Operating and Financial Review

Consolidated Financial Statements

December 31, 2008

DRAFT

1. RESULTS OF OPERATIONS IN 2008

1.1. GENERAL CONTEXT

The Group continued its strategy of developing its environmental businesses, whilst adapting to the consequences of the financial crisis and the economic downturn felt from the second half of the year. This development of its activities was reflected by a 13.4% growth in revenue (15.8% at constant exchange rates), despite a slowdown in business and notably in the fourth quarter in the Environmental Services Division.

Revenue growth is attributable to acquisitions performed in 2007 and at the beginning of 2008 and progress across all businesses and notably a strong increase in engineering and construction activities in the Water Division (seawater desalination) leading to an internal growth of 9.6%.

In this context, with internal growth at 9.6% operating cash flow increased by 2% at constant exchange rates (0.6% decrease at current exchange rates), despite occasional operating difficulties (notably delays in passing on price increases in a context of rising costs in the Water Division) and a difficult economic environment (primarily impacting the Environmental Services Division and to a lesser extent the Energy Services and Transportation Divisions). Operating performance was notably affected by the appreciation of the euro against certain currencies of countries where the Group has a strong presence (the United States, the United Kingdom and the Asia-Pacific region), the price of petroleum products during the first six months and of recycled products at the end of the year and a downward trend in volumes in the Environmental Services Division. Finally, the contribution of certain acquisitions and recent developments (notably in Germany in the Environmental Services Division) was less than expected.

As a result of the downturn in the credit and liquidity market, access to financial resources for economic players was both more difficult and costly. However, thanks to the structure and maturity of its debt, the Group will not face any major refinancing deadlines before 2012 and enjoys significant liquidity.

In response to this difficult context, the Group has implemented a new cost reduction plan (“2010 Efficiency Plan”) a new plan to adapt to the current business climate in the Environmental Services Division, and a non-strategic asset divestiture program. The latter gave rise to the divestiture of Clemessy and Crystal in 2008, for a net amount of €226.3 million.

1.2. NEW COMMERCIAL SUCCESSES WITHIN GROWTH MARKETS

The Group won several major contracts in 2008:

- In February 2008, Veolia Eau, as part of a consortium, won a contract to upgrade and extend a wastewater treatment plant in Warsaw. This contract represents cumulative revenue estimated at €500 million, including €150 million for Veolia Water.
- On February 13, 2008, Veolia Propreté won a new 25-year PFI contract (Private Finance Initiative) to provide waste recycling in Southwark (London) in the United Kingdom, representing estimated revenue of €700 million.
- In March 2008, Veolia Transport signed a contract to manage the airport of Beauvais-Billé in France. This 15 year contract represents cumulative revenues estimated at €238 million.
- On March 17, 2008, Veolia Propreté won a new 25-year PFI contract to provide waste recycling in West Berkshire, United Kingdom, representing cumulative revenue of €533 million.
- In April 2008, Veolia Environnement signed a contract with Artenius, subsidiary of the chemical group La Seda de Barcelona for its Sines plant in Portugal. Veolia Environnement will build and manage the plant for the production of all utilities (stream, electricity, demineralized water, industrial gas, waste water treatment). This 15 year contract represents cumulative revenue of €850 million.

- On April 29, 2008, Veolia Eau, through its subsidiary Veolia Water AMI, won Saudi Arabia's first ever delegated management contract in the water sector. This 6-year contract represents total cumulated revenue estimated at €43 million.
- In May 2008, Veolia Eau, through OTV, a subsidiary of Veolia Water Solutions & Technologies, signed two major contracts with SIAAP, the wastewater authority for Paris. These two contracts (Achères and Les Gresillons 2) represent total cumulated revenue over the contract term of €224 million for Veolia Water.
- In May 2008, Veolia Eau won a new design-build-operate contract in India for a drinking water production plant in Nagpur, representing cumulated revenue estimated at €20 million over 15 years.
- In June 2008, Veolia Eau signed a contract to built 10 water desalination plants in Ras Laffan (Qatar). This contract represents revenue estimated at €305 million.
- In June 2008, Dalkia signed a contract to built and operate an electricity plant based on biomass at the Solvay site in Tavaux (France). This 20 years contract represents cumulative revenue estimated at €500 million.
- On June 12, 2008, Veolia Transport won a contract to manage the Bilbao urban bus transport system (population of 400,000). The contract is for 8 years with an additional option for two years and represents cumulated revenue estimated at €305 million for the first eight years.
- On July 8, 2008, Veolia Environnement announced the creation of a joint venture for the construction of the largest solar power rooftop station. Annual output from the solar power station, located near Zaragossa and operational since the end of September 2008, will be 15.1 million KWh.
- On July 30, 2008, Veolia Eau won a contract for the financing, design, construction and operation of two new wastewater treatment plants in Abu Dhabi and Al Ain. This 25-year contract represents cumulated revenue estimated at €461 million.
- In August 2008, Dalkia signed a contract with Smurfit, a company providing paper to build and operate an electricity plant based on biomass. This 20 year contract represents cumulated revenue estimated at € 1 billion.
- On September 2, 2008, Veolia Transport, through its German subsidiary NordWestBahn, won the contract to manage, from December 2010, the entire regional express system (S-Bahn) linking the states of Bremen and Lower Saxony in Germany. This 11-year contract represents cumulated revenue estimated at €500 million.
- On September 25, 2008, Veolia Eau, as a consortium member, won a contract for the first private scheme for recycled water to supply a network of multiple industrial users in Australia. This contract represents cumulated revenue estimated at €99 million over a 20-year period.
- On November 6, 2008, Veolia Eau won two Design, Build & Operate contracts for major wastewater treatment plants in Mullingar and Castlebar in Ireland. These contracts represent cumulated revenue estimated at approximately €74 million over 22 years.
- On December 8, 2008, Veolia China Limited, the Chinese subsidiary of Veolia Transport, signed a partnership agreement with Nanjing Zhongbei. This agreement covers the creation of a joint venture to operate the transportation systems of six Chinese cities over a period of 30 years. The resulting joint venture will generate revenue in 2009 of over CNY 400 million, or €40 million (including approximately €20 million for Veolia Transport).
- On December 17, 2008, Veolia Environnement, through a consortium formed by its subsidiaries Soval and Dalkia, was awarded the delegated public service contract for the operation of the thermal complex of Hauts de Garonne in France. This 12-year contract represents cumulated revenue of approximately €196 million for Veolia Environnement.
- On December 18, 2008, Veolia Transport, as a consortium member, won a contract for the operation of the future Line 1 of the Mumbai subway. Veolia Transport India will be in charge of all operating activities as well as system maintenance via a joint venture with the Indian company Reliance Infrastructure (70%–30% respectively). The consortium, comprising Reliance Energy (69%), Veolia Transport (5%) and Mumbai Metropolitan Region Development Authority (26%), has responsibility for the financing, construction and operation of Line 1. This 8 years contract represents cumulative revenue estimated at €70 million.
- In December 2008, Veolia Eau signed a contract to manage the water service in Changle In China. This 30 year contract represents cumulative revenue estimated at €294 million.
- In December 2008, Veolia Transport signed a contract to manage the "Département de l'Oise" bus transport system in France. This 12 years contract represents cumulative revenue estimated at €334 million.

