OFFERING CIRCULAR

VEOLIA ENVIRONNEMENT

(Established as a société anonyme with limited liability in the Republic of France)
(including issues by subsidiaries or affiliates of Veolia Environnement)

EURO 8,000,000,000
EURO MEDIUM TERM NOTE PROGRAMME

Under the Euro Medium Term Note Programme described in this Offering Circular (the "Programme"), Veolia Environnement ("Veolia Environnement" or the "Issuer"), or, subject to certain conditions, any subsidiary or affiliate of Veolia Environnement or any *Groupement d'Intérêt Economique* comprised of Veolia Environnement and/or any of its subsidiaries or affiliates acting jointly and severally which may be designated for such purpose by Veolia Environnement (each an "Issuing Subsidiary") subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the "Notes"). The aggregate nominal amount of Notes outstanding will not at any time exceed Euro 8,000,000,000 (or the equivalent in other currencies at the date of issue of any Notes).

Payments in respect of Notes issued by an Issuing Subsidiary will be unconditionally and irrevocably guaranteed by Veolia Environnement (in such capacity, the "Guarantor") as provided herein.

Application has been made to list the Notes to be issued within 12 months of the date of this Offering Circular on the Luxembourg Stock Exchange. However, unlisted Notes may be issued pursuant to the Programme. The relevant Pricing Supplement (as defined in "Summary of the Programme" herein) in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Luxembourg Stock Exchange (or any other stock exchange).

For the sole purpose of, and prior to, any future listing of Notes on the *Premier Marché (Emissions Internationales)* of EURONEXT PARIS S.A. (the "Paris Stock Exchange"), it will be necessary to submit a French summary of this Offering Circular and the relevant Pricing Supplement to the clearance procedures of the *Commission des opérations de bourse* (the "COB").

Each Tranche of each Series (as defined in "Summary of the Programme" herein) of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a "temporary Global Note") or a permanent global note in bearer form (each a "permanent Global Note" and together with any temporary Global Notes, a "Global Note" or "Global Notes"). Global Notes may (i) in the case of Notes intended to be cleared through Euroclear or Clearstream, Luxembourg (as defined below), be deposited on the issue date with a common depositary on behalf of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), (ii) in the case of Notes intended to be admitted to Euroclear France acting as central depositary ("Euroclear France"), be deposited on the issue date with Euroclear France and (iii) in the case of Notes intended to be admitted to any other clearing system, or delivered outside a clearing system, be deposited as agreed between the Relevant Issuer and the Relevant Dealer (each as defined below).

Each Tranche of each Series of Notes to be issued in registered form ("Registered Notes") will initially be represented by a registered global certificate (each a "Global Certificate"), without interest coupons, which may be deposited on the issue date with a common depositary on behalf of Euroclear and Clearstream, Luxembourg or Euroclear France acting as Central Depositary. A Global Certificate in respect of a Tranche of Notes may be cleared through a clearing system other than or in addition to Euroclear or Clearstream, Luxembourg or delivered outside a clearing system, as agreed between the Relevant Issuer and the Relevant Dealer (each as defined in the Dealer Agreement referred to in "Subscription and Sale – Summary of Dealer Agreement" below). The provisions governing the exchange of interests in the Global Notes for other Global Notes and definitive Notes and the exchange of interests in each Global Certificate for individual certificates ("Individual Certificates" and, together with any Global Certificates, the "Certificates") are described in "Summary of Provisions relating to the Notes while in Global Form".

This Offering Circular supercedes the Offering Circular dated 26th June, 2002, as supplemented by an Offering Circular Supplement dated 21st May, 2003.

Arranger

ABN AMRO

Dealers

ABN AMRO
Barclays Capital
BNP PARIBAS
CDC IXIS Capital Markets
Credit Suisse First Boston
Deutsche Bank
HSBC CCF
Merrill Lynch International
Natexis Banques Populaires
SG Corporate & Investment Banking
The Royal Bank of Scotland

The date of this Offering Circular is 11th July, 2003

Veolia Environnement, having made all reasonable enquiries, confirms as the date hereof that this document contains all information with respect to Veolia Environnement, Veolia Environnement and its subsidiaries and affiliates taken as a whole (the "Group") and the Notes that is material in the context of the issue and offering of the Notes, the statements contained in it relating to Veolia Environnement and the Group are in every material particular true and accurate and not misleading, there are no other facts in relation to Veolia Environnement, the Group or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect and all reasonable enquiries have been made by Veolia Environnement to ascertain such facts and to verify the accuracy of all such information and statements. Veolia Environnement accepts responsibility accordingly. Each supplement to the Offering Circular (an "Issuing Subsidiary Supplement") which will be issued in connection with the issue of any Series of Notes by such Issuing Subsidiary will contain a statement to this effect by and in relation to the relevant Issuing Subsidiary and references to this "Offering Circular" or the "Offering Circular" shall include, unless the context requires otherwise, a reference to any such Issuing Subsidiary Supplement.

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by Veolia Environnement, any Issuing Subsidiary or any of the Dealers or the Arranger (as defined in "Summary of the Programme"). Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of Veolia Environnement, the Group or any Issuing Subsidiary since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of Veolia Environnement, the Group or any Issuing Subsidiary since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by Veolia Environnement, the Issuing Subsidiaries, the Dealers and the Arranger to inform themselves about and to observe any such restriction.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of Veolia Environnement, any Issuing Subsidiary or the Dealers to subscribe for, or purchase, any Notes.

The Arranger and the Dealers have not separately verified the information contained in this Offering Circular. None of the Dealers or the Arranger makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. Neither this Offering Circular nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of Veolia Environnement, any Issuing Subsidiary, the Arranger or the Dealers that any recipient of this Offering Circular or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of Veolia Environnement, the Group or any Issuing Subsidiary during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger.

In connection with any Tranche (as defined in "Summary of the Programme"), one of the Dealers will act as a stabilising agent (the "Stabilising Agent"). The identity of the Stabilising Agent will be disclosed in the relevant Pricing Supplement. References in the next paragraph to "this issue" are to each Tranche in relation to which a Stabilisation Agent is appointed.

In connection with this issue, the Stabilising Agent or any person acting for him may, in conformity with applicable laws and regulations, over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Agent or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to "U.S.$" are to United States dollars and to € and "Euro" are to Euro.

DOCUMENTS INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement, the most recently published audited annual accounts, and any interim accounts (whether audited or unaudited) published subsequently to such annual accounts, of Veolia Environnement, the Group and, where relevant, the Issuing Subsidiary from time to time, each of which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents. Such documents are available free of charge at the office of the Luxembourg Paying Agent.

For future Paris Stock Exchange listing purposes, the most recently published annual accounts of Veolia Environnement, the Group and, where relevant, the Issuing Subsidiary and any subsequent interim accounts (whether audited or unaudited) published subsequently to such annual accounts must be contained in a document submitted to the clearance procedures of the COB. For information purposes, the annual accounts of Veolia Environnement published most recently prior to the date of this Offering Circular were included in a *document de référence* dated 22nd April, 2003 which was registered by the COB under no. R.03-0064.

SUPPLEMENTAL OFFERING CIRCULAR

Veolia Environnement has given (and each Issuing Subsidiary will, in connection with the listing of any Notes issued by it, be required to give) an undertaking to the Dealers and to the Luxembourg Stock Exchange that if at any time, so long as any Note remains outstanding and listed on such exchange, there is a significant change affecting any matter contained in this Offering Circular whose inclusion would reasonably be required by investors and their professional advisers, and would reasonably be expected by them to be found in this Offering Circular, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of Veolia Environnement and/or, as the case may be, such Issuing Subsidiary and the rights attaching to the Notes, including a change to the Terms and Conditions of the Notes and if an Issuing Subsidiary not described herein proposes to issue Notes, Veolia Environnement and/or, as the case may be, such Issuing Subsidiary shall prepare an amendment or supplement to this Offering Circular or publish a replacement Offering Circular for use in connection with any subsequent offering of the Notes and shall deliver a copy of such amendment or supplement to the Luxembourg Stock Exchange and supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request and the rules of the Luxembourg Stock Exchange shall require.

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SUMMARY OF THE PROGRAMME

The following summary is qualified in its entirety by the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement.

Relevant Issuer:	Veolia Environnement or any Issuing Subsidiary.
Issuing Subsidiary:	Any subsidiary or affiliate of Veolia Environnement or any *Groupement d'Intérêt Economique* comprised of Veolia Environnement and/or any of its subsidiaries or affiliates acting jointly and severally which has been designated by Veolia Environnement as an "Issuing Subsidiary" for the purpose of this Programme and which has entered into and/or prepared all necessary supplemental documentation (including an Issuing Subsidiary Supplement) required by the Dealer Agreement and the Agency Agreement (as defined below). References in this Offering Circular to "Issuing Subsidiary" shall be read and construed to include such subsidiary or affiliate or *Groupement d'Intérêt Economique.*
Guarantor:	Veolia Environnement in respect of any Notes issued by an Issuing Subsidiary.
Guarantee:	The guarantee to be granted by the Guarantor shall be in, or substantially in, the form set out in Schedule 8 to the Agency Agreement.
Substitution:	Subject to certain conditions, Veolia Environnement or any Issuing Subsidiary shall be entitled to transfer its obligations under any Notes issued by it, all as described under "Terms and Conditions of the Notes – Substitution".
Description:	Euro Medium Term Note Programme.
Size:	Up to Euro 8,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Arranger:	ABN AMRO Bank N.V.
Dealers:	ABN AMRO Bank N.V., Barclays Bank PLC, BNP Paribas, CCF, CDC IXIS Capital Markets, Credit Suisse First Boston (Europe) Limited, Deutsche Bank AG London, Merrill Lynch International, Natexis Banques Populaires, Société Générale and The Royal Bank of Scotland plc. Veolia Environnement may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches. At the date of this Offering Circular, under applicable French regulations only credit institutions and investment firms incorporated in a member state of the European Union ("EU") and which are authorised by the relevant authority of such member home state to lead manage bond issues in such member state may, in connection with issues of Notes by Veolia Environnement and any Issuing Subsidiary established in France, (a) act as Dealers with respect to non-syndicated issues of Notes denominated in Euro and (b) act as lead manager of issues of Notes denominated in Euro issues on a syndicated basis.
Fiscal Agent and Principal Paying Agent:	BNP Paribas Securities Services, Luxembourg Branch
Registrar:	BNP Paribas Securities Services, Luxembourg Branch

Method of Issue:	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "Series") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "Tranche") on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in a pricing supplement to this Offering Circular (a "Pricing Supplement").
Issue Price:	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly-paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes:	The Notes may be issued in bearer form only ("Bearer Notes"), in bearer form exchangeable for Registered Notes ("Exchangeable Bearer Notes") or in registered form only ("Registered Notes"). Each Tranche of Bearer Notes and Exchangeable Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in "Summary of the Programme – Selling Restrictions"), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "Global Certificates". Notes may also be issued in such other form and on such other terms as Veolia Environnement or, as the case may be, any Issuing Subsidiary may from time to time agree with the Relevant Dealer(s), as set out in any relevant Pricing Supplement.
Clearing Systems:	Clearstream, Luxembourg, Euroclear, Euroclear France and, in relation to any Tranche, such other clearing system as may be agreed between Veolia Environnement or, as the case may be, any Issuing Subsidiary, the Fiscal Agent and the Relevant Dealer.
Initial Delivery of Notes:	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or Exchangeable Bearer Notes or the Certificate representing Registered Notes may (or, in the case of Notes listed on the Luxembourg Stock Exchange, shall) be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Notes representing Bearer Notes of any Tranche which are intended to be admitted to Euroclear France may be deposited on or before the issue date with Euroclear France as central depositary. Global Notes or Certificates relating to Notes that are not listed on the Luxembourg Stock Exchange may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by Veolia Environnement, or, as the case may be, any Issuing Subsidiary, the Fiscal Agent and the Relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
Currencies:	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between Veolia Environnement and the relevant Dealers. The Dealers and Veolia Environnement and (where applicable) any Issuing Subsidiary will, in relation to issues of Notes denominated in Euro and

placed in France, comply with the guidelines contained in the letter dated 1st October, 1998 of the French Minister of the Economy, Finance and Industry to the President of the *Association française des établissements de crédit et des entreprises d'investissement,* (the "Euro Guidelines").

Issues of Notes denominated in Swiss francs or carrying a Swiss franc related element with a maturity of more than one year (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 8th November, 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Corporation on Stock Exchanges and Securities Trading of 2nd December, 1996. Under the said regulations, the relevant Dealer or, in the case of a syndicated issue the lead manager (the "Swiss Dealer"), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland) or a securities dealer only licensed by the Swiss Federal Banking Commission as per the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995. The Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the relevant issue date for such a transaction.

Maturities: Subject to compliance with all relevant laws, regulations and directives, any maturity.

Denominations: Definitive Notes will be in such denominations as may be specified in the relevant Pricing Supplement, save that unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) having a maturity of less than one year from the date of their issue and in respect of which the issue proceeds are to be accepted by the Relevant Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies).

Fixed Rate Notes: Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement.

Floating Rate Notes: Floating Rate Notes will bear interest determined separately for each Series as follows:

(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or

(ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin.

Interest periods will be specified in the relevant Pricing Supplement.

Zero Coupon Notes: Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.

Dual Currency Notes: Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Pricing Supplement.

Index Linked Notes: Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Pricing Supplement.

Interest Periods and Interest Rates:	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.
Redemption:	The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) having a maturity of less than one year from the date of their issue and in respect of which the issue proceeds are to be accepted by the Relevant Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Redemption by Instalments:	The Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Other Notes (including Limited Recourse Notes):	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, dual currency Notes, reverse dual currency Notes, optional dual currency Notes, partly-paid Notes, credit-linked or other similar Notes which are indexed or linked to an underlying asset providing limited recourse in respect of payments to such underlying asset and any other type of Note that the Relevant Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.
Optional Redemption:	The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Relevant Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
Status of Notes:	The Notes will constitute unsecured and unsubordinated obligations of the Relevant Issuer, all as described in "Terms and Conditions of the Notes – Status of the Notes and the Guarantee".
Status of Guarantee:	The obligations of the Guarantor under the Guarantee (if any) will constitute unsubordinated and unsecured obligations of the Guarantor, all as described in "Terms and Conditions of the Notes – Status of the Notes and the Guarantee".
Negative Pledge:	See "Terms and Conditions of the Notes – Negative Pledge".
Cross Default:	See "Terms and Conditions of the Notes – Events of Default".
Early Redemption:	Except as provided in "Optional Redemption" above, Notes will be redeemable at the option of the Relevant Issuer prior to maturity only for tax reasons. See "Terms and Conditions of the Notes – Redemption, Purchase and Options".
Redenomination:	Notes issued in the currency of any Member State of the European Union which participates in the third stage of economic and monetary union may be redenominated into Euro, as described in "Terms and Conditions of the Notes – Form, Denomination, Title and Redenomination".
Consolidation:	Notes of one Series issued by any Relevant Issuer may be consolidated with Notes of another Series issued by such Relevant Issuer, as described in "Terms and Conditions of the Notes – Further Issues and Consolidation".
Taxation:	Unless otherwise provided in the relevant Pricing Supplement, Notes issued by Veolia Environnement or any Issuing Subsidiary established in the Republic of France which constitute *obligations* will benefit from the exemption from deduction at source provided by article 131 *quater* of the *Code monétaire et financier* to the extent that such Notes are issued, or deemed to be issued, outside France.

	Notes constituting *obligations* for the purposes of French law will be issued (or deemed to be issued) outside France (i) in the case of syndicated or non-syndicated issues of Notes, if such Notes are denominated in Euro, (ii) in the case of syndicated issues of Notes denominated in currencies other than Euro, if, *inter alia,* the Relevant Issuer and the relevant Dealers agree not to offer the Notes to the public in the Republic of France, in connection with their initial distribution, and such securities are offered in the Republic of France only through an international syndicate to qualified investors *(investisseurs qualifiés)* as described in article L.411-2 of the *Code monétaire et financier* or (iii) in the case of non-syndicated issues of Notes denominated in currencies other than Euro, if each of the subscribers of the Notes is domiciled or resident for tax purposes outside the Republic of France, in each case as more fully set out in the Circular No. 184 of the *Direction Générale des Impôts* dated 30th September, 1998.
	The tax regime applicable to Notes which do not constitute obligations for the purposes of French law will be set out in the relevant Pricing Supplement.
Governing Law:	English law, except for the Guarantee which will be governed by French law.
Listing:	Application has been made for Notes to be issued under the Programme to be listed on the Luxembourg Stock Exchange, or as otherwise specified in the relevant Pricing Supplement or unlisted. Each Series of Notes listed on the Paris Stock Exchange must be issued in compliance with the *Principes Généraux* of the COB and the CMF published from time to time and the Euro Guidelines.
Selling Restrictions:	There are restrictions on the sale of Notes and the distribution of offering material in various jurisdictions including, in particular, the United States, United Kingdom, the Republic of France and Japan. See "Subscription and Sale".
	Veolia Environnement is Category 2 for the purposes of Regulation S under the United States Securities Act of 1933 (the "Securities Act").
	The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the "D Rules") unless (i) the relevant Pricing Supplement states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the "C Rules") or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA"), which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which TEFRA is not applicable.
Rating:	Standard & Poor's Rating Services has ascribed a long term corporate credit rating of BBB+ to Veolia Environnement. Moody's Investors Services, Inc. has rated Veolia Environnement's senior long-term debt A3. Notes issued under the Programme may be ascribed a different rating by Standard & Poor's Rating Services and/or Moody's Investors Services, Inc.
	Notes issued pursuant to the Programme may be rated or unrated. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency without notice.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are issued pursuant to an amended and restated Agency Agreement dated 11 July, 2003 between Veolia Environnement, BNP Paribas Securities Services, Luxembourg Branch as fiscal agent and the other agents named in it (as amended or supplemented as at the Issue Date, the "Agency Agreement") and with the benefit of an amended and restated Deed of Covenant dated 11 July, 2003 executed by Veolia Environnement in relation to the Notes (as amended or supplemented as at the Issue Date, the "Deed of Covenant"). Veolia Environnement has the right to specify one or more of its subsidiaries or affiliates or any *Groupement d'Intérêt Economique* comprised of Veolia Environnement and/or any of its subsidiaries or affiliates acting jointly and severally (a "GIE") as an Issuing Subsidiary (which expression shall, in the case of Notes issued by a GIE and unless the context requires otherwise, be deemed to include such GIE and each and any member thereof) which, upon the execution of the relevant documentation required by the Dealer Agreement (as defined below) and the Agency Agreement, may issue Notes, such Notes being unconditionally and irrevocably guaranteed by Veolia Environnement (in such capacity the "Guarantor") pursuant to a guarantee (as defined in Condition 3 below). Veolia Environnement or any such Issuing Subsidiary are referred to below, in their capacity as an issuer of Notes, as a "Relevant Issuer" (which expression shall include, where the context requires, any Substituted Issuer pursuant to Condition 15). The fiscal agent, the paying agents, the registrar, the transfer agents, the calculation agent(s), the redenomination agent and the consolidation agent for the time being (if any) are referred to below respectively as the "Fiscal Agent", the "Paying Agents" (which expression shall include the Fiscal Agent), the "Registrar", the "Transfer Agents", the "Calculation Agent(s)", the "Redenomination Agent" and the "Consolidation Agent". The Noteholders (as defined below), the holders of the interest coupons (the "Coupons") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "Talons") (the "Couponholders") and the holders of the receipts for the payment of instalments of principal (the "Receipts") relating to Notes in bearer form of which the principal is payable in instalments are deemed to have notice of all of the provisions of the Agency Agreement, the Deed of Covenant and any deed of covenant entered into by any Issuing Subsidiary in, or substantially in, the form of the Deed of Covenant applicable to them.

Copies of the Agency Agreement, the Deed of Covenant, any Guarantee and any supplemental documentation entered into by an Issuing Subsidiary are, or by the Issue Date will be, available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

1. Form, Denomination, Title and Redenomination

(a) *Form and Denomination*

The Notes are issued in bearer form ("Bearer Notes", which expression includes Notes that are specified to be Exchangeable Bearer Notes), in registered form ("Registered Notes") or in bearer form exchangeable for Registered Notes ("Exchangeable Bearer Notes") in each case in the Specified Denomination(s) shown hereon.

All Registered Notes shall have the same Specified Denomination. Where Exchangeable Bearer Notes are issued, the Registered Notes for which they are exchangeable shall have the same Specified Denomination as the lowest denomination of Exchangeable Bearer Notes.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("Certificates") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

(b) *Title*

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Relevant Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "Register"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "Noteholder" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "holder" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

(c) *Redenomination*

The Relevant Issuer may (if so specified hereon) without the consent of the holder of any Note, Receipt, Coupon or Talon, redenominate all, but not some only, of the Notes of any Series on or after the date on which the Member State of the European Union in whose national currency such Notes are denominated has become a participating Member State in the third stage of the European economic and monetary union ("EMU") all as more fully provided in the relevant Pricing Supplement.

2. Exchanges of Exchangeable Bearer Notes and Transfers of Registered Notes

(a) *Exchange of Exchangeable Bearer Notes*

Subject as provided in Condition 2(f), Exchangeable Bearer Notes may be exchanged for the same nominal amount of Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured Receipts, Coupons and Talons relating to it, at the specified office of any Transfer Agent; provided, however, that where an Exchangeable Bearer Note is surrendered for exchange after the Record Date (as defined in Condition 7(b)) for any payment of interest, the Coupon in respect of that payment of interest need not be surrendered with it. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes that are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

(b) *Transfer of Registered Notes*

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Relevant Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor.

(c) *Exercise of Options or Partial Redemption in Respect of Registered Notes*

In the case of an exercise of the Relevant Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) *Delivery of New Certificates*

Each new Certificate to be issued pursuant to Conditions 2(a), (b) or (c) shall be available for delivery within three business days of receipt of the request for exchange, form of transfer or Exercise Notice (as defined in Condition 6(e)) and/or surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent (as defined in the Agency Agreement) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition (d), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) *Exchange Free of Charge*

Exchange and transfer of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Relevant Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) *Closed Periods*

No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for one or more Registered Note(s) (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Relevant Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date. An Exchangeable Bearer Note called for redemption may, however, be exchanged for one or more Registered Note(s) in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.

3. Status of the Notes and the Guarantee

(a) *Status of the Notes*

The Notes and the Receipts and Coupons relating to them constitute direct, unconditional, (subject to Condition 4) unsecured and unsubordinated obligations of the Relevant Issuer and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Relevant Issuer under the Notes and the Receipts and Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Relevant Issuer, present and future.

(b) *Status of the Guarantee*

The due and punctual payment of all and any amounts due under any Notes, Receipts and Coupons issued by an Issuing Subsidiary (including, where applicable, any Substituted Issuer pursuant to Condition 15 where that Substituted Issuer is not Veolia Environnement) is unconditionally and irrevocably guaranteed by the Guarantor pursuant to a guarantee dated on or before the Issue Date in or substantially in the form of Schedule 8 to the Agency Agreement (the "Guarantee"). The obligations of the Guarantor under the Guarantee, if any, constitute direct, unconditional (subject to Condition 4) unsecured and unsubordinated obligations of the Guarantor and shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Guarantor, present and future.

4. Negative Pledge

(a) *Restriction*

So long as any of the Notes, Receipts or Coupons remain outstanding (as defined in the Agency Agreement), each of the Relevant Issuer (including, in the case of an Issuing Subsidiary which is a GIE, each and any member thereof) and, as the case may be, the Guarantor shall not, and will ensure that none of its Principal Subsidiaries (as defined below) shall, create or permit to subsist any mortgage, charge, pledge, lien (other than a lien arising by operation of law) or other form of encumbrance or security interest ("Security") upon the whole or any part of their respective undertakings, assets or revenues present or future (including any uncalled capital) to secure any Relevant Debt, or any guarantee of or indemnity in respect of any Relevant Debt unless, at the same time or prior thereto, its obligations under the Notes, Receipts and Coupons or, as the case may be, the Guarantee, if any, (A) are secured equally and rateably therewith or (B) have the benefit of such other security or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders.

(b) *Relevant Debt*

For the purposes of this Condition, "Relevant Debt" means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, loan stock or other securities that, at the time of the issue, are capable of being, or are intended to be, quoted, listed or ordinarily dealt in on any stock exchange, automated trading system, over-the-counter or other securities market.

(c) *Principal Subsidiaries*

For the purposes of these Conditions, "Principal Subsidiaries" means at any relevant time a Subsidiary of the Relevant Issuer (or, in the case where the Relevant Issuer is a GIE, a Subsidiary of the GIE or of any member thereof) or, as the case may be, the Guarantor whose total assets or operating income (or, where the Subsidiary in question prepares consolidated accounts whose total consolidated assets or consolidated operating income, as the case may be) attributable to the Relevant Issuer (or, in the case where the Relevant Issuer is a GIE, a Subsidiary of the GIE or of any member thereof) or, as the case may be, the Guarantor represent not less than fifteen per cent. of the total consolidated assets or the consolidated operating income of the Relevant Issuer (or, in the case where the Relevant Issuer is a GIE, a Subsidiary of the GIE or of any member thereof) or, as the case may be, the Guarantor, all as calculated by reference to the then latest audited accounts (or consolidated accounts, as the case may be) of such Subsidiary and the then latest audited consolidated accounts of the Relevant Issuer (or, in the case where the Relevant Issuer is a GIE, a Subsidiary of the GIE or of any member thereof) or, as the case may be, the Guarantor and its consolidated subsidiaries, or to which is transferred all or substantially all the assets and undertaking of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary.

"Subsidiary" means at any particular time, any person or entity at any time which is then directly or indirectly controlled, or more than 50 per cent. of whose issued equity share capital (or equivalent) is then beneficially owned, by the Relevant Issuer (or, in the case where the Relevant Issuer is a GIE, by the GIE or by any member thereof) or, as the case may be, the Guarantor and/or one or more of its Subsidiaries. For a company to be "controlled" by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the Board of Directors or other governing body of that person or otherwise controls or has the power to control the affairs and policies of that person.

5. Interest and other Calculations

(a) *Interest on Fixed Rate Notes*

Except as otherwise provided in the relevant Pricing Supplement, each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date.

If a Fixed Coupon Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified hereon.

(b) *Interest on Floating Rate Notes and Index Linked Interest Notes*

(i) *Interest Payment Dates:* Except as otherwise provided in the relevant Pricing Supplement, each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated hereon) the Margin (if any). For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon;

(y) the Designated Maturity is a period specified hereon; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity", "Reset Date" and "Swap Transaction" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

(x) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:

(I) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or

(II) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,

in each case appearing on such Page at the Relevant Time on the Interest Determination Date;

(y) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (x)(I) applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (x)(II) applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the principal financial centre of the country of the Specified Currency or, if the Specified Currency is Euro, in those member states that are participating in EMU (the "Euro-zone") as selected by the Calculation Agent (the "Principal Financial Centre") are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) *Zero Coupon Notes*

Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortization Yield (as defined in Condition 6(b)(i)).

(d) *Dual Currency Notes*

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating a Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) *Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) *Accrual of Interest*

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgement) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) *Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts, Rate Multipliers and Rounding*

(i) If any Margin or Rate Multiplier is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with (b) above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph;

(ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be;

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the country of such currency.

(h) *Calculations*

The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

(i) *Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts*

As soon as practicable after the relevant time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of the Notes for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Relevant Issuer, the Guarantor, if relevant, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange so require, such exchange as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) *Definitions*

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"Benchmark" means the benchmark source specified in the relevant Pricing Supplement for the purposes of calculating the Relevant Rate in respect of Floating Rate Notes.

"Business Day" means:

(i) in the case of a currency other than Euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of Euro, a day on which the TARGET system is operating (a "TARGET Business Day"); and/or

(iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"Day Count Fraction" means, in respect of the calculation of an amount of interest on any Note for any period of time (whether or not constituting an Interest Period, the "Calculation Period"):

(i) if "Actual/365" or "Actual/Actual – ISDA" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "Actual/360" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(iv) if "30/360", "360/360" or "Bond Basis" is specified hereon, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));

(v) if "30E/360" or "Eurobond Basis" is specified hereon, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and

(vi) if "Actual/Actual – ISMA" is specified hereon,

  (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

  (b) if the Calculation Period is longer than one Determination Period the sum of:

    (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods in any year; and

    (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year.

  where

    "Determination Period" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

    "Determination Date" means the date specified as such hereon or, if none is so specified, the Interest Period Date.

“Effective Date” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such hereon or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates.

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means the amount of interest payable, and in the case of Fixed Rate Notes, means the Fixed Coupon Amount or Broken Amount, as the case may be, and in the case of Index Linked Interest Notes, includes the Coupon.

“Interest Commencement Date” means the Issue Date or such other date as may be specified hereon.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor Euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is Euro.

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon.

“ISDA Definitions” means the 2000 ISDA Definitions published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

“Page” means such page, section, caption, column or other part of a particular information service (including, but not limited to, Reuters Markets 3000 (“Reuters”) and Moneyline Telerate (“Moneyline Telerate”)) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate.

