robust growth of 36% at constant consolidation scope and exchange rates, was mainly driven by the start-up of new industrial and municipal contracts in China (Lanzhou, Haikou, etc.), by the increase in volumes and the expansion of the Shenzhen concession as well the Gold Coast contract and the Sydney desalination contract in Australia. In the United States, 5.6% growth at constant exchange rates was primarily due to the start-up of the Milwaukee contract and the good level of engineering works activities in Indianapolis.
- **Veolia Water Solutions & Technologies**, achieved revenue of €1,095.1 million, an increase of 29.5% at constant consolidation scope and exchange rates, largely due to strong, sustained growth in the “Design and Build” municipal and industrial business, in particular in the Middle East.

ENVIRONMENTAL SERVICES

As of June 30, 2008 (in €millions)	As of June 30, 2007 (in €millions)	% change 2008/2007	of which internal growth	of which external growth	of which currency effect
5,085.4	4,195.9	21.2%	8.5%	18.2%	(5.5)%

- In **France**, revenue increased 15.5% (7.3% on a constant consolidation scope), driven by the good performance of the non-hazardous household and industrial waste management (new contracts in incineration) activities, as well as the paper sorting, recycling and trade business and the acquisition of Bartin Recycling Group, finalized in February 2008.
- **Outside France**, all geographical regions contributed to the 8.6% organic growth. Despite the economic slowdown,

growth was strong in North America (up 10.8% at constant consolidation scope and exchange rates) due to the increase in prices in the solid waste activity that offset lower in volumes, the good performance of the hazardous waste and industrial services businesses in the United Kingdom (up 7% at constant consolidation scope and exchange rates), in particular due to the impact of new integrated contracts. In Asia, the development of recent contracts significantly contributed to the 19.8% organic growth in the region. Lastly, in the Pacific region, growth of 22.9% (up 17% at constant consolidation scope and exchange rates) resulted from a substantial increase in the waste collection and treatment business (residual waste landfills) and industrial services.

- External growth of 18.2% primarily reflected the acquisition of Sulo in Germany (consolidated since July 2, 2007) for a contribution to revenue of €23 million, VSA Tecnitalia (formerly TMT) in Italy for a contribution of €38 million, as well as the activities of Bartin Recycling Group in France (consolidated since February 2008) for a contribution of €36 million.

(1) excluding foreign engineering works subsidiaries and establishments

ENERGY SERVICES

As of June 30, 2008 (in €millions)	As of June 30, 2007 (in €millions)	% change 2008/2007	of which internal growth	of which external growth	of which currency fluctuation
4,049.1	3,320.7	21.9%	13.4%	8.5%	0%

- In France**, revenue increased 15.5% at a constant consolidation scope led by the increase in energy prices, better weather conditions than in the first half of 2007 despite average temperatures during the 2008 winter remaining above their thirty-year average, and the good commercial growth recorded by specialization subsidiaries (particularly facilities).
- Outside France**, total growth was 30.1%, including 10.6% at constant consolidation scope and exchange rates, due to the increase in energy prices and to better but contrasting weather conditions in the various geographic regions.
- External growth of 8.5%, mainly reflects the acquisition of Thermal North America Inc. in the United States at the end of 2007, which contributed €72 million to revenue, as well as to a lesser extent, Praterm in Poland and smaller companies in Central and Southern Europe.

TRANSPORTATION

As of June 30, 2008 (in €millions)	As of June 30, 2007 (in €millions)	% change 2008/2007	of which internal growth	of which external growth	of which currency fluctuation
2,969.5	2,724.3	9.0%	8.7%	2.5%	(2.2)%

- In France** revenue rose 6.7% at a constant consolidation scope, led by the ongoing increase in business in the urban and interurban networks.
- Outside France**, revenue grew 10.2% (up 9.9% at constant consolidation scope and exchange rates), and reflected the full impact of the division's developments in North America, in Germany (new contracts) as well as robust growth in Australia.
- External growth was 2.5%, primarily reflecting the acquisition of People Travel Group in Sweden in 2007.