2008 was marked as was 2007 by the renewal of a significant number of contracts such as the contracts for the town of Toulon or the Cergy-Pontoise region in France in the Water Division, the contracts of London Borough of Croydon in the United Kingdom, Montbeliard in France or Pinellas County in the United States in the Environmental Services Division, the contracts for the Town of Saint-Dié in France, Sao Luis in Brazil in the Energy Division, the contracts for Baltimore and Seattle in the United States in Transportation Division.

The City of Paris has announced its intention to takeover responsibility for the management of water distribution activities, when the existing delegation contracts expire in 2009.

Legal action has been taken and is currently in progress concerning the legality of the tender process which led to the renewal of contracts in Bordeaux (bus network) and Stockholm (subway management), not being awarded to the Group at the end of 2008.

1.3. ACQUISITIONS AND DIVESTITURES

The Group carried out a number of acquisitions as part of its development strategy:

- On November 19, 2007, Veolia Environmental Services announced the signature of an agreement for the acquisition of the entire share capital of Bartin Aero Recycling Group, a company specializing in the collection and recovery of industrial waste and in particular the recycling of ferrous and non-ferrous metals. This transaction represents an investment for Veolia Propreté of €189 million (enterprise value). The acquisition was finalized on February 13, 2008 and contributed €246.6 million to Group revenue in 2008.

- In February 2008, following a takeover bid launched on December 17, 2007, Dalkia became the majority shareholder with a stake of 100% in Praterm, a heat production and distribution company in Poland. This transaction enabled Dalkia to strengthen its position in this country, where it already owns two of the largest heating networks in Poznan and Lodz. This transaction represents an investment with an enterprise value of €128 million for Dalkia (group share). The contribution of Praterm to Group revenue for the year ended December 31, 2008 is €37.0 million (Group share).

- In May 2008, Veolia Eau Solutions & Technologies acquired the Biothane Group, which specializes in the biological treatment of wastewater, for U.S.$80.5 million (€53.3 million).

- On October 1, 2008, Veolia Environnement purchased Ridgeline Energy in the United States, a specialist in the development of wind energy projects, for an amount of €49.6 million for 100% of the share capital and potentially an additional sum for 1,500 MW of capacity that is ready to be built.

In December 2008 (following receipt of European competition authority approval), Veolia Transportation bought out the 37.71% interest held by BCP (Butler Capital Partner) in SNCM for a consideration of €73 million, thereby increasing the Group's stake in SNCM to 66%.

The divestiture program was stepped up in the second half of 2008 and totaled €761 million for the year (including net borrowings). This amount includes industrial divestitures of €330 million and financial divestitures of €431 million.

The main divestitures in 2008 were as follows:

- The Group sold the Jean Nicoli boat used by SNCM under a public service delegation contract for €105 million in the first half of 2008.
- On December 16, 2008, the Group sold the Clemessy and Crystal businesses in the Energy Services Division for an enterprise value of €226.3 million. These businesses contributed €696 million to Group revenue in 2007.

- Veolia Environnement and (MDC – V Holding Sarl – Mubadala) formed a joint venture with a view to developing a strategic partnership. This joint venture, owned 51% by Veolia Eau and 49% by Mubadala, will focus on water production and wastewater collection and treatment in the Middle East and North African regions. The transaction was finalized on December 30, 2008.

2. ACCOUNTING AND FINANCIAL INFORMATION

2.1. DEFINITIONS AND ACCOUNTING CONTEXT

The term "internal growth" includes growth resulting from:

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

The term "external growth" includes growth through acquisitions (performed in the period or which had only partial effect in the prior period), net of divestitures, of entities and/or assets deployed in different markets and/or containing a portfolio of more than one contract.

Net financial debt represents gross financial debt (non-current borrowings, current 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 debt, including related gains and losses on interest rate and foreign exchange hedges, less income on cash and cash equivalents.

Net income (expense) 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.

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 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. By their nature, all amendments to goodwill (impairments or badwill) are non-recurring.

Free Cash Flow represents the change in net financial debt before exchange rate impact, reevaluation and reclassification.

Accounting context

The accounting policies adopted for the preparation of the 2008 financial statements are unchanged from the 2007 financial statements.

Pursuant to IFRS 5:

- the 2007 and 2006 income statements have been adjusted to take account of the divestiture of Clemessy and Crystal in the Energy Services Division in December 2008, which are presented in Net income from discontinued operations;
- in accordance with the reciprocal purchase and sale agreement signed on December 19, 2008 between Suez Environnement and Veolia Environnement, completion of which is expected in 2009, certain assets jointly held with Suez were also reclassified in the balance sheet in "Assets classified as held for sale" and "Liabilities directly associated with assets classified as held for sale".

2.2. REVENUE

2.2.1. Overview

Year ended Dec. 31, 2008 (€ million)	Year ended Dec. 31 2007 (1) (€ million)	% Change 2008/2007	Internal growth	External growth	Foreign exchange impact
36,205.5	31,932.2	+ 13.4%	+9.6%	+6.2%	-2.4%

Group consolidated revenue increased by 13.4% (15.8% at constant exchange rates) to €36,205.5 million compared with €31,932.2 million in 2007. Internal growth amounted to 9.6%, boosted by dynamic commercial development within all the Group's businesses and accentuated by work on new engineering and construction contracts in the Water Division. The increase in energy prices within the Energy Services Division contributed €473 million of additional revenue.

External growth was 6.2%, particularly due to acquisitions by Veolia Propreté in Germany, Italy and France (total contribution of €828.6 million), by Veolia Energie in the United States (€303.5 million) and by Veolia Eau, primarily in the United Kingdom and Japan (total contribution of approximately €268.4 million).

Revenue from outside France amounted to €21,682.6 million, i.e. 59.9% of total revenue compared with 57.5%(1) in 2007.

The net negative impact of foreign exchange rates of €778.3 million, essentially reflects the depreciation of the US dollar (-€191.4 million) and the pound sterling (-€437.3 million), partially offset by the appreciation of the Czech crown (+€109.0 million).

(1) Published figures for the year ended December 31, 2007 have been adjusted, for comparative purposes, for the Clemessy and Crystal businesses in the Energy Services Division, accounted from the third quarter 2008 in accordance with IFRS 5 and presented in "Net income from discontinued operations".

2.2.2. Revenue by business

(€ million)	**Year ended December 31, 2008**	Year ended December 31, 2007 (1)	% Change 2008/2007
Water	12,557.9	10,927.4	**+ 14.9 %**
Environmental Services	10,144.1	9,214.3	**+10.1 %**
Energy Services	7,449.4	6,200.4	**+ 20.1 %**
Transportation	6,054.1	5,590.1	**+ 8.3 %**
Revenue	36,205.5	31,932.2	**+ 13.4 %**
Revenue at 2007 exchange rates	**36,983.8**	**31,932.2**	**+ 15.8 %**

WATER

Year ended Dec. 31, 2008 (€ million)	Year ended Dec. 31 2007 (€ million)	% Change 2008/2007	Internal growth	External growth	Foreign exchange impact
12,557.9	10,927.4	+14.9 %	+ 13.4 %	+3.3 %	- 1.8 %

- In **France** internal growth amounted to 3.4%(1), supported by price indexing, a wider service offering and growth in engineering work, which offset the approximately 1.9% drop in the volume of water distributed as compared to 2007.