“Payment Date” means, in relation to Day Count Fraction above, the date on which interest for the relevant period falls due.

“Rate of Interest” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

“Reference Banks” means the institutions specified as such hereon or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the- counter index options market) that is most closely connected with the Benchmark.

“Relevant Financial Centre” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such hereon or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of Euro shall be any financial centre in Europe) (selected by the Calculation Agent) or, if none is so connected, London.

“Relevant Rate” means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date.

“Relevant Time” means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified hereon or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre and for this purpose “local time” means, with respect to Europe and the Euro-zone as a Relevant Financial Centre, Central European Time.

“Representative Amount” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such hereon or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time.

"Specified Currency" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

"Specified Duration" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified hereon or, if none is specified, a period of time equal to the relative Interest Accrual Period, ignoring any adjustment pursuant to Condition 5(b)(ii).

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System.

(k) *Calculation Agent and Reference Banks*

The Relevant Issuer shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents in each case if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Agency Agreement). If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Relevant Issuer shall appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Relevant Issuer shall appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. Redemption, Purchase and Options

(a) *Redemption by Instalments and Final Redemption*

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6 or the relevant Instalment Date (being one of the dates so specified hereon) is extended pursuant to the Relevant Issuer's or Noteholder's option in accordance with Condition 6(d) or 6(e), each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused on presentation of the related Receipt, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to the Relevant Issuer's or Noteholder's option in accordance with Condition 6(d) or 6(e), each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) *Early Redemption*

(i) *Zero Coupon Notes*

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortized Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortized Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortization Yield (which, if none is shown hereon, shall be such rate as would produce an Amortized Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortized Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortized Face Amount in accordance with this sub-paragraph shall continue to be made (as well after as before judgement) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be a made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) *Redemption for Taxation Reasons*

(i) Any Series of Notes may be redeemed at the option of the Relevant Issuer in whole, but not in part, on any Interest Payment Date or, if so specified hereon, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Relevant Issuer (or, in the case where the Relevant Issuer is a GIE, the GIE or any member thereof) or, as the case may be, the Guarantor has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, laws or regulations of the Relevant Jurisdiction (as defined below) or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Relevant Issuer (or, in the case where the Relevant Issuer is a GIE, the GIE or any member thereof) and/or, as the case may be, the Guarantor, taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Relevant Issuer (or, in the case where the Relevant Issuer is a GIE, the GIE or any member thereof) and/or, as the case may be, the Guarantor, would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

(ii) (A) If, on the occasion of the next payment due in respect of any Series of Notes, Receipts or Coupons, the Relevant Issuer (or, in the case where the Relevant Issuer is a GIE, the GIE or any member thereof) would be prevented by the law of the Relevant Jurisdiction from making payment to the holders thereof of the full amount then due and payable, notwithstanding the undertaking to pay additional amounts as provided in Condition 8(b), then the Relevant Issuer shall forthwith give notice of such fact to the Fiscal Agent and the Relevant Issuer shall redeem all, but not some only, of the Notes of such Series then outstanding at their Early Redemption Amount (as described in Condition 6(b) above), together with interest accrued (if any) to the date fixed for redemption on (A) the latest practicable Interest Payment Date on which the Relevant Issuer could make payment of the full amount then due and payable in respect of such Series, the Notes, Receipts or Coupons, as the case may be, provided that if such notice would expire after such Interest Payment Date the date for redemption pursuant to such notice of Noteholders shall be the later of (i) the latest practicable date on which the Relevant Issuer (or, in the case where the Relevant Issuer is a GIE, the GIE or any member thereof) could make payment of the full amount then due and payable in respect of the Notes, Receipts or Coupons, as the case may be, and (ii) 14 days after giving notice to the Fiscal Agent as aforesaid or

(B) if so specified on this Note, at any time, provided that the due date for redemption of which notice hereunder shall be given shall be the latest practicable date on which the Relevant Issuer could make payment of the full amount payable in respect of the Notes, Receipts or Coupons or, if that date is passed, as soon as practicable thereafter. (B) If, on the occasion of any payment due under the Guarantee, if any, in respect of any Series of Notes, Receipts or Coupons, the Guarantor would be prevented by the law of the Relevant Jurisdiction from making payment to the holders thereof of the full amount then due and payable, notwithstanding the undertaking to pay additional amounts as provided in Condition 8(b), then the Guarantor shall forthwith give notice of such fact to the Fiscal Agent and the Relevant Issuer shall redeem all, but not some only, of the Notes of such Series then outstanding at their Early Redemption Amount (as described in Condition 6(b) above), together with interest accrued (if any) to the date fixed for redemption, no later than 14 days after giving notice to the Fiscal Agent as aforesaid.

(iii) Before the publication of any notice of redemption pursuant to this paragraph (c), the Relevant Issuer and/or, as the case may be, the Guarantor shall deliver to the Fiscal Agent a certificate signed by two Directors of the Relevant Issuer and/or, as the case may be, the Guarantor stating that the Relevant Issuer is entitled or required, as the case may be, to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right, or the requirement, as the case may be, of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Relevant Issuer (or, in the case where the Relevant Issuer is a GIE, the GIE or any member thereof) and/or, as the case may be, the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment.

(iv) "Relevant Jurisdiction" means, in the case of Veolia Environnement, any Issuing Subsidiary (and, in the case where the Relevant Issuer is a GIE, the GIE and any member thereof established in France) and, where relevant, any Substituted Issuer pursuant to Condition 15 established in the Republic of France, the Republic of France and, in the case of any other Issuing Subsidiary (and, in the case where the Relevant Issuer is a GIE, any other member thereof) and, where relevant, any other Substituted Issuer pursuant to Condition 15, the jurisdiction in which it is established and/or resident and/or subject for tax purposes, as specified, where relevant, in the relevant Pricing Supplement.

(d) *Redemption at the Option of the Relevant Issuer and Exercise of the Relevant Issuer's Options*

If Call Option is specified hereon, the Relevant Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, or exercise any Relevant Issuer's option (as may be described hereon) in relation to, all or, if so provided, some, of the Notes on any Optional Redemption Date or Option Exercise Date, as the case may be. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the minimum nominal amount to be redeemed specified hereon and no greater than the maximum nominal amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed, or the Relevant Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of a Relevant Issuer's option, the notice to Noteholders shall also contain the certificate numbers of the Notes to be redeemed or in respect of which such option has been exercised, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange requirements. So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that Stock Exchange so require, the Relevant Issuer shall, once in each year in which there has been a partial redemption of the Notes, cause to be published in a leading newspaper of general circulation in Luxembourg, a notice specifying the aggregate nominal amount of Notes outstanding and a list of the Notes drawn for redemption but not surrendered.

(e) *Redemption at the Option of Noteholders and Exercise of Noteholders' Options*

If Put Option is specified hereon, the Relevant Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Relevant Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option or any other Noteholders' option that may be set out hereon (which must be exercised on an Option Exercise Date) the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("Exercise Notice") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Relevant Issuer.

(f) *Partly Paid Notes*

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

(g) *Purchases*

The Relevant Issuer (and, where the Relevant Issuer is a GIE, any member thereof), the Guarantor and, in each case, their respective subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(i) *Cancellation*

All Notes issued by Veolia Environnement or any Issuing Subsidiary established in the Republic of France and purchased by or on behalf of Veolia Environnement or, as the case may be, the relevant Issuing Subsidiary shall be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by Veolia Environnement or, as the case may be, the relevant Issuing Subsidiary be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any such Notes so surrendered for cancellation may not be reissued or resold and the obligations of Veolia Environnement or, as the case may be, the relevant Issuing Subsidiary in respect of any such Notes shall be discharged. In any other case, Notes purchased by Veolia Environnement or any Issuing Subsidiary or any of their respective subsidiaries may, subject to the laws of the Relevant Jurisdiction, be held, re-sold or surrendered as aforesaid for cancellation.

7. Payments and Talons

(a) *Bearer Notes*

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a bank in the principal financial centre for such currency or, in the case of Euro, in a city in which banks have access to the TARGET System.

(b) *Registered Notes*

(i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "Record Date"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a bank in the principal financial centre of the country of such currency, subject as provided in paragraph (a) above, and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and, subject as provided in paragraph (a) above, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in the principal financial centre of the country of such currency.

(c) *Payments in the United States*

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Relevant Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Relevant Issuer, any adverse tax consequence to the Relevant Issuer.

(d) *Payments Subject to Fiscal Laws*

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Appointment of Agents*

The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents, the Calculation Agent, the Redenomination Agent and the Consolidation Agent initially appointed by the Relevant Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents, the Calculation Agent(s), the Redenomination Agent and the Consolidation Agent act solely as agents of the Relevant Issuer and, as the case may be, the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Relevant Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Registrar, any Transfer Agent, the Calculation Agent(s), the Redenomination Agent or the Consolidation Agent and to appoint additional or other Paying Agents or Transfer Agents, provided that the Relevant Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) a Redenomination Agent or a Consolidation Agent where the Conditions so require, (vi) Paying Agents having specified offices in at least two major European cities, including Luxembourg so long as the Notes are listed on the Luxembourg Stock Exchange and as long as the rules of such stock exchange so require, (vii) a transfer agent in Luxembourg so long as the Notes are listed on the Luxembourg Stock Exchange and as long as the rules of such stock exchange so require, (viii) such other agents as may be required by any other stock exchange on which the Notes may be listed and (ix) insofar as it is permissible under any applicable European or national laws a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Relevant Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) *Unmatured Coupons and Receipts and unexchanged Talons*

(i) Unless the Notes provide that the relative Coupons are to become void upon the due date for redemption of those Notes, Bearer Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) If the Notes so provide, upon the due date for redemption of any Bearer Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Relevant Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) *Talons*

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) *Non-Business Days*

If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "business day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Financial Centres" hereon and:

(i) (in the case of a payment in a currency other than Euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in Euro) which is a TARGET Business Day.

8. Taxation

(a) Interest and other revenues with respect to the Notes which constitute obligations and are being issued or are deemed to be issued outside the Republic of France, benefit from the exemption from deduction of tax at source provided by article 131 *quater* of the *Code Général des Impôts* (General Tax Code). Accordingly, such payments do not give the right to any tax credit from any French source. The tax regime applicable to Notes which do not constitute *obligations* will be set out in the relevant Pricing Supplement.

(b) If on the occasion of the next payment due in respect of the Notes, Receipts or the Coupons appertaining thereto or the Guarantee if any, as the case may be, the Relevant Issuer (or, in the case where the Relevant Issuer is a GIE, the GIE or any member thereof) or the Guarantor, as the case may be, would be required, for any reason whatsoever, to make a withholding or deduction with respect to any taxes or duties levied or imposed by or on behalf of the Relevant Jurisdiction or any authority therein or thereof having power to tax, the Relevant Issuer (or, in the case where the Relevant Issuer is a GIE, the GIE or any such member thereof) or the Guarantor, as the case may be, will, to the fullest extent then permitted by law, pay such additional amounts as may be necessary in order that the holders of Notes, Receipts or Coupons, after deduction for such withholding, receive the full amount provided in such Notes, Receipts or Coupons to be then due and payable; provided, however, that no such additional amount shall be payable with respect to any Note, Receipt or Coupon:

(i) presented for payment in the Relevant Jurisdiction; or

(ii) to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note, Receipt or Coupon; or

(iii) presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth such day; or

(iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(v) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used in these Conditions, "Relevant Date" in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "principal" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortized Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "interest" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "principal" and/or "interest" shall be deemed to include any additional amounts that may be payable under this Condition.

9. Prescription

Claims against the Relevant Issuer for payment in respect of any Notes, Receipts and Coupons (which for this purpose shall not include Talons) issued by it shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. Events of Default

If any of the following events ("Events of Default") occurs, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the Early Redemption Amount of such Note together with accrued interest to the date of payment shall become immediately due and payable, unless such event of default shall have been remedied prior to the receipt of such notice by the Fiscal Agent:

(a) If default is made for a period of 15 days or more in the payment of any amount on the Notes or the relevant Guarantee when and as the same shall become due and payable; or

(b) If default is made by the Relevant Issuer or the Guarantor, as the case may be, in the due performance of any other obligation under the terms and conditions of the Notes, or, as the case may be, the Guarantee, if any, unless remedied within 30 days after receipt by the Fiscal Agent of a written notice thereof given by the bearer of any Note; or

(c) If after there shall be a default by any of the Relevant Issuer (and, in the case where the Relevant Issuer is a GIE, the GIE and/or any member thereof) and/or the Guarantor, as the case may be, and/or their respective Principal Subsidiaries in the due and punctual payment of the principal of, or premium or interest on, any indebtedness for borrowed monies of or assumed or guaranteed by it when and as the same shall become due and payable and giving effect to any applicable grace periods, there shall be an acceleration of any such indebtedness or guarantee, provided that the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned in this sub-paragraph (c) has or have occurred equals or exceeds Euro 30,000,000; or

(d) If any Relevant Issuer (and, in the case where the Relevant Issuer is a GIE, the GIE and/or any member thereof) established in France and/or, as the case may be, the Guarantor and/or their respective Principal Subsidiaries established in France should apply for or is subject to an amicable settlement ("accord amiable") with its creditors, or applies for the appointment of a conciliator ("conciliateur") or any judgement is used for its judicial liquidation ("liquidation judiciaire") or the transfer of the whole of its business ("cession totale de l'entreprise") or, to the extent permitted by law, it ceases payments on its debts or is subject to any insolvency or bankruptcy proceeding or makes a conveyance or assignment for the benefit of, or enters into a composition with, its creditors; or

(e) If any Relevant Issuer (and, in the case where the Relevant Issuer is a GIE, any member thereof) not established in France and/or any Principal Subsidiary not established in France of the Relevant Issuer (or, as the case may be, any such member of the GIE) and/or the Guarantor, as the case may be, is adjudicated or found bankrupt or insolvent or shall stop or threaten to stop payment or shall be found unable to pay its debts or any order shall be made by any competent court or administrative agency for, or a resolution is passed by it for, judicial composition proceedings with its creditors or for the appointment of a receiver or trustee or other similar official in insolvency proceedings in relation to it or any event occurs which under the law of any relevant jurisdiction has an analogous or equivalent effect; or

(f) If any of the Relevant Issuer (and, in the case where the Relevant Issuer is a GIE, the GIE and/or any member thereof) and/or, as the case may be, the Guarantor and/or any of their respective Principal Subsidiaries sells or otherwise disposes of all or substantially all of its assets or ceases or threatens to cease to carry on the whole of its business or substantially the whole of its business or an order is made or an effective resolution passed for its winding-up, dissolution or liquidation, unless such winding-up, dissolution, liquidation, cessation or disposal is made in connection with a merger, consolidation, reconstruction, amalgamation or other form of combination (a "Restructuring") with or to, any other corporation and (i) in the case of the Relevant Issuer or the Guarantor the liabilities under the Notes and/or the Guarantee, as the case may be are transferred to and assumed by such other corporation and the credit rating assigned by any of Standard & Poor's Rating Services or Moody's Investors Services Inc. (or, in each case, any successor rating agency) to the long-term, unsecured and unsubordinated indebtedness of the surviving entity of such Restructuring following such Restructuring is not less than the credit rating assigned by any such credit rating agency to the long-term, unsecured and unsubordinated indebtedness of the Relevant Issuer or, as the case may be, the Guarantor immediately prior to the effective date of such Restructuring, (ii) in the case where the Relevant Issuer is a GIE, the undertaking and assets of any member of such GIE are, in connection with any such Restructuring, vested in any other member of the GIE or (iii) in the case of any Principal Subsidiary, the undertaking and assets of such Principal Subsidiary are vested in the Relevant Issuer, the Guarantor or another of their respective Principal Subsidiaries; or

(g) If, in the case where the Relevant Issuer is a GIE, the members thereof cease for any reason to be jointly and severally liable for the obligations of such GIE under any Notes issued by such GIE (including, without limitation, as a result of an amendment to the *statuts* and/or the *règlement intérieur* of such GIE); or

(h) If the relevant Guarantee, if any, ceases to be in full force and effect.

11. Meeting of Noteholders and Modifications

(a) *Meetings of Noteholders*

The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortized Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to take any steps that as specified hereon may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply or (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

(b) *Modification of Agency Agreement*

Veolia Environnement, the Issuing Subsidiaries and, where relevant, any Substituted Issuer pursuant to Condition 15 shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

12. Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange regulations, at the specified office of the Fiscal Agent in Luxembourg (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Relevant Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Relevant Issuer on demand the amount payable by the Relevant Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Relevant Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. Further Issues and Consolidation

The Relevant Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as any Notes issued by it (so that, for the avoidance of doubt, references in the conditions of such notes to “Issue Date” shall be to the first issue date of such Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to “Notes” shall be construed accordingly.

The Relevant Issuer may from time to time on any Interest Payment Date occurring on or after the date specified for a redenomination of any Notes issued by it pursuant to Condition 1(c), on giving not less than 30 days’ prior notice to the Noteholders in accordance with Condition 14, without the consent of the Noteholders or the Couponholders, consolidate the Notes with one or more issues of other notes issued by it, whether or not originally issued in one of the European national currencies or in Euro, provided such other notes have been redenominated in Euro (if not originally denominated in Euro) and which otherwise have, in respect of all periods subsequent to such consolidation, the same terms and conditions as such Notes.

14. Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. With respect to Registered Notes listed on the Luxembourg Stock Exchange, any Notices to the holders of Registered Notes must also be published in a leading daily newspaper having general circulation in Luxembourg. Notices to the holders of Bearer Notes shall be valid if published (i) in a daily newspaper of general circulation in London (which is expected to be the Financial Times), (ii) so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) and (iii) so long as the Notes are listed on any other Stock Exchange and the rules that exchange so require, in a daily newspaper of general circulation in the principal financial centre of the location of such Stock Exchange. If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

15. Substitution

(a) Any Relevant Issuer may, by way of novation or otherwise, without the consent of the holders of any Notes, Receipts, Coupons or Talons, transfer all (but not some only) of its rights, obligations and liabilities thereunder (including under any further Notes issued in accordance with Condition 13) at any time to Veolia Environnement, any Subsidiary of Veolia Environnement, any Subsidiary of such Relevant Issuer or any GIE (the "Substituted Issuer") provided that:

(i) as a consequence of such substitution, the Notes, Receipts or Coupons do not cease to be listed on any stock exchange on which they are then listed;

(ii) the credit rating assigned by any of Standard & Poor's Rating Services or Moody's Investors Services, Inc. (or, in each case, any successor rating agency) to the long-term, unsecured and unsubordinated indebtedness of the Substituted Issuer immediately following such substitution is not less than the credit rating assigned by such agency to the long-term, unsecured and unsubordinated indebtedness of the Relevant Issuer immediately prior to the effective date of such substitution;

(iii) no payment in respect of the Notes, Receipts or Coupons is at the relevant time overdue and no Event of Default or event which may (with the passage of time or the giving of notice or both) constitute an Event of Default has occurred and is continuing;

(iv) unless the Substituted Issuer is Veolia Environnement, Veolia Environnement (in such capacity, also the "Guarantor") unconditionally and irrevocably guarantees under a guarantee substantially in the form set out in Schedule 8 to the Agency Agreement (the "Guarantee") the obligations and liabilities of the Substituted Issuer in respect of the Notes, Receipts or Coupons or any Guarantee already given by the Guarantor in respect thereof remains in full force and effect following such transfer;

(v) at the time of any such substitution, each of the Substituted Issuer and, if applicable, the Guarantor is in a position to fulfil all payment obligations arising from or in connection with the Notes, Receipts, Coupons or Talons or the Guarantee, as applicable, in freely convertible and transferable lawful currency without the necessity of any taxes or duties to be withheld at source, and to transfer all amounts which are required therefor to the Fiscal Agent without any restrictions;

(vi) the Substituted Issuer assumes all of the Relevant Issuer's obligations under the Notes, Receipts, Coupons or Talons, including the obligations to pay additional amounts, if any, pursuant to Condition 8 and indemnifies each holder thereof, against (i) any tax, assessment or governmental charge imposed on such holder or required to be withheld or deducted as a consequence of such substitution and (ii) any costs or expenses of such substitution;

(vii) each of the Substituted Issuer (and including, if the Substituted Issuer is a GIE, each member of such GIE) and, if applicable, the Guarantor is validly existing under the laws of the Relevant Jurisdiction, has capacity to assume all rights, obligations and liabilities under the Notes, Receipts, Coupons or Talons and has obtained all necessary corporate authorisations to assume all such rights, obligations and liabilities under the Notes, Receipts, Coupons or Talons;

(viii) each of the Substituted Issuer (and including, if the Substituted Issuer is a GIE, each member of such GIE) and, if applicable, the Guarantor has obtained all necessary governmental or regulatory approvals and consents for the performance by it of its obligations in connection with the Notes, Receipts, Coupons or Talons and that all such approvals and consents are in full force and effect;

(ix) in addition, where applicable, to the Guarantee, all such other documents as may be necessary to give full effect to the substitution and transfer have been executed by the Substituted Issuer, the Relevant Issuer and, where applicable, the Guarantor (together the "Documents");

(x) the Substituted Issuer and, where applicable, the Guarantor shall have become party to the Agency Agreement, with any appropriate consequential amendments;

(xi) in the case of a Substituted Issuer incorporated in a country other than England, the Substituted (and, including, if the Substituted Issuer is a GIE, each member of such GIE) Issuer shall have appointed a process agent as its agent in England to receive service of process on its behalf in relation to any legal action or proceedings arising out of or in connection with the Notes, Receipts, Coupons or Talons; and

(xii) the Relevant Issuer shall deliver, or procure the delivery to, the Fiscal Agent (from whom copies will be available) of legal opinions from leading law firms in England, the Relevant Jurisdiction of the Substituted Issuer (and, including, if the Substituted Issuer is a GIE, each member of such GIE) and, where applicable, of the Guarantor (to be dated and made available to Noteholders no later than 7 days

(b) The Documents and, where applicable, the Guarantee shall be deposited with and held by the Fiscal Agent for so long as any Note, Receipt or Coupon remains outstanding and for so long as any claim made against the Substituted Issuer or, where applicable, the Guarantee by any holder thereof in relation to such Note, Receipt or Coupon or the Guarantee shall not have been finally adjudicated, settled or discharged.

(c) Notice of any substitution shall be given to Noteholders in accordance with Condition 14.

(d) The Relevant Issuer (failing which, where applicable, the Guarantor) shall bear all costs and expenses incurred in connection with a substitution effected pursuant to this Condition 15.

16. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. Governing Law and Jurisdiction

(a) *Governing Law*

The Notes, the Receipts, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law. The Guarantee, if any, is governed by French law.

(b) *Jurisdiction*

The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons ("Proceedings") may be brought in such courts. Each of Veolia Environnement, the Issuing Subsidiaries (and including, if the Relevant Issuer is a GIE, each member thereof) and any Substituted Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the holders of the Notes, Receipts, Coupons and Talons and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

Any disputes arising under as in connection with the Guarantee, if any, will be submitted to the jurisdiction of the competent courts of Paris.

(c) *Service of Process*

The Relevant Issuer (and including, if the Relevant Issuer is a GIE, each member thereof) irrevocably appoints Clifford Chance Secretaries Limited of 200 Aldersgate Street, London EC1A 4JJ as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Relevant Issuer) or, as the case may be, any such member of a GIE. If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Relevant Issuer (and including, if the Relevant Issuer is a GIE, each member thereof) irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 14. Nothing shall affect the right to serve process in any manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Notes

Upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream, Luxembourg (the "Common Depositary") or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Upon the initial deposit of a Global Note with, or registration of Registered Notes in the name of, or any nominee for, and delivery of the relative Global Certificate to, Euroclear France (including where Euroclear France is acting as central depositary), the "*intermédiaires financiers habilités*" (French banks or brokers authorised to maintain securities accounts on behalf of their clients (each an "Approved Intermediary")) who are entitled to such Notes according to the records of Euroclear France will credit each subscriber with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by Euroclear France or other clearing systems. Conversely, Notes that are initially deposited with Euroclear France or any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems. Relationship of Accountholders with Clearing Systems Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg, or such clearing system (as the case may be) for his share of each payment made by the Relevant Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, Euroclear France or such clearing system (as the case may be). Such persons shall have no claim directly against the Relevant Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Relevant Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

Exchange

1 *Temporary Global Notes*

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "Summary of the Programme-Selling Restrictions"), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

Each temporary Global Note that is also an Exchangeable Bearer Note will be exchangeable for Registered Notes in accordance with the Conditions in addition to any permanent Global Note or Definitive Notes for which it may be exchangeable and, before its Exchange Date, will also be exchangeable in whole or in part for Registered Notes only.

2 *Permanent Global Notes*

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under "Partial Exchange of Permanent Global Notes", in part for Definitive Notes or, in the case of 2(iii) below, Registered Notes:

(i) unless principal in respect of any Notes is not paid when due, by the Relevant Issuer giving notice to the Noteholders, the Fiscal Agent of its intention to effect such exchange;

(ii) if the relevant Pricing Supplement provides that such Global Note is exchangeable at the request of the holder, by the holder giving notice to the Fiscal Agent of its election for such exchange; and

(iii) if the permanent Global Note is an Exchangeable Bearer Note, by the holder giving notice to the Fiscal Agent of its election to exchange the whole or a part of such Global Note for Registered Notes; and

otherwise, (1) if the permanent Global Note is held on behalf of Euroclear, Clearstream, Luxembourg, Euroclear France or any other clearing system (an "Alternative Clearing System") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or (2) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent of its election for such exchange.

3 *Global Certificates*

Each Global Certificate will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under "Partial Exchange of Permanent Global Notes and Certificates", in part, for individual certificates:

(i) if the Notes represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) if principal in respect of any Notes is not paid when due; or

(iii) with the consent of the Relevant Issuer

provided that, in the case of the first transfer of part of a holding pursuant to 3(i) or 3(ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

4 *Partial Exchange of Permanent Global Notes and Global Certificates*

For so long as a permanent Global Note or Global Certificate is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note or Global Certificate will be exchangeable in part on one or more occasions (1) in the case of a permanent Global Note, for Individual Certificates if the permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes, or (2) for Definitive Notes or individual Certificates, as the case may be, (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Pricing Supplement) relating to Partly Paid Notes.

5 *Delivery of Notes*

On or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Relevant Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be. In this Offering Circular, "Definitive Notes" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Note, the Relevant Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

6 *Exchange Date*

"Exchange Date" means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for Registered Notes five days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Offering Circular. The following is a summary of certain of those provisions:

1 *Payments*

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7(e)(ix) and Condition 8(b)(v) will apply to the Definitive Notes only.

2 *Prescription*

Claims against the Relevant Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

3 *Meetings*

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each minimum specified Denomination of Notes for which such Global Note may be exchanged. (All holders of Registered Notes are entitled to one vote in respect of each Note comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

4 *Cancellation*

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note.

5 *Purchase*

Notes represented by a permanent Global Note may only be purchased by the Relevant Issuer (or, where the Relevant Issuer is a GIE, any member thereof) or the Guarantor or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

6 *Issuer's Option*

Any option of the Relevant Issuer provided for in the Conditions of any Notes while such Notes are represented to a permanent Global Note shall be exercised by the Relevant Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Relevant Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg, Euroclear France or any other clearing system (as the case may be).

7 *Noteholders' Options*

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Fiscal Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the permanent Global Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, for notation.

8 *Events of Default*

Each Global Note provides that the holder may cause such Global Note, or a portion of it, to become due and repayable in the circumstances described in Condition 10 by stating in the notice to the Fiscal Agent the nominal amount of such Global Note that is becoming due and repayable. If principal in respect of any Note is not paid when due, the holder of a Global Note or Registered Notes represented by a Global Certificate may elect for direct enforcement rights against the Relevant Issuer (in the case of Veolia Environnement, under the terms of an Amended and Restated Deed of Covenant executed as a deed by Veolia Environnement on 11 July, 2003 and, in case of any Issuing Subsidiary or any Substituted Issuer (under the terms of a Deed of Covenant substantially in the same terms as such Deed of Covenant to be executed as a deed by such Issuing Subsidiary on or before the Issue Date or the effective date of substitution, as the case may be) in each case to come into effect in relation to the whole or a part of such Global Note or one or more Registered Notes in favour of the persons entitled to such part of such Global Note or such Registered Notes, as the case may be, as accountholders with a clearing system. Following any such acquisition of direct rights, the Global Note or, as the case may be, the Global Certificate and the corresponding entry in the register kept by the Registrar will become void as to the specified portion or Registered Notes, as the case may be. However, no such election may be made in respect of Notes represented by a Global Certificate unless the transfer of the whole or a part of the holding of Notes represented by that Global Certificate shall have been improperly withheld or refused.

9 *Notices*

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note except that so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*), and so long as the Notes are listed on any other stock exchange and the rules of that exchange so requires, notices in respect of such Notes shall also be published in a daily newspaper having circulation in the principal financial centre of the location of such Stock Exchange.