2.2.3. Revenue by geographical area

(€million)	As of June 30, 2008	As of June 30, 2007	% change 2008/2007	% change 2008/2007 (constant exchange rates)
France	7,675.6	7,035.8	9.1%	9.1%
United Kingdom	1,464.9	1,450.9	1.0%	14.4%
Germany	1,610.6	1,016.7	58.4%	58.4%
Other European countries	3,449.2	2,911.0	18.5%	15.8%
United States	1,408.8	1,285.1	9.6%	24.8%
Oceania	738.7	577.5	27.9%	29.0%
Asia	561.1	424.5	32.2%	42.9%
Rest of the world (including the Middle East)	1,182.8	760.1	55.6%	59.3%
Revenue	18,091.7	15,461.6	17.0%	19.5%

France

Growth in France reached 9.1% due to weather conditions in the first half of 2008 that were more favorable for energy services than was the case in the first half of 2007. Conversely, Veolia Eau benefited from continued vigorous growth in engineering and construction work and Veolia Energie from order books in the specialized businesses (particularly installations). The growth of Veolia Propreté is related to the increase in solid and toxic waste tonnage collected and treated under high value-added service contracts. Veolia Transport benefited from sustained activity growth in intercity transit systems in the Greater Paris region.

United Kingdom

Excluding the foreign exchange impact, growth stood at 14.4%. Activity benefited from the step-up in new contracts in the Environmental Services activity, commercial development and smaller acquisition from Veolia Energie and the acquisition of non-regulated activities of the Thames Water by Veolia Eau.

Germany

Revenue growth in Germany totaled 58.4% and was primarily attributable to the acquisition of the Sulo Group by Veolia Propreté, increased sales under the Braunschweig contract (Veolia Eau), and the organic growth of railway activities (Veolia Transport).

Other European countries

Revenue growth of 18.5% was mainly due to the expansion of Veolia Energie in Southern Europe, the acquisition of VES Tecnitalia by Veolia Propreté in Italy and the growth of Veolia Eau and Veolia Energie activities in Central Europe.

United States

Revenue growth of 24.8%, excluding the foreign exchange impact, was particularly strong across all Veolia Propreté activities and in Veolia Transport, with the full effect of recent developments and the impact of the acquisition of Thermal North America Inc. by Veolia Energie at the end of 2007.

Oceania

The 27.9% revenue growth in Oceania was driven by Veolia Eau contracts in Australia (Gold Coast and desalination plant in Sydney), all the Veolia Propreté activities, particularly the Woodlaw contract, the acquisition of TDU in Australia by Veolia Energie and the increase in revenue under the Veolia Transport Melbourne contract.

Asia

Growth of 32.2% in Asia was mainly driven by Veolia Eau and attributable to recent developments (contracts in China and acquisitions in Japan) and, to a lesser extent, by Veolia Propreté and Veolia Energie with the start-up of new contracts.

Rest of the world (including the Middle East)

Revenue growth of 59.3% was marked by the steady growth of Veolia Eau activities in North Africa and new contracts won by this division in the Middle East.

2.3. OTHER INCOME STATEMENT ITEMS**2.3.1. Operating income and operating cash flow**

The change in operating income and recurring operating income is as follows:

	Operating income					Recurring operating income			
	As of June 30, 2008	As of June 30, 2007	% change	Currency fluctua- tion	% change (constant exchan- ge rates)	As of June 30, 2008	As of June 30, 2007	% change	% change (constant exchan- ge rates)
Water	599.0	576.1	4.0%	(10.8)	5.8%	597.0	574.4	3.9%	5.8%
Environmental Services	404.2	389.1	3.9%	(29.1)	11.4%	404.8	389.1	4.0%	11.5%
Energy Services	293.8	259.7	13.1%	9.4	9.5%	290.4	250.9	15.7%	11.9%
Transportation	63.4	73.3	(13.5)%	0.5	(14.2)%	62.6	47.8	31.0%	29.9%
Unallocated	(54.7)	(26.4)		-	-	(54.7)	(26.4)	-	-
Total	1,305.7	1,271.8	2.7%	(30.0)		1,300.1	1,235.8	5.2%	
Total at 2007 exchange rates	1,335.7	1,271.8			5.0%	1,330.1	1,235.8		7.6%