(1) Excluding foreign construction subsidiaries and entities.

- **Outside France** and excluding Veolia Water Solutions & Technologies, revenue increased by 16.5% (+12.3% at constant consolidation scope and exchange rates). In Europe, growth of 13.2% (+8.5% at constant consolidation scope and exchange rates) reflected the acquisition of new non-regulated water operations in the UK, completion of the Brussels plant and strong activity in Germany. Sustained activity was also experienced in the Africa/Middle East region with growth of almost 14.1% at constant consolidation scope and exchange rates (+15.2% at current rates) thanks in particular to the Oman Sur and Mauritanian contracts. In Asia/Pacific, the strong growth of 23.4% at constant consolidation scope and exchange rates (+32.9% at current rates) was largely fueled by the start up of new municipal and industrial contracts in China (Lanzhou, Haikou and Tianjin), by increased volumes and the extension of the Shenzhen concession and by engineering activities in Australia (Sydney desalination contract). In the USA, growth of 8.8% at constant consolidation scope and exchange rates (+4.5% at current rates) mainly reflected the start up of the Milwaukee contract and good engineering activity levels in Indianapolis.

- Veolia Eau Solutions & Technologies reported revenue of €2,524.9 million, up 36.3% at constant consolidation scope and exchange rates (+34.2% at current rates), supported by municipal and industrial design and build projects in particular in the Middle East.

ENVIRONMENTAL SERVICES

Year ended Dec. 31, 2008 (€ million)	Year ended Dec. 31 2007 (€ million)	% Change 2008/2007	Internal growth	External growth	Foreign exchange impact
10,144.1	9,214.3	+10.1 %	+4.5 %	+10.1 %	-4.5 %

- In **France,** revenue grew by 11.2% (+3.8% with a constant consolidation scope). External growth was attributable to the acquisition of Bartin Aero Recycling Group, finalized in February 2008. Internal growth was bolstered by the sustained level of non-hazardous household and industrial waste processing activities (both landfill and incineration). However the economic slowdown, first observed in the third quarter and which accelerated in the fourth quarter, brought an abrupt end to trends observed during the first half of the year. This slowdown particularly impacted sorting, recycling and trading businesses, due to the sharp decrease in the price of recyclable paper and metals, as well as activities with industrial customers (fall in volumes of both hazardous and non-hazardous waste).

- **Outside France,** internal growth of 4.7% (+9.4% at current rates) was contributed to by all the division's regions but was considerably slowed during the fourth quarter by economic trends in the North American, UK and above all in Germany, where volumes fell significantly. For the year as a whole, the growth in North America (+8.7% at constant consolidation scope and exchange rates and +2.4% at current rates) was helped by price increases in the solid waste sector, which offset the fall in volumes, and by the strong market for hazardous waste management and industrial services. In the UK growth amounted to 8.6% at constant consolidation scope and exchange rates (-6.7% at current rates), reflecting in particular the new contracts won. In Germany, revenue was down on 2007 from the third quarter (-18.9% at constant consolidation scope and exchange rates) following the loss of several contracts in the used packaging business (DSD) as well as losses in industrial waste management. The recycling business was also strongly affected by the decrease in prices for recycled materials. In Asia, the development of recently won contracts was a strong factor in the internal growth observed of 22.0% (+25% at current rates). Finally, growth of 14.4% at constant consolidation scope and exchange rates (+11.3% at current rates) in the Pacific region was attributable to growth in the waste collection and processing sector and industrial services.
- External growth of 10.1% essentially reflected the acquisition of Veolia Environmental Services Germany (formerly SULO) which contributed revenue of €522.3 million (consolidated with effect from July 2, 2007), of VSA Tecnitalia (formerly -TMT) in Italy which contributed revenue of €59.7 million and of Bartin Aero Recycling Group in France (consolidated with effect from February 2008) which contributed revenue of €246.6 million.

ENERGY SERVICES

Year ended Dec. 31, 2008 (€ million)	Year ended Dec. 31 2007 adjusted (€ million)	% Change 2008/2007	Internal growth	External growth	Foreign exchange impact
7,449.4	6,200.4	+20.1 %	+12.0 %	+ 8.7 %	-0.6 %

- Total revenue increased by 20.1% as a result in particular of the increase in energy prices (impact of €473 million) and the acquisition of Thermal North America Inc. (TNAI) in the United States at the end of 2007.
- In France, revenue increased 12.7% with a constant consolidation scope (+13.2% at current consolidation scope) given the increased price of energy, more favorable climatic conditions than in 2007 (notably in the fourth quarter of 2008) and the good commercial development of dedicated subsidiaries.
- Outside France, revenue grew by 28.2% overall and by 11.1% at constant consolidation scope and exchange rates, equally as a result of the increase in energy prices and commercial development in Europe as a whole, against the backdrop of stable climatic conditions throughout Central Europe in comparison with 2007.

- The external growth of 8.7% mainly reflects the €303 million contribution of the TNAI acquisition in the United States at the end of 2007, as well as to a lesser extent, the acquisition of Praterm in Poland and of smaller companies in Central and Southern Europe.

TRANSPORTATION

Year ended Dec. 31, 2008 (€ million)	Year ended Dec. 31 2007 (€ million)	% Change 2008/2007	Internal growth	External growth	Foreign exchange impact
6,054.1	5,590.1	+8.3 %	+7.9 %	+2.7 %	-2.3 %

- Revenue increased by 7.3% in **France** with a constant consolidation scope (+8.1% at current consolidation scope), underpinned by the division’s continuing development in urban and intercity transport.
- Outside France, revenue increased by 8.5% (with a constant consolidation scope and at current and constant exchange rates), due to the full effect of the new contracts signed in North America and Germany and of strong growth in Australia.
- External growth of 2.7% principally reflects the acquisition of People Travel Group in Sweden in 2007 and of Rail4Chem in Germany in 2008.

2.2.3. Revenue by geographical area

(€ million)	**Year ended December 31, 2008**	Year ended December 31, 2007 (adjusted)	% Change 2008/2007 (year-end exchange rates)	% Change 2008/2007 (constant exchange rates)
France	**14,522.9**	13,587.0	+6.9	+6.9
United Kingdom	**2,955.3**	2,945.7	+0.3	+15.1
Germany	**3,167.4**	2,678.9	+18.2	+18.2
Other European countries	**7,052.3**	6,033.3	+16.9	+15.6
United States	**3,045.0**	2,580.4	+18.0	+25.7
Oceania	**1,437.7**	1,308.2	+9.9	+18.2
Asia	**1,269.9**	961.0	+32.1	+37.1
Rest of the world (including the Middle East)	**2,755.0**	1,837.7	+49.9	+53.7
Revenue	**36,205.5**	**31,932.2**	**+13.4**	**+15.8**

France

Revenue growth in France reached 6.9% thanks to the impact of energy prices in the Energy Services Division, continued vigorous growth in engineering and construction work in the Water Division and sustained growth in inter-city activities (notably in the Greater Paris region) in the Transportation Division. Growth reported by Veolia Propreté was primarily tied to the acquisition of Bartin in February 2008.