10 *Redenomination and Consolidation*

A Global Note or a Global Certificate may be amended or replaced by the Issuer (in such manner as it considers necessary, after consultation with the Redenomination Agent and the Consolidation Agent, as the case may be) for the purposes of taking account of the redenomination and/or consolidation of the Notes in accordance with Conditions 1(c) and 14. Any consolidation may require a change in the relevant common depositary or central depositary, as the case may be.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Relevant Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

USE OF PROCEEDS

The net proceeds of issues by Veolia Environnement will be used for its general corporate activities. The purpose of the net proceeds of issues by any other Relevant Issuer will be set out in the relevant Pricing Supplement.

VEOLIA ENVIRONNEMENT

Veolia Environnement ("Veolia" or the "Company") is a *société anonyme à conseil d'administration* incorporated in 1995 pursuant to the French commercial code for a term of 99 years. Its registered office is located at 36-38 avenue Kléber, 75116 Paris, France.

Historical Background

On 14th December, 1853, Compagnie Générale des Eaux was formed by Imperial decree and won its first public service concession for the distribution of water in the city of Lyon, France. Compagnie Générale des Eaux continued to develop its activities in France by obtaining concessions to supply water to Nantes, Nice, Paris and its suburbs.

In 1880, Compagnie Générale des Eaux experienced its first commercial success abroad when it was awarded contracts to produce and distribute water in Venice, Constantinople and Porto. In addition to potable water, Compagnie Générale des Eaux subsequently expanded its business into the water treatment industry.

In 1980, Compagnie Générale des Eaux regrouped all of its operating subsidiaries specialising in the design, engineering and execution of potable water and wastewater treatment facilities in a single company under the name "OTV." In addition, Compagnie Générale des Eaux acquired Compagnie Générale d'Entreprises Automobiles ("CGEA"), which would later become CGEA Connex and Onyx, and Compagnie Générale de Chauffe, which was later renamed Dalkia. During the same period in the 1980's, Compagnie Générale des Eaux accelerated its international expansion, particularly in the United States.

In 1998, Compagnie Générale des Eaux changed its name to "Vivendi" and renamed its water subsidiary "Compagnie Générale des Eaux" to distinguish the separate existence of its two main operating segments: communications and environmental management services.

In October 1998, to further extend its geographic reach, Vivendi purchased a 49% interest in the holding company that controls FCC, a Spanish public company that is the leading provider of urban waste management and the second largest provider of water and wastewater services in Spain.

In April 1999, Vivendi acquired United States Filter Corporation (also known as USFilter), the leading water treatment services and equipment company in the United States.

In 1999, Vivendi created Vivendi Environnement, to which it contributed or sold all of its environmental management activities and which conducted these activities under the names "Vivendi Water" (water), "CGEA Onyx" (waste management), "Dalkia" (energy services) and "CGEA Connex" (transportation).

On 20th July, 2000, the Company's shares were listed on the Premier Marché of Euronext Paris in connection with an initial public offering of the Company's shares in France and in an international private placement, with Vivendi Universal (the new name of Vivendi) retaining over 72.3% of the Company's share capital.

In December 2000, Dalkia entered into an agreement with Electricité de France (EDF), the French state-owned electricity utility, pursuant to which Dalkia's energy services operations were consolidated with those of EDF.

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

In December 2001, the Company's main shareholder, Vivendi Universal, sold a block of shares in the Company representing 9.3% of the Company's total share capital, reducing its equity participation in the Company from 72.3% to 63.05% of its total share capital. In December 2001, free warrants were distributed to all of the Company's shareholders, which are exercisable until March 2006.

During 2002, the Company became independent from Vivendi Universal, which, as of 31st December, 2002, held 20.4% of the Company's share capital.

Pursuant to a general shareholders' meeting held on 30th April, 2003, the Company changed its name from "Vivendi Environnement" to "Veolia Environnement."

Material capital expenditures currently in progress include those associated with the continued expansion of the existing businesses and replacement and maintenance spending related to existing operations. These expenditures are being financed with cash flow from operating activities. Material divestitures currently in progress include the transfer of part of the Company's interest in Dalkia's parent company as part of the strategic transaction with EDF described above and the disposal of non-core businesses.

Major Developments in 2002

The Company was awarded a significant number of long-term contracts in 2002 that are expected to generate in aggregate €30 billion in total revenue over the life of these contracts.

The discussion below includes the revenue amounts that the Company expects to earn from its contracts. These amounts take into account updates to its volume and price assumptions since the date these contracts were publicly announced. As a result, announced revenue amounts may differ from the amounts of expected revenue included in this description. In the case of combined contracts to build and operate facilities, expected revenue amounts reflect total revenue expected to be generated from both services.

Water

In France, the Company won a contract to modernise the Archères wastewater treatment plant in the Yvelines region, which treats a large portion of the wastewater from the Paris area, with estimated total revenue of €390 million. It also won a 15-year contract with Arcelor Packing, which manufactures steel for packaging and finished sheet metal for household electrical appliances, to treat effluents at its Florange site in the Moselle region, with estimated total revenue of €27 million. In addition, the Company won a 12-year contract with Smurfit Cellulose du Pin to manage industrial effluents at its Facture/Bigonas paper factory in the Gironde region, with estimated total revenue of €11 million.

In the Netherlands, the Company was declared the winning bidder of a 30-year contract to design, construct and operate wastewater treatment plants in the city and region of The Hague (estimated total revenue of €1.5 billion). This contract and related agreements are expected to be finalised over the course of 2003.

In the Czech Republic, the Company extended a contract awarded in 2001 from 13 to 28 years under which it manages water services in Prague and its surrounding area with 1.2 million residents.

In the United States, the Company was awarded the largest-ever contract for outsourced management of municipal water in Indianapolis. USFilter, a subsidiary of the Company, will operate and maintain potable water services, rehabilitate infrastructure and provide client services for a 20-year period in this city serving 1.1 million residents (estimated total revenue of US $1.5 billion). The Company also won a 20-year contract with Alon to provide water and wastewater management services to its refinery in Big Spring, Texas, with estimated total revenue of approximately US $66 million.

In Morocco, the Company won a 26-year contract for the outsourced management of water, purification and electricity services for the region of Rabat-Salé (2 million residents), with estimated total revenue of €4.6 billion.

In China, the Company won an international public bid for the management of water services in Pudong, a Shanghai business area with 1.9 million residents, for 50 years with estimated total revenue of €10 billion (of which €5 billion is attributable to the Company based on the Company's interest in the operator). It also won two outsourcing contracts with the Chinese cities of Baoji (500,000 residents) and Zhuhai (1.2 million residents).

In Malaysia, the Company won an outsourcing contract with Petronas, an oil company, to provide water treatment and distribution services to its petrochemical complex in Kertith for a 20-year period (estimated total revenue of €200 million).

Waste Management

In the United Kingdom, Onyx renewed a contract for 7 years to collect residential and commercial waste and provide urban cleaning services in the London areas of Westminster (with 200,000 residents and 1 million visitors per day and representing estimated total revenue of €350 million) and Camden (estimated total revenue of approximately €190 million). On the southern coast, Onyx won a contract to collect and recycle residential and commercial waste in the city of Portsmouth (190,000 residents) for a 7-year period (estimated total revenue of approximately €38 million), which will be signed in 2003.

In Asia, Onyx expanded its 2001 contract to collect waste in Singapore to include urban cleaning in the city centre for 5 years with estimated total revenue of €45 million. In China, Onyx won a contract for 8 years for the design and operation of a residential waste storage centre in Guangzhou (Canton at the Xingfent site), with 20 million cubic metres of capacity and capable of treating 5,000 tons of waste per day by 2003 (estimated total revenue of €37 million). This site, which will satisfy the most stringent international regulatory standards, will enable the Company to increase its exposure in Asia.

In Egypt, the Company commenced operations under its waste management contract in the city of Alexandria (3.5 million inhabitants), which it won in 2001. Under this contract, the Company is collecting and treating approximately 2,500 tons of household waste per day, taking measures to secure old landfills, developing an existing waste storage centre, building a waste transfer station and providing urban cleaning services.

In Morocco, the Company commenced providing urban cleaning services in the city of Rabat-Hassan under a contract awarded in 2001. Under this 6-year contract, the Company is collecting household and organic waste, cleaning roadways and beaches and eliminating unmanaged landfills, with particular attention to historical and governmental sites (estimated annual revenue of €2.6 million). The Company is also providing training to a significant number of local personnel.

In Australia, Onyx won a contract for the global management of the industrial waste at 670 sites throughout Australia of BTP Boral Limited, a business materials production and trading group (estimated total revenue of €10 million). Onyx is the only operator to propose waste management solutions in the six Australian states.

In the United States, Onyx won a 6-year outsourcing contract to operate a waste-to-energy facility in Savannah, Georgia, and a 7-year outsourcing contract to operate another waste-to-energy facility in Charleston, South Carolina. The Company also won a contract to recycle municipal waste at Highland Park (estimated annual revenue of US $2.6 million) and Saint Charles (estimated annual revenue of US $1.4 million), in Illinois.

In Chile, Proactiva, the Company's joint venture with FCC, commenced operating the Maipu landfill serving Santiago de Chile, which was designed to receive 700,000 tons of waste per year and is an example of the Company's technological capabilities.

Energy Services

In France, Dalkia renewed for 25 years a contract to outsource the public services concession of the urban area in Mons-en-Baroeul (North), with the installation of co-generation plant capable of producing 7MW of power (estimated annual revenue of €5.1 million). Dalkia also partially renewed for 5 years a contract to provide thermal management services in Paris, which includes measures to prevent the risk of legionella bacteria (estimated annual revenue of €2.9 million). In addition, Dalkia won a 3-year facilities management contract for 220 agencies of Crédit Mutuel du Nord's Northern Europe network, with estimated annual revenue of €4.3 million.

In Belgium, Dalkia was awarded a 5-year multi-technical contract in respect of the entire real estate holdings of the European Commission, which include 68 buildings with 1.5 million cubic metres of space and will require the deployment of 200 employees (estimated annual revenue of €11.5 million).

In the Netherlands, Dalkia acquired DBU, a Dutch company specialising in the provision of technical services and the supply of mechanical and electro-technical industrial installations (estimated annual revenue of €50 million).

In the United Kingdom, Dalkia was selected to participate in the first public bid by the British government to award permits for greenhouse gas emissions. To motivate the bidders, the British government offered payment of €350 million over 5 years. Among the 34 companies selected, Dalkia was the only company in the energy services sector and has committed to reduce carbon dioxide emissions in the United Kingdom by 100,000 tons by 2006, representing a 37% reduction in respect of the reference target. To attain these objectives, Dalkia will collaborate with 4 hospitals and 134 commercial buildings for which it operates energy installations and with whom it will share the fees paid for each ton of carbon dioxide saved.

In Sweden, Dalkia acquired 5 companies in the Maintech group, a subsidiary of PEAB, a Swedish public works company that specialises in industrial maintenance services, for approximately €4.9 million (after price adjustments), which it estimates will generate annual revenue of €40 million.

In the Czech Republic, Dalkia was hired by the city of Ostrava to take over the municipal heating distribution company, ZTO, for approximately €19.1 million. ZTO recorded €43 million in revenue in 2001 and currently has 315 steam boilers, 160 kilometres of network and 233 sub-stations that service 84,000 residences and 900,000 square metres of commercial buildings.

In Italy, Dalkia signed a 10-year contract to supply electricity, heating and cooling to Manulifilm, one of the main European manufacturers of films used in packaging, plasticising, adhesive tapes and tobacco products, with estimated total revenue of €7 million.

In Malaysia, Citélum, a Dalkia subsidiary specialised in street and building lighting, won a contract to light the twin towers of Petronas, the highest inhabited towers in the world at 452 metres, with estimated total revenue of €117,000.

Transportation

In France in January 2002, Connex acquired Transports Verney for approximately €47.1 million. Transports Verney is present in more than 30 departments in France, particularly in the Great West and Rhône-Alpes regions, and focuses essentially on operating urban and inter-city networks. Transports Verney recorded more than €150 million in revenue in 2001.

In Ireland, Connex won a 5-year contract to operate the new "Luas" light metro network in Dublin, with 40 trains used on 2 lines serving 36 stops and estimated total revenue of €55 million.

In Great Britain, Connex renegotiated its compensation for 2003 and the duration of a contract to operate the rail network in southeast London. Connex's compensation increased by €90 million for 2003 and was negotiated for the 2004-2006 period, this contract now expires in 2006 instead of 2011. However, see further "Recent Developments—Transportation".

In Germany, Connex inaugurated in December 2002 the Lausitzbahn rail network in the Görlitz region (estimated annual revenue of €4 million) and commenced operating two long distance inter-regional lines that link the southern part of Eastern Germany, Berlin and the Baltic Sea region (estimated total revenue of €13 million).

In Sweden, Connex won two public tenders for the operation of passenger rail networks in Norrland and Göteborg and a public tender for the operation of the urban and inter-urban network of Ekilstuna. Connex also obtained a 5-year extension of its contract to operate the metro system and three tramway lines in Stockholm. These new contracts and the extension of the Stockholm contract represent an estimated increase of more than €1 billion in estimated total revenue in this country.

In Slovenia, Connex acquired from another private operator the operation of the Certus urban and inter-urban transportation network in Maribor for a 10-year period (estimated total revenue of €180 million).

BUSINESS OVERVIEW

The Company's Market

Traditionally, environmental management services, which include water treatment and distribution services, waste treatment and management services, energy services (excluding the production, trading and sale of electricity) and transportation services, have been provided in an unco-ordinated manner, each by a different entity. A provider of energy services, for example, would not also offer water treatment or waste disposal services, nor would it integrate its services with those of a customer's other environmental service providers. Public authorities and industrial and commercial companies, moreover, have typically met many of their own environmental needs without looking to private firms that specialise in these areas. This situation has changed fundamentally in recent years, however, as industrial and commercial companies have continued to expand on a global scale and increasingly require environmental management services providers with a global reach that matches the international scope of their customers' operations.

The Company's Business

The Company is the leading provider of environmental management services in the world. The Company provides environmental management services to a wide range of public authorities, industrial and commercial customers and individuals around the world. Revenue from services to public authorities represented approximately 65% of total revenue in 2002, while industrial and commercial customers represented approximately 35% of total revenue in 2002.

In particular, the development of an industrial customer base has become a major growth factor in the business. During 2002 the Company significantly increased its presence in a variety of commercial and other professional fields, including through the provision of services to hospitals, airports, hotels and transportation-related companies.

The Company's largest market is Europe and, to a lesser extent, the United States. In 2002, the Company generated 45.3% of its revenue in France, 34.9% in the rest of Europe, 12% in North America, 3.8% in the Asia-Pacific region and 4% in the rest of the world. The Company is not materially dependent upon any particular customer, and no one contract represented more than approximately 1.6% of its revenue in 2002.

The Company's Strategy

The Company's overall strategy is to use a broad range of services and extensive experience to capitalise on increased demand for reliable, integrated and global environmental management services. The major elements of this strategy are to:

- **Leverage its expertise, leading market position and deliver strong internal growth**

  Providing environmental management services has been the core business of the Company and its predecessor for nearly 150 years. The Company has demonstrated technological, financial and management expertise and routinely enjoys success in bidding for contracts offered through public tenders by public authorities and industrial or commercial companies. The Company has vast experience in the management of long-term relationships with public authorities. The Company has a track record of using its technological and management expertise to deliver the highest quality of service at the most competitive cost and intends to use its broad range of expertise and experience to take advantage of increasing demand for privatised and outsourced environmental management services. These core businesses generated internal growth of 5% in 2002.

- **Develop unique, integrated, multi-service offerings**

  The Company is integrating environmental operations to meet increasing demand for comprehensive environmental management services. The Company also sometimes pursues this approach with other companies in order to harness their capabilities. This integration allows the Company's clients to benefit from technical synergies and better control economic performance and environmental risk, and is the key element of its service offerings, particularly to commercial clients. In 2002, for example, the Company won a number of integrated multi-service contracts with industrial customers, including British Petroleum (BP), Arcelor, Accor and Pharmacia. The Company also offers integrated services to public authorities, such as the integrated contract to provide a variety of environmental management services in the city of Bromley, United Kingdom. The integration of capabilities may also result from the synergies that arise from the award of separate contracts to several of the Company's divisions by a single customer (or by different customers that have relationships among themselves), such as, for example, the Company's contracts in Shanghai.

  In order to fully benefit from the advantages of the integration of the Company's services and the synergies between its divisions, its senior management and the senior management of each of its divisions was grouped at the Company's corporate headquarters in Paris in the second quarter of 2002.

- **Achieve and maintain "best-in-class" performance in each of the business segments by investing in technology and personnel**

  The projects undertaken require extensive technical know-how and excellent management capabilities. The Company makes significant investments in both technology and personnel training to ensure that it delivers the highest quality environmental services possible. The Company's goal is to achieve and maintain best-in-class service across all business segments.

- **Seize opportunities arising from the worldwide reach**

  Because operations span the globe, the Company can offer multinational industrial companies a uniform quality of service, on the one hand, and centralised environmental services management, on the other. The Company is one of the only environmental services companies with the ability to offer services on a worldwide basis. Based on this capability, in 2002 the Company renewed its 5-year contract with Renault to provide global waste management services at 15 of its factories and expanded the services it provides under the contract, which will require support from other divisions and the performance of services at new factories abroad.

  Worldwide presence also allows the Company to quickly seize opportunities to enter markets that experience sustained growth of environmental management services, particularly in Europe, the United States and Asia, particularly China. The extensive experience the Company has acquired in dealing with a wide variety of legal and political environments facilitates its entry into these markets.

- **Focus on high value-added environmental services**

  The Company intends to focus on providing high value-added environmental services and to limit its exposure to low-margin commodity supply businesses. This focus will also enable the Company better to take advantage of its core strength: ability to provide creative, customised, integrated environmental services to clients with large, geographically diverse and complex operations. In line with its strategy to focus on its environmental services business, in 2001 the Company launched a divestiture programme for non-strategic assets pursuant to which it generated proceeds of €1.7 billion in 2002. As part of this programme, in 2002 its subsidiary USFilter sold all of its US distribution and points of sale activities, through which it supplied materials relating to gates, pipes and meters.

- **Pursue selective acquisitions to expand service offerings and geographic reach**

  The Company intends to acquire environmental services-related companies when the opportunity to do so on favourable terms arises. The purpose of these acquisitions will be to expand the portfolio of services the Company can offer clients and to extend its geographic reach. In France, for example, Connex acquired Transports Verney in 2002, which operates in more than 30 departments throughout the country.

The Company's Services

The Company has operations in over 100 countries on each of the five continents providing water to over 110 million people, treating 47 million tons of waste and satisfying the energy requirements of hundreds of thousands of buildings for its industrial, municipal and individual customers.

The Company's operations are conducted primarily through four subsidiaries, each of which specialises in a single business segment: Veolia Water (for water), Dalkia (for energy services), Onyx (for waste management) and Connex (for transportation). The Company also has a 49% interest in, and shared control over, the holding company that controls FCC, a Spanish group that operates in the construction industry and provides a range of environmental-related services.

Although the divisions operate independently from one another, they are capable of proposing an integrated service offering. For example, in 2002 BP awarded a contract to the Company (in partnership with Air Liquide) for the complete management of its thermoelectric heating facility at its Lavéra factory, where Connex has provided a complete package of logistical services since 1987 and Veolia Water operates the facility's water treatment units. The Company also won a significant number of outsourcing contracts with Arcelor in 2002 that require services from each of its four divisions in France, including a 7-year contract to provide energy production, water treatment and waste management services at its Montataire site and a 15 year outsourcing contract for water services and steam production at its Florange site. In addition, the Company entered into a worldwide partnership with the Accor group, which allows it to secure its position as the favoured supplier of an extensive range of services to the Accor hotels, including heating, air conditioning, selective waste collection and removal, water systems management and maintenance and transportation of guests and personnel. The Company studies experimental applications to better preserve the environment at new sites, including, for example, the desalination of sea water and the use of renewable energy or clean fuels. Finally, the water and waste management divisions co-operate closely in connection with its large industrial clients in the United States in the context of "Operation Synergy." As a result of the close collaboration between the Company and one of the leading pharmaceuticals companies in the world, Onyx won a contract in 2002 to provide waste management services at a majority of this company's industrial sites.

The following table shows the contribution of selected geographic markets to revenue by division and to consolidated revenue for 2002, after elimination of all inter-company transactions:

(€ billions)	*Water*	*Waste*	*Energy Services*	*Transport*	*FCC*[1]	*Total*	*%*
Europe	8.5	4.0	4.5	3.2	2.5	22.7	75%
of which France	*6.2*	*2.5*	*3.0*	*1.3*	—	*13.0*	*43%*
Americas	3.7	1.6	*n.m.*	0.1	0.2	5.6	19%
Rest of the World	1.1	0.5	0.1	0.1	—	1.8	6%
of which:							
Africa-Middle East	*0.5*	*0.1*	*n.m.*	*n.m.*	—	*0.6*	*2%*
Asia-Pacific	*0.6*	*0.4*	*n.m.*	*0.1*	—	*1.1*	*4%*
Total	13.3	6.1	4.6	3.4	2.7	30.1	100%
in %	44%	20%	15%	12%	9%	100%	

n.m. = Not Material.

(1) Figures reflect a 49% share of FCC's revenue. Under French GAAP, the Company proportionally consolidates FCC based on the Company's 49% interest in the holding company that controls it. Under U.S. GAAP, FCC would be accounted for using the equity method. See Note 27A to the Company's consolidated financial statements.

Water

Veolia Water, the Company's main water services subsidiary, is the world's leading provider of water services and one of the leading designers and manufacturers of water treatment facilities, systems and standard equipment for industrial, commercial and municipal customers in the world. With its 77,600 employees around the world (including 100% of the employees of companies that are proportionally consolidated by the Company and 50% of the employees in Proactiva's water activities), Veolia Water is present in approximately 100 countries and serves over 110 million people throughout the world under more than 7,000 operating contracts. Veolia Water's three principal subsidiaries are Compagnie Générale des Eaux, which is the leading European water and wastewater services company and has operations worldwide, United States Filter Corporation, which is one of North America's leading water services and equipment company, and Veolia Water Systems, a designer and provider of water treatment systems and standard equipment.

The following table shows the consolidated revenue and EBIT of the water operations in each of the last three fiscal years, after elimination of all inter-company transactions:

	2002	*2001*	*2000*(2)
(€ millions)(1)			
Revenue(3)	13,294	13,641	12,768
EBIT(4)	1,024	1,090	n.a.

(1) Includes 100% of the results of the water activities of Proactiva, the joint venture with FCC. Excluding the results of Proactiva, revenue from the core water business would have been €11,143 million in 2002, €10,770 million in 2001 and €12,541 million in 2000.

(2) Restated to reflect the changes in the Company's accounting methods and presentation of accounts in 2001.

(3) Excluding revenue from the Company's non-core water businesses, revenue from the core water businesses amounted to €11,027 million in 2001 and €11,288 million in 2002. Revenue from the non-core water businesses amounted to €2,614 million in 2001 and €2,006 million in 2002.

(4) EBIT from the Company's core water businesses amounted to €875 million in 2001 and €900 million in 2002.

Veolia Water manages a large number of municipal water and wastewater services around the world, including, in France, Paris (right bank) and its suburbs, Lyon and Marseilles, and in the rest of the world, Berlin (Germany), London's north suburbs (U.K.), Budapest (Hungary), Prague (Czech Republic), Bucharest (Romania), Adelaide (Australia), Indianapolis (U.S.), Pudong (a district of Shanghai) and Tianjin (China) and Libreville (Gabon). Veolia Water also has a number of important industrial clients, including General Motors, Conoco, Hyundai, Danone, British Petroleum (BP), Renault and Arcelor. About two-thirds of Veolia Water's individual customers are in North America, with the remainder located mainly in Europe.

The Company's water division's strategy for its outsourced management activities is to promote selective growth by leveraging its current position and obtaining new key contracts. In the medium-term, Veolia Water expects to refocus on developed countries with well-controlled risk exposures. In continental Europe, Veolia Water seeks to consolidate its leadership by capitalising on key contracts won in the past three years, particularly in Berlin, Bucharest, Budapest and Prague and by focusing on both municipal clients and industrial and commercial companies. In the United States, after the implementation of the plan to shift its strategic focus after the acquisition of USFilter, Veolia Water offers water services to industrial and public entities, targeting unregulated activities where it is the uncontested leader with operations that are four times larger than that of its nearest competitor. In Asia, Veolia Water expects to target opportunities in countries with strong growth potential, such as China, South Korea and Japan, which it considers as crucial to the development of its activities in the region.

The Company's main water systems subsidiary, Veolia Water Systems, is close to completing the integration and restructuring of USFilter International's subsidiaries and is pursuing a plan of selectivity to increase its profitability.

Veolia Water also provides services to individuals through Proxiserve (a joint venture with Dalkia), Culligan and, more recently, Générale des Eaux Services, a subsidiary of Compagnie Générale des Eaux, which offers services and products in France that are not tied to public water services, such as assistance and repair services and solutions for individual environments. Veolia Water also continues to develop a complete range of high value-added services to individuals and commercial enterprises.

The Company provides the following services and products:

- *Municipal and Industrial Outsourcing*: the main focus of the water business is on water and wastewater management services for public authorities and industrial and commercial customers. Veolia Water provides integrated services that cover the entire water cycle, from collection from natural sources and treatment to storage and distribution to collection and treatment of waste water. Veolia Water's activities include the design, construction, management and operation of large-scale, customised potable water plants, wastewater treatment and recycling plants, potable water distribution networks and wastewater collection networks. It also provides water treatment services to end users.

Municipal Outsourcing: Veolia water and its subsidiaries have provided outsourced water services to public authorities in France and in the rest of the world for 150 years under long-term contracts adapted to local environments. Veolia Water uses its experience, technology and know-how to capitalise on the worldwide trend towards privatisation of municipal water and wastewater services.

In France, Veolia Water operates in over 8,000 municipalities in France under the trade name "Générale des Eaux", where it distributes water to approximately 26 million people and treats wastewater generated by approximately 17 million people. The market has become increasingly competitive as a growing number of contracts are expiring, as new local and international competitors enter the market and as certain municipalities decide to manage water services internally. In 2002, Compagnie Générale des Eaux won 43 new contracts, two thirds of which are for water treatment services. Of its 256 contracts nearing expiration, Veolia Water successfully renewed 217 of the 236 contracts that were re-offered through public tenders. The 39 contracts that were not renewed represented only 0.25% of revenue from the Company's water activities in France, which increased by 3% in 2002. The performance of the water division also benefited from a notable increase in the public services provided by Compagnie Générale des Eaux, including the maintenance of water treatment networks, technical network assistance and research on leakages.

In Europe, Veolia Water, already present in Great Britain, Germany and Eastern Europe for a number of years, reinforced its market position in providing services to municipalities by winning a number of significant contracts. In the Netherlands, Veolia Water won a contract in September 2002 to design, construct and operate wastewater treatment plants in the city and region of The Hague for a 30-year period (estimated total revenue of €1.5 billion). This contract and related agreements are expected to be finalised over the course of 2003. In October 2002, it extended from 13 to 28 years a contract won in 2001 for the city of Prague (1.2 million inhabitants) to treat and distribute potable water and collect and treat wastewater. Veolia Water also increased its stake in PVK (Compagnie des Eaux de Prague) from 66% to 100%.

In Asia, Veolia Water has operations in Malaysia, South Korea, Thailand and, in particular, China. In May 2002, Veolia Water won an international public bid to manage water services in Pudong, the business district of Shanghai, for a period of 50 years (estimated total revenue of €10 billion, of which €5 billion is attributable to Veolia Water based on its interest in the operator). Pudong is one of the main commercial and financial centres in Asia and currently has nearly 1.9 million inhabitants. In November and December 2002, Veolia Water won two outsourcing contracts for water management in the cities of Baoji and Zhuhai in China. The 23-year Baoji contract involves the rehabilitation, extension and operation of two potable water treatment facilities that serve 500,000 inhabitants (estimated total revenue of €380 million). Under the Zhuhai contract (1.2 million inhabitants), the Company's first water treatment contract in China, Veolia Water will operate for 30 years two wastewater treatment facilities, one of which already exists and one which must be built (estimated total revenue of €400 million).

In the United States, USFilter sold various non-core businesses to refocus on providing water services and reinforce its leadership in the water equipment and systems market, Veolia Water is continuing to develop its activities in the unregulated municipal market by winning several significant contracts. In March 2002, USFilter won a 20-year contract to manage the municipal water services of the city of Indianapolis, which is the largest-ever outsourcing contract for municipal water services in the United States, with estimated total revenue of US $1.5 billion. Under this contract, USFilter will operate and maintain the city's potable water services, which serve 1.1 million residents, and will rehabilitate related infrastructure and provide client-relations services. In August 2002, USFilter signed a long-term contract with the city of Atlanta to upgrade and manage a programme to treat sludge issued by the city's wastewater facilities (estimated total revenue of US $200 million). In May 2002, USFilter won a 20-year contract to treat wastewater in Richmond, California (estimated total revenue of US $60 million) and in November 2002, USFilter renewed its wastewater management contract with Oklahoma City for five years (estimated total revenue of US $36 million).