The €30 million negative foreign exchange impact is primarily due to the depreciation of the pound sterling for -€26.1 million, mainly in the Water and Environmental Services divisions, the US dollar for -€10.9 million, essentially in Environmental Services, partially offset by the revaluation of the Czech crown for +€12 million, particularly in Energy Services.

Operating income is as follows for the periods ended June 30, 2008 and 2007:

As of June 30, 2008 (€million)	Recurring items	Non recurring items		Total
		Impairment losses	Other	
Water	597.0	2.0		599.0
Environmental Services	404.8		(0.6)	404.2
Energy Services	290.4	3.4		293.8
Transportation	62.6	0.8		63.4
Holding companies	(54.7)	-		(54.7)
Total	1,300.1	6.2	(0.6)	1,305.7

As of June 30, 2007 (€million)	Recurring items	Non recurring items		Total
		Impairment losses	Other	
Water	574.4	1.7	-	576.1
Environmental Services	389.1	-	-	389.1
Energy Services	250.9	8.8	-	259.7
Transportation	47.8	12.6	12.9	73.3
Holding companies	(26.4)	-	-	(26.4)
Total	1,235.8	23.1	12.9	1,271.8

On a constant exchange rate basis, operating income rose 5.0%, while growth in recurring operating income totaled 7.6%.

The change in operating cash flow is as follows:

	Operating Free Cash Flow			
	As of June 30, 2008	As of June 30, 2007	% change	
			2008/2007	constant exchange rates
Water	904.0	866.7	4.3%	6.2%
Environmental Services	714.9	677.6	5.5%	12.0%
Energy Services	432.1	359.1	20.3%	16.8%
Transportation	145.7	129.5	12.5%	13.4%
Holding companies	(45.7)	(20.5)	-	-
Total	2,151.0	2,012.4	6.9%	
Total at 2007 exchange rates	2,200.3	2,012.4		9.3%

WATER

Operating income for the Water division stood at €599.0 million for the first half of 2008, compared to €576.1 million for the first half of 2007, for growth of 4.0%. On a constant exchange rate basis, operating income rose 5.8%. Operating cash flow amounted to €904.0 million for the period ended June 30, 2008, compared to €866.7 million for the period ended June 30, 2007, for a growth rate of 6.2% on a constant exchange rate basis.

The foreign exchange impact on operating income and operating cash flow was negative for -€0.8 million and -€16.5 million respectively, and mainly involved the pound sterling.

In France, productivity improvement efforts, the development of new services and the good level of activity in the engineering works business drove growth in operating income despite a slight decline in volumes delivered.

Outside France, the increase was affected by the acquisition of unregulated activities in the United Kingdom, solid activity in Germany through the BVAG contract and the provisional admission of the Brussels facility. The improvement in Gabon operations also contributed to the increase in operating income.

Lastly, Veolia Water Solutions & Technologies reported an improvement in its operating income.

The operating margin (operating income/revenue ratio) decreased by one basis point from 11.0% in 2007 to 10.0% in 2008, primarily due to a very rapid growth of the engineering and construction activities, which have a lower margin and are less capital intensive.

ENVIRONMENTAL SERVICES

Operating income for the Environmental Services division increased by 3.9% (and 11.4% at constant exchange rates), increasing from €389.1 million for the first half of 2007 to €404.2 million for the first half of 2008.

Operating cash flow amounted to €714.9 million for the period ended June 30, 2008, compared to €677.6 million for the period ended June 30, 2007, for a 12.0% increase at constant exchange rates.

Higher fuel prices not yet passed on to customers had a negative impact of €15 million on both operating cash flow and operating income for the Environmental Services division, mainly in France.