United Kingdom

Revenue growth in the United Kingdom, excluding exchange rate impacts, was 15.1%, benefiting from new integrated contracts in the Environmental Services Division, commercial development and focused acquisitions in Veolia Energy Services and the acquisition of Thames Water non-regulated water operations by Veolia Eau.

Germany

German growth of 18.2% is mainly attributable to the acquisition of Veolia Propreté Germany, an increase in Braunschweig contract sales (Veolia Eau) and organic growth in rail operations (Veolia Transport).

Other European countries

Revenue growth of 15.6% at constant exchange rates is primarily due to the acquisition of Praterm, the development of Veolia Energy Services activities in Southern and Northern Europe, the acquisition of VES Tecnitalia by Veolia Propreté in Italy, the growth of activities in Central Europe and the completion of work at the Brussels plant by Veolia Eau.

United States

Revenue growth of 25.7% at constant exchange rates was due to marked growth across all Veolia Propreté businesses, the full-year effect of recent developments within Veolia Transport, the impact of the acquisition of Thermal North America Inc. by Veolia Energie at the end of 2007, the start-up of the Milwaukee contract and sustained engineering activities in Indianapolis in the Water Division.

Oceania

Growth of 18.2% at constant exchange rates in Oceania was boosted by Veolia Eau contracts in Australia (desalination plant in Sydney), all Veolia Propreté activities and notably the Woodlawn contract and increased revenue from the Veolia Transport Melbourne contract.

Asia

Revenue growth of 37.1% at constant exchange rates was notably achieved by Veolia Eau as a result of 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 53.7% at constant exchange rates was marked by sustained growth recorded by Veolia Eau in Africa and the Middle East (contract in Mauritania and Oman Sur BOT contract).

2.3. OTHER INCOME STATEMENT ITEMS

2.3.1. Operating income and cash flow

At Group level, operating cash flow benefited from the development of new business activities, the Group's recent acquisitions, the strong performance of the Energy Services Division and the favorable impact of the productivity plan. These benefits were offset, however, by the following negative impacts:

- foreign exchange movements (-€107 million), reflecting in particular the appreciation of the euro against the other principal currencies where the Group operates;
- the deterioration in operating performance of the Environmental Services Division, with a particularly unfavorable business climate beginning in the third quarter (prices and volume), despite the restructuring actions taken during the second half of the year (new management team, shutdown of two regional offices, restructuring plan) in Germany,
- the increase in development costs and other overheads in particular in Asia;
- cost increases, particularly for fuel, not passed on to customers.

In addition to these effects, operating income reflects impairment losses recognized by Veolia Environmental Services Germany for - €405,6 million (-€343 million on goodwill) and by the Transportation Division in Northern Europe (-€55 million), as well as the increase in the depreciation and amortization charge as a result of new contracts and recent acquisitions.

Overall the operating cash flow margin was 11.4% in 2008 compared to 13.0% in 2007 and the recurring operating income margin fell from 7.7% in 2007 to 6.3% in 2008.

Movements in operating cash flow were as follows:

	Operating cash flow			
	Year ended December 31, 2008	Year ended December 31, 2007 adjusted	% Change	
			Current exchange rates	Constant exchange rates
Water	1,821.3	1,851.3	-1.6 %	+ 0.6 %
Environmental Services	1,362.2	1,460.9	-6.8 %	-1.6 %
Energy Services	755.4	641.8	+17.7 %	+15.5%
Transportation	292.0	279.3	+ 4.5 %	+ 5.7 %
Holding companies	(93.6)	(69.6)		
Total	**4,137.3**	**4,163.7**	**- 0.6 %**	**+ 2.0 %**
Total at 2007 exchange rates	**4,244.2**			

Movements in operating income and recurring operating income break down as follows:

	Operating income					**Recurring operating income**			
	Year ended Dec. 31, 2008	Year ended Dec. 31, 2007 adjusted	Change		Change at constant exchange rates	**Year ended Dec. 31, 2008**	Year ended Dec. 31, 2007 adjusted	Change	Change at constant exchange rates
Water	1,198.5	1,267.7	- 5.5%		-2.9%	1,196.2	1,265.7	-5.5%	- 2.9%
Environmental Services	285.5	803.5	- 64.5%		-58.0%	640.5	803.5	-20.3%	- 13.9%
Energy Services	429.7	384.3	+ 11.8%		+ 10.7%	424.7	373.7	+13.7%	+ 11.3%
Transportation	145.4	130.3	+ 11.6%		+ 10.1%	129.6	115.1	+ 12.6%	+ 10.9%
Holding companies	(107.8)	(103.3)				(107.8)	(103.1)		
Total	1,951.3	2,482.5	- 21.4%		- 18.4%	2,283.2	2,454.9	-7.0%	- 4.0%
Total at 2007 exchange rates	2,025.0					2,356.9			

The total negative foreign exchange impact of €73.7 million is mainly due to the devaluation against the euro of the pound sterling (-€57.2 million) primarily in the Water and Environmental Services Divisions and of the U.S. dollar (-€11.4 million) primarily in the Environmental Services Division, partially offset by the appreciation of the Czech crown against the euro (+€16.8 million) notably in the Energy Services Division.

Operating income for the years ended December 31, 2008 and 2007 breaks down as follows:

December 31, 2008 (€ million)	Recurring items	Non-recurring items		Total
		Impairment losses	Other	
Water	1,196.2		2.3	1,198.5
Environmental Services	640.5	(343.0)	(12.0)	285.5
Energy Services	424.7		5.0	429.7
Transportation	129.6	(55.4)	71.2	145.4
Holding companies	(107.8)			(107.8)
Total	**2,283.2**	**(398.4)**	**66.5**	**1,951.3**

December 31, 2007 restated (€ million)	Recurring items	Recurring items		Total
		Impairment losses	Other	
Water	1,265.7		2.0	1,267.7
Environmental Services	803.5			803.5
Energy Services	373.7		10.6	384.3
Transportation	115.1	(6.9)	22.1	130.3
Holding companies	(103.1)		(0.2)	(103.3)
Total	**2,454.9**	**(6.9)**	**34.5**	**2,482.5**

WATER DIVISION

The Water Division reported operating cash flow of €1,821.3 million for 2008, compared with €1,851.3 million for 2007, representing growth of 0.6% at constant exchange rates.

Operating income amounted to €1,198.5 million compared with €1,267.7 million for 2007, a decrease of 2.9% at constant exchange rates. Recurring operating income for 2008 amounted to €1,196.2 million, compared with €1,265.7 million for 2007.

In France, the increase in operating cash flow was underpinned by productivity initiatives, the development of new services and sustained engineering activities and was achieved despite a fall in volumes delivered.