In North Africa, in October 2002 Veolia Water took over an outsourcing contract to provide water, wastewater treatment and electricity services for 26 years in the Rabat-Salé region of Morocco (2 million inhabitants), with estimated total revenue of €4.6 billion.

Industrial Outsourcing: Veolia water's industrial outsourcing activities grew in 2002. In France, Veolia Water won several important contracts. In the paper sector, Smurfit Cellulose du Pin chose Veolia Water in January 2002 to treat industrial effluents for 12 years at its kraft paper factory in Facture/Biganos, the Gironde region, which is one of the largest paper factories in Europe, and to construct a new biological treatment station (estimated total revenue of €11 million). In the chemicals sector, Veolia Water signed an agreement with Rhodia in July 2002 to manage and improve a wastewater treatment plant at its Saint-Fons site near Lyon for a 5-year period. This plant also treats wastewater from CIBA's site and another Rhodia site located in Belle Etoile (with estimated total revenue of €6 million). In the steel manufacturing sector, Veolia Water signed a 15-year contract in March 2002 with Arcelor Packaging to treat effluents at its Florange site in Moselle (estimated total revenue of €27 million). In the food processing sector, Veolia Water signed a number of contracts with, among others, LU, LDC, Laurent Perrier, Stalaven and Saupiquet. In Europe, in December 2002 Veolia Water expanded the scope of its relationship with Cutisin, a company in the Czech Republic, to provide complete water services to its subsidiary in Jilemnica for 10 years, with estimated total revenue of €5 million. In Malaysia, Veolia Water signed in August 2002 an important outsourcing contract with the Petronas oil group to provide water treatment and distribution services at the Kerith petrochemical complex for a 20-year period (estimated total revenue of €200 million). In the United States, USFilter signed a 20-year contract with Alon in April 2002 to outsource its water and wastewater treatment services at its Big Spring refinery in Texas (estimated total revenue of almost US $66 million).

- *Water Treatment Design, Construction, Equipment and Systems*: through United States Filter Corporation and Veolia Water Systems, Veolia Water is one of the world's leading designers and manufacturers of water and wastewater treatment equipment and systems for public authorities and private companies. Veolia Water treats ground water, surface water and wastewater using a wide range of separation processes and technologies and it engineers customised systems to reduce or eliminate water impurities. Veolia Water's recycle/re-use systems provide customers with the ability to circulate treated water back into plant processes, thereby reducing water usage, operating costs and environmental damage.

  Veolia Water also designs, engineers, manufactures, installs, operates and manages standardised and semi-standardised water equipment and systems designed to treat water for particular public service and commercial and industrial uses. Veolia Water builds and operates a large number of installations, which gives it a competitive advantage in terms of cost, performance and reliability, especially for services to commercial and industrial firms. For example, many manufacturing processes – particularly those used in the food and beverage, pharmaceutical, microelectronics, paper, chemical processing and oil/petrochemical industries – require treated water to improve product quality and reduce equipment degradation. Veolia Water uses a broad range of physical, biological and chemical treatment technologies that can be combined and configured to treat water to a customer's individual specifications.

  Through SADE, Veolia Water also designs, builds, renovates and rehabilitates urban and industrial potable water and wastewater treatment networks and conducts related work in France and around the world. SADE intervenes at each stage of the water cycle, from its collection to its release, and its public and industrial customers benefit from SADE's expertise in this domain.

  Revenue from Veolia Water's systems and equipment business declined in 2002 as a result of the global economic environment, an increasingly selective policy on investments and the divestment of non-core businesses, despite the fact that it won several important contracts during this period.

  Municipalities: in France, Veolia Water Systems signed a major contract in October 2002 to modernise the wastewater treatment plant in Achères Seine Aval in the Yvelines region, which treats a large portion of the wastewater in the Paris area (estimated total revenue of €390 million). Outside France, Veolia Water Systems will design and build the installations related to the outsourcing contracts won in The Hague (Netherlands), Baoji and Zhuhai (China) and Ashkelon (Israel). In Ashkelon, in particular, the initial capacity of the factory already under construction will be doubled. In addition, Veolia Water Systems won a number of other important contracts in 2002, including, for example, a contract to construct a water station in Machala, Ecuador, with estimated total revenue of €16.2 million. Despite a challenging economic environment in the United States, USFilter was awarded a significant number of equipment contracts by municipalities, including, for example, a contract with Orange County, California, to install the largest micro filtration station in the world, which will treat the county's wastewater for purposes of re-injecting it into the aquifer and prevent the infiltration of seawater (estimated revenue of US $25 million). SADE also won a significant number of contracts to construct and renovate water networks for municipalities in France and elsewhere.

Industrial and Commercial Customers: in France, Veolia Water Systems will design and construct installations under several industrial outsourcing contracts won by Veolia Water, including the agreement with Smurfit and LDC to build biological treatment stations. SADE also signed several contracts to reinforce water treatment networks and protect industrial sites from fire. In addition, Veolia Water Systems won a number of contracts with industrial and commercial companies around the world. Among the most significant agreements, Celluloso Aranco y Constitución SA selected Aquaflow-Veolia Water Systems to design and implement solutions to manage the water cycle at the future factory in the Cruse Rivers Valley, Chile (estimated revenue of €4 million), and TyskieE, an important Polish brewery that belongs to the South African Breweries group, chose Veolia Water Systems to construct its treatment station (estimated revenue of €5.8 million). Despite difficult economic conditions in North America, USFilter won a number of treatment equipment and systems contracts, including a contract to build and install a demineralisation system at the Genespee Power Station in Canada and, in May 2002, a contract to build and install a salt crystallisation system for Saltville Gas Storage Co. in Virginia.

- *Services to Individuals*: through USFilter, Veolia Water supplies bottled drinking water to North American and European consumers under the "Culligan" brand, as well as a variety of water treatment products, including, for example, water softeners and filtration systems. Veolia Water's distribution network for Culligan products and services consists of more than 1,200 suppliers, of which 75% are located in North America and the rest principally in Europe. Veolia Water also markets water filtration systems under the brand name "Everpure" through 50,000 suppliers throughout the world, which are used by 1.5 million food service companies and restaurateurs. In 2002, revenue from these products recorded strong growth due to an increase in sales of bottled drinking water in North America and elsewhere. In France, Veolia Water offers a complete array of services to individuals through Proxiservice, a joint venture between Veolia Water and Dalkia, which offers household technical services (including the distribution of utilities, maintenance of plumbing and heating and air conditioning systems and other maintenance services) and through Générale des Eaux Services, which provides services and products that are not related to municipal water services to individuals and commercial enterprises (including assistance and repair services and solutions for individual environments).

Acquisitions and Divestitures in 2002

In 2002, Veolia Water continued to implement the policy adopted in 2000 to refocus its operations on its core water businesses. Veolia Water's divestments worldwide represented €1.5 billion in 2002.

In the United States, Veolia Water sold the rest of USFilter's Filtration & Separation business (which specialises in filtration and separation technologies with non-water-based industrial applications), all of USFilter's distribution and points of sale activities (supplying gates, pipes and meters) in the United States and a peripheral subsidiary of Culligan, Plymouth Products. Veolia Water also sold its 17% interest in Philadelphia Suburban Corporation, a company that operates in the regulated water sector.

In Europe, Veolia Water sold its minority stakes in two British water distribution companies (a 24.1% interest in Bristol Water Holding and a 31.7% interest in South Staffordshire) and in SVZ, a peripheral incineration subsidiary of BWB, the water services operator in Berlin, for an aggregate amount of €168 million. In France, Veolia Water sold a significant part of its interest in Bonna Sabla, a cement products manufacturer that operates primarily in the public works sector, for €87 million. Veolia Water still holds a 19.85% interest in Bonna Sabla.

Waste Management

Onyx, the Company's main waste management subsidiary, is the second largest waste management company in the world and one of the global leaders in hazardous industrial waste management. With its 73,300 employees around the world (including 100% of the employees of companies that are proportionally consolidated by the Company and 50% of the employees in Proactiva's waste management activities), Onyx operates in all segments of the solid, liquid and hazardous waste management business, serving municipalities and industrial clients on each continent. Providing services along the entire waste management chain, Onyx collects, transfers and treats waste in centres devoted to sorting, composting, energy production or storing, before recovering the waste by producing recycled materials, energy, heat and compost.

Present in 49 countries in all continents, Onyx has expanded the range of its services in the past several years, adapting its offerings to the specific needs of the market and focusing in particular on the outsourcing of environmental management services. Onyx is very active in "traditional" waste management activities (collection, treatment and recovery) as well as in "related" services such as urban, commercial and industrial cleaning and recovery and treatment of land in abandoned industrial sites.

The following table shows the consolidated revenue and EBIT of the Company's waste management operations in each of the last three fiscal years, after elimination of all inter-company transactions:

(€ millions)[(1)]	*2002*	*2001*	*2000*[(2)]
Revenue	6,139	5,914	5,260
EBIT	385	391	n.a.

(1) Includes 100% of the results of the waste management activities of Proactiva, the Company's joint venture with FCC. Excluding the results of Proactiva, the Company's revenue would have been €5,966 million in 2002, €5,686 million in 2001 and €5,047 million in 2000.

(2) Restated to reflect the changes in the Company's accounting methods and presentation of accounts in 2001.

Onyx provides waste management services to 272,000 industrial and commercial clients and, through its municipal contracts, serves almost 76 million people.

The duration of Onyx's waste management contracts usually depends upon the nature of the services provided, applicable local regulations and the level of capital expenditure required under the contract. Collection contracts usually last from three to five years. The length of treatment contracts ranges from one year for operations in landfills that Onyx owns to up to 30 years for contracts involving the construction, financing and operation of new waste treatment facilities. Collection contracts with industrial and commercial customers typically last one to three years, while treatment contracts with these customers last an average of five years.

Onyx's main goals are to develop its waste treatment capabilities, strengthen its offering to industrial clients by capitalising on its expertise throughout the complete waste management chain and its ability to generate synergies with the Company's other operating divisions, consolidate its international network, increase the profitability of its activities by integrating the evolution of the cost structure of its activities, and widen its technological lead in waste treatment and recovery.

The Company's core waste management activities are the collection, treatment and recovery of household, commercial and industrial waste. These activities are divided into two main categories: waste collection and related services and waste treatment and recovery.

- *Waste Collection and Related Services*

  – *Collection and Transfer*: Onyx collected approximately 35 million tons of waste from individuals, municipalities and industrial and commercial sites in 2002, compared to 31.5 million tons in 2001. Onyx provided waste collection services to more than 63 million people around the world in 2002. Onyx also collects hazardous waste for its industrial and commercial customers. Onyx collected approximately 1.7 million tons of hazardous waste in 2002. Onyx also offers its industrial and commercial clients a range of services related to the collection of hazardous waste, such as preliminary studies of future waste collection needs and waste tracking after collection. Onyx transports collected waste to transfer and sorting stations, where it is separated by type and then sorted before being sent to an adapted treatment centre. Hazardous waste is usually transported to specialised physico-chemical treatment centres, recycling units, special industrial waste incineration units or storage centres designed to receive hazardous waste.

  – *Urban Cleaning and Maintenance of Public Spaces*: Onyx provides urban cleaning services in a large number of cities throughout the world, including London (U.K.), Paris (France), Alexandria (Egypt), Rabat (Morocco), Singapore and Chennai (China). Onyx's services include mechanised street cleaning, treatment of building façades to eliminate graffiti and other markings and treatment and deep-cleaning of surfaces to remove paint, solvents, oil, chewing gum and other items. Onyx has developed a range of sophisticated mechanised cleaning equipment to ensure the quality and efficiency of the Company's services.

  – *Liquid Waste Management and Draining and Maintenance of Potable Water Networks*: through its subsidiary SARP, Onyx provides liquid waste management services that consist primarily of pumping and transporting liquids related to sewer networks and oil residues to treatment centres. Onyx also provides pumping and transportation services to industrial and commercial companies on short notice following accidents and other incidents involving liquid waste. Onyx has developed liquid waste management procedures that emphasise environmental protection, such as the on-site collection, recycling and reuse of water during the provision of its liquid waste management services. SARP also collects untreated oil residues, which present a hazard to the environment if released into water systems, and delivers them to SARP Industries, an Onyx subsidiary that specialises in hazardous waste management, for treatment and recovery, which evidences the complementarity of Onyx's different activities.

– *Commercial and Industrial Cleaning*: Onyx provides cleaning services to its industrial and commercial clients' installations, including cleaning of offices and sites and maintenance of production lines. In the commercial sector, the Company provides these services mainly in train stations, subway networks, airports, museums and commercial centres, where cleanliness is associated with quality and security. In the industrial sector, the Company provides these services principally in food processing plants and heavy and high-tech industrial sites, where the Company offers specialised high or extremely high pressure cleaning services, cryogenics and reservoir cleaning in refineries and other petrochemical sites. The Company has recently received an ISO 9001 certification in recognition of the quality of its cleaning services at food-processing plants, which operate under strict hygiene regulatory requirements. Onyx has developed advanced technological cleaning systems, including specialised robots, that enhance the quality of the cleaning services offered, reduce the time required to complete cleaning operations and increase the safety of employees. Onyx offers its commercial and industrial cleaning services in most industrialised countries, including Germany, Australia, Canada, the United States, France and Scandinavia. The Company has also developed emergency services to treat the potential contamination of a site due to incidents or accidents that occur at the facilities of its industrial customers.

- *Waste Treatment and Recovery:*

  In 2002, Onyx treated 54 million metric tons of waste, compared with 47 million metric tons in 2001, at its sorting centres, composting units, hazardous waste treatment units, incineration units and storage centres.

  – *Sorting and Recycling:* the Company's recycling activities generally involve the selective or separate collection of paper, cardboard, glass, plastic, wood and metal that customers either separate into different containers or mingle with other recyclable materials. The Company's customers are increasingly separating different types of recyclable waste into separate containers, which requires selective collection services. Onyx received approximately 7 million tons of solid waste at its 220 sorting, recycling and transfer units in 2002 (compared to 184 units in 2001), of which 4.6 million tons were recycled, including 2 million tons of paper. Onyx also provides disassembly and recycling services for complex waste products at specialised treatment centres, such as electric and electronic products and fluorescent lamps. Onyx works in partnership with upstream industrial customers and with its CREED research centre in order to develop new recycling activities. The Company sells recycled material to intermediaries or directly to industrial and commercial clients. Onyx is one of the European leaders in recycling waste paper and cardboard and has substantial waste paper recycling operations in the United States. Sorting and recycling are also becoming larger components of the environmental management services the Company provides to industrial and commercial companies. The Company designs and develops recycling systems that enable its industrial and commercial customers to optimise their production chains by reusing certain waste by-products generated in the manufacturing process, such as its glass recycling system that enables electronic consumer products companies to reuse glass waste in their tube production cycles after treatment at one of Onyx's recycling centres.

  – *Composting*: Onyx and Veolia Water work together to recover sludge from wastewater treatment plants, which shows the synergies within the Company's group. In 2002, Onyx recovered almost 2 million tons of urban and food processing sub-products and sludge produced by Veolia Water's wastewater treatment plants at its 99 composting units, compared to 80 composting units in 2001. Somergie, a subsidiary jointly owned by Onyx and the city of Metz, was awarded the European Ecolabel for its urban compost in 2002. In addition, Onyx launched in 2002 the "Biodiv" service for industrial companies that generate vegetable waste, which includes specialised container storage, frequent collection and on-site composting services, as well as the tracking of waste throughout the cycle from collection to recovery. The Company offers these services mainly to manufacturers, food processing companies and national interest and distribution markets (including fruits, vegetables, flowers and bread).

- *Treatment and Recovery of Hazardous Waste*: through its specialised subsidiary SARP Industries, Onyx is one of the world leaders in treating, recycling and recovering hazardous waste, with a particularly strong presence in France, Hungary, Israel, Portugal, South America and, through Onyx Environment Service, in the United States. Onyx provides advisory services (engineering and customised solutions) and treatment and recovery services adapted to each industrial sector and type of waste, such as solvent and resin regeneration, hydrocarbon waste recovery, recycling of batteries, fluorescent tubes and soiled packaging, and retrieval and recycling of precious or rare metals. With 53 units in 18 countries, Onyx treated 3.2 million tons of hazardous waste in 2002, of which 975,000 tons were incinerated at its 21 special industrial waste incineration units, 1.06 million tons were stored at its 7 Class 1 storage centres, 1 million tons were treated in 36 units by physico-chemical and stabilisation processes and the remaining 160,000 tons were recovered at its 32 specialised treatment centres.

- *Waste-to-Energy and Incineration*: Onyx treats approximately 8.4 million tons of non-hazardous solid waste (consisting mainly of urban waste) per year at its 70 waste-to-energy recovery and incineration plants. Energy is generated from the heat created by incinerating waste at these plants. Onyx uses this energy to supply district thermal networks or for sale to electricity providers. Waste to energy recovery and incineration is often the recommended waste treatment solution in densely populated areas where landfill space is scarce.

- *Waste Storage and Waste-to-Energy Recovery of Biogas Emissions*: Onyx treated approximately 33 million tons of non-hazardous solid waste in 139 storage centres in 2002. Onyx has developed the expertise to treat waste through methods that reduce emissions of liquid and gas pollutants and that permit it to use its storage sites in compliance with the most stringent environmental regulations. Onyx currently has 111 storage centres equipped to retrieve and treat biogas emissions from the anaerobic fermentation of waste, of which 29 centres have recovery systems to transform biogas emissions into alternative energies.

- *Recovery of Polluted Sites and Land*: Onyx has recently commenced leveraging its expertise in waste management to provide treatment and related services for the recovery of land in abandoned industrial sites where unmanaged waste treatment or industrial accidents have resulted in high levels of contamination. Onyx's engineers design, develop and implement treatment and recovery strategies on a case-by-case basis for each industrial site.

Main Developments in 2002

As in 2001, Onyx focused in 2002 on consolidating its business in France, Europe, the United States and Asia, while at the same time winning several major contracts in these regions. Through Onyx, the Company won new contracts with local municipalities that will generate significant revenue and reinforced its industrial client base (272,000 industrial clients) despite difficult economic conditions, particularly in Europe and the United States. Onyx continued to grow in 2002, although at a slower pace than in 2001.

In France, the Company's activities grew despite a restrictive legislative environment that led to costly reorganisations as the Company implemented the reduced 35-hour work week. Regarding services to industrial customers, Onyx was selected by Sanofi Synthélabo to provide global waste management services for 3 years at two research and development sites in Toulouse and Labège (estimated total revenue of €245,000) and renewed its partnership with Renault for the cleaning and treatment of waste at 15 of Renault's industrial sites for 4 years (estimated total revenue of approximately €88 million). Onyx also signed a contract with Société Générale to provide cleaning services for 230,000 square metres of office space at 18 sites in the Paris region and in Nantes (estimated total revenue of €1.8 million). In the retail distribution sector, Onyx renewed its main contracts and increased its client portfolio by €12 million in 2002 with chains such as Auchan, Casino, Monoprix and Conforama. Onyx also obtained several contracts with Exxon Mobil for waste collection and cleaning services. In the chemical sector, Onyx won a contract to provide comprehensive waste management services at Solvay's site in Dombasle (estimated total revenue of €1 million). Onyx also renewed a 3-year industrial cleaning and maintenance contract with Sollac at its Fos-sur-Mer site (estimated annual revenue of €5 million). Through VALTECH, a subsidiary of Onyx that specialises in site recovery, the Company was awarded the disassembly of the Renault site at Boulogne Billancourt, where it treated 40,000 tons of land and 10,000 tons of concrete.

Regarding public authorities, Onyx won a 3-year contract to clean tourist locations in Paris, including the Champs-Elysées, the Beaubourg Esplanade and the area around Notre Dame cathedral. Onyx also obtained the renewal of a 3-year contract to collect, transport and treat waste from 41 facilities of the Paris Hospitals in the Ile-de-France region (estimated annual revenue of €3.8 million), which may be extended for an additional 2 years, and of a global waste management contract with the Marne Department to establish a network of 5 transfer stations and a waste-to-energy platform for household waste that will include a composting unit and a waste-to-energy unit outside of Châlons-en-Champagne (estimated total revenue of approximately €250 million). Onyx was chosen by Lens-Liévin and Hénin-Carvin communal groups to crush, transport by river and compost 40,000 tons of recyclable waste produced each year by these municipal conglomerations and opened two new waste-to-energy units to treat biogas emissions at the Boves site in Picardie and at the Puy-Long site in Auverge. Onyx renewed contracts to operate the incineration unit at Rungis for 16 years (estimated total revenue of €50 million) and to operate the Montchanin storage centre in the Saône-et-Loire region. Onyx commenced operating the waste-to-energy unit at Halluin in Picardie and won a contract to collect waste and provide urban cleaning services in the downtown area of Nîmes (approximately 100,000 residents). Onyx also obtained the renewal of contracts to operate the sorting and transfer centre at Romainville, to collect household and urban waste in several districts of Paris (estimated annual revenue of approximately €20 million) and to collect household waste in Rennes and Nanterre and provide urban cleaning services in Nantes (270,000 residents). Finally, Onyx also obtained the extension of its contract to operate the sorting centre at Grenoble.

Through Renosol, Onyx also provides transportation cleaning services and won 4 new contracts with air and rail transportation operators, including the cleaning of 110 trains on the TGV Atlantic for 6 years (estimated total revenue of €45 million), the Rennes train station and the new Rennes subway for 6 years (estimated total revenue of approximately €3 million) and Air France's airplanes at the Orly (Paris) airport for 3 years (estimated total revenue of €12 million). Onyx also won a contract to clean the Nice airport facilities for 3 years and renewed for 6 years its contract to clean the TGV Nord, the Thalys and the Eurostar high-speed trains (estimated total revenue of €54 million).

In Europe, Onyx's subsidiary won a number of large contracts in the United Kingdom. In October 2002, Onyx won a 7-year contract (to be signed in 2003) to collect and recycle household and commercial waste for the city of Portsmouth (estimated total revenue of approximately €38 million), the 7-year renewal of a contract to collect household and commercial waste and provide urban cleaning services in the Westminster area of London (with 200,000 inhabitants and 1 million visitors per day) (estimated total revenue of €350 million) and a 7-year contract beginning in April 2003 to collect household and commercial waste and provide urban cleaning services in the central London area of Camden (estimated total revenue of approximately €190 million). In November 2002, Onyx extended its contract with the County of Hampshire for a 5-year period, including the construction of three additional recycling centres for household waste. Onyx won a 5-year contract with Royal Mint in the south of Wales (one of the production sites for euro coins) to treat liquid waste, install containers, collect dry waste and remove hazardous waste and a contract to collect solid waste for Chubb, an insurance company, in Birmingham for 12 years. In Italy, Onyx won a contract to decontaminate soil at the site of the former Agip refinery in Rho near Milan, where it will treat more than 240,000 tons of soil contaminated by hydrocarbons through heat desorption, and commenced operations at its new Technoborgo waste-to-energy unit in Piacenza, south of Milan, with an estimated annual treatment volume of 105,000 tons. In Poland, Onyx renewed for 3 years its contract to provide snow removal services in the city of Kielce.

In the Middle East, Onyx provides comprehensive waste management services in Alexandria, Egypt (3.5 million residents), since October 2001, including the collection and treatment of 2,500 tons of household waste each day. In addition, Onyx will secure old landfills, develop an existing waste storage centre, build a waste transfer station and provide urban cleaning services. This contract also provides for training of local personnel and a campaign to heighten public awareness of urban hygiene issues.

In Asia, the Company is present in 11 countries. In Singapore, Onyx expanded its 2001 waste management collection contract with the community of Tanglin Bukit-Merah to provide urban cleaning services in the city centre, including mechanised sweeping of streets and sidewalks, cleaning of commercial zones, purification networks and beaches as well as waste removal from public trash cans, for a period of 5 years (estimated total revenue of €45 million). In China, Onyx won an 8-year contract to design and operate the household waste storage centre in Canton (Guangzhou), which will have a total capacity of 20 million cubic metres by the end of 2003 (estimated total revenue of €37 million). This contract is the first of its kind won by a foreign company in China, Onyx has reinforced its position during the past two years by winning new contracts in Hong Kong, mainland China, Taiwan and India.

In North America, where Onyx generates nearly a quarter of its revenue, Onyx continues to expand its operations progressively by winning a number of important global waste management contracts, particularly in the automobile industry, where Ford Motors awarded Onyx several important global waste management contracts for its sites in Atlanta, Memphis, Dearborn and Livonia for a 3-year period. In addition, Onyx won a national 5-year contract with Chevron Phillips Chemical to provide industrial cleaning services and contracts to collect and recycle municipal waste in Highland Park (estimated annual revenue of US $2.6 million) and Saint

Charles (estimated annual revenue of US $1.4 million), in Illinois. Onyx also won an outsourcing contract to operate a waste-to-energy unit in Savannah, Georgia, for 6 years (estimated total revenue of approximately €42 million) and another waste-to-energy unit in Charleston, South Carolina, for 7 years. Finally, Onyx won contracts to restore the wastewater treatment networks of Toronto, Ottawa and Saint-Thomas (Ontario) in Canada.

In the rest of the world, Onyx won or commenced operations under a number of contracts in 2002. For example, Onyx provided urban cleaning services for the first full year under its contract with the city of Rabat-Hassan in Morocco for a period of 6 years (estimated annual revenue of €2.6 million). Onyx also won a 7-year waste management contract with the city of Oujda, Morocco, which has 410,000 residents and generates 110,000 tons of waste per year (estimated annual revenue of €2.7 million). In South Africa, a consortium formed by Onyx, Anglo Platinum and Zimelec took over the operation of a waste storage centre for the platinum factory in Rustenburg, which is located to the northwest of Johannesburg. In Australia, Onyx signed a 3-year contract with Boral Limited to treat industrial waste at 670 sites around the country (estimated total revenue of €10 million) and acquired Vactech. In New Zealand, Onyx won a contract to manage the municipal waste storage centre at Poirua for a 5-year period (estimated annual revenue of €400,000), a 3-year contract to provide urban cleaning services in the city of Waitakere, in the Auckland region (estimated annual revenue of €500,000) and a contract with ABI Group to provide the cleaning services of the city of Auckland (estimated annual revenue of €450,000).

Acquisitions and Divestitures in 2002

In France, Onyx focused on the reorganisation of its activities by region and the rationalisation of its operations in 2002. Outside France, Onyx implemented a similar reorganisation by geographic zones. Despite these reorganisations, there were no major overall changes in Onyx's scope of consolidation between 2001 and 2002.

In 2002, Onyx integrated 52 companies into its group, of which 15 companies were located in France, 8 companies in Norway, 9 companies in North America, 8 companies in the rest of Europe (Poland, Spain, Portugal Italy, Hungary, Germany, United Kingdom and Czech Republic), 2 companies in South America, 8 companies in Australia and 2 companies in Asia. At the same time, Onyx ceased consolidating 39 companies of its group in 2002, of which 23 companies were merged and the remaining 16 were sold, dissolved or liquidated. In total, Onyx's group included 602 companies in 2002 (compared to 566 companies in 2001), of which 524 companies were fully consolidated, 31 companies were proportionally consolidated and 47 companies were accounted for by the equity method.

Energy Services

Dalkia provides energy and environmental optimisation solutions, including services relating to heating and cooling networks, thermal and multi-technical systems, industrial utilities, installation and maintenance of production equipment and integrated facilities management. Dalkia also offers public electricity services through its subsidiary Citélum and services to individuals through Proxiserve, a subsidiary jointly owned by Dalkia and [Veolia] Water. Present in 32 countries, Dalkia has almost 40,100 employees around the world (including 100% of the employees of companies that are proportionally consolidated by the Company).

Dalkia is partly owned by EDF, which holds 34% of its share capital and with whom Dalkia is developing joint international offerings for international customers and eligible clients in France (i.e., those consuming more than 7 gigawatts of electricity per year). Under an agreement entered into in December 2000, the Company agreed that EDF's stake in Dalkia will eventually rise to 50% at a price based on Dalkia's market value as the market deregulation process continues and the current limitations on EDF's ability to provide energy services are further removed. Dalkia's French operations are conducted through Dalkia France, a wholly-owned subsidiary of Dalkia. Outside France, Dalkia conducts its activities through Dalkia International, of which it holds a 76% interest and EDF holds the remaining 24%.

The following table shows the consolidated revenue and EBIT of the Company's energy services operations in each of the last three fiscal years, after elimination of all inter-company transactions:

(€ millions)	2002	2001	2000(1)
Revenue	4,571	4,017	2,988
EBIT	244	221	n.a.

(1) Restated to reflect the changes in the accounting methods and presentation of accounts in 2001.