Outside France, the negative foreign exchange impacts on operating income and operating cash flow mainly concern, respectively, the US dollar for €(10.9) million and €(18.7) million, and the pound sterling for €(15.1) million and €(21.9) million.

The growth in operating cash flow benefited from the good contribution businesses in North America, the United Kingdom and the Asia-Pacific region.

The contribution from acquisitions over the course of the past 12 months to operating cash flow amounted to €64.7 million for the period ended June 30, 2008, mainly due to the acquisition of Sulo.

The operating margin (operating income / revenue) declined from 9.3% in 2007 to 7.9% in 2008. The change is primarily explained by the impact of recent acquisitions, higher fuel prices and a lower contribution in terms of the euro in the United Kingdom and the United States, where margins are higher.

ENERGY SERVICES

Operating income for the Energy Services division stood at €93.8 million in the first half of 2008, compared to €259.7 million in the first half of 2007, an increase of 13.1%. The increase was 9.5% on a constant exchange rate basis.

Operating cash flow amounted to €432.1 million for the period ended June 30, 2008, compared to €359.1 million for the period ended June 30, 2007, for an increase of 16.8% at constant exchange rates.

Foreign exchange impacts on operating income and operating cash flows are positive at €9.4 million and €12.4 million respectively and mainly concern the Czech crown for €7.1 million and €8.8 million.

In France, the growth in operating income benefited from higher energy prices, following slightly more favorable weather conditions in 2008, compared to 2007. However, the contribution of CO₂ operations to operating income was lower for the first half of 2008. Outside France, the increase in operating cash flow and operating income reflects the positive impact of energy prices, mainly in Central Europe, and the impact of the acquisitions of Thermal North America in the United States, Praterm in Poland and other acquisitions in Central Europe.

The operating margin (operating income / revenue) decreased from 7.8% for the period ended June 30, 2008 to 7.3% for the period ended June 30, 2007, mainly in relation to the positive change in energy prices offset by lower net income on the CO₂ disposal operations.

TRANSPORTATION

Operating income for the Transportation division stood at €63.4 million for the period ended June 30, 2008 (€62.6 million in recurring operating income) compared to €73.3 million for the period ended June 30, 2007 (€47.8 million in recurring operating income). The increase in recurring operating income at constant exchange rates was 29.9%.

Operating cash flow stood at €145.7 million for the period ended June 30, 2008, compared to €129.5 million for the period ended June 30, 2007, for an increase of 13.4% at constant exchange rates.

Higher fuel prices not yet passed on to customers had a negative impact of €21 million on both operating cash flow and operating income for the Transportation division.

In France, the unfavorable impact due to the end of the reduction to social contribution costs and to higher fuel prices was partly offset by the increase in business in the urban and interurban networks, improvement in productivity and capital gains on asset disposals.

Outside France, despite the unfavorable impacts arising from higher fuel prices, operating cash flow and operating income benefited from the significant turnaround in operations following certain contractual renegotiations in Germany and a sound contribution from other Central European countries, the United States and Australia. The difficult operating conditions in the Netherlands should improve over the second half subsequent to the contractual renegotiations currently underway.

The operating margin (recurring operating income / revenue) increased from 1.8% for the period ended June 30, 2007 to 2.1% for the period ended June 30, 2008.

HOLDING COMPANIES

The decline in costs during the first half of 2008 is due to the activity's growth and the step-up in mutualization projects.

2.3.2. Net finance costs

(€million)	As of June 30, 2008	As of June 30, 2007
Income	74.9	70.0
Expense	(501.2)	(461.6)
Finance costs, net	(426.3)	(391.6)
Other financial income and expenses	(9.4)	(11.3)

The increase in net finance costs reflects:

- the increase in average net financial debt;
- the increase in the financing rate due to tensions in the interbank markets and the extension of the average debt maturity following long-maturity issues in pound sterling.