Outside France, the acquisition of non-regulated water operations in the UK and the provisional acceptance of the Brussels plant were positive factors. In 2007 Veolia Water benefited from the satisfactory resolution of a dispute with the Berlin Lander concerning drainage activities.
The improvement in the division's Gabon operation also contributed to the improvement in operating cash flow. However, delays in price increases and increased development costs weighed heavily on the division's performance in Asia, and its American operations also showed a decline.

Finally, Veolia Water Solutions & Technologies also improved its operating cash flow as its new contracts reached maturity.

Other than the above factors, the division's operating income was mainly affected by the increase in depreciation and amortization linked to new contracts won, notably in Asia, and recent acquisitions.

The operating margin (operating cash flow / revenue) dropped from 16.7% in 2007 to 14.5% in 2008.

The engineering, solutions and technologies activities of the Water Division could be affected by the downturn in economic activity. Despite this, Veolia Water Solutions & Technologies' order book contains approximately 18 months of construction business as of December 31, 2008. Operating business volumes successfully resisted the economic downturn. However, should this downturn prove long term, it could reduce the ability, in a limited number of countries, of certain public customers to meet contractual deadlines (payments, price increases) or finance certain infrastructure projects.

ENVIRONMENTAL SERVICES DIVISION

Operating cash flow amounted to €1,362.2 million for 2008 compared with €1,460.9 million for 2007, a decrease of 1.6% at constant exchange rates.

Operating income amounted to €285.5 million in 2008 compared with €803.5 million in 2007, with recurring operating income decreasing from €803.5 million in 2007 to €640.5 million in 2008.

The main non-recurring item in 2008 was a €343 million charge for impairment on goodwill given the deterioration in business performance in Germany in 2008.

Recurring operating income was also affected by a €62.6 million charge for impairment on other intangible assets in Germany recognized in the opening balance sheet.

Foreign exchange impacts negatively affected the division's operating income and operating cash flow by €51.9 million and €76.5 million, respectively, including €34.7 million and €50.6 million in respect of the pound sterling and lesser amounts for the US dollar.

The division's overall performance has been considerably affected by the economic crisis since September, with a drop in volumes processed for industrial customers in particular and a significant decrease in prices for recyclable materials.
Despite this drop in volumes, performance in the US and the UK nevertheless remained satisfactory due to a reduction in fixed costs combined with price increases in the US.

Acquisitions during the last 12 months contributed €50.6 millions to operating cash flow in 2008, primarily due to the acquisition of Veolia Environmental Services Germany (formerly Sulo) (effective first half-year).

The operating margin (operating cash flow / revenue) fell from 15.9% in 2007 to 13.4% in 2008. This decrease was mainly due to the dilutive effect of recent acquisitions and the economic crisis since September 2008.

Within the Group, the Environmental Services Division is the most sensitive to the current economic crisis. Its exposure to industrial activities is significant in both the non-hazardous (price and volume) and hazardous waste sectors. Recycling activities are particularly sensitive to the reuse of raw materials (paper and ferrous and non-ferrous metals).

ENERGY SERVICES DIVISION

Operating cash flow amounted to €755.4 million for 2008 compared with €641.8 million for 2007, an increase of 15.5% at constant exchange rates.

Recurring operating income of the Energy Services Division amounted to €429.7 million in 2008 compared with €384.3 million in 2007, an increase of 11.8% at current and 10.7% at constant exchange rates.

In France, operating performance was positively affected by the rising price of energy sources and by improved productivity. Outside France, the increase in operating cash flow and operating income also reflected the positive impact of energy prices, particularly in Central Europe, as well as the acquisition of Thermal North America Inc. in the US, of Praterm in Poland and of other entities in Central Europe, all of which helped attenuate the increase in payroll costs, in particular in Central Europe, and the increased price of gas in the Baltic States.

CO_2 transactions contributed less to operating income and operating cash flow in 2008 than in 2007.

The operating margin (operating cash flow / revenue) remained stable, changing from 10.3% in 2007 to 10.1% in 2008.

The economic crisis in the fourth quarter had little impact on Energy Services activities. However, the protraction of the economic crisis could reduce energy needs (steam) at certain industrial sites and impact the settlement conditions of certain private customers.

TRANSPORTATION DIVISION

Operating cash flow totaled €292.0 million for 2008 compared with €279.3 million for 2007, representing growth of 5.7% at constant exchange rates.

Transportation Division operating income amounted to €145.4 million for 2008 compared with €130.3 million for 2007. Recurring operating income amounted to €129.6 million in 2008 compared with €115.1 million in 2007, an increase of 10.9% at constant exchange rates.

Improved productivity, organic growth in the US and in Eastern Europe and the greater profitability of certain contracts, mainly in the Netherlands, offset the rise in the price of fuel not yet passed on to customers which had a negative impact of €28 million (including the effect of hedging derivatives) on the division's operating cash flow and operating income and the negative impact of the ending of the French social security contributions rebate.

The operating margin (operating cash flow / revenue) remained relatively stable, from 5.0% in 2007 to 4.8% in 2008.

With the exception of rail freight activities, the Transportation business is relatively immune to the economic crisis.

HOLDING COMPANIES

The increase in costs for the year is mainly attributable to measures accompanying business growth and the increased importance of mutualization projects.

2.3.2. Net finance costs

(€ million)	**Year ended December 31, 2008**	Year ended December 31, 2007 adjusted
Income	203.4	152.2
Costs	(1,128.1)	(971.0)
Net finance costs	**(924.7)**	**(818.8)**

The increase in net finance costs reflects:

- the increase in average net financial debt from €14,609 million in 2007 to €16,142 million in 2008.
- the increase in the financing rate linked to the increased cost of liquidity, due to available funds being invested in short-term financial assets of limited risk while debt is refinanced based on long-term maturities and in a context of strong interest rate volatility.

The financing rate (defined as the ratio of net finance costs, excluding fair value adjustments to instruments not qualifying for hedge accounting, to average monthly net financial debt for the period) increased from 5.49% in 2007 to 5.61% in 2008. This rate takes into account early settlements of derivative transactions. Adjusted for these transactions, the financing rate is 5.78%, compared to 5.53% in 2007.

2.3.3. Other financial income and expenses

(€ million)	**Year ended December 31, 2008**	Year ended December 31, 2007 adjusted
Net gains and losses on loans and receivables	30.6	57.4
Net gains and losses on available-for-sale assets (including dividends)	9.3	10.3
Assets and liabilities at fair value through the Income Statement	35.1	5.4
Unwinding of the discount on provisions	(74.0)	(59.5)
Foreign exchange gains and losses	(42.7)	(2.1)
Other	(9.5)	(7.4)
Other financial income and expenses	**(51.2)**	**4.1**

Other financial income and expenses decreased from a net financial income of €4.1 million in 2007 to a net financial expense of €51.2 million in 2008.
This decrease mainly reflects:

- a decrease of €26.8 million in net gains on loans and receivables, including the absence in 2008 of €26.5 million of interest income on drainage receivables recognized in 2007 following the resolution of a litigation with the Berlin Lander;
- an increase of €14.5 million in the unwinding of the discount on provisions, primarily attributable to site restoration provisions in the Environmental Services Division, provisions for pension obligations recognized in accordance with IAS 19 and provisions for onerous contracts;
- the appreciation of the euro against certain currencies;
- recognition of risks relating to minority interests in equity associates.