Dalkia provides energy management services to public and private clients with whom it has formed long-term partnerships. Its core activity focuses on optimal energy management. To respond to clients' needs for increasingly complete and integrated services, Dalkia has progressively established a range of activities linked to energy management, including heating and cooling systems, thermal and multi-technical services, industrial utilities, installation and maintenance of production equipment, integrated facilities management and electrical services on public streets and roads.

Dalkia's contracts to operate urban heating systems are typically long-term, lasting up to 25 or 30 years, while its contracts to operate thermal and multi-technical installations for public or private clients may last up to 16 years. Contracts to provide industrial utilities services generally have shorter terms, while contracts in the facilities management sector generally last 3 to 5 years.

Dalkia is one of the French leaders in co-generation and on-site energy generation. Co-generation involves the simultaneous production of heat and electricity, which optimises the efficiency and profitability of Dalkia's customers' installations. French law requires the operators of the electricity distribution network to purchase at specified rates energy produced by co-generation installations with a capacity not exceeding 12 MW of electricity. Dalkia's total electric power production capacity (including co-generation facilities, peaking plants and stand-by generating units) is 3,900 MW in Europe.

Dalkia's strategic priorities are to adapt its service offerings in light of the deregulation of European energy markets by developing integrated services in the areas of gas and electricity consumption, develop its heating systems management activities, particularly in Central and Eastern Europe, without excluding possible opportunities in Asia, particularly in China, Japan and South Korea, develop its service offerings to industrial clients, including utilities management and process maintenance, in co-ordination with the Company's other divisions in respect of all of its customers and with EDF in respect of eligible customers in France and elsewhere, and develop and broaden its facilities management service offerings to industrial and commercial customers.

In 2002, Dalkia began work under several contracts concluded in 2001, particularly those won in the Baltic states, and signed a number of new contracts.

In the European market, Dalkia's activities benefit from three strong trends: the increase in environmental concerns, the opening of energy markets as Dalkia's clients consider possible opportunities in the field, and a growing willingness by industrial clients to outsource activities unrelated to their business.

The Company provides the following energy services:

- *Heating and Cooling Networks*

  Dalkia is one of Europe's leading operators of large "district" heating and cooling networks. Dalkia currently manages 300 district heating networks in the world, particularly in France, the United Kingdom, Italy, Germany, Eastern and Central Europe and the Baltic states. The networks operated by Dalkia provide heating and cooling to a wide variety of public and private facilities, including schools, hospitals, office buildings and residences.

  In France in 2002, Dalkia renewed its concession contract to operate the heating system for the ZUP in Mons-en-Barouel (North) for 25 years (estimated annual revenue of €5.1 million), where it will install a co-generation unit with a generation capacity of 7 thermal MW related to this network. Dalkia also signed a 20-year contract with the city of Falaise in the Calvados region to create and operate a wood-based heating system with a generation capacity of 5MW (estimated annual revenue of €411,000).

  In Europe in 2002, Dalkia won a contract with Ostrava in the Czech Republic to take over ZTO, the city's heat distribution company with revenue of €43 million in 2001, for approximately €19.1 million. With 315 steam boilers, 160 kilometres of network and 233 substations, ZTO distributes heat to 84,000 residences and 900,000 cubic metres of commercial buildings. Following the acquisition of two co-generation centres in Usti Nad Labem in October 2001, Dalkia is the largest independent producer of heat and the second largest independent producer of electricity in the Czech Republic, according to Bohemia Invicta, a Czech industry association. In addition, following the award to Dalkia of a contract to operate starting in April 2002 the heating system in Vilnius, Lithuania, Dalkia is one of the largest private operators of district heating networks in Central and Eastern Europe and the Baltic states. In Poland, Dalkia acquired 61% of PEC Poznan, the operator of the district heating system of the city of Poznan, which makes it one of the leaders in the Polish market.

- *Energy Management*

  Dalkia provides integrated energy services, which generally include system construction and improvement, energy supply, system management and maintenance, to public and industrial and commercial customers. Through this activity, which represents Dalkia's core business, Dalkia provides customers with a large range of technical services and manages 70,000 systems generating 75,000 MW of thermal heat throughout the world.

In France in 2002, Dalkia renewed its contract with the Paris building and construction authority (*OPAC*) to provide energy management services in its buildings for five years, which now also includes prevention measures relating to the risk of development of the legionella bacteria (estimated annual revenue of €2.9 million). In addition, the Centre Hospitalier Caborit in Poitier selected Dalkia to manage its energy systems for 8 years (estimated annual revenue of €355,000), and Dalkia inaugurated in September 2002 the new boiler room at the Villiers Saint Denis Hospital in Aisne, which is Dalkia's oldest client and which awarded Dalkia its first energy management contract in 1937.

In Europe, Dalkia won a 10-year contract to provide energy management services to public buildings in Csenger in northeast Hungary and to take control over 30 dependent sites in the Vas Meyge department of Hungary, including the department hospital (estimated annual revenue of €2 million). In Italy, Dalkia won contracts to provide energy management services to the hospitals of Parma, Naples, Friuli, Garda, Triestina, Navora, Vercelli and Genoa.

In Asia, Dalkia won a 3-year contract to provide energy management services to the city of Seoul, South Korea.

- *Industrial Utilities*

  Dalkia has become a leading provider of industrial utilities services in France and the United Kingdom, and has developed expertise in the analysis of industrial processes, productivity enhancement and the operation, maintenance and servicing of equipment. Industrial utilities services generated 29% of Dalkia's revenue in 2002.

  In France in 2002, Dalkia won a 7-year contract to produce steam for the Vico factory situated in Vicq-sur-Aisne, representing estimated annual revenue of €2.5 million. The Papeterie Lucart in la Rivière de Corps (Aube) awarded Dalkia a 5-year multi-services management contract for a new paper factory, representing estimated annual revenue of €1 million. In 2002, Dalkia also won a contract to manage industrial utilities as an extension of a contract to manage the co-generation of BP in Lavéra for 12 years (estimated annual revenue of €4.4 million) and a multi-services maintenance contract with Naphtachimie, a subsidiary owned jointly by BP and Atofina, for 3 years (estimated annual revenue of €2.2 million). Finally, Dalkia won two 7-year industrial contracts in Bousbecque (North), the first with the paper-maker Ahlstrom and the second with Dalle Hygiene Production, a subsidiary of the Italian group Kartogroup. For these two contracts, Dalkia has agreed to provide 270,000 tons of steam each year through the creation of two boiler rooms.

  In Europe, Dalkia was chosen in March 2002 to operate the energy installations of Tonak, the leading global hat manufacturer, in Novy Jicin (Czech Republic) for 27 years (estimated annual revenue of €1.5 million). Dalkia signed a 15-year contract with the food processor Setuza in Olomouc (Czech Republic) to take over the management of the site's energy requirements (estimated total revenue of €26.5 million). In Italy, Dalkia won a contract with Manulifilm, one of the main European producers of film products used in packaging, plasticising, rubber band manufacturing and the tobacco industry, to supply electricity, heating and cooling services for 10 years (estimated annual revenue of €7 million).

- *Facilities Management*

  Facilities management contracts integrate a range of support services, from electrical and mechanical equipment maintenance to logistics, into one global service. As a result, the client can meet its need for different services through one company. Dalkia provides facilities management services for its customers at industrial, commercial, corporate office or health establishment sites in Europe, Latin America and Asia.

  In France in 2002, Dalkia renewed its contract with the Hôtel du Département du Nord for 5 years (estimated annual revenue of €1.1 million) and won contracts to provide facilities management services to the Bordeaux Polyclinique for 3 years (estimated annual revenue of €0.8 million) and to the 220 agencies of Crédit Mutuel du Nord's Northern European network (including electricity management) for 3 years (estimated annual revenue of €4.3 million).

  In Europe, Dalkia won a 5-year contract in Great Britain through its subsidiary Pakersell to provide lighting services at 183 train stations covered by the Connex South Eastern licence, representing estimated annual revenue of €7 million. It is reasonably believed that this lighting services contract will not be affected by the 26 June 2003 decision of the Strategic Rail Authority to terminate the South

Eastern rail franchise. In Belgium, Dalkia won a contract to provide services for 5 years to all of the European Commission's buildings, which represents 68 buildings totalling 1.5 million cubic metres and will require the deployment of 200 employees (estimated annual revenue of €11.5 million). In the Middle East, the joint venture created in 2002 with the group Majid Al Futtaïm in the United Arab Emirates won a 10-year facilities management contract for three commercial centres (estimated annual revenue of €4 million). In Norway, Dalkia and a Norwegian real estate company created a joint venture called Opak (in which Dalkia holds 60%) to develop facilities management services to corporate offices and hospitals in the Oslo region.

- *Street Lighting Services*

  In France, Citélum won contracts to manage street lighting in several cities, including Limours, Marignane, Willems, Brebières and Varas-Plage. Citélum entered into an engineering contract with the community of Reims to provide street lighting diagnostic services and to renovate the city's street lighting network and information systems management, and was selected to provide lighting services to prestigious French buildings around the country, such as the Saint Sernin Basilica in Toulouse and the main façade of the Notre Dame cathedral in Paris.

  Outside France, Citélum won a 5-year street lighting management contract for the city of Fortaleza, Brazil, which includes the operation and maintenance of the network and the renovation, extension and modernisation of the network (estimated total revenue of €35 million). In Southeast Asia, Citélum won prestigious lighting contracts, including an agreement to provide light for the twin towers of Petronas in Kuala Lumpur, the highest inhabited towers in the world at 452 metres (estimated total revenue of €117,000).

- *Services to Individuals*

  Dalkia also provides residential services to individuals through Proxiserve, a joint subsidiary of Dalkia and Veolia Water, including maintenance of heating, air conditioning and plumbing systems.

Other Significant Developments in 2002

Dalkia was also selected to participate in the first auction by the British government of permits for greenhouse gas emissions. In order to motivate companies, the government offered a budget of €350 million over 5 years. Dalkia was the only energy services company among the 34 participants selected and committed to reduce carbon dioxide emissions in the United Kingdom by a total of 100,000 tons by 2006, which represents a 37% reduction compared to the reference level. To reach its goal, Dalkia will work together with 4 hospitals and 134 commercial buildings for which it operates energy installations and with which it will share the fees awarded for each ton of carbon dioxide saved.

Acquisitions and Divestitures in 2002

Pursuant to the requirements imposed by the French Ministry of Economy and Finance in connection with the Company's agreement with EDF described above, Dalkia Investment sold its 50% interests in Périgord-Energie and Cogevitry, each of which specialise in high-power co-generation operations, in October 2002.

Dalkia France acquired the remaining 50% that it did not own of Somussy. Dalkia acquired DBU, a Dutch company that provides technical services and mechanical and electro-technical installations to industrial clients, which ranks Dalkia among the leading technical services and industrial services management companies in the Dutch market with 600 employees (estimated annual revenue of €50 million). In Sweden, Dalkia acquired 5 companies specialised in industrial maintenance services from Maintech, a subsidiary of PEAB, the Swedish public works group, for approximately €4.9 million (estimated aggregate annual revenue of €40 million).

In October 2002, the merger of Dalkia and SIRAM into SIRAM Groupe Dalkia was completed, ending the consolidation process between Dalkia and SIRAM. SIRAM is the second largest heating systems management company in Italy, and possesses unrivalled expertise in managing complex contracts for government and commercial clients, particularly in health-related fields. During its first year in operation, the newly-created company had 2,300 employees and represented 8% of Dalkia's international activities.

Transportation

Connex, the Company's main transportation subsidiary, is the leading European private operator of ground passenger transportation services in terms of revenue. Connex operates road and rail passenger transportation networks under contract with national, regional and local transit authorities.

In 2002, Connex operated 236 rail and road networks and 21,000 vehicles for road or rail travel with 55,200 employees around the world (including 100% of the employees of companies that are proportionally consolidated by the Company).

The following table shows the consolidated revenue and EBIT of the Company's transportation operations in each of the last three fiscal years, after elimination of all inter-company transactions:

(€ millions)	*2002*	*2001*	*2000*[(1)]
Revenue	3,422	3,099	3,131
EBIT	116	112	n.a.

(1) Restated to reflect the changes in the accounting methods and presentation of accounts in 2001.

Connex operates road and rail passenger transportation networks under contracts won through auction with various public authorities. The public authority with which Connex contracts generally owns the infrastructure Connex uses and typically establishes schedules, routes and fare structures for the networks that Connex operates and manages. Connex conducts its business through outsourced management under conditions and structures that differ from one country to another due to varying legal and regulatory requirements. Because the fares Connex charges passengers on its transportation networks are usually insufficient to cover its costs, the public authority typically provides Connex a guaranteed minimum revenue payment or pays Connex a subsidy. Rail management contracts generally last for 15 years while road management contracts last for 12 years, a difference primarily explained by the need for more significant investment in the rail sector. Connex has contracts with more than 4,000 public authorities.

In 2002, Connex strengthened its position in France following the acquisition of Transports Verney and continued to develop internationally, particularly in Germany, Dublin and Jerusalem.

Connex's strategy primarily focuses on internal growth. Connex considers acquisitions in markets open to competition as a means to improve bids at public auctions or in geographic regions where Connex sees synergies with its other activities.

- *Urban and Intercity Transportation*

  Connex operates a number of "right-of-way" transit systems and bus networks and provides both integrated and customised services. Connex is responsible for driving, inspecting, cleaning and providing security on vehicles, marketing, providing customer service, and maintaining, cleaning and providing security in the stations on its networks.

  Right-of-way system and bus network operation: in France, Connex operates several tram and light rail lines in Rouen, Saint-Etienne and Nancy, and began operating a right-of-way system using third generation buses serving the east-west axis in Rouen in April 2002. In July 2002, Connex inaugurated an express bus line between Cergy-Pontoise and the Charles de Gaulle-Roissy airport.

  Connex is also the exclusive operator of the bus networks in Nice, Bordeaux, Nancy and Toulon as well as in 40 other French cities. In April 2002, Connex won a contract to manage the urban network of Saint-Chamond consisting of 15 buses serving 7 lines until June 2004 (revenue of €1.2 million in 2002, or €1.7 million if adjusted to reflect a full year of operations). In July 2002, Connex also won a contract with the Indre-et-Loire department to operate its intercity and international bus station in Tours for three years. In February 2002, Connex renewed its contract to operate the urban network in Nancy for 7 years. Connex also strengthened its presence in France through its acquisition in January 2002 of Transports Verney, which operates in more than 30 French departments mainly in the Great West and Rhône-Alpes region. Transport Verney's activities, which relate mainly to the management of suburban and intercity networks, recorded revenue of more than €150 million in 2001.

  In Europe, Connex operates tram and light metro lines in Görlitz, Berlin (Germany) and Stockholm (Sweden). In conjunction with FCC, Connex will also operate the new metro system in Barcelona (Spain) once it begins service. The contract to operate the greater urban area network of Stockholm, which was due to expire in 2004, was renewed in November 2002 for 5 years (through July 2009), increasing the total revenue generated under the contract by more than €1 billion. Connex also acquired the remaining 40% of Connex Tunnelbanan from the Stockholm transportation authority, raising its interest in the company to 100%. In Ireland, Connex signed a contract in March 2002 to operate the new light rail "Luas" network in Dublin for 5 years, which will commence operating at the end of 2003. Luas will operate 40 vehicles divided among 2 lines and serve 36 stops (estimated total revenue of €55 million).

Connex also manages the bus lines in major European cities such as London, Stockholm, Frankfurt, Warsaw and Maastricht. In November 2002, Connex won a public bid to operate the bus network in Jersey for 7 years; since 2002, 78 employees have operated approximately 40 buses serving the principal areas on the island and near the airport. In Sweden, Connex won a 6-year contract in January 2002 to operate the Eskilstuna urban and intercity network, comprising 59 vehicles and 38 urban buses (estimated total revenue of €56 million) and a 4-year contract in December 2002 to operate the Scanie regional network (estimated total revenue of 93 million Swedish krona). In total, 650 new employees will operate more than 300 additional vehicles on these urban and intercity networks in Sweden. In the Netherlands, Connex took over service provided by 18 buses, 6 bus lines and more than 40 employees in South Limbourg from the Dutch subsidiary of Arriva, the former network operator. In July 2002, Connex also won a contract to operate the intercity bus network between Utrecht, Woerden and south-east Amsterdam for 4 years with the option to add another 2 years, representing total revenue of approximately €40 million over the first 4 years.

In Poland, Connex won a public bid in October 2002 to privatise PKS Kedzierzyn-Kozle, which is situated in southwest Poland and operates nearly all of the intercity lines. Following this contract, Connex Polska currently generates more than €16 million in annual revenue with 350 vehicles and has more than 1,000 employees. In Slovenia, Connex took over the operation of the Certus network of urban and intercity transportation in Maribor from a private operator and will manage 201 intercity vehicles that serve the entire northeast region of Slovenia with 53 urban buses. This 10-year contract is expected to generate approximately €180 million in total revenue.

In North America, Connex provides transportation services in Washington, D.C., the second largest American city in terms of traffic, through Yellow Transportation, a company based in Baltimore, Maryland. In July 2002, Connex won a contract to operate the intercity network of Prince George County in Maryland for 5 years (estimated total revenue of approximately €55 million) and signed a contract to operate 111 buses in Los Angeles' north suburbs for 5 years (estimated total revenue of €49 million).

In the rest of the world, Connex operates in partnership a high-frequency right-of-way bus system in Bogotá, Colombia, which currently serves more than 800,000 passengers per day. Connex also has a presence in Sydney, Australia. In Israel, the consortium formed by, among others, Connex with a 5% interest and Alstom with a 20% interest, won a public bid to construct, finance, operate and maintain the first light rail line in Jerusalem. The contract under concession was signed in November 2002 for 30 years, with Connex to hold approximately an 80% interest in the operating and maintenance company.

Integrated Services: Connex provides interconnected bus, tramway, metro and train transportation services through a co-ordinated ticketing system in many urban conglomerations. Connex also offers special integrated transportation services within networks managed by several different operators in an urban area, including the Paris suburbs, Rouen and Saint-Etienne in France, and London, Stockholm (where it also operates the metro and other public transportation systems), Sydney, Görlitz and Düsseldorf.

Services on Demand: Connex offers innovative and original transportation services in certain cities that supplement the classic transportation networks. For example, in France Connex offers Créabus, an on-demand minibus service that is tracked by a Global Positioning System, or GPS, which operates in Dieppe, Montluçon and Ile de France, and Iciéla, an electrical car system to serve urban areas that are restricted to other vehicles, which operates in Amiens.

Services to Industrial Clients: In France, Connex was chosen to provide maintenance services to Usinor Packaging's trains and rail line at its industrial site in Basse-Indre, in the Loire Atlantique department.

- *Regional Transportation*

  Connex provides regional transportation services through the operation of road and rail networks. As with urban transportation services, Connex is responsible for designing, planning, operating, maintaining and providing security on the vehicles and stations it uses in its regional networks, as well as for ticket sales and customer service.

  In France, Connex operates a number of regional rail networks, covering approximately 850 kilometres, through contracts with regional public authorities and the Société Nationale des Chemins de Fer (SNCF), the French national railroad company, particularly in the regions of Brittany, Provence, the Alps and the Côtes d'Azur.

In Europe, Connex has a strong presence in the United Kingdom, Germany, Norway, Sweden, Finland, Belgium, Spain and the Czech Republic.

In the United Kingdom, where it recorded total revenue of €661 million in 2002, Connex operates regional rail networks serving southern England through a contract expiring in 2006. This contract, initially expiring in 2011, was renegotiated in 2002, resulting in a €90 million increase in Connex's revenue for 2003. Please see further "Recent Developments—Transportation".

In Germany, Connex employs more than 3,000 people at 30 rail and road transportation sites. Connex operates six regional rail networks, representing over 1,000 kilometres of rail lines, benefiting from the regional nature of German rail transportation. In July 2002, Connex won a public bid to operate two regional rail passenger lines in the Görlitz region (estimated annual revenue of €13 million). In February 2002, Connex Regiobahn positioned itself to compete on interregional connections not yet served by the Deutsche Bahn on long distance routes in Germany. On 1st March, 2002, Connex inaugurated its first North-South connection. The InterConnex train will provide a daily service connecting Gera, in Thuringen (former East Germany) and Rostock via Berlin (a distance of 475 kilometres). Finally, in October 2002, the NOB regional rail network (Connex's German subsidiary), won the 2002-2003 economic communications prize for its marketing campaigns.

In the Netherlands, Connex operates the BBA transportation network in the region of Brabant, transporting more than 50 million passengers each year on 153 bus lines and 450 coaches. Connex also won a bid to operate a ferry service to transport passengers and cyclists between Vlissingen and Breskens for a 6-year period, generating approximately €21 million in total revenue. Connex expect that these activities will generate, in total, estimated annual revenue of €176 million.

In Spain, Connex and FCC created a joint venture, FCC Connex Corporación. In Sweden, Connex won the "Norrland Trafiken" bid in September 2002 to operate two long distance passenger rail lines for 5 years, with an option for an additional 3 years (estimated total revenue of €190 million over the first 5 years). Beginning in mid-2003, 180 employees will join Connex. Connex also won the "Kinnekulletaget" bid in February 2002 to operate a regional passenger rail line in the west of Sweden (northeast of Göteborg) for 4 years beginning in June 2003 (estimated annual revenue of €2.5 million). In Finland, Connex won a contract in June 2002 to manage approximately 50 buses in Jalasjärvi, which will provide urban, rural and school bus transportation services in the region.

Connex operates more than 600 vehicles in Denmark and possesses a network of regional coaches in Israel, Poland (through the privatisation of the Pekaes interurban networks in Sanok and Lancut), Estonia (with the acquisition of AS Liikor, a bus operator based in Tartu) and the Czech Republic.

Through Yellow Transportation, Connex also offers regional road transportation services in Washington, D.C., Maryland, Virginia and Connecticut. Connex also operates the bus network in Columbia, South Carolina (44 buses) and manages and operates the bus network in Fairfax County, Virginia (85 buses).

In Australia, Connex secured its franchise to provide rail services in the suburbs of Melbourne through the signing of an amendment with the State of Victoria, which consolidates Connex's position and places it in a competitive position to grow its business in Australia and the entire Asia-Pacific region.

- *Freight*

  Connex provides rail freight services primarily through the regional networks, management of private junctions and multi-modal transportation services.

  Regional Freight Networks: Connex operates a number of regional freight trains in France, including for the SNCF, and in Germany in co-operation with DB Cargo.

  Management of Private Junctions: Connex manages junctions for customers in the automobile, petrochemical and refining industries that have facilities that are linked to a national rail network. Facilities served include the Eisenach Opel plant in Thuringia, Germany, the Bitterfeld chemical complex in Saxony-Anhalt, Germany, the Claas agricultural machinery plant in Gütersloh, Germany and approximately 30 industrial and commercial sites in France.

  Multi-modal transportation: In Germany, Connex operates several freight and multi-modal long distance transport networks.

In addition, Connex provides its industrial and commercial customers with passenger transportation services for their employees from and to its customers' sites.

- *Complementary Services*

  Growth in the Company's transportation business depends on increased use of public transportation networks, which in turn is closely related to the quality of service provided by these networks. To increase passenger frequentation on its networks, Connex's efforts focus on adequately matching service offerings with demand for these services, improving the reception of passengers and the user-friendliness of stations, making available more comfortable vehicles and the development of local information services relating to transportation systems for travellers.

  Connex has developed "Optio," a complete information system for passengers (through a central telephone operator, internet site, wireless text messages, such as SMS, and wireless internet access, such as WAP) on available public transportation in a region, regardless of the operator. The Optio service is currently offered in the Oise region in France and in the cities of Bordeaux (France), London (U.K.) and Melbourne (Australia). In addition, Connex has developed "Connector Plus," a real-time information system for Australian subscribers that enables it to notify users of service interruptions or delays through wireless text message systems, such as SMS.

  Connex has also recently launched several Internet sites that allow users to find their itineraries on local transportation systems in France, the United Kingdom and Australia.

  Connex has also begun providing real-time information on available transportation systems to its subscribers through internet-enabled mobile phones or WAP mobile phones in the United Kingdom.

  Finally, in Saint-Etienne, France, Connex has established a service centre, known as "Escale" on a tramway line to provide passengers with services that facilitate the life of city dwellers. Services include a parking lot, carwash services, vending machines, umbrella loan services, stamp and telephone card sales, a photo and copy centre, and on-site customer service representatives. Through a partnership with the city's retailers, passengers may also have their purchases delivered directly to the Escale stop.

Acquisitions and Divestitures in 2002

Connex acquired Transports Verney in France for approximately €47.1 million, Eurolines Netherlands, a European road transportation operator, for approximately €2.3 million, Hautamäki, a Finnish provider of urban, intercity, school and long distance transportation services, for approximately €2.4 million, the Certus urban and intercity transportation network in Maribor, Slovenia, and several small companies in France.

Fomento de Construcciones y Contratas (FCC)

FCC, a public company listed on the Madrid Stock Exchange since 1900, is one of Spain's largest companies with over 55,800 employees (including 100% of the employees of companies that are proportionally consolidated by FCC and 50% of Proactiva's employees) and a market capitalisation of €2.8 billion as of 31st December, 2002. FCC operates in a number of different environmental and construction-related industries. FCC's principal markets are located in Spain (where it is the leading waste management operator) and Latin America, though it also has significant operations in the rest of Western Europe and the United States.

In October 1998, to exploit the growing demand for integrated environmental management services, Vivendi Universal acquired a 49% interest in the holding company that owns 52.48% of FCC from the controlling shareholder of the holding company. In December 1999, Vivendi Universal transferred its interest to the Company. The Company's partner in FCC owns the remaining 51% of the holding company.

The Company's interest in the holding company that controls FCC is subject to a shareholders' agreement pursuant to which the Company shares equally with its partner the holding company's right to be represented in the main executive bodies of FCC, i.e., the board of directors and executive committees of FCC and its subsidiaries. The holding company's articles of association also provide that certain important decisions, such as increases or decreases of share capital, amendments to the articles of association, mergers, spin-offs or dissolutions, require supermajority shareholder approval. None of these decisions, therefore, could be taken without the consent of both major shareholders.

The following table shows the Company's consolidated revenue and EBIT from FCC's activities in each of the last three fiscal years, after elimination of all inter-company transactions:

	2002	*2001*	*2000*[(2)]
(€ millions)			
Revenue[(1)]	2,653	2,455	2,115
EBIT[(1)]	250	230	n.a.

(1) Figures reflect a 49% share of the total revenue and EBIT of FCC and its subsidiaries, except for the results of Proactiva, which are included in the Company's water and waste management segments. Under French GAAP, the Company proportionally consolidates FCC based on its 49% interest in the holding company that controls it. Under U.S. GAAP, FCC would be accounted for using the equity method.

(2) Restated to reflect the changes in the Company's accounting methods and presentation of accounts in 2001.

FCC's main activities are:

– public services, (33% of FCC's consolidated revenue in 2002), which include, in particular, the collection and recycling of household and industrial waste, street cleaning, treatment and distribution of potable water, treatment of wastewater, passenger transportation, publicity and advertising through urban fixtures and passenger and freight airport services;

– construction activities (48% of FCC's consolidated revenue in 2002);

– cement production (15% of FCC's consolidated revenue in 2002); and

– miscellaneous activities (4% of FCC's consolidated revenue in 2002), which FCC does not consider to be strategic and may be sold if and when divestment opportunities arise.

The Company has also created a number of joint ventures with FCC to operate or participate in different segments of the Company's business. The main joint venture with FCC is Proactiva Medio Ambiente S.A., or Proactiva, which was created in July 2000 to consolidate and organise the joint development of the Company's and FCC's water and waste management services activities in Latin America and the Caribbean. Each of the Company and FCC contributed all of the Company's water and waste management operations and contracts in these regions to Proactiva and hold 50% of Proactiva's capital stock. The Company has not entered into any shareholders' or other agreement with FCC or Proactiva relating to Proactiva's governance or management. However, Proactiva's bylaws grant a right of first refusal to each of Proactiva's shareholders in the context of a proposed sale of shares of Proactiva.

In addition, in 2002 Connex and CGT, FCC's transportation subsidiary, created FCC-Connex Corporación S.L. to consolidate and organise FCC's and Connex's transportation activities in Spain and the Americas, excluding Canada and the United States. Each of Connex and CGT holds 50% of FCC-Connex Corporación's capital stock and has entered into a shareholders' agreement dated 13th December, 2001 governing the management of this joint venture, including dispute resolution mechanisms in the event of a deadlock and forced sale provisions in the event of unresolved deadlocks, breach of contract or loss of control by the Company or FCC of their respective transportation subsidiaries. FCC-Connex Corporación's wholly-owned subsidiaries include Corporación Española de Transporte S.A. (CTSA) and Detren Compañia General de Servicios Ferroviarios S.L.