The financing rate (defined as the ratio of net finance costs, excluding fair value adjustments to financial instruments not qualifying for hedge accounting, to average net financial debt for the period) increased from 5.27% in the first half of 2007 to 5.41% in the first half of 2008. This rate takes into account the settlements of interest rate options. Adjusted for these operations, the financing rate would have amounted to 5.66%.

2.3.3. Income tax expense

The Group's consolidated net income tax expense for the first half of 2008 amounts to €226.5 million, compared to €235.0 million for the period ended June 30, 2007.

Compared with the net income of continuing operations adjusted for this tax expense and related earnings, the apparent income tax rate was 26.0% in the first half of 2008, compared to 27.0% in the first half of 2007.

The change in the tax expense for the period ended June 30, 2008 is attributable to:

- An improved outlook for the use of ordinary tax losses of the U.S. tax group, which should generate an additional deferred tax credit equivalent to the amount used in the first half;

A better outlook for the use of ordinary tax losses of the French tax group following the elimination of certain risks.

2.3.4. Share of net income of associates

The item decreased from €10.7 million for the period ended June 30, 2007 to €9.0 million for the period ended June 30, 2008.

2.3.5. Net income (loss) from discontinued operations

The net loss from discontinued operations decreased from €8.2 million for the period ended June 30, 2007 to €1.8 million for the period ended June 30, 2008. It concerns the Transportation activity in Denmark, which was sold in 2007.

2.3.6. Net income for the year attributable to minority interests

Net income for the year attributable to minority interests stood at €150.2 for the period ended June 30, 2008, compared to €143.4 million for the period ended June 30, 2007. The line item primarily concerns minority interests from 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).

For the period ended June 30, 2007, net income for the year attributable to minority interests represented €143.4 million. The line item mainly concerned minority interests from subsidiaries in the Water division (€60.5 million), the Environmental Services division (€10.0 million), the Energy Services division (€65.4 million) and the Transportation division (€6.9 million).

2.3.7. Net income for the year attributable to equity holders of the parent

Net income for the year attributable to equity holders of the parent amounted to €500.5 million for the period ended June 30, 2008, compared to €493.0 million for the period ended June 30, 2007. Recurring net income for the year attributable to equity holders of the parent amounted to €497.5 million for the period ended June 30, 2008, compared to €481.9 million for the period ended June 30, 2007.

Given the weighted average number of shares outstanding totaling 457.2 million for the period ended June 30, 2008 and 398.7 million for the period ended June 30, 2007, earnings per share attributable to equity holders of the parent stood at €1.09, compared to €1.22 for the period ended June 30, 2007 (adjusted for the share capital increase in July 2007). Recurring net income per share stood at €1.09 for the period ended June 30, 2008, compared to €1.19 for the period ended June 30, 2007 (adjusted for the share capital increase in July 2007).

Recurring net income for the period ended June 30, 2008 was determined as follows:

Half-year ended June 30, 2008 (€million)	Recurring	Non recurring	Total	Comments
Operating income	1,300.1	5.6	1,305.7	2.3.1
Net finance costs	(426.3)	-	(426.3)	2.3.2
Other financial income and expenses	(9.4)	-	(9.4)	2.3.2
Income tax expense	(226.5)	-	(226.5)	2.3.3
Share of net income of associates	9.0	-	9.0	2.3.4
Net income from discontinued operations	-	(1.8)	(1.8)	2.3.5
Minority interests	(149.4)	(0.8)	(150.2)	2.3.6
Net income attributable to equity holders of the parent	497.5	3.0	500.5	

Recurring net income for the period ended June 30, 2007 was determined as follows:

Half-year ended June 30, 2007 (€million)	Recurring	Non recurring	Total	Comments
Operating income	1,235.8	36.0	1,271.8	2.3.1
Net finance costs	(391.6)	-	(391.6)	2.3.2
Other financial income and expenses	(6.7)	(4.6)	(11.3)	2.3.2
Income tax expense	(232.2)	(2.8)	(235.0)	2.3.3
Share of net income of associates	10.7	-	10.7	2.3.4
Net income from discontinued operations	-	(8.2)	(8.2)	2.3.5
Minority interests	(134.1)	(9.3)	(143.4)	2.3.6
Net income attributable to equity holders of the parent	481.9	11.1	493.0	

Recurring net income increased by 3.2% from €481.9 million to €497.5 million.