2.3.4. Income tax expense

The consolidated income tax expense of the Group for 2008 is €468.8 million, compared with €417.9 million for 2007.

As a percentage of restated net income from continuing operations, the effective tax rate is 48.1% for 2008 compared to 25.1% for 2007.

The increase in the income tax expense in 2008 was due to:

- the review of the Veolia Environmental Services Germany business plan, which led to the loss of €42 million of deferred tax assets;
- the absence of deferred tax assets in certain loss-making subsidiaries, due to insufficient taxable profit forecasts for the coming five years;
- a change in tax law governing the deductibility of depreciation and amortization expenses in the United Kingdom (-€36 million);
- the favorable impact, in 2007, of tax rate cuts in Germany and the United Kingdom (income of €54.6 million).

2.3.5. Share of net income of associates

The share of net income from associates increased from €16.7 million in 2007 (after adjustment) to €18.4 million in 2008.

2.3.6. Net income (loss) from discontinued operations

Net income (loss) from discontinued operations changed from a net loss of €11.8 million in 2007 (after adjustment) to a net income of €184.2 million in 2008. The main factor underlying the net income for 2008 is the €176.5 million net gain on the divestiture of Clemessy and Crystal in the Energy Services division.

2.3.7. Net income for the year attributable to minority interests

Net income for the year attributable to minority interests was €304.1 million in 2008, compared to €326.9 million in 2007. It concerns notably the minority interests in subsidiaries in the Water division (€118.9 million), the Environmental Services division (€18.3 million), the Energy Services Division (€144.8 million) and the Transportation Division (€19.4 million).

In 2007, net income for the year attributable to minority interests totaled €326.9 million and mainly concerned minority interests in subsidiaries in the Water division (€178.9 million), the Environmental Services division (€21.8 million), the Energy Services Division (€96.4 million) and the Transportation Division (€28.9 million).
The increase in the share of minority interests in the Energy Services Division is due to the capital gain realized on the divestiture of Clemessy and Crystal of €60 million (capital gain recorded in net income from discontinued operations)

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

Net income for the year attributable to equity holders of the parent was €405.1 million in 2008, compared to €927.9 million in 2007. Recurring net income attributable to equity holders of the parent was €658.6 million, compared to €925.8 million in 2007.

Given the weighted average number of shares outstanding of 457.4 million in 2008 and 430.0 million in 2007, earnings per share attributable to equity holders of the parent is €0.89 in 2008, compared to €2.16 in 2007 (adjusted for the share capital increase in 2007). Basic recurring net income attributable to equity holders of the parent per share is €1.44 in 2008, compared to €2.15 in 2007 (adjusted for the share capital increase in July 2007).

Recurring net income for the year ended December 31, 2008 breaks down as follows:

Year ended December 31, 2008 (€ million)	Recurring	Non-recurring	Total
Operating income	2,283.2	(331.9)	1,951.3
Net finance costs	(924.7)		(924.7)
Other financial income and expenses	(51.2)		(51.2)
Income tax expense	(426.9)	(41.9)	(468.8)
Share of net income of associates	18.4		18.4
Net income from discontinued operations		184.2	184.2
Minority interests	(240.2)	(63.9)	(304.1)
Net income attributable to equity holders of the parent	**658.6**	**(253.5)**	**405.1**

Recurring net income for the year ended December 31, 2007 breaks down as follows:

Year ended December 31, 2007 adjusted (€ million)	Recurring	Non-recurring	Total
Operating income	2,454.9	27.6	2,482.5
Net finance costs	(818.8)	-	(818.8)
Other financial income and expenses	8.7	(4.6)	4.1
Income tax expense	(428.9)	11.0	(417.9)
Share of net income of associates	16.7	-	16.7
Net loss from discontinued operations	-	(11.8)	(11.8)
Minority interests	(306.8)	(20.1)	(326.9)
Net income attributable to equity holders of the parent	**925.8**	**2.1**	**927.9**
Published Net income attributable to equity holders of the parent	**933.2**	**(5.3)**	**927.9**

3. FINANCING

The increase in net financial debt breaks down as follows:

	As of December 31, 2008	As of December, 2007
Opening net financial debt	**(15,125)**	**(14,675)**
Cash flow from operations before changes in working capital and income taxes paid	**4 178**	**4,219**
Income taxes paid	(347)	(417)
Changes in working capital	(81)	(167)
Net cash from operating activities	**3,750**	**3,635**
Gross investments	(4,701)	(6,936)
Principal payments on operating financial assets	358	395
Divestitures (including changes in consolidation scope)	761	453
Increase in receivables and other financial assets	(312)	(30)
Net cash used in investing activities	**(3,894)**	**(6,118)**
Dividends paid	(753)	(564)
Net interest paid	(1823)	(775)
Share capital increase/ **reduction**	(77)	3 058
Free cash flow	1 823	775
Effect of foreign exchange rate changes and other	420	325
Increase in net financial debt	**(1,403)**	**(450)**
Closing net financial debt	**(16,528)**	**(15,125)**

Net cash from operating activities increased from €3,635 million in 2007 to €3,750 million in 2008.

Net cash used in investing activities totaled €3,894 million, compared to €6,118 million in 2007. This decrease was due to:

- a decrease in financial investments of approximately €2.1 billion on 2007, linked to the slowdown in external growth in 2008 (notably acquisition of Veolia Environmental Services Germany (formerly Sulo), VSA Technitalia, Thermal North America and Tianjin Shibei in 2007);
- an increase in industrial and financial disposals.

3.1. OPERATING CASH FLOW BEFORE CHANGES IN WORKING CAPITAL

Cash flow from operations before changes in working capital and income taxes paid totaled €4,178 million in 2008, including €4,137.3 million in respect of operating cash flow (€4,163.7 million in 2007), €26 million in respect of financial cash flow activities (€43 million in 2007) and €15 million in respect of operating cash flow of discontinued operations (€13 million in 2007).

3.2. WORKING CAPITAL

Change in working capital totaled €81 million in 2008 compared to €167 million in 2007.

This change in working capital requirements reflects the positive impact of the settlement of drainage receivables in the Water Division (Berlin contract) in the amount of €157 million.

3.3. INVESTMENTS / DIVESTITURES

3.3.1. Investments

(€ million)	Capital expenditure (1)		Financial investments (2)		New operating financial assets	
	2008	2007	**2008**	2007	**2008**	2007
Water	945	866	152	794	315	280
Environmental Services	974	846	333	482	55	32
Energy Services	541	429	233	547	111	73
Transportation	342	459	175	101	11	36
Other	91	42	61	42	37	0
TOTAL	**2,893**	**2,642**	**954**	**1,966**	**529**	**421**

(1) including assets purchased under finance leases

(2) excluding cash and cash equivalents of acquired companies

Capital expenditure

Capital expenditure (excluding assets purchased under finance leases) totaled €2,781 million in 2008, up 10.4% on 2007 capital expenditure of €2,519 million.