- *Public Services*: FCC is the leading waste management company and the second largest water and wastewater treatment company in Spain, where it conducts the bulk of its operations. FCC collects, processes and disposes of household waste and provides a full range of waste management services, including urban and commercial cleaning services, to Spanish public authorities. FCC provides waste management services to a number of main urban centres in Spain such as Madrid, Barcelona, Valencia, Bilbao, Malaga, Saint-Sebastian and Zaragoza.

  During 2002, FCC signed new contracts for an estimated total of €1.9 billion, including the renewal of a contract for 10 years for waste collection and treatment in the Madrid suburbs, representing estimated total revenue of €700 million. FCC has provided these services in the Spanish capital and its suburbs since 1944. Internationally, FCC won a 15-year contract to collect, treat and dispose of waste in East Cairo (Egypt), with more than 2 million residents.

  The FCC group has the most complete commercial network in Spain for treating industrial waste, a field with significant growth potential. In 2002, FCC treated 550,000 tons of hazardous and non-hazardous industrial waste, a 47% increase over the amount treated in 2001. FCC also decontaminated more than 250,000 cubic metres of land at more than 150 sites in 2002.

  FCC's water and wastewater treatment activities cover the full water cycle, including treatment, distribution and recycling. FCC provides water services to approximately 700 municipalities with a total population of 7.2 million residents. FCC also treats wastewater of 9 million people. In 2002, FCC was awarded 67 new contracts, representing estimated total revenue of €635 million, or €4.7 billion including revenue from all contracts in 2002.

FCC continued its international expansion by winning a public bid in Brasilia, Brazil for a contract to install, maintain and provide advertising on urban fixtures in Brasilia for 20 years (estimated total revenue of €200 million). FCC currently manages a park with 100,000 elements of urban fixtures and advertising support in 110 cities of 9 countries, including Barcelona, Bilbao, Madrid and Seville (Spain), Genoa and Parma (Italy), Brasilia and Rio de Janeiro (Brazil) and Lisbon (Portugal).

FCC provides passenger transportation services through FCC-Connex Corporación S.L., which conducts two types of activities:

– road transportation, where it operated more than 300 coaches that travelled a total of 23 million kilometres transporting 45 million passengers during 2002; and

– rail transportation, where it will be the principal operator of two tram lines that are under construction in Barcelona.

FCC provides airport services through its subsidiary, Flightcare S.L., which provides services in airports in Barcelona, Bilbao, Fuerteventura, Lanzarote, Las Palmas, Malaga, Santiago de Compostela, Seville and Valencia. Since October 2002, FCC has supplied services to the Brussels airport following the acquisition of Sabena airline's freight handling and passenger services activities. On an annual basis, FCC serves 160,000 flights, representing 36 million passengers and 200,000 tons of freight.

Finally, FCC manages 100,000 parking places in 90 cities in Spain and Morocco, ensures the technical inspection of 1.7 million vehicles at 50 stations in Spain and Argentina, and provides computer services to important companies in the automobile, data processing and mass marketing sectors.

- *Construction*: FCC has expanded its construction activities due in part to the 2001-2007 Infrastructure Plan established by the Spanish government, representing €114 billion, and in part to the Hydrological Plan to manage water resources.

  FCC won a number of key contracts in 2002, including contracts to:

  – construct and operate the Pamplona-Logroño stretch of highway extending 62.4 kilometres;

  – construct and manage the irrigation network for the Segarra-Garrigues canal, which irrigates 70,150 hectares in the Lleida provinces;

  – set up 16.3 kilometres of railway for high-speed trains on the lines serving Madrid-Northwest, Madrid-Barcelona and Cordoba-Malaga;

  – construct the Castrovido dam in Salas de los Infantes (Burgos), which will require 635,000 cubic metres of concrete; and

  – construct 4,700 apartments throughout Spain, which will increase the number of lodgings under construction to 16,500.

  In 2002, FCC completed work on the floating dike for the port of Monaco, the largest of its kind ever constructed in the world. This dike, measuring 352 metres in length, was built in Algeciras in southern Spain and was transported by sea to Monaco. It includes a parking area to accommodate 400 cars and retail stores. FCC's work on the new Madrid-Barajas airport also advanced in 2002; the airport will eventually have a surface area of more than 500,000 square metres and will greet 35 million passengers each year.

- *Cement Production*: FCC owns 58.8% of Cementos Portland following the merger into FCC of Portland Valderrivas in 2002. Prior to the merger, FCC held 48.2% of Portland Valderrivas, which in turn held 58.8% of Cementos Portland. The merger was consummated through a capital increase of FCC, which delivered newly-issued shares of FCC to Portland Valderrivas' other shareholders. As a result of the merger, FCC's holding company's interest in FCC was diluted from 57% to 52.5%. Cementos Portland operates 6 cement factories in Spain, 3 factories in the United States and other installations to prepare concrete and extract aggregates. It currently has a production capacity of 10 million tons of concrete per year, which should increase in the future as contemplated investments to enhance factory productivity and improve environmental conditions are made.

  In 2002, FCC produced and sold 7.6 million tons of cement and clinker in Spain and 2 million in the United States. FCC also manufactured and sold 4.8 million m^3 of concrete in 2002.

Competition

Most markets for environmental services are very competitive and are characterised by increasing technological challenges arising from regulatory changes, as well as the presence of experienced competitors. Competition in each of the markets the Company serves is primarily on the basis of the quality of the products and services provided, reliability, customer service, financial strength, technology, price, reputation and experience in providing services, adapting to changing legal and regulatory environments, and managing employees accustomed to working for governmental authorities or non-outsourced divisions of commercial enterprises. In each of the markets in which the Company operates, the Company's competitive strengths are the high level of technological and technical expertise, the financial position, the geographical reach and the experience in providing environmental management services, managing privatised and outsourced employees and meeting regulatory requirements.

With regard to integrated, large-scale environmental management services in particular, the Company's main competitors are Suez and RWE. The Company's primary competitive strength is its demonstrated ability to provide innovative, integrated environmental services that are tailored specifically to the needs of individual clients and offered on a global basis. The Company anticipates that other enterprises that compete with it in individual sectors will, in the coming years, seek to expand their activities to become integrated environmental management services providers.

Water

Veolia Water is the world's leading private provider of water services to municipalities and industrial and commercial firms. Its principal competitors are Suez (through its subsidiary Ondeo) and RWE (through its U.K. subsidiary Thames Water). In addition, General Electric has recently entered the market for services to industrial companies as it consolidates into a single business unit all of its acquisitions in the water services sector.

In France, Veolia Water faces competition from Ondeo and Saur, as well as from a number of local competitors, particularly in the building and public works sectors. Veolia Water also faces competition from public establishments, municipal or departmental governments and local public-private companies. Finally, while more than half of the contracts not renewed in 2002 were taken over by public authorities, non-renewed contracts represented only 0.25% of the Company's annual water revenue in France.

In the United States, USFilter faces competition from a large number of small competitors that specialise in specific technologies relating to water equipment and systems, as well as from a number of operators in the unregulated water market, such as OMI and Earth Tech.

Waste Management

In Europe Onyx is one of the market leaders in the collection and treatment of household, commercial, industrial and hazardous waste. Onyx's main pan-European competitor is Suez (through its subsidiary SITA). In the United Kingdom, Onyx is the fourth leading provider of household, commercial and industrial waste management services behind Suez, Biffa and Cleanaway. Onyx also has a prominent market position in France, Norway, Switzerland, Israel, Ireland, Denmark, Portugal, the Czech Republic and Slovakia. In Germany, where Onyx focuses on services to industrial and commercial customers, its biggest competitors are RWE Umwelt, Rethmann and SITA-Deutschland.

Onyx has taken significant steps toward consolidating its market position in North America, where it provides household, industrial and commercial solid and hazardous waste collection, recovery, treatment and waste-to-energy services.

In Latin America, Onyx's operations are concentrated in Brazil, Venezuela, Mexico, Columbia, Argentina and Chile, where it primarily competes with Suez and a variety of local companies. Onyx operates its activities in South America through Proactiva.

Onyx is one of the leading waste management service providers in the Asia/Pacific region, where its main competitors are Cleanaway and Suez (through SITA). Onyx is one of the largest operators in the treatment of waste in Asia (China, Hong Kong, India, Japan, Macao, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand), and one of the market leaders in terms of waste recovery. In Australia, Onyx is also one of the market leaders.

Energy Services

The energy services market has many actors and Dalkia faces very dispersed competition. Based on a study by Crédit Suisse First Boston, Dalkia believes that the only three companies with a strong international presence and a diversified and complete range of services in this market similar to its own presence and services are Suez, RWE and Cofactech.

Transportation

Connex's major competitors are private operators, primarily French or British, and public monopolies that conduct their activities in open markets. Connex's major competitors are Kéolis, a subsidiary of SNCF, Transdev, a subsidiary of the Caisse des Dépôts et Consignations (which recently concluded an alliance with the French metro and bus operator, RATP), the Deutsche Bahn (the national rail operator in Germany) and the British groups Arriva, First Group, National Express, Go Ahead and Stagecoach.

FCC

FCC is the leading private provider of waste management services in Spain. FCC's primary competitor in this market is Cespa. In the water services market, FCC is the second leading private operator in the water and wastewater treatment market in Spain after Aguas de Barcelona.

The cement production sector in Spain is relatively concentrated. Through Cementos Portland, FCC is the second largest Spanish cement producer, with approximately 16% of the Spanish market, according to OFICEMEN (the national cement trade union). Its main competitors are Spanish branches of multinational cement manufacturers such as Cemex, Holderbank and Lafarge.

The construction market in Spain is undergoing a process of consolidation among the major market players.

Contracts

The Company provides environmental management services to public authorities or private companies under contracts with substantially similar terms. These agreements take the form of service contracts through which the Company performs services using installations and equipment that governmental authorities or industrial or commercial clients place at the Company's disposal. At times, the Company may be commissioned to design and build the infrastructure necessary to perform the services. Such investments are typically financed by the client or investors who then allow the Company to use the infrastructure. The Company occasionally finances such investments.

Service contracts define the scope of the services or the specific function or service to be performed. They typically state the objectives and performance to be attained under the contract but let the operator choose, and be responsible for, the methods used to fulfil the objectives. The operator maintains and repairs the assets and installations, but the client is responsible for ensuring that they conform to new requirements or regulations.

Industrial or Commercial Companies

Many companies have begun to outsource environmental services to specialised companies in an effort to refocus on their primary business activity. Such outsourcing may require a contract that is specific to a certain function, or it may require an integrated multi-services contract, which the Company is well positioned to provide. Under a multi-services contract, the Company manages a number of services such as water and wastewater treatment services, collection, treatment and recycling of hazardous and non-hazardous waste, energy services relating to steam production and heating and cooling networks, and transportation logistics. Outsourcing contracts, and particularly multi-service contracts, increasingly take the form of partnership contracts. The service provider must be able to understand the unpredictability of clients' situations and adapt its services to the extent possible to accommodate changes in clients' activities. These contracts are thus relatively long term (between five to seven years without investments) and are generally subject to adjustments through specific procedures that allow the client to compare different proposals. In some instances, a client may test the Company's services on one or two pilot sites while a competitor performs services on other sites; the client then awards a contract for all the sites to the service provider who best responded to the client's expectations. The Company primarily offers services but may also agree to make investments specific to the activity that is entrusted to it on its client's site. In such cases, it analyses carefully the interest each party holds in the resulting assets and demands significant guarantees regarding the durability of the contractual relationship, the expected products and the future of the assets.

Municipalities or Public Authorities

Municipalities or other competent public authorities may wish to provide a public service or a service of general economic interest (*service d'intérêt économique général*), such as potable water distribution, waste removal and treatment, passenger transportation or urban heating. In such cases, they often require that the Company maintains and manages works or technically complex installations in return for a fee that may or may not include incentives linked to improved performance. In most countries, this type of public service contract is granted through a public bidding process. This is particularly the case in Europe pursuant to directives regarding public procurement contracts (*marchés publics*) and throughout the world for transactions benefiting from multilateral aid or financing.

In some cases, public authorities may wish to completely delegate the provision of a service. In such cases, the operator substitutes the public authority in its relations with the public, while the public authority retains control over the service's organisation, contents, rates, quality and other essential characteristics. This association between the public authority, which does not relinquish its prerogatives as guarantor of the public interest, and the private operator, which contributes its technical skills and management, was first developed in France in the form of qualified concession contracts, or "*affermage*". *Affermage* differs from a concession contract in that the private operator does not bear the cost of the initial investments. Both types of agreements are now called "delegated public service management" contracts. These contracts traditionally differ from public procurement contracts in that the operator's compensation is drawn substantially from the results of operations, which leads to the users of the service to pay, at least in part, the operator's compensation.

As a general matter, contracts with public authorities are characterised primarily, on the one hand, by the comprehensive and complex nature of the service to be provided and, on the other, by the risks assumed by the operator. These types of contractual relationships are currently being developed around the world through Public-Private Partnership (PPP) contracts that may or may not require investment financing, including build-operate-transfer (BOT) contracts or design-build-finance-operate-transfer (DBFOT) contracts. Under these contracts, the Company provides general economic interest services or public services and may also perform particular competing functions that public authorities wish to outsource (e.g., a hospital's non-medical functions). These expansive contracts reflect the multiple possible contributions that private companies can make to public authorities, and in this sense the French delegated public service management contract is a form of PPP. French authorities are also considering other ways to permit the development of PPP contracts in France.

These contracts are often awarded through a competitive bidding process, even where it is not required. The bidding process is open and candidates are invited to develop solutions that are subsequently adjusted in free negotiations. In France, a special consultation procedure is required for delegated public service management contracts, even though European Community rules only require that participants respect general competition principles for concession contracts and other forms of PPP.

In France, the Company has entered into numerous delegated public service management contracts with public authorities that are subject to special legal requirements because the contracts involve public services for which the public authority remains responsible and because the service must be adapted to respond to changing needs and to ensure its continuity. In such cases, the public authority may modify or terminate the contract unilaterally if the public interest so requires. If the contract is modified or terminated, the governmental authority must fully compensate the private operator, including compensation for lost profits. In practice, governmental authorities rarely terminate a contract unilaterally because it would generally have to pay a substantial indemnity and find alternative solutions to ensure continuity of the public service. Moreover, specific contractual terms usually limit these prerogatives to preserve a balanced contractual arrangement for both parties.

Outside France, other countries with civil law systems, such as Spain and Italy, delegate their general economic interest services to private operators under contracts similar to the French delegated public service management contract. In common law countries such as the United Kingdom and the United States, the law does not restrict contracts with public authorities as much as in civil law countries, and PPP contracts, with or without investments, may be freely entered into.

Finally, although the Company also acts as a contractor to perform works or supply specific equipment for its service activities through several of its subsidiaries, the Company treats this activity as an accessory to its main business.

Environmental Regulation, Policies and Compliance

Environmental Regulation

The Company's businesses are subject to extensive, evolving and increasingly stringent environmental regulations in developing countries as well as in the European Union and North America.

Water

The water and wastewater services activities are highly sensitive to governmental regulation. In Europe and the United States, governments have enacted significant environmental laws at the national and local level in response to public concern over the environment. The quality of drinking water and the treatment of waste water are increasingly subject to regulation in developing countries as well, both in urban and rural areas.

The quality of potable water is strictly regulated at the European Union level by the Directive on Drinking Water, which was transposed into French law on 20th December, 2001. The collection, treatment and discharge of urban, industrial and commercial waste water is governed by the Directive on Urban Waste Water. Public authorities also impose strict regulations upon industrial and commercial waste water that enters collection systems and the waste water and sludge from urban waste water treatment plants.

France has numerous laws and regulations concerning water pollution, as well as numerous administrative agencies involved in the enforcement of those laws and regulations. Certain discharges, disposals, and other actions with a potentially negative impact on the quality of surface or underground water sources require authorisation or notification. For instance, public authorities must be notified of any facility that pumps underground water in amounts that exceed specified volumes and French law prohibits or restricts release of certain substances in water. Individuals and companies are subject to civil and criminal penalties under these laws and regulations.

In the United States, the primary federal laws affecting the provision of water and waste water treatment services are the Water Pollution Control Act of 1972, the Safe Drinking Water Act of 1974 and related regulations promulgated by the Environmental Protection Agency (EPA). These laws and regulations establish standards for drinking water and liquid discharges. Each U.S. state has the right to establish criteria and standards stricter than those established by the EPA and a number of states have done so.

Waste Management

In numerous countries, waste treatment facilities are subject to laws and regulations that require the Company to obtain permits to operate most of its facilities from governmental authorities. The permitting process requires the Company to complete environment and health impact studies and risk assessments with respect to the relevant facility. Operators of waste storage centres must provide specific financial guarantees (which typically take the form of bank guarantees) that cover the monitoring and recovery of the site during, and up to 30 years after, its operation. In addition, waste storage centres must comply with a number of standards and incineration plants are usually subject to rules that limit the emission of pollutants. Waste may also be subject to various regulations depending upon the type of waste. For example, sludge produced at wastewater treatment stations that will be composted must comply with strict regulations relating to its content of organic materials and trace metals (heavy metals like cadmium, mercury or lead).

At the European Union level, the framework for waste management regulation is provided by directives that set overall regulatory goals of waste prevention, collection, recycling and reuse. European Union member states must prohibit the uncontrolled discarding, discharge and treatment of waste. In addition, several European regulations effective as of 1st July, 2002 that seek to end the dumping of non-ultimate household waste has provoked a dispute, and the application of these rules remains subject to diverse interpretations, including the difficult question of defining the notion of “ultimate waste”. The regulation is intended to promote recycling, composting and energy recovery of household waste, but the directive makes no reference to the methods of treatment or to ways to improve existing methods.

In France, pursuant to the provisions of the Environment Code relating to classified facilities for the protection of the environment, several decrees and ministerial and administrative orders establish rules applicable to waste storage sites for household, industrial, commercial and hazardous waste. These orders govern, among other things, the design and the construction of waste treatment centres. Hazardous waste is subject to strict monitoring at all stages of the treatment process. Waste-to-energy centres are subject to numerous restrictions, including in particular limitations on the amount of pollutant emissions.

The Company’s U.K. waste management operations and facilities are subject to the Environmental Protection Act of 1990, which requires local authorities to transfer their waste treatment operations either to a specialised waste treatment entity owned by the local authority or to a private contractor, and the Environment Act of 1995, which addresses pollution control, land waste and nuisances. The Company is also subject to the Pollution Prevention Control Act of 1999, which implements the requirements of European directive 96/61/EC relating to integrated pollution prevention control. Finally, the European directive 1999/31/EC relating to landfill deposits of waste was incorporated into English law through the Landfill (England & Wales) Regulations of 2002.

In Norway, two laws provide the country's legal foundation for regulating pollution: The Pollution Control Act of 1981, which prohibits pollution except as permitted by law or individual permits, and The Product Control Act of 1993, which prohibits damage to health or the environment due either to chemicals found in certain products or processes established to manufacture these products. Norway continuously adapts its regulations to those of the European Union. In 2002, Norwegian authorities used European Union directives as the basis for new regulations adopted for waste storage centres and the treatment of unused vehicles.

The major statutes governing the Company's waste management activities in the United States include the Resource Conservation and Recovery Act of 1976, the Clean Water Act, the Toxic Substances Control Act, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (also known as "CERCLA" or "Superfund"), and the Clean Air Act, all of which are administered either by the EPA or state agencies to which the EPA delegates enforcement powers. Each state in which the Company operates also has its own laws and regulations governing the generation, collection and treatment of waste, including, in most cases, the design, operation, maintenance, closure and post-closure maintenance of landfills and other solid and hazardous waste management facilities.

In Asia, Chinese law includes the Environmental Protection Law of 1989, providing a complete set of regulations to protect the environment. China has passed another principal law relating to pollution, the Law on Prevention and Control of Pollution Caused by Solid Wastes of 1995, which defines permit requirements, environmental norms and means to apply the law. Local authorities are authorised to apply standards that are stricter than national norms. In Hong Kong, the Waste Disposal Ordinance, which outlines the waste treatment process, was adopted in 1980. Other regulations relating to specific kinds of wastes have been adopted, including the Waste Disposal (Chemical Waste) General Regulation in 1992, which controls the collection, transportation and storage of chemical wastes. The law defines the term "chemical waste", lists entities that produce chemical waste and establishes procedures for obtaining permits to collect such waste.

Energy Services

The Company's energy-related activities in Europe (primarily the supply of thermal and independent energy) are subject to a European directive that establishes emission limits for sulphur dioxide, nitrogen oxides and dust and regulates the construction of combustion plants. Other existing directives require the implementation of national emission ceilings for certain atmospheric pollutants such as sulphur dioxide, nitrogen oxide and volatile organic compounds.

The use of gas and other combustible material in France is subject in some instances to a domestic natural gas tax. Energy produced by a co-generation facility is exempt from this tax for a period of five years after the facility begins operations.

In addition, Dalkia, in its capacity as an operator, must respect a number of environmental requirements at its sites of operation. In France, Dalkia must respect regulations based on a 19th July, 1976 law and its applicable rules relating to the environmental protection of designated installations by obtaining and renewing various permits and authorisations from regulatory authorities.

Transportation

The Company's transportation service activities are subject to a number of national and European regulations and particularly European Union directives that limit emissions from petrol and diesel engines and require the Company to obtain certain permits. One directive sets forth guidelines for the laws of the member states with respect to the emissions of gas pollutants from diesel engines used in vehicles. Another directive sets forth guidelines for the laws of the member states with respect to emissions of gas and particulate pollutants from internal combustion engines installed in mobile equipment other than road vehicles. Stricter limitations on emissions of pollutants were adopted by the European Commission in October 2001, with further limitations expected to be adopted in 2005 which will require the installation of sophisticated fuel injection systems with particle filters and carbon catalysts.

Intellectual Property

The Company currently owns a significant number of patents and trademarks in France, the United States and other countries around the world that are of value to its business. However, the Company believes that the diversity of its patents and trademarks does not make any of its activities dependent on any one of these patents or trademarks individually.

Vivendi Universal has authorised the Company to use the "Vivendi" and "Vivendi Water" trademarks. Upon approval of the shareholders at the general meeting held on 30th April, 2003, the Company has ceased using the term "Vivendi" in its name or as a trademark. As a result, the licence agreement will cease to have a valid purpose and will be terminated within a reasonable period of time to allow for the completion of the formalities related to the name change, as well as the logistical and technical requirements, such as, in particular, the re-routing of Internet websites.

Marketing

The Company markets its products and services primarily by taking advantage of its reputation and by continuously offering to provide a more comprehensive range of environmental services to existing clients. The Company analyses the environmental service needs of prospective and existing industrial and commercial customers and demonstrate to them how the Company's services could improve the efficiency of their operations. The marketing efforts the Company directs toward public authorities comes primarily in the form of bids it submits for contracts to provide public services.

Seasonality

Because of the diverse nature of the Company's operations and its worldwide presence, its business is typically not subject to material seasonal variations.

Raw Materials

The Company purchases raw materials on a worldwide basis from numerous suppliers. It seeks to accumulate and maintain a reserve inventory of raw materials and supplies, qualify new suppliers, and develop production processes in its own facilities. The Company undertakes to secure strategic materials through medium-term and long-term contracts. The Company has not experienced difficulties in obtaining sufficient amounts of raw materials and supplies in recent years and anticipates that it will be able to do so in the future. The price of raw materials and supplies may vary substantially in the future. For example, the price of fuel has, in recent years, exhibited considerable volatility. Fuel prices have increased recently and, as of the date hereof, the Company cannot anticipate the evolution of these prices in the future. The Company's operations historically have not been, and are not expected to be in the future, materially affected by changes in the price or availability of fuel or other raw materials, as its contracts typically contain provisions designed to compensate it for increases in the cost of providing services.

Insurance

Insurance policy renewals after 1st January, 2002 were affected by the confusion created in the insurance and reinsurance markets by the events of 11th September 2001 in New York and 21st September 2001 in Toulouse, France. Because the terms of the Company's insurance policies expired on or after 1st January, 2002, the Company, as all other companies with insurance policies with similar terms, were affected by the combined effect of the decrease in the number of insurers willing to cover "industrial" risks, the decrease in the coverage available from insurers that were willing to cover these risks, the increase in the premiums required by these insurers and the charging of additional premium amounts to cover terrorism risks.

For all of the Company's operating divisions, the Company:

- maintains common insurance policies to establish a coherent risk transfer policy and maximise economies of scale, while taking into account the specificities of its businesses and legal or contractual constraints; and
- maximise the levels and means to access the insurance or reinsurance markets through both a consolidated reinsurance company, as well as the implementation of a reserve accrual policy. Reserves are determined on the basis of the divisions' knowledge of their risks and prior accident claim history as well as an evaluation of the costs and coverage proposed by insurers.

The implementation of the Company's insurance procurement policy also takes into account the extent and willingness of insurers to support the risks arising from its activities, the capacity available in the insurance and reinsurance markets, the premiums proposed in relation to the nature of the coverage offered, exclusions, limits and sub-limits and deductibles. The Company generally only purchases insurance policies from insurers and reinsurers who have at least an "A" rating.

Principal Insurance Policies

Civil Liability

Until 31st December, 2002, the Company was covered under Vivendi Universal's civil liability excess policy that provided all of its subsidiaries with coverage of up to US $400 million. As of 1st January, 2003, the Company has entered into a separate and independent 18-month insurance policy that provides coverage for all of its subsidiaries of up to US $400 million per insurable event.

The Company also maintains specific insurance policies for its U.S. activities, its rail transportation operations and its research centres. The Company has also entered into a mono-line contract to provide coverage for the rest of its activities. The mono-line civil liability contract includes the standard coverage obtainable on the French market for an international group such as the Company. The coverage amounts to €30 million per insurable event with an annual cap of €60 million. For foreign subsidiaries outside the United States and Canada, the coverage threshold amounts to €1.5 million.

In light of the difficulties encountered in the insurance market in 2002, the Company covers civil liability risks relating to the vehicles used in its activities (such as passenger transportation or collection of hazardous and non-hazardous waste) through reserves accrued per event from €150,000 to €1 million, depending on the country, and financial guarantees in the form of sureties or letters of credit.

Construction projects are systematically guaranteed by a comprehensive all-risks insurance policy obtained by the owner, the contractor or the operating company. In addition, several investments abroad are covered by political risk policies with the Compagnie d'Assurance Française pour le Commerce Exterieur (COFACE).

The Company remains liable for any amount of damages caused by insurable events not exceeding the deductible amount under the relevant insurance policy. Deductibles for serious risks range from €100,000 to €1 million, while deductibles under the Company's civil liability policies outside the United States and Canada reach €30,000. The Company's rail operations in the United Kingdom are insured under policies that include deductibles of 2.5 million pounds sterling. In addition, the Company's reinsurance subsidiary has underwritten a part of its property damage and civil liability policies issued by French insurers.

The Company also obtains excess insurance to cover any damages or losses caused by an insurable event that exceed the coverage limits or sub-limits under the relevant insurance policy. Deductibles under reinsurance policies for property damage, which amount to €3 million per insurable event, are protected by a "stop loss" reinsurance policy that covers €9 million in damages exceeding an annual deductible of €10 million. The Company has entered into a similar reinsurance arrangement for its civil liability policies, with €5 million of coverage for claims exceeding €11.5 million. The Company had not filed any claims under its reinsurance arrangements as of 31st December, 2002.

ORGANISATIONAL STRUCTURE

The Company is divided into four operating divisions corresponding to each of its four business segments and a number of centralised corporate departments that lead and co-ordinate the actions of teams present in each of the four operating divisions. Each of the Company's operating divisions has one representative on the management board. The Company believes that this organisational structure encourages the coherent development of the group by reinforcing its identity, maintaining solidarity and cohesion, favouring economies of scale and encouraging professionalism through the sharing of best practice.

RESEARCH AND DEVELOPMENT

Because environmental and health problems have become a major global concern, the Company's ability to innovate in these areas through its research and development is one of its priorities. Through its Research Department, the Company co-ordinates the research and development efforts of its 600 researchers throughout its divisions in several research centres around the world, particularly:

- Anjou Recherche and its affiliated centres in Germany, Australia and the United States, which specialise in water related research,
- Centre de Recherche pour l'Environnement, l'Energie et les Déchets, or CREED, which focuses on waste and energy services related research, and
- Eurolum, which focuses on transportation related research.

The Company's researchers seek to anticipate future needs and develop effective solutions to address those needs. Through their work, the Company maintains its technological edge and adapts its segments (Water, Energy Services, Waste Management and Transportation) to the realities of an ever-changing world.

The Company believes that its commitment to technological advancement requires innovation and the development of new procedures or the adaptation of existing techniques to meet clients' specific needs. For example, the Company has developed programmes relating to an electro-deionisation technique to supply ultra-pure water to pharmaceutical or electronics industries on an ongoing basis; a tram without catenary to permit its harmonious use in the architectural structures of urban centres; a combustible battery; and the methanisation of waste. In addition, the Company has established a programme to store energy and maximise energy efficiency by intermittently storing electricity or heat and completing the process through co-generation.