3. FINANCING

Net financial debt is as follows:

(€million)	As of June 30, 2008	As of June 30, 2007
Net financial debt at opening	(15,125)	(14,675)
Cash flow from operation	2,163	2,009
Income taxes paid	(168)	(140)
Change in operating working capital requirements	(249)	(246)
Net cash from operating activities	1,746	1,623
Capital expenditures	(2,316)	(1,715)
Principal payments on operating financial assets	194	176
Proceeds on disposal	260	181
Change in other financial receivables	(106)	(13)
Net cash from investing activities	(1,968)	(1,371)
Dividends paid	(726)	(501)
Interest paid	(369)	(320)
Change in capital	(105)	119
Other changes (o/w exchange rates)	215	(75)
Change in net financial debt	(1,207)	(525)
Closing net financial debt	(16,332)	(15,200)

Net cash from operating activities increased from €1,623 million for the period ended June 30, 2007 to €1,746 million for the period ended June 30, 2008. The increase is essentially due to an improvement in the cash flow from operatingoperating cash flow.

Net cash used in investing activities amounted to €1,968 million for the period ended June 30, 2008, compared to €1,371 million for the period ended June 30, 2007. The €597 million increase compared to 2007 was mainly related to investments in the Bartin group companies in France for €89 million regarding Environmental Services, the Praterm group in Poland for €19 million with respect to Energy Services and an increase in capital expenditure for €31 million offset by the sale of the *Jean Nicoli* ship for €105 million concerning Transportation.

3.1. CASH FLOW FROM OPERATION

Cash flow from operating totaled €2,163.2, including €2,151.0 million in operating cash flow (compared to €2,012.4 million for the period ended June 30, 2007) and €12.2 million in financial cash flow (compared to €3.1) million for the period ended June 30, 2007)).

3.2. OPERATING WORKING CAPITAL REQUIREMENT

The operating working capital requirement remained relatively stable for the period ended June 30, 2008 compared to June 30, 2007, increasing from €(245.7) million in 2007 to €(249.1) million in 2008, primarily as a result of activity growth. This was reflected in a significant increase in trade receivables for Environmental Services, particularly in inventories. In the construction activity, several advances received at the end of 2007 with respect to major projects were used in the first half. These negative impacts were partially offset by the positive impact arising from the settlement of the Water division's drainage receivables for the first half (Berlin contract).

3.3. INVESTMENTS / DIVESTITURES / CAPITAL INCREASES

3.3.1 Investments

(€million)	Industrial investments (1)		Financial investments (2)		New operating financial assets	
	As of June 30, 2008	As of June 30, 2007	As of June 30, 2008	As of June 30, 2007	As of June 30, 2008	As of June 30, 2007
Water	479	390	91	51	136	114
Environmental Services	464	358	273	88	28	8
Energy Services	183	175	178	117	35	11
Transportation	196	289	45	21	2	19
Other	28	7	6	2	17	-
TOTAL	1,350	1,219	593	279	218	152

(1) Including assets purchased under finance leases

(2) Excluding cash and cash equivalents of companies acquired

Industrial investments

Industrial investments (excluding assets purchased under finance leases) totaled €1,220.5 million for the first half of 2008, compared to €1,194 million for the first half of 2007, for an increase of 3.5%.