Including assets purchased under finance leases, capital expenditure totaled €2,893 million and breaks down as follows:

- €945 million in the Water Division (up 9.1% on 2007), including growth investments of €409 million and maintenance-related investments of €536 million (€531 million in 2007). Growth investments in 2008 mainly concerned concession assets in France, China and Morocco, and regulated activities in the United Kingdom.
- €974 million in the Environmental Services Division (up 15.1% on 2007), including growth investments of €243 million and maintenance-related investments of €731 million. The increase in capital expenditure is mainly due to the expansion of the Environmental Services Division. 2008 growth investments notably concerned integrated contracts in the United Kingdom.
- €541 million in the Energy Services Division (up 26.1% on 2007), including growth investments of €263 million and maintenance-related investments of €278 million.
- €342 million in the Transportation Division (down 25.5% on 2007), including growth investments of €48 million and maintenance-related investments of €294 million. 2007 capital expenditure included the purchase of the Jean Nicoli boat. The decrease in this heading was mainly due to greater recourse to operating leases.

Maintenance-related investments totaled €1,860 million (5.1% of revenue), compared to €1,590 million in 2007.

Financial investments

Financial investments, including the net debt of companies acquired of €325 million as of December 31, 2008, totaled €1,279 million in 2008, compared to €3,873 million in 2007 mainly due to the decline of acquisitions especially during the second semester.

2008 financial investments of €1,279 million (including the net debt of companies acquired) break down as following:

- €330 million in the Water Division (€924 million in 2007). The main financial investments concerned the acquisition of Biothane (Solutions & Technologies) for €44 million and an additional interest in Askhelon in Israel for €83 million;

- €388 million in the Environmental Services Division (€1,880 million in 2007). The main financial investments concerned the acquisition of Bartin Recycling Group for €189 million and various other investments in Europe;
- €284 million in the Energy Services Division (€865 million in 2007). The main financial investments concerned the acquisition of Praterm for €126 million;
- €218 million in the Transportation Division (€122 million in 2007). The main financial investments concerned the buy-out of a minority interest in SNCM for €73 million and the acquisition of Rail4Chem for €34 million.

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

New operating financial assets totaled €529 million in 2008, compared to €421 million in 2007 and break down as follows:

- €315 million in the Water Division, an increase of €35 million on 2007 and mainly comprising new operating financial assets under the Berlin contract and BOT contracts in Northern Europe;
- €55 million in the Environmental Services Division, an increase of €23 million on 2007;
- €111 million in the Energy Services Division, an increase of €38 million on 2007;
- €11 million in the Transportation Division, a decrease of €25 million on 2007;
- €37 million for Other businesses, primarily concerning a multi-division industrial project.

3.3.2. Divestitures

Divestitures (including net financial debt) totaled €761 million and break down as follows:

- industrial divestitures of €330 million, including €202 million in the Transportation Division (sale of Jean Nicoli boat for €105 million);
- financial divestitures of €431 million, notably comprising the sale of Clemessy and Crystal in the Energy Services Division for a net amount of €226 million and various financial divestitures in the Water Division for a total amount of €144 million.

Principal payments on operating financial assets totaled €358 million in 2008, compared to €395 million in 2007.

3.3.3. Increase in receivables and other financial assets

This increase is mainly attributable to the increase in the minority interest share in loans granted to Dalkia International and its subsidiaries by the Group in 2008, in the amount of €215 million.

3.4. EXTERNAL FINANCING

3.4.1. Ratings awarded by rating agencies

As of December 31, 2008, Moody's and Standard & Poor's rated VE SA as follows:

	Short-term	Long-term	Outlook	Recent events
Moody's	P-2	A3	Stable	On December 23, 2008, Moody's confirmed the rating awarded to Veolia Environnement on June 27, 2005.
Standard and Poor's	A-2	BBB+	Stable	On November 12, 2008, Standard and Poor's confirmed the rating awarded to Veolia Environnement on October 3, 2005.

3.4.2. Refinancing policy

During 2008, Veolia Environnement implemented an active refinancing policy aimed at strengthening its financial base and maintaining the maturity of its debt.
The main debt lines maturing in 2008 and either repaid or refinanced were as follows:

- repayment of the Berlin acquisition debt of €600 million, maturing January 15, 2008,
- redemption of the EMTN series 20 bond issue of €300 million, maturing February 15, 2008,
- redemption of the residual balance on the EMTN series 1 bond issue of €700 million, maturing June 27, 2008,
- redemption in August 2008 of the €200 million bond issue, issued in January 2001.

In addition, Veolia Environnement performed new bond issues for a total amount of €572 million in 2008, as follows:

- On January 7, 2008, Veolia Environnement reopened the GBP-denominated series 24 bond issue maturing in 2037 in the amount of GBP 150 million (euro equivalent of €157 million as of December 31, 2008), bringing the total bond amount to GBP 650 million;
- 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 reopened 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 (before indexing).

In addition, due notably to the strengthening of the Group's long-term presence in the United States, notably with the acquisition in 2007 of TNAI (Energy Services Division), Veolia Environnement performed on May 21, 2008 a €1.8 billion fixed-rate bond issue in three tranches (USD 700 million 5-year tranche, USD 700 million 10-year tranche and USD 400 million 30-year tranche). This first bond issue by the Group in the US market enables a better match between long-term cash flows and the local USD long-term debt.

3.4.3. Group liquidity position

Veolia Environnement financing does not contain any events of default tied to compliance with a debt ratio, an interest coverage ratio or a minimum credit rating, except for the private placement performed in the United States in 2003 (see Chapter 20, Section 20.1 Note 18 to the consolidated financial statements), which is subject to two coverage ratios (debt and finance costs).
Financial ratios may also be encountered in certain project financing, most generally carried by dedicated companies (non-recourse or limited recourse financing, involving amounts which are not individually material at Group level) or financing granted by multilateral development banks to certain Group subsidiaries.
At the end of 2008, Veolia Environnement complied with the covenants of all its material financing.

Liquid assets of the Group as of December 31, 2008 break down as follows:

(€ million)	**As of December 31, 2008**	As of December 31, 2007	As of December 31, 2006
Veolia Environnement:			
Undrawn MT syndicated loans *	2,890.3	4,000.0	4,000.0
Undrawn MT credit lines	575.0	850.0	925.0
Undrawn ST credit lines	350.0	175.0	150.0
Other financial assets (marketable securities)		-	17.6
Cash & cash equivalents	2,283.6	1,550.8	1,140.5
Subsidiaries:			
Other financial assets (marketable securities)		-	48.9
Cash & cash equivalents	1,566.0	1,564.8	1,517.5
Total liquid assets	**7,664.9**	**8,140.6**	**7,799.5**
Current debts and bank overdrafts and other cash position items			
Current debts	**3,219.7**	**3,805.0**	**2,904.1**
Bank overdrafts and other cash position items	**465.7**	**459.4**	**456.0**
Total current debts and bank overdrafts and other cash position items	**3,685.4**	**4,264.4**	**3,360.1**
Total liquid assets net of current debts and bank overdrafts and cash position items	**3,979.5**	**3,876.2**	**4,439.4**

** maturing April 20, 2012*

3.4.4. Net financial debt

The net financial debt structure as of December 31, 2008 is as follows:

(€ million)	**As of December 31, 2008**	As of December 31, 2007
Non-current borrowings	17,063.9	13,948.0
Current borrowings	3,219.7	3,805.0
Bank overdrafts and other cash position items	465.7	459.4
Sub-total borrowings	**20,749.3**	18,212.4
Cash and cash equivalents	(3,849.6)	(3,115.6)
Fair value gains/losses on hedge derivatives	(371.5)	27.7
Net financial debt	**16,528.2**	15,124.5

The ratio of net financial debt/Cash flow from operations plus cash generated from principal payments on operating financial assets) stand at 3.6 x at December 31, 2008 compared with 3.3 x at December 31st, 2007.