The Company's research and development efforts also seek to continually improve its operating performance by broadening the range of its service offerings while at the same time reducing the cost of its services. In the waste management sector, for example, the Company conducts research at a number of specialised technical landfills, which it refers to as "bioreactors," in Australia, France and the United States to optimise the decomposition of waste through the recirculation of liquid effluents that are produced as water filters through the waste in the landfill. This procedure will enable a controlled acceleration in biogas production, an increase in the generation of clean energy and a reduction in the length of the post-operating period of the company's landfills. In the transportation sector, the Company seeks to optimise the use of its service vehicles, which has led, among other things, to the development of the "mobile office" and the "communicating vehicle". The Company has also developed specialised equipment for its transportation, intervention and collection vehicles that use its New Information and Communication Techniques, or NICT, which enable vehicle operators to optimise itineraries and schedules, to improve the planning of vehicle usage, and to enhance the efficiency of emergency assistance and services to customers. In addition, the Company's research and development efforts to improve its operating performance also includes its work on systems to measure methane levels in its energy services division and on membranes and pre-treatment before filtration through membranes in its water segment, which will enable a broader use of water treatment technology.

The Company's Research and Development Department is dedicated to the protection of the environment and sanitary security. Through its research to reduce polluting emissions, limit greenhouse gas emissions, increase energy efficiency and use clean energies, the Company has improved air quality, battled climate change, and positioned itself as a well-known player in the market for emissions credits. In the areas of health and sanitary security, the Company provides solutions to address the new risks faced by its companies by developing tools and techniques to prevent, analyse, and provide curative treatment, where necessary. The Company's experts work on a number of risks once considered minor, including those related to the legionella bacteria, for which the Company has developed rapid-detection (using molecular biology) and deactivation methods, to endocrinal and cyanobacterial perturbations in water and to dioxin levels, which are able to control in the smoke produced by its incineration units. The Company also seeks to develop methods to improve water resource management. For example, the Company has launched a multi-year project to manage aquifer renewal with a team of 30 people from 5 universities in Berlin, and it conducts expertise missions on the development of seaweed in the Erdre river and have obtained European approval of its modeling centre for hydraulics and biological treatment. Through these programs, the Company hopes to elaborate preventive and curative solutions to stop seaweed proliferation and develop tools to assist the design and exploitation of works, networks and stations.

Through its research and development efforts relating to the environment, sanitary security and quality of life, the Company also seeks to improve its employees' working conditions and security. One of the Company's research and development programs, for example, focuses specifically on improving conditions and reinforcing security for its employees in its waste collection and sorting activities. The Company has also developed a new service for the safe collection of medical waste produced by healthcare professionals in suburban and rural locations, which supply the waste voluntarily, through "MEDIBUS," a roaming vehicle specially designed for this purpose.

The Company's Research and Development Department benefits from the complementary nature of its divisions' capabilities to develop complex integrated products and services, such as global management services to purify and treat hydro-carbonated waste and to treat effluents. In this context, for example, the Company continues to improve its composting technology and develop new treatment and recovery procedures relating to sludge, such as BIOTHELYS, which reduces the amount of sludge byproducts, SAPHYR, which sanitises and reduces odors from sludge to improve its quality, and ATHOS, which treats sludge through humid oxidisation.

The Company uses the most sophisticated modeling and digital simulation tools in all of its research and development centres. This capability allows the Company to increase its expertise on procedures and to optimise its operational tools. The Company's modeling and simulation activities have allowed it, for example, to reduce corrosion, wall erosion and pollutant emission levels in its thermal treatment activities, and to optimise the integration of new equipment, including sludge injection equipment for its incinerator ovens (PIROMIX procedure) and a new system to reduce nitrate-oxygen (NOx). The Company also develops complex management tools to reduce water and energy consumption (PINCH procedure).

The Company's research and development efforts are further enriched through multiple partnerships with industry, municipalities, governmental organisations and universities. In 2002, the Company's research teams joined those of other institutions to create the Global Water Research Coalition, which seeks to promote synergies and collaborative studies. Through its network of laboratories, the Company participates in the work conducted by the Metropolis network, which is supported by the European Commission and seeks to identify, evaluate and promote techniques and methodologies related to health, safety and environmental protection. The Company also conducts research jointly with EDF on sludge treatment, biofilm and hydraulic models through its joint "Research and Development Studies and Services" program, which Dalkia finances through the CREED, and in accordance with a contract signed in July 2002.

Through its active participation in research and development programs on both a European level (PCRD-LIFE) and a French national level (PREDIT), its researchers play an active role in international research and have developed a strong network of relationships with a diverse group of industrial and university partners, which allow the Company to achieve operating developments that expand its service offerings and to anticipate required technical improvements.

Recent Developments

Since the date of the Company's consolidated financial statements, the Company has pursued its strategic goals to increase organic growth, obtain new contracts, enter into new partnerships and alliances and continue to divest non-strategic assets. The following are the most significant developments in the Company's businesses since 31st December, 2002.

Water

In February 2003, the Company entered into an agreement with a group of institutional investors led by The Royal Bank of Scotland plc to acquire an indirect minority interest in Southern Water, a U.K. water and wastewater operator. This agreement represents the final step in the Company's acquisition of an interest in Southern Water. In March 2002, First Aqua Holdings Limited (FAH) agreed to acquire Southern Water from Scottish Power at an enterprise value of just over £2 billion. The purchase agreement was executed in April 2002.

In May 2002, Vivendi Water U.K., a subsidiary of Vivendi Water, agreed to acquire First Aqua (JVCo) Ltd., Southern Water's holding company, from FAH on terms equivalent to the initial purchase by First Aqua (JVCo) Ltd. of Southern Water. Through this acquisition, the Company sought to control a recognized major operator in the U.K. water market, in a dynamic geographic area, and particularly to gain access to the U.K. treatment market in order to generate synergies with other U.K. activities. In the context of this transaction, the Company also granted a put option to a group of financial investors that had acquired £374 million of First Aqua (JVCo) Ltd.'s preferred shares, which could be exercised on the third anniversary of Southern Water's purchase agreement (April 2005). The Company also had a call option to acquire these preferred shares, which could be exercised at any time between the first and fifth anniversaries of Southern Water's acquisition agreement (from April 2003 through April 2007) or the date of the purchase agreement between Vivendi Water U.K. and FAH, if signed prior to April 2003. The acquisition of First Aqua (JVCo) Ltd. was approved by the European Commission on 23rd August, 2002, but remained subject to the approval of U.K. antitrust authorities and the arrangement of long-term non-recourse financing to refinance the existing debt of First Aqua (JVCo) Ltd. and Southern Water.

Having concluded that the closing conditions set forth in the May 2002 agreement had not been satisfied, the Company renounced seeking to acquire a controlling interest in Southern Water and at the end of 2002 commenced negotiations with Royal Bank Investments Limited, a subsidiary of The Royal Bank of Scotland plc, for it to acquire an interest in Southern Water, so diluting the Company's interest in Southern Water immediately following the Company's acquisition.

In February 2003, the Company entered into an agreement with Southern Water Capital relating to the acquisition of Southern Water and this agreement was completed in May 2003. Pursuant to this agreement, Southern Water Investments Ltd, a newly created company, acquired First Aqua (JVCo) Ltd. in accordance with the terms of the May 2002 agreement with First Aqua Holdings Ltd. Southern Water Capital, held by Royal Bank Investments Limited (a subsidiary of The Royal Bank of Scotland plc) and other investors, holds 80.1% of Southern Water Investments and the Company holds 19.9%. Southern Water Capital, which controls Southern Water through Southern Water Investments, has also granted the Company an option to acquire an additional 5.1% stake in Southern Water Investments. In addition, First Aqua (JVCo) Ltd. redeemed the £374 million preferred shares issued to financial investors in March 2002.

The February 2003 agreement was subject to, among other things, U.K. regulatory approvals and various procedural conditions. On 28th April, 2003, the UK Competition Commission approved the transaction on the condition that the Company agreed to hold not more than 25% of the Southern Water Investments and to refrain from appointing more than two members of Southern Water Investment's board of directors and more than 3 members of Southern Water's board of directors.

The Company has invested £270 million (€410 million) in Southern Water Investments through various loans, preference shares and ordinary equity. Southern Water Capital has invested £273 million (€415 million) in the form of loans and ordinary equity. As part of the refinancing programme currently under way, which will follow similar ring-fenced securitisations previously employed in the UK regulated water sector, it is anticipated that the regulated business and its subsidiaries will issue investment grade bonds, mezzanine facilities and preferred shares to redeem the existing bridge and loan facilities, including those held by Veolia Water Investment Limited. The Company has entered into contractual agreements whereby up to £220 million of the preferred shares issued by the regulated business will be subscribed for directly by other financial investors (rather than Veolia Water Investment Limited) and they will have the right to require the Company to purchase the preferred shares using a pre-determined price after five years. As a result, the Company's investment in Southern Water will be significantly lower than its previous commitment to invest £374 million (€568 million).

Waste Management

In 2003, Onyx won a 25-year contract to collect, recover and treat all of the household waste of the city of Brighton and Hove and the county of East Sussex on the southern coast of the United Kingdom.

Onyx also entered into assistance and co-operation agreements with the city of Shanghai in connection with one of China's most important incineration and waste-to-energy units. The Puxi unit, which is located in downtown Shanghai, will treat and recover 1,500 tons of waste per day until 2004 (estimated total revenue of €121.3 million).

Onyx also entered into a joint-venture with the Shanghai Zhenhuan Industrial Corporation, which is owned by the State of Shanghai. This joint venture, which is first of its kind in the environmental services sector between an international waste treatment company and the State of Shanghai, represents a historical agreement in China and will allow Onyx to strengthen its position for future waste collection and treatment activities in Shanghai.

Transportation

In the United States, Connex won a 5-year contract in February 2003 to manage the rail network of the Boston suburbs, in the United States, in association with Bombardier, a world specialist in the construction and maintenance of train equipment (estimated total revenue of €1 billion). This rail network, which is the first suburban network to be managed by Connex in the United States, is the fifth largest in the United States (according to the APTA) with 1,042 kilometres of track, 13 lines, 130 stations and 89 trains offering 462 daily departures to 146,000 passengers per day, as from 1 July 2003. Connex will employ 1,600 persons under this contract.

In Germany, NordwestBahn, a company jointly owned by Connex Germany (65%) and the municipalities of Osnabrück and Oldenburg, and Teutoburger Wald-Eisenbahn, a subsidiary of Connex, won the public tender for the operation of 4 regional passenger transportation lines in the east of Westphalia (North Rhineland) representing 240 kilometres of rail tracks. The contract is expected to generate estimated total revenue of €180 million over 10 years. Operations will commence in December 2003 with an expected annual mileage of 2.7 million train-kilometres. This contract reinforces Connex's position as one of the leading private providers of public transportation services for passengers in Germany (according to VDV).

In Colombia, in February 2003 Connex won a 10-year concession for the operation of Phase II of the Transmilenio in Bogotá, Colombia, which consists of approximately 100 buses. The operation is expected to start as from October 2003.

The Strategic Rail Authority ("**SRA**") has informed Connex of its unilateral decision to end the negotiation process started in 2002 in view of restoring the economic viability of the South Eastern rail franchise for years 2004-6. The SRA has placed Connex on 6 months' notice ending 31 December 2003.

2003 First Quarter Results

The Company's consolidated revenue totaled €7,166 million for the first quarter of 2003 compared with €7,500 million for first quarter 2002, owing to the disposals carried out in 2002.

Excluding non-core businesses, revenue amounted to €7,094 million, up 1.6% at current exchange rates and 6.2% at constant exchange rates.

Revenue breaks down as follows:

Revenue	*At 31st March, 2003 (in €m)*	*At March 31st, 2002 (in €m)*	*Variation 2003/2002*	*Internal growth*	*External growth*	*Impact of exchange rate fluctuations*
Core businesses	7,094	6,981	+1.6%	5.6%	0.6%	-4.6%
Non-core businesses sold or in the process of being sold	72	519	-86.1%			
Total consolidated	7,166	7,500	-4.4%			

Revenue from core businesses increased to €7,094 million, up 1.6% at current exchange rates, and 6.2% at constant exchange rates. The negative impact of exchange rate fluctuations totaled €320 million, of which €195 million was attributable to the variation in the dollar (the average US dollar-euro rate was 1.0831 at 31st March, 2003 compared with 0.87315 at March 31, 2002). The balance was due mainly to variations in Latin American currencies and the pound sterling. Internal growth for core businesses was 5.6%.

The portion of core business revenue generated outside France totaled €3,668 million, representing 51.7% of total revenue. The decline in this percentage is explained by exchange rate fluctuations.

Water[(1)]

At 31st March, 2003 (in €m)	*At 31st March, 2002 (in €m)*	*Variation 2003/2002*	*Internal growth*	*External growth*	*Impact of exchange rate fluctuations*
2,641	2,781	-5.1%	0.6%	-0.4%	-5.2%

The rate of internal growth can be analyzed as follows:

- In France, revenue from water distribution and design-build activities rose 3.9%.
- Outside France, excluding the United States, revenue increased 7.2%, mainly due to the rising impact of contracts won in Continental Europe, North Africa and Asia.
- In the United States, revenue as expressed in dollars was stable, as the good level of activity from the Services business (which benefited from the startup of the Indianapolis contract, in particular) offset the decline in equipment sales to industrial companies.
- Veolia Water Systems' revenue fell 24% due to the conclusion of certain contracts (Taweelah) and to the later start-up of certain contracts during the year (Achères).

(1) Excluding non-core businesses sold or in the process of being sold.

Waste

At 31st March, 2003 (in €m)	At 31st March, 2002 (in €m)	Variation 2003/2002	Internal growth	External growth	Impact of exchange rate fluctuations
1,430	1,477	-3.2%	4.4%	0.8%	-8.4%

The rate of internal growth can be analyzed as follows:

- In France, revenue increased 6.5%.
- Outside France, 3% revenue growth was supported by business generated with municipal customers, with business to industrial customers, particularly in the United States, experiencing a slowdown in the first quarter 2003.

Energy Services

At 31st March, 2003 (in €m)	At 31st March, 2002 (in €m)	Variation 2003/2002	Internal growth	External growth	Impact of exchange rate fluctuations
1,460	1,313	+11.2%	12.0%	0.7%	-1.4%

Energy services recorded very buoyant growth:

- In France, revenue rose 5.5%, driven by growth from cogeneration (8%) and the traditional heating activities.
- Outside France, strong internal growth of 24.7% was a result of the increased impact of contracts signed in Eastern Europe (where there was growth of over 50%).

Transportation

At 31st March, 2003 (in €m)	At 31st March, 2002 (in €m)	Variation 2003/2002	Internal growth	External growth	Impact of exchange rate fluctuations
898	828	+8.3%	9.9%	1.5%	-3.1%

- In France, the 5.3% revenue growth was due to the good performance from the intercity activity.
- Outside France, the 12.6% increase was generated in the Northern and Eastern Europe regions, driven by developments in Germany, the Netherlands, Slovenia and Belgium. In the United States, revenue growth was nearly 50%.

FCC[2]

At 31st March, 2003 (in €m)	At 31st March, 2002 (in €m)	Variation 2003/2002	Internal growth	External growth	Impact of exchange rate fluctuations
665	582	+14.3%	13.3%	2.3%	-1.2%

Internal growth of 13.3% was generated by municipal services and construction.

After taking into account non-core businesses sold or in the process of being sold, consolidated EBIT amounted to €436 million, compared with €481 million at 31st March, 2002. EBIT for core businesses totaled €437 million, down 1.2% at constant exchange rates (down 4.2% at current exchange rates). This slight decline is attributable principally to the slowdown in industrial activity in the United States, and to a fall-off in the cement business in Spain, where production was lowered on a temporary basis owing to renovation work on one of the plants. Other activities, especially water distribution in and outside France and energy services, made a positive contribution to EBIT. In total, these different elements confirm the business units' good capacity to withstand the difficult economic conditions.

(2) share attributable to the Company

In line with its commitments, the Company stabilized its net debt, which stood at €13.3 billion against €13.1 billion at 31st December, 2002. More than the entirety of the difference is due to the reduction in receivables sold. Tight control of indebtedness is the result of a strict investment policy and of a year-on-year increase in cash flow from operations of 9.9%, rising to €704 million.

Outlook

The first quarter 2003 performance allows the Company to maintain its growth target for core business revenue at between 4% and 8%.

Restructuring of the Company's Shareholder Base

The Company's main shareholder, Vivendi Universal, reduced its interest in the Company from 63.1% to 20.4% of its share capital in 2002 through block sales of shares in the Company to institutional investors and the Company's €1.5 billion capital increase. In addition, Vivendi Universal issued options to acquire Vivendi Universal's remaining 20.4% interest in the Company at any time until December 2004 to a group of institutional investors that acquired shares of the Company from Vivendi Universal.

CAPITALISATION OF VEOLIA ENVIRONNEMENT

The following table sets out Veolia Environnement's consolidated capitalisation as at 31st December, 2002, 2001 and 2000.

	As at 31st December,		
	2002	*2001*	*2000*
	(in millions of euros)		
Shareholders' Equity (after income for the year)	6,329.6	5,740.0	6,208.3
Capital stock(1)	5,404.4	4,673.4	4,673.4
Additional paid in capital	2,919.1	2,269.6	232.6
Retained earnings	(1,993.9)	(1,203.0)	1,302.3
Minority interest	2,585.2	2,531.1	2,031.1
Bond issues(2)	5,633.8	5,193.6	2,444.1
Other long-term financial debt	7,279.2	7,940.4	9,024.6
Total capitalisation	21,827.8	21,405.1	19,708.1

Note:

(1) As at 31st December, 2002, consisting of 405,070,459 fully paid-up authorised issued ordinary shares, with a nominal value of €13.5 each.

As at 31st December, 2001, consisting of 346,175,772 fully paid-up authorised issued ordinary shares, with a nominal value of €13.5 each.

(2) The Company recently reinforced its liquidity through a private placement in the United States of US$404 million in notes on 31st January, 2003, with maturities ranging from 10 to 15 years, and the issuance of €1 billion in 10 year bonds and €750 in 15 year bonds under its EMTN programme, as part of its refinancing policy. The Company also continues to pursue its negotiations to further extend the maturity of its existing short-term credit lines and to obtain new medium-term credit lines.

The shareholders of the Company decided on 30 April 2003 to reduce the share capital of the Company by reducing from €13.5 to €5 the nominal value of each share. The difference between €13.5 and €5 multiplied by the number of shares in existence has been maintained in the shareholders' equity and now appears under the line "capital increase premium" of the Company's balance sheet. The decision of the shareholders has been implemented by a 16 June 2003 decision of the Company's Chairman and CEO. Following such decision, the share capital of the Company was €2,025,352,295.

On 30 June 2003, the share capital of the Company was increased by €45 following the creation of 9 shares pursuant to the exercise of 63 free warrants issued by the Company on 10 December 2001.

As of 11 July 2003, the share capital of the Company is €2,025,352,340.

Save as mentioned above, there has been no material change in the consolidated capitalisation of Veolia Environnement since 31st December, 2002.

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of Veolia Environnement (formerly named Vivendi Environnement):

We have audited the accompanying consolidated balance sheets of Vivendi Environnement and subsidiaries (together the "Company"), as of December 31, 2002, 2001 and 2000 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, expressed in Euros. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects the financial position of the Company as of December 31, 2002, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in France.

The accounting policies of the Company used in preparing the accompanying consolidated financial statements vary in certain respects from accounting principles generally accepted in the United States of America. A description of the significant differences between the Company's accounting policies and accounting principles generally accepted in the United States of America and the effect of those differences on consolidated net income (loss) for each of the three years in the period ended December 31, 2002 and shareholders' equity as of December 31, 2002, 2001 and 2000 is set forth in Note 27 to the consolidated financial statements.

RSM Salustro Reydel

/s/ RSM Salustro Reydel

Barbier Frinault & Cie
Ernst & Young

/s/ Alain Grosmann, Jean Bouquot

Paris, France

April 15, 2003
(Except with respect to the matters discussed in Note 27 as to which the date is May 30, 2003)

VEOLIA ENVIRONNEMENT

CONSOLIDATED BALANCE SHEETS – ASSETS

	Notes	*At December 31,*			
		2002	*2002*	*2001*	*2000*
		($ millions)		*(€ millions)*	
Goodwill, net	3	6,452.2	6,152.8	6,795.8	7,056.5
Other intangible assets, net	4	4,094.9	3,904.9	4,477.0	4,223.4
Property plant and equipment		18,539.4	17,679.2	16,843.4	14,275.7
Publicly-owned utility networks		6,778.1	6,463.6	6,156.7	5,619.2
Accumulated depreciation		(10,069.2)	(9,602.0)	(8,808.8)	(7,512.1)
Property, plant and equipment, net	5	15,248.3	14,540.8	14,191.3	12,382.8
Investments accounted for using the equity method	6	469.8	448.0	618.0	523.4
Investments accounted for using the cost method	7	291.5	278.0	245.8	244.1
Portfolio investments held as financial assets	7	1,304.0	1,243.5	1,072.8	932.0
Financial assets		2,065.3	1,969.5	1,936.6	1,699.5
Total long-term assets		27,860.7	26,568.0	27,400.7	25,362.2
Inventories and work-in-progress	8	1,231.6	1,174.5	1,543.7	1,483.4
Accounts receivable	8	11,688.2	11,145.8	12,066.0	10,727.9
Short-term loans	9	511.3	487.6	985.5	224.8
Cash and cash equivalents	10	2,497.8	2,381.9	2,089.3	1,528.1
Other marketable securities	10	273.3	260.6	324.1	496.6
Total current assets		16,202.2	15,450.4	17,008.6	14,460.8
TOTAL ASSETS		44,062.9	42,018.4	44,409.3	39,823.0

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

For the convenience of the reader, the financial statements as of and for the year ended 31st December, 2002 have been translated into U.S. Dollars at the rate of U.S.$1 = €0.9536.

VEOLIA ENVIRONNEMENT

CONSOLIDATED BALANCE SHEETS – LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	*At 31st December,*			
		2002	*2002*	*2001*	*2000*
		($ millions)			*(€ millions)*
Share capital		5,667.4	5,404.4	4,673.4	4,673.4
Additional paid-in capital		3,061.1	2,919.1	2,269.6	232.6
Retained earnings		(2,446.6)	(2,333.1)	1,048.2	687.5
Net Income		355.7	339.2	(2,251.2)	614.8
Total shareholders' equity	11	6,637.6	6,329.6	5,740.0	6,208.3
Minority Interests	12	2,711.0	2,585.2	2,531.1	2,031.1
Deferred income	13	1,482.2	1,413.4	1,483.1	1,270.6
Reserves and allowances	14	3,089.5	2,946.1	3,195.7	3,085.4
Bonds		5,907.9	5,633.8	5,193.6	2,444.1
Other financial long-term debt		7,633.3	7,279.2	7,940.4	9,024.6
Long-term debt	15	13,541.2	12,913.0	13,134.0	11,468.7
Other long-term liabilities		448.3	427.5	496.6	660.9
Total long-term liabilities and shareholders' equity		27,909.8	26,614.8	26,580.5	24,725.0
Accounts payable	8	12,172.5	11,607.7	12,939.3	10,854.4
Bank overdrafts and other short-term borrowings		3,980.6	3,795.9	4,889.5	4,243.6
Total current liabilities	15	16,153.1	15,403.6	17,828.8	15,098.0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		44,062.9	42,018.4	44,409.3	39,823.0

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

On 1st January, 2001 Veolia Environnement has forgone the imputation of the goodwill of US Filter recorded as a reduction of shareholders' equity, which represents an increase in additional paid-in capital of €2,037 million.

For the convenience of the reader, the financial statements as of and for the year ended 31st December, 2002 have been translated into U.S. Dollars at the rate of U.S.$1 = €0.9536.

VEOLIA ENVIRONNEMENT

CONSOLIDATED STATEMENTS OF INCOME

	Notes	*At 31st December,*			
		2002	*2002*	*2001*	*2000 restated*
		($ millions)			*(€ millions)*
Revenue	21	31,542.3	30,078.7	29,126.7	26,262.5
Cost of sales		(25,837.0)	(24,638.1)	(23,550.9)	(21,107.0)
Selling, general and administrative costs		(3,679.5)	(3,508.8)	(3,556.7)	(3,254.5)
Other operating income (expense)		41.4	39.5	(6.0)	(251.0)
EBIT	21	2,067.2	1,971.3	2,013.1	1,650.0
Goodwill amortization[1]	23	(343.1)	(327.2)	(2,910.1)	(306.3)
Restructuring costs		(59.4)	(56.6)	(49.4)	(54.4)
Operating income (loss)		1,664.7	1,587.5	(946.4)	1,289.3
Financial income (expenses)	23	(679.6)	(648.1)	(798.0)	(891.8)
Other income (expenses)	23	(62.6)	(59.7)	38.9	777.3
Net income (loss) before taxes, minority and equity interests		922.5	879.7	(1,705.5)	1,174.8
Income taxes	16	(458.6)	(437.3)	(462.3)	(459.2)
Net income (loss) before minority and equity interests		463.9	442.4	(2,167.8)	715.6
Equity in net income of affiliates	6	40.9	39.0	47.8	60.6
Minority interest	12	(149.1)	(142.2)	(131.2)	(161.4)
Net income (loss)		355.7	339.2	(2,251.2)	614.8
Basic earnings per share		0.98	0.93	(6.55)	2.24
Diluted earnings per share		0.98	0.93	(6.55)	2.23

(1) Goodwill amortization includes goodwill write-downs of €77 million in 2002, €2,652.2 million in 2001 and €74.2 million in 2000.

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

For the convenience of the reader, the financial statements as of and for the year ended 31st December, 2002 have been translated into U.S. Dollars at the rate of U.S.$1 = €0.9536.

VEOLIA ENVIRONNEMENT

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Prepared in accordance with International Accounting Standard No. 7)

	Notes	*At 31st December,*			
		2002	*2002*	*2001*	*2000 restated*
		($ millions)			*(€ millions)*
Cash flow from operating activities:					
Net income (loss)		355.7	339.2	(2,251.2)	614.8
Adjustment to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	23	2,513.3	2,396.7	4,684.0	2,070.4
Financial provisions	23	117.8	112.3	53.7	6.0
Gains on sale on property and equipment and financial assets, net		(110.7)	(105.6)	(144.9)	(799.0)
Undistributed earnings of affiliates, net	6	(15.9)	(15.2)	(14.9)	(30.6)
Deferred taxes		(20.2)	(19.3)	90.2	(6.9)
Minority interests	12	149.1	142.2	131.2	161.4
Net changes in current assets and liabilities:					
Prepaid, deferrals and accruals	4	(73.9)	(70.5)	(92.9)	(63.4)
Increase (decrease) in working capital[1]	8	(485.6)	(463.1)	436.8	(314.7)
Net cash provided by operating activities		2,429.4	2,316.7	2,892.0	1,638.0
Cash flow from investing activities:					
Purchase of property, plant and equipment	21	(2,730.1)	(2,603.4)	(2,878.5)	(2,586.2)
Proceeds from sale of property, plant and equipment		207.7	198.1	205.8	230.7
Purchase of investments		(1,054.8)	(1,005.9)	(1,168.8)	(659.3)
Proceeds from sale of investments		1,321.2	1,259.9	349.7	1,248.7
Purchase of portfolio investments held as financial assets		(130.9)	(124.8)	(146.6)	(37.2)
Proceeds from sale of portfolio investments held as financial assets		328.8	313.5	42.2	17.1
Disbursement on notes receivables		(441.4)	(420.9)	(98.7)	(75.0)
Principal payment on notes receivables		166.2	158.5	18.7	111.1
Net (increase) decrease in short-term loans		115.6	110.2	159.7	256.7
Sales and purchases of marketable securities		6.5	6.2	124.1	(43.3)
Net cash used in investing activities		(2,211.2)	(2,108.6)	(3,392.4)	(1,536.7)

(1) The decrease in working capital excludes the deferred taxes of the period.

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

For the convenience of the reader, the financial statements as of and for the year ended 31st December, 2002 have been translated into U.S. Dollars at the rate of U.S.$1 = €0.9536.