Industrial investments including assets purchased under finance leases totaled €1,350 million is as follows:

- Water, for €479 million (+23% compared to 2007), including €86 million in growth investments and €93 million in maintenance-related investments (€30 million in 2007);
- Environmental Services, for €464 million (+30% compared to 2007), including €97 million in growth investments and €367 million in maintenance-related investments. The increase in capital expenditure mainly reflects the growth of the Environmental Services division and the impact of 2007 acquisitions;
- Energy Services, for €183 million (+4.6% compared to 2007), including €83 million in growth investments and €100 million in maintenance-related investments;
- Transportation, for €196 million (-32% compared to 2007), including €46 million in growth investments and €150 million in maintenance-related investments. Investments for the period ended June 30, 2007 included the acquisition of the ship *Jean Nicoli*;
- Maintenance-related investments totaled €12 million (or 5% of revenue), compared to €742 million for the first half of 2007.

Financial investments

Financial investments, including the €55 million net debt of companies acquired in the first half of 2008, totaled €748 million in the first half of 2008, compared to €344 million in the first half of 2007.

The 2008 financial investments totaling €748 million (including the net debt of acquired companies) are as follows:

- €155 million in the Water division (compared to €37 million in 2007). The main financial investments concern the acquisition of Biothane (Solutions and Technologies) for €44.4 million and an additional interest in Askhelon in Israel for €1.1 million;
- €17 million in the Environmental Services division (compared to €86 million in 2007). The main financial investments concern the acquisition of Bartin Recycling Group for €189 million as well as various other investments in Europe;
- €202 million in the Energy Services division (compared to €191 million in 2007). The main financial investments concern the acquisition of Praterm for €17 million;

- €75 million in the Transportation division (compared to €26 million in 2007). The main financial investments concern the acquisition of Rail4Chem for €40 million.

New operating financial assets (IFRIC 12 and IFRIC 4 receivables)

New operating financial assets total €18 million in the first half of 2008, compared to €152 million in the first half of 2007 and are as follows:

- €36 million in the Water division, for an increase of €22 million, mainly attributable to the Oman Sur BOT for €19 million;
- €28 million in the Environmental Services division, for an increase of €20 million;
- €35 million in the Energy Services division, for an increase of €4 million;
- €2 million in the Transportation division, for a decrease of €17 million.

3.3.2 Divestitures

Divestitures (including net indebtedness) totaled €260 million and mainly comprised the sale of the *Jean Nicoli* ship in the Transportation division in the amount of €105 million.

Principal payments on operating financial assets totaled €194 million in the first half of 2008, compared to €176 million in the first half of 2007.

3.4. EXTERNAL FINANCING

3.4.1. Agency ratings

As of June 30, 2008, Moody's and Standard & Poor's rated VE SA as follows:

	Short-term	Long-term	Perspective	Recent events
Moody's	P-2	A3	Stable	In April 2008, Moody's confirmed the ratings awarded to Veolia Environnement on June 27, 2005.
Standard and Poor's	A-2	BBB+	Stable	In April 2008, Standard and Poor's confirmed the rating awarded to Veolia Environnement on October 3, 2005 (end of the structural subordination on September 26, 2007)

3.4.2. Refinancing policy

Veolia Environnement pursued an active refinancing policy in the first half of 2008, aimed at strengthening its financial position and maintaining debt maturities.

The main debt facilities maturing in the first half of 2008 and either redeemed or refinanced were as follows:

- €600 million Berlin acquisition debt maturing on January 15, 2008;
- €300 million EMTN issue (series 20) maturing on February 15, 2008;
- €700 million balance of the EMTN issue (series 1) maturing on June 27, 2008.

In addition, Veolia Environnement launched the following new bond issues for a total euro equivalent of €1,702 million as of June 30, 2008:

- On January 8, 2008, Veolia Environnement reopened the GBP-denominated series 24 bond issue maturing in 2037 in the amount of GBP 150 million, bringing the total bond amount to GBP 650 million (euro equivalent of €820 million as of June 30, 2008);
- On March 14, 2008, Veolia Environnement reopened the EUR-denominated series 21 bond issue maturing in 2017 in the amount of €140 million, bringing the total bond amount to €1,140 million;
- On April 1, 2008, Veolia Environnement issued for the first time the series 15 corporate bond issue indexed to European inflation and maturing in 2015, in the amount of €275 million, bringing the total bond amount to €875 million;
- Due to the strengthening of the Group's long-standing presence in the United States through the acquisition of TNAI (Energy Services division) in 2007, Veolia Environnement issued, on May 21, 2008, SEC-registered fixed-rate bonds totaling US\$1.8 billion (euro equivalent of €1,142 million as of June 30, 2008) in three tranches (US\$700 million maturing in 5 years, US\$700 million maturing in 10 years and US\$400 million maturing in 30 years).