3.4.5. Maturity of non-current borrowings

Group non-current borrowings fall due as follows as of December 31, 2008:

(€ million)	Amount	Maturing in		
		2 to 3 years	4 to 5 years	More than 5 years
Bond issues	**11,097.6**	61.9	2,7	8,3
Bank borrowings	**5,966.3**	1,4	1,9	2,5
Non-current borrowings	**17,063.9**	**1,4**	**4,6**	**10,8**

3.5. MARKET RISK

Please refer to Note 30 to the consolidated financial statements

4. RETURN ON CAPITAL EMPLOYED (ROCE)

Veolia Environnement has adopted the performance indicator ROCE (return on capital employed) to track the Group's profitability. This indicator measures Veolia Environnement's ability to provide a return on the funds provided by shareholders and lenders

The return on capital employed is defined as the ratio of:

- net income from operations after tax, plus the share of net income of associates, less net income from operations after tax from operating financial assets (return on operating financial assets net of tax allocated to this activity),
- average capital employed during the year.
- Capital employed excludes operating financial assets and net income from operations excludes the related income.

Net income from operations is calculated as follows:

(€ million)	Year ended December 31, **2008**	Year ended December 31, 2007 restated
Recurring operating income	2,283.2	2,454.8
+ Share of net income of associates	18.4	16.8
- Income tax expense (1) (2)	(418.2)	(404.7)
- Revenue from operating financial assets	(400.4)	(345.1)
+ Income tax expense allocated to operating financial assets	75.4	62.5
Net income from operations	**1,558.4**	**1,784.3**

(1) In 2004, the financial restructuring operations that following the divestiture of the U.S. activities of the Water Division generated tax losses which were recognized in the consolidated balance sheet. Given its exceptional nature, the resulting credit of €138.4 million recognized in net income was eliminated from the calculation of ROCE. The utilization of these tax losses in 2008 and 2007 generated charges of €8.7 million and €24.2 million respectively, which were similarly eliminated from the calculation of ROCE.

(2) In 2007, a tax credit of €11 million was considered non-recurring. In 2008, the review of tax forecasts for Veolia Environmental Services deferred tax assets in Germany, led to the recognition of a non-recurring impairment of €41.9 million.

Average capital employed during the year is defined as the average of opening and closing capital employed.

Capital employed is equal to the sum of net intangible assets and property, plant and equipment, goodwill net of impairment, investments in associates, net operating and non-operating working capital requirements and net derivative instruments less provisions and other non-current debts.

2008 capital employed includes the assets of mixed French companies (Water Division) classified as assets held for sale of €82.9 million. Capital employed is adjusted for the Clemessy and Crystal entities in the amount of €35.1 million in 2007 and €50.4 million in 2006.

Capital employed is calculated as follows:

(€ million)	**As of December 31, 2008**	As of December 31, 2007 adjusted	As of December 31, 2006 adjusted
Intangible assets and property, plant and equipment, net (1)	14,655.6	14,092.5	11,625.6
Goodwill, net of impairment	6,782.1	6,836.1	5,628.0
Investments in associates	311.6	291.5	240.3
Operating and non-operating working capital requirements, net (2)	104.2	(8.0)	200.5
Net derivative instruments and other (3)	12.6	79.4	26.9
Provisions	(2,954.1)	(2,922.0)	(2,979.4)
Other non-current debt		-	(207.3)
Capital employed	**18,912.0**	**18,369.5**	**14,534.6**
Clemessy & Crystal		**35.1**	**50.4**
Capital employed published in 2007		**18,404.6**	**14,585.0**
Average capital employed	**18,640.7**	**16,452.0**	

(1) including the investment in Tianjin Shibei (Water Division) of €219 million in 2007

(2) including net deferred tax but excluding deferred tax relating to U.S. divestitures and related restructurings (€52.0 million in 2008, €60.7 million in 2007, €84.9 million in 2006).

(3) excluding derivatives hedging the fair value of debt for €371.5 million in 2008, -€27.7 million in 2007, -€28.8 million in 2006.

The return on capital employed (ROCE) of the Group is as follows:

(€ million)	Net income from operations	Average capital employed during the year	ROCE
2008	**1,558.4**	**18,640.7**	**8.4%**
2007	1,784.3	16,452.0	**10.8%**

The decrease in ROCE in 2008 is primarily attributable to the dilutive contribution of recent acquisitions (entries into the scope of consolidation in 2008 and principal acquisitions in 2007) in the amount of -1.8 %. ROCE was also impacted by trends in operating performance and the economic environment.

5. STATUTORY AUDITORS' FEES

In 2008 and 2007, Veolia Environnement and its fully consolidated subsidiaries paid the following fees to its statutory auditors for services rendered in connection with all consolidated companies:

(€ million)	KPMG network				Ernst & Young network			
	Before tax		Percentage		Before tax		Percentage	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Audit								
Statutory audit, certification, audit of company and consolidated accounts(1)								
• Veolia Environnement	1.2	1.2	6.6 %	6.0 %	1.0	1.1	4.9 %	5.5 %
• Fully consolidated companies	13.0	12.7	71.4 %	63.8 %	15.1	13.3	71.4 %	66.2 %
Other diligences and services directly related to the statutory audit engagement (2)								
• Veolia Environnement	0.9	1.0	4.9 %	5.0 %	1.0	1.2	4.8 %	6.0%
• Fully consolidated subsidiaries	3.1	5.0	17.1 %	25.2 %	4.0	4.5	18.9 %	22.4 %
Sub-total 1	**18.2**	**19.9**	**100 %**	**100 %**	**21.1**	**20.1**	**100 %**	**100 %**
Other services rendered by the network to fully consolidated subsidiaries (3)								
• Legal, tax, employee-related	0	0	0.0 %	0.0 %	0	0	0.0 %	0.0 %
• Other	0	0	0.0 %	0.0 %	0	0	0.0 %	0.0 %
Sub-total 2	**0**	**0**	**0.0 %**	**0.0 %**	**0**	**0**	**0.0 %**	**0.0 %**
Total (1+2)	**18.2**	**19.9**	**100 %**	**100 %**	**21.1**	**20.1**	**100 %**	**100 %**

(1) Including services provided by independent experts and statutory auditor network members at the request of the statutory auditors for the purpose of the audit
(2) Diligences and services rendered to Veolia Environnement or its subsidiaries by the statutory auditors or members of their networks.
(3) Non-audit services rendered by network members to Veolia Environnement subsidiaries.

6. FORWARD-LOOKING INFORMATION AND OBJECTIVES

See Chapter 13, hereafter.