VEOLIA ENVIRONNEMENT

CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)
(Prepared in accordance with International Accounting Standard No. 7)

	Notes	*At 31st December,*			
		2002	*2002*	*2001*	*2000 restated*
		($ millions)			*(€ millions)*
Cash flow from financing activities:					
Net increase (decrease) in short-term borrowings		(2,130.6)	(2,031.7)	(3.8)	3,293.4
Proceeds from issuance of bonds and other long-term debt		4,398.2	4,194.1	4,604.4	7,517.2
Principal payment on bonds and other long-term debt		(4,058.7)	(3,870.4)	(3,335.9)	(13,376.1)
Net proceeds from issuance of common stock		1,629.7	1,554.1	411.2	2,727.9
Purchase of treasury stock		(121.4)	(115.8)	(138.4)	(44.3)
Cash dividends paid		(314.6)	(300.0)	(299.0)	(46.5)
Net cash provided by financing activities		(597.4)	(569.7)	1,238.5	71.6
Effect of foreign currency exchange rate changes on cash and cash equivalents		(96.6)	(92.1)	(176.9)	(34.3)
Change in cash and cash equivalents		(475.8)	(453.7)	561.2	138.6
Cash and cash equivalents:					
Beginning		2,191.0	2,089.3	1,528.1	1,389.5
Ending		1,715.2	1,635.6	2,089.3	1,528.1
Cash and cash equivalents	10	2,497.8	2,381.9		
Cash liabilities	15	(782.6)	(746.3)		
Cash and cash equivalents		1,715.2	1,635.6		
Supplemental disclosures of cash flow information:					
Cash payments for:					
Interest		716.0	682.8	772.8	878.6
Income Taxes		359.4	342.7	384.8	273.9
Supplemental disclosures for non-cash investing and financial activities:					
Acquisition:					
Issuance of common stock in settlement of note payable		–	–	–	1,396.6
Issuance of common stock of subsidiaries		–	–	177.0	–

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

For the convenience of the reader, the financial statements as of and for the year ended 31st December, 2002 have been translated into U.S. Dollars at the rate of U.S.$1 = €0.9536.

VEOLIA ENVIRONNEMENT

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Number of Shares	*Share capital*	*Additional paid-in capital*	*Retained earnings*	*Net income*	*Share-holders' equity*
		(€ millions except for share information)				
Balance at 31st December, 1999[(a)]	218,228,507	2,946.1	(2,532.4)	306.7	(42.3)	678.1
Net income (loss) for the year 2000					614.8	614.8
Foreign currency translation adjustment				413.3		413.3
Dividends paid and net income appropriation				(42.3)	42.3	0.0
Goodwill			687.0	9.8		696.8
Capital increase	127,946,448	1,727.3	2,078.0			3,805.3
Balance at 31st December, 2000	346,174,955	4,673.4	232.6	687.5	614.8	6,208.3
Net income (loss) for the year 2001					(2,251.2)	(2,251.2)
Foreign currency translation adjustment				(30.5)		(30.5)
Dividends paid and net income appropriation				392.2	(614.8)	(222.6)
Goodwill			2,037.0	(1.0)		2,036.0
Conversion of warrants	817	0.0				0.0
Balance at 31st December, 2001	346,175,772	4,673.4	2,269.6	1,048.2	(2,251.2)	5,740.0
Net income for the year 2002					339.2	339.2
Foreign currency translation adjustment				(957.2)		(957.2)
Dividends paid and net income appropriation				(2,438.7)	2,251.2	(187.5)
Treasury shares		(64.1)	(86.9)			(151.0)
Conversion of warrants - Capital increase	58,894,687	795.1	736.4			1,531.5
Other				14.6		14.6
Balance at 31st December, 2002	405,070,459	5,404.4	2,919.1	(2,333.1)	339.2	6,329.6
Balance at 31st December, 2002 ($ millions)		5,667.4	3,061.1	(2,446.6)	355.7	6,637.6

(a) Following a 3 for 1 reverse stock split at the beginning of the year 2000. Before the split, the number of shares was 654,685,522.

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

For the convenience of the reader, the financial statements as of and for the year ended 31st December, 2002 have been translated into U.S. Dollars at the rate of U.S.$1 = €0.9536.

**For the purposes of the Notes to the Consolidated Financial Statements,
Veolia Environnement is referred to as Vivendi Environnement**

VIVENDI ENVIRONNEMENT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

1.1. Presentation of the Group

Vivendi Environnement ("VE" or the "Group") is a "société anonyme" according to French law, a form of stock corporation, listed on both the Paris and New York stock exchanges.

Vivendi Environnement is an independent Group formed at the end of 1999 and is a world-wide Group providing environmental services organized into four divisions: water, waste management, energy services and transportation as well as an interest in the Spanish company Fomento de Construcciones y Contratas ("FCC"). Vivendi Environnement has been listed on the Paris stock exchange since July 20, 2000 and on the New York stock exchange since October 5, 2001.

SEGMENT DESCRIPTION

Vivendi Environnement supplies a wide array of environmental management services to a range of public authorities and industrial, commercial and residential customers. The Group offers a variety of integrated services, including water treatment and system operation, waste management, energy services, and transportation services. Through FCC, a publicly listed Spanish company, the Group also provides environmental and construction services.

Following is a brief description of each of the Group's business segments:

- Water – the Group manages and operates water and wastewater treatment and distribution systems for public authorities and private companies. The Group is also a designer and manufacturer of water and wastewater treatment equipment and water systems. In addition, the Group provides consumers with bottled water.
- Waste management – the Group collects hazardous and non-hazardous waste and offers related services, including disposal, treatment and recycling.
- Energy services – the Group provides energy management services and offers a wide range of industrial utilities and facilities management services.
- Transportation – the Group provides integrated transportation solutions involving bus, train, maritime, tram and other networks.
- FCC – FCC operates in a number of different environmental and construction related industries.

1.2. Significant Events

1.2.1. Recomposition of the capital of Vivendi Environnement

2002 was marked by the placement by Vivendi Universal of nearly 43% of the capital of Vivendi Environnement with a group of investors. This placement was effected by two operations: in June and in December 2002.

In June 2002, Vivendi Universal sold 53.8 million shares of Vivendi Environnement through a global placement underwritten by various banks. This sale took place at the same time as a capital increase of Vivendi Environnement subscribed by a group of declared investors for €1.5 billion, with the issue of 57.7 million new shares at a price of €26.5 per share. This capital increase was finalized in August 2002. At the end of these operations, Vivendi Universal held 40.8% of Vivendi Environnement's capital. The group of declared investors held 9.4% of Vivendi Environnement's capital and were committed to holding on to the shares they acquired in the capital increase for a period of 6 months, ending in January 2003.

During December 2002, Vivendi Universal sold 82.5 million shares of Vivendi Environnement (representing 20.4% of VE's capital) to a second group of institutional investors. At the same time, Vivendi Environnement purchased 3,624,844 of its own shares (representing 0.9% of its capital). Attached to each of these shares purchased (including those shares purchased by Vivendi Environnement) is a call option issued by

Vivendi Universal to purchase 82.5 million supplementary shares of Vivendi Environnement, with an exercise price of €26.5 per share, these call options expire on December 23, 2004.

After this operation, and taking into consideration the 3,624,844 shares purchased by Vivendi Environnement from Vivendi Universal, the participation of Vivendi Universal has been reduced to 20.4% as of December 31, 2002, this participation is allocated to the call options described above. This second group of investors is committed to holding on to those shares for a period of one year ending in December 2003.

Consequences of the capital restructuring on the relationship between Vivendi Environnement and Vivendi Universal

Considering the evolution of the participation of Vivendi Universal in the capital of Vivendi Environnement as of December 31, 2002, the separation of the two groups was finalized at the end of 2002 by the signature of a protocol, the principal terms of which are disclosed in note 22 (related party transactions).

Consequences of the capital restructuring on the relationship between Vivendi Environnement and FCC

Prior to the restructuring of Vivendi Environnement's capital, which reduced Vivendi Universal's participation in the capital of Vivendi Environnement and its voting rights below 50%, Ms Esther Koplowitz accepted by an agreement signed on June 17, 2002, not to exercise her call option on the Group's interest in B1998 SL. These agreements are described in note 22 (related party transactions).

1.2.2. Vivendi Environnement 1.5% bonds

On August 20, 2002, Vivendi Environnement convened a general meeting of its Vivendi Environnement 1.5% bondholders. By a majority of 64.8% of the votes cast, the bondholders agreed to forgo from September 1, 2002, the guarantees given by Vivendi Universal on these bonds and the possibility of early redemption in the event of the default of Vivendi Universal. In return, the nominal interest rate was increased by 0.75% from 1.5% to 2.25%.

1.2.3. Southern Water

See note 25

1.2.4. Reclassification of treasury shares

After the meeting of the management board on December 11, 2002, and in accordance with the notice from the "Comité d'Urgence du Conseil National de la Comptabilité", 4.7 million of treasury shares have been reclassified in the statutory accounts of Vivendi Environnement S.A. from "marketable securities" to "other portfolio investments" and imputed as a reduction of the consolidated shareholders' equity for an amount of €151 million.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in France ("French GAAP") and are in accordance with the provisions of the January 3, 1985 law and its implementation rule as of February 17, 1986 and the new rules approved by the "Comité de la Réglementation Comptable" in April 1999.

The Group applies the recommendation of the "Conseil National de la Comptabilité" and accounts for in its consolidated financial statements, assets financed by capital leases (known in France as crédit-bail"), pensions obligations and other retirement costs. Vivendi Environnement uses the preference method for the treatment of capital leases.

Vivendi Environnement applies the regulation CRC 00-06 relating to reserves since January 1, 2001.

The financial statements of foreign subsidiaries have been adjusted to comply with French GAAP when necessary. French GAAP differs in certain respects from accounting principles generally accepted in the United States. A description of these differences and their effects on net income and shareholders' equity is set forth in Note 27. The financial statements have been formatted in the original French GAAP financial statements presentation and where necessary have been modified to include certain additional disclosures in order to conform with the content of financial statements required by the generally accepted accounting principles in the United States ("U.S. GAAP").

Change of presentation and accounting principles

In 2002, the Group did not change presentation or its accounting principles.

In 2001 Vivendi Environnement has modified the presentation of its consolidated statement of income. It is now a statement of income by function. This presentation is in line with the French and international practices. This new presentation mainly consists of the reclassification of exceptional income. In order to allow a consistent comparison the restated historical years are also disclosed.

Until the end of 1999, and in accordance with French GAAP, for acquisitions which were completed through the issuance of capital, the portion of goodwill attributable to such proceeds could be charged to shareholders' equity, up to the amount of the related share premium.

Vivendi Environnement has been listed on the New-York Stock Exchange since October 5, 2001. Vivendi Environnement files with the SEC an annual report on Form 20-F which includes a reconciliation with U.S. GAAP of equity and net income as reported in the French accounts. One of the adjustments is the reclassification of the goodwill recorded under French GAAP as a reduction of shareholders' equity to the assets under U.S. GAAP.

Consequently, Vivendi Environnement has not recorded goodwill as a reduction of shareholders' equity since 2001.

Convenience Translations

The consolidated balance sheet and consolidated statements of income and cash flows include amounts as of and for the year ended December 31, 2002 denominated in millions of U.S. dollars. These amounts are presented as permitted convenience translations under Rule 3-20 of Regulation S-X of the U.S. Securities Exchange Commission and have been prepared using an exchange rate of U.S.$1 to €0.9536, which was the exchange rate as of December 31, 2002. Convenience translations are presented solely for the convenience of the reader of these financial statements and should not be construed as representations that the local currency has been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Principles of Consolidation

All companies over which the Group has legal or effective control are consolidated.

The Group uses the equity method of accounting for its investments in certain affiliates in which it owns less than 20% of the voting shares. In these situations, the Group exercises significant influence over the operating and financial decisions of the affiliate either (a) through the disproportionate representation on the affiliate's board of directors, e.g., the percentage of directors appointed to the board by the Group is greater than the percentage of its shareholding interest and those directors allow the Group to exercise significant influence, and (b) because there is no shareholder with a majority voting ownership in the affiliate, which is a consideration under French accounting principles in determining whether significant influence exists, or (c) because the Group exercises substantive participating rights through shareholder agreements that allow the Group to veto or block decisions taken by the board of the affiliate in question. Significant investments in which the Group has 20% to 50% ownership or otherwise exercises significant influence are accounted for under the equity method.

The proportionate method of consolidation is used for investments in jointly controlled companies, where the Group and other shareholders have agreed to exercise joint control over significant financial and operations policies. For such entities, the Group records its proportionate interest in the balance sheet and income statement accounts.

All other investments in affiliates that are not consolidated are accounted for at cost.

Subsidiaries acquired are included in the consolidated financial statements as of the acquisition date. All material intercompany transactions have been eliminated. In the case of proportionally consolidated companies, intercompany transactions are eliminated on the basis of the Group's interest in the company involved.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Actual results could differ significantly from these estimates. Significant estimates made by management in the preparation of these financial statements include amounts for pension liabilities, deferred taxes, valuation estimates for long-lived assets, reserves as well as recorded and disclosed amounts for certain financial instruments.

Translation of Foreign Subsidiaries' Financial Statements

Balance sheets, statements of income and cash flows of subsidiaries whose functional currency is different from that of the Group are translated into the reporting currency at the applicable exchange rate (i.e., the closing year-end rate for balance sheets, or the average annual rate for income and cash flow statements). Translation gains and losses are recorded in retained earnings. The exchange rates of the significant currencies of non-euro countries used in the preparation of the consolidated financial statements were as follows :

Year-End Closing Exchange Rates	*2002*	*2001*	*2000*
(one currency = xx€)			
U.S. dollar	0.9536	1.1357	1.0747
Pound sterling	1.5373	1.6030	1.6023

Average Annual Exchange Rates	*2002*	*2001*	*2000*
(one currency = xx€)			
U.S. dollar	1.0545	1.1148	1.0827
Pound sterling	1.5889	1.6058	1.6407

The balance sheets, income and cash flow statements of subsidiaries operating in highly inflationary economies are re-measured (according to the historical method) into a functional currency. The functional currency is defined as the currency used in the dominant country of the economic area to which the subsidiaries belong. Related translation effects are included in net income. These financial statements are then translated from the functional currency into the reporting currency on the basis of the year-end or average annual exchange rate and the translation adjustments are recorded in retained earnings.

Revenue Recognition

Revenues are recorded when title passes to the customer or when services are rendered and measured in accordance with contracts; title is considered to have passed to the customer when goods are shipped.

Revenue resulting from government subsidies associated with long-term operating agreements is recorded ratably over the year.

Revenue relating to specific activities are discussed in applicable sections of these footnotes.

Other income and expenses

This item includes income or expenses resulting from exceptional operations or events that are not part of the ordinary operations of Vivendi Environnement. They primarily include capital gains and losses on sales of subsidiaries and affiliates.

Goodwill and Business Combinations

All business combinations are accounted using the purchase accounting method. Under the purchase accounting method, assets acquired and liabilities assumed are recorded at their fair value. The excess of the purchase price over the fair value of net assets acquired, if any, is capitalized as goodwill and amortized over the estimated period of benefit on a straight-line basis. Amortization periods for goodwill range from 20 to 40 years.

Other Intangible Assets

Start-up costs relating to the implementation of new activities, including pre-operating costs, are amortized over their estimated useful life.

Other intangible assets include costs incurred to obtain contracts, such as fees paid to local authorities for public services contracts. Fees paid to local authorities are amortized over the duration of the contract, which can be up to 30 years.

Market share and trademarks are not amortized.

Business assets acquired, such as customers lists and operating rights, are amortized over their estimated useful life.

Property, Plant and Equipment

Property, plant and equipment is carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the following useful life:

	Estimated useful lives in years
Buildings	20 to 50
Technical systems	7 to 12
Transport equipment	3 to 25
Other equipment and machinery	3 to 12

Assets financed by leasing contracts that include a purchase option (known in France as "crédit-bail") are capitalized and amortized over the shorter of the lease term or the estimated useful lives of the assets. Amortization expense on assets acquired under such leases is included with depreciation and amortization expense. Interest expense incurred as a result of expenditures for a fixed asset during the period necessary for its intended use is capitalized as part of the historical cost of fixed assets.

Valuation of Long-lived Assets

Long-lived assets, including goodwill and the other intangible assets, are regularly re-evaluated according to circumstances, either internal or external, which could lead to depreciation. If this is the case, an exceptional amortization or valuation allowance is recorded on the basis of the asset's fair value.

Financial Assets

Investments Accounted for Using the Cost Method

Investments in unconsolidated affiliates are carried at cost. Any negative difference between carrying value and fair value that is determined to be other than temporary is reserved.

Portfolio Investments Held as Financial Assets

Portfolio and other investments include unlisted and listed equity securities of unconsolidated subsidiaries and long-term loans that are recorded at cost. When fair value is less than cost and is determined to be other than temporary, a valuation allowance is provided. Estimated fair value is determined on the basis of the Group's share of the equity of the companies concerned adjusted to market value in case of listed securities or pursuant to other applicable procedures.

Bonds and Debentures

Issue costs, as well as discounts and premiums on convertible debt are amortized over the life of the debt.

Inventories and Work-in-progress

Group companies value inventories according to the provisions of the French Commercial Code, either on a first-in-first-out or a weighted average cost basis. Inventories are stated at the lower of cost or net realizable value.

Deferred Taxes

Deferred tax assets are recognized for deductible temporary differences, net tax operating loss carry forwards and tax credit carry forwards. Deferred tax liabilities, including those relating to tax loss carry-forwards, are recognized for taxable temporary differences. Deferred tax assets are recorded at their estimated net realizable value. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the enactment date.

Cash, Cash Equivalents and Marketable Securities

Cash and cash equivalents include all cash balances and short-term highly liquid investments with original maturities of three months or less at the time of purchase and are stated at cost which approximates their fair value.

Marketable securities including treasury shares and other highly liquid investments. Treasury shares are classified as marketable securities when they are acquired to stabilize the market price of the Group's shares or in connection with stock options granted to directors and employees. Treasury shares held for other reasons are recorded as an offset to shareholders' equity. Marketable securities are carried at cost, and a valuation allowance is provided if the fair value is less than the carrying value.

Pension Plans

The Group has several pension plans that cover substantially all employees. Pension obligations are calculated using the projected unit credit method. This method considers the probability of personnel remaining with companies in the Group until retirement, the foreseeable changes in future compensation, and the appropriate discount rate for each country in which the Group maintains a pension plan. This results in the recognition of pension-related assets or liabilities, and the recognition of the related net expenses over the estimated term of service of the employees.

Employees in France and most other European countries are eligible, for severance pay pursuant to applicable law immediately upon termination. The Group provides reserves for such employee termination liabilities using the projected unit credit method.

Stock Based Compensation

The Group has adopted stock option incentive plans that grant options on its common shares to certain directors and officers. The purpose of these stock option plans is to align the interest of management with the interest of shareholders by providing certain officers and other key employees with additional incentives to increase the Group's performance on a long-term basis. Shareholders' equity is credited for the cumulative strike price to reflect the issuance of shares upon the exercise of options.

Treasury shares held to cover commitments relating to stock purchase options are shown under marketable securities at the lower of cost and fair market value. The Group accounts for any capital gains or losses in the year in which shares are sold under the plan.

Derivative Financial Instruments

The Group manages certain of its financial risks by using derivative financial instruments that qualify as hedges.

The Group primarily uses interest rate swaps and caps to manage interest rate risks relating to its borrowing requirements. The goal of these swaps is, depending on the circumstances involved, to modify from fixed to floating rates and from floating to fixed as well as to modify the underlying index on floating rate debt. The goal of the interest caps is to limit the upside risk relating to floating rate debt. Interest rate swaps that modify borrowings or designated assets are accounted for on an accrual basis. Premiums paid for interest rate caps are expensed as incurred.

The Group uses currency swaps and forward exchange contracts to manage its foreign currency risk. Forward exchange contracts are used to hedge firm and anticipated transactions relating to assets denominated in foreign currencies. Currency rate swaps are used to modify the interest rate and currency of foreign denominated debt. Gains and losses arising from the change in the fair value of currency instruments that qualify for hedge accounting treatment are deferred until related gains or losses on hedged items are realized.

Any financial instrument that does not qualify as a hedge for financial reporting purposes is recorded at the lower of cost or fair value in other current assets or liabilities.

Foreign Currency Transactions

Foreign currency transactions are converted into euros at the exchange rate in effect on the transaction date. At year-end, receivables and payables denominated in foreign currencies are remeasured into euros at year-end exchange rates. The resulting exchange losses and gains are recorded in the current earnings period.

Exchange losses on borrowings denominated in foreign currencies that qualify as hedges of net investments in foreign subsidiaries are included as translation adjustments in retained earnings.

Research and Development

The Group's research and development costs are expensed as incurred.

Earnings Per Share

Basic earnings per share calculations are based, according to "Avis n° 27 de l'Ordre des Experts Comptables", on the Group's net income after taxes divided by the weighted average number of common shares outstanding.

Dilutive earnings per share reflect the potential dilution that would occur if all securities and other contracts to issue ordinary shares were exercise or converted. For its calculation weighted average number of common shares outstanding includes shares issuable on exercise of dilutive options.

At December 31, 2002, potential dilutive securities or other contracts to issue ordinary shares are warrants issued in December 2001 and stock-options.

Accounting Policies Specific to the Environmental Services Activities

Public Service Contracts

The Group holds public service contracts relating to its operations in water distribution and treatment, district heating networks, urban transportation and waste collection and treatment. Under the French legal system, there are three primary types of public service contracts: "affermage" (or public service management) contracts, where the operator is granted the obligation to manage and maintain facilities owned and financed by local authorities, "concession," facility management contracts which are similar to "BOT" (build-operate-transfer) agreements and contracts presenting mixed characteristics of affermage and concession contracts.

Revenue is recognized on these contracts when services are rendered in accordance with the terms of the contracts. On an exceptional basis, the Group may also operate management contracts in which it manages a public service for a fixed fee as well as an incentive which is calculated in relation to the performance of the contract. For these contracts, the Group recognizes billing to customers as revenue and all related costs as operating expenses.

In France, the Group's public service contracts are primarily affermage contracts.

Facilities

Facilities operated by the Group are generally financed by local authorities and remain theirs throughout the contract period. Individual facilities financed by the Group as a consequence of specific contractual terms are recorded as fixed assets and depreciated to their estimated residual value, if any, on the shorter of their economic useful lives or the contract's term. Wherever the contract's term is shorter than the economic useful life of the asset, such depreciation is classified as a liability as a financial depreciation.

Fees Paid to Local Authorities

The Group does not have any obligation for compensation payments to local authorities during the contract period, except for fees that have been agreed upon by both parties and formally defined by the contract.

The Group's policy is to expense ratably fees that are paid to local authorities when these fees are paid annually and to amortize these costs on a straight-line basis over the life of the contract when the fees consist of payments at the beginning of the contract.

Commitments to Maintain and Repair Assets

The Group generally assumes a contractual obligation to maintain and repair facilities managed through public service contracts. Corresponding repair and maintenance costs are expensed as incurred, except for some investments in joint ventures where costs are accrued in advance.

Planned Maintenance Projects

The Group's policy is to expense costs relating to planned maintenance projects as they are incurred.

Landfill Capitalization and Depletion

Landfill sites are carried at cost and amortized ratably using the units of production method over the estimated useful life of the site as the airspace of the landfill is consumed. Landfill costs include capitalized engineering and other professional fees paid to third parties incurred to obtain a disposal facility permit. When the Group determines that the facility cannot be developed or the likelihood of grant of the permit cannot be determined before its final authorization, as it is the case in France and the United Kingdom, these costs are expensed as incurred.

Landfill Closure and Post-closure Costs

The Group has financial obligations relating to closure and post-closure costs and the remediation of disposal facilities it operates or for which it is otherwise responsible.

Landfill final closure and post-closure accruals consider estimates for costs of the final cap and cover for the site, methane gas control, leachate management, groundwater monitoring, and other monitoring and maintenance to be incurred after the site discontinues accepting waste. The cost estimates are prepared by engineers based on the applicable local, state and federal regulations and site specific permit requirements. These estimates do not take into account discounts for the present value of total estimated costs. The Group accrues a reserve for these estimated future costs pro rata over the estimated useful life of the sites.

Accruals for environmental remediation obligations are recognized when such costs are probable and reasonably estimable.

These liabilities are classified as reserves and allowances.

Construction

To calculate their margin, construction companies record revenue according to the percentage of completion method. This method is applied to contracts with a duration of six months or more; for contracts with a duration of less than six months, the completed contracts method is used.

3. GOODWILL AND BUSINESS COMBINATIONS

Goodwill by segment is detailed as follows:

	At December 31, 2000 Net	*At December 31, 2001 Net*	*At December 31, 2002*				
			Change in scope (1)	*Foreign exchange translation* (2)	*Amortiza-tion* (3)	*Other movements*	*Nets*
				(€ millions)			
Water	4,505.4	3,769.3	(14.7)	(351.9)	(133.9)	22.3	3,291.1
Waste Management	1,387.7	1,445.6	40.9	(140.2)	(62.2)	1.6	1,285.7
Energy Services	483.0	702.7	31.6	(0.9)	(35.0)	5.7	704.1
Transportation	66.6	157.1	54.5	1.8	(15.8)	11.5	209.1
FCC	613.8	721.1	22.2	–	(80.3)	(0.2)	662.8
Total	7,056.5	6,795.8	134.5	(491.2)	(327.2)	40.9	6,152.8

(1) The changes in scope are mainly related to acquisitions of the companies holding the Pudong contract for €182 million and the Rabat contract in Morocco for €110 million and the sale of certain non-strategic activities of USFilter for €(465) million. Other acquisitions have small individual amounts of less than €30 million.

(2) Foreign exchange translation adjustment are mainly the result of the depreciation of the US dollar against the euro.

(3) Total goodwill amortization expense for the years ended December 31, 2002, 2001 and 2000 were €(327.2) million, €(2,910.1) million and €(306.3) million respectively.

The following is a summary of the most significant acquisitions during the periods presented in the accompanying financial statements.

FCC

In October 1998, Vivendi Universal acquired for cash 49% and obtained joint control of a Spanish holding company whose only asset is a 57% ownership interest in FCC, a publicly listed company in Spain active in the environmental services sector. Vivendi Universal sold to the Group its interest in the holding company for €691 million. The holding company, which fully consolidates FCC, is reflected in the Group's financial statements using the proportionate consolidation method. The details of the Group's acquisition are as follows (in millions of euros):

Fair value of net tangible and intangible assets acquired	212
Purchase price	691
Goodwill recorded on acquisition	479
Goodwill net at December 31, 2002	417

Goodwill recorded from this transaction is being amortized over 20 years.

USFilter

In April 1999, Vivendi Universal acquired for cash 100% of the outstanding shares of United States Filter Corporation, a U.S. based water treatment and equipment manufacturing company. The transaction was accounted for as a purchase. The details of the acquisition are as follows (in millions of euros):

Fair value of net tangible and intangible assets acquired	459
Purchase price	5,801
Goodwill recorded on acquisition	5,342
Goodwill net at December 31, 2002	1,711

Goodwill recorded from this transaction is being amortized over 40 years.

On January 1, 2001 Vivendi Environnement renounced the imputation of a part of the initial goodwill of USFilter recorded as a reduction of shareholders' equity. As a result the net goodwill was increased by €2,037 million on December 31, 2001. The goodwill recorded on acquisition was €5,342 million of which €3,253 million was initially recorded as an asset, and €2,089 million as a reduction of shareholders' equity on the acquisition of USFilter by Vivendi Environnement from Vivendi Universal on December 23, 1999 which the Group has now renounced. The amortization of the goodwill initially recorded as an asset as of December 31, 2001 was €216 million.

Taking into account the theoretical amortization of the goodwill recorded as a reduction of shareholders' equity of €52 million (calculated as if the goodwill had been recorded as an asset), the net goodwill reintegrated as an asset amounts to €2,037 million.

Goodwill amortization in 2001 included a write-off of goodwill of €2,611 million, related to activities of USFilter. The management determined that the goodwill was impaired, and goodwill was written down based upon an estimate of discounted future cash flow. The analysis was based on a projection over 10 years with a terminal value and with a discount rate of 7% for the goodwill. The management revised the estimated cash flows as a result of the evolution of the US economic situation.

In 2002, the Group actualized the projection of USFilter over 10 years, with a terminal value and utilized a discount rate of 6% which takes into account the reduction in the US risk-free rate. As a result of commercial gains and business development in 2002, and its perspectives for 2003 and despite the US economic situation in 2002, the valuation has not put into question the long term growth prospects of USFilter. The carrying value of the goodwill of USFilter has been justified as of December 31, 2002.

Onyx Waste Services (previously Superior Services)

In June 1999, Vivendi Environnement acquired for cash 100% of the outstanding shares of Superior Services, a U.S. based waste management company. The transaction was accounted for as a purchase. The details of the acquisition are as follows (in millions of euros):

Fair value of net tangible and intangible assets acquired	168
Purchase price	932
Goodwill recorded on acquisition	764
Goodwill net at December 31, 2002	632

Goodwill recorded from this transaction is being amortized over 40 years.

Impairment of goodwill

Goodwill amortization in 2000 included a goodwill write-down of €58 million, primarily related to the impairment of goodwill associated with Onyx's U.K. operations. These operations consist of both dry and wet waste collection, landfill, and waste treatment facilities. The business is conducted with both industrial and municipal customers under short and long-term contracts. During 1999, operating results began to decline due to industry overcapacity and strong competitive pricing pressure. U.K. management began to respond to this situation by reducing costs. At the end of 1999, profitability had declined significantly but the U.K. company was still profitable at a level sufficient to recover the carrying value of its long-lived assets, including goodwill. However, operating results continued to decline during 2000 and it was recognized that additional action