This first ever issue by VE on the US bond market will improve the balance between long-term cash flows generated in the US and local debt in US dollars.

No major bank financing was set up during the first half of 2008.

3.4.3. Group liquidity position

(€million)	As of June 30, 2008	As of June 30, 2007
Undrawn banking lines :	5,025.0	5,025.0
Non-current undrawn syndicated loans *	4,000.0	4,000.0
Non-current undrawn credit lines	500.0	850.0
Current undrawn credit lines	525.0	175.0
Cash and cash equivalents	2,771.5	3,115.6
Total	7,796.5	8,140.6

* Maturing April 20, 2012

As of June 30, 2008, Veolia Environnement had a total liquidity of €7.8 billion, including cash in the amount of €2.8 billion.

3.4.4. Net financial debt structure

As of June 30, 2008, the net financial debt structure was as follows:

(€million)	As of June 30, 2008	As of June 30, 2007
Non current borrowings	15,498.5	13,948.0
Current borrowings	2,694.2	3,805.0
Bank overdrafts and other cash position items	698.5	459.4
Sub-total borrowings	18,891.2	18,212.4
Cash and cash equivalents	(2,771.5)	(3,115.6)
Offset of fair value gains(losses) on hedging derivatives	212.7	27.7
Net financial debt	16,332.4	15,124.5

3.4.5. Maturity of long-term borrowings

Group long-term borrowings fall due as follows as of June 30, 2008:

(€million)	Total	Amounts falling due in		
		2 to 3 years	4 to 5 years	More than 5 years
Bond issues	10,501.3	77.2	2,530.2	7,893.9
Bank borrowings	4,997.2	1,527.3	1,126.2	2,343.7
Non current borrowings	15,498.5	1,604.5	3,656.4	10,237.6

4. FORECAST AND 2009-2010 OUTLOOK

4.1. 2008 TRENDS

The first half of the year was marked by a challenging economic and financial environment and by the progressive increased contribution of acquisitions and projects completed in 2007 and in early 2008.

In view of the results reported in the first half of the year and within the current economic and monetary conditions, Veolia Environnement expects, at current exchange rates, revenue growth of more than 12% and growth in cash flow from operations of approximately 6% for the full year 2008.

Nevertheless, these forecasts may be affected according to the change in certain external parameters:

- Currency parities ;
- Fuel costs ;
- Average climatology ;
- Economic situation in the United States and in Europe.

4.2. 2009 – 2010 OUTLOOK

Within this context, Veolia Environnement has set an objective to improve the profitability and to achieve an after-tax Return on Capital Employed (ROCE) of 10% at the end of 2010 as compared with an expected ROCE of between 9% and 9.5% in 2008.

This objective is set against the following elements and actions:

- The progression of organic growth and the improved contribution of recent acquisitions
- The implementation of an accelerated and strengthened cost reduction plan with an objective of €400 million in total cost savings over two years (2009 – 2010), with a full year savings contribution in 2011
- An asset rotation program aimed at disposing at least €1.5 billion in assets by the end of 2009, of which €1 billion in disposals are to be completed or committed before the end of 2008.
- A heightened selectivity of investments (in the range of € billion euros in 2008 and €4.5 billion in 2009).
- The evolution of the Company's organization favoring a geographic approach to increase the shared activities and support services and the pooling of capabilities, with an objective of reducing costs and maximizing commercial and operational efficiencies.

Taking into account this outlook, Veolia Environnement currently expects an increase of 10% in its dividend per share payable in 2009 for the fiscal year 2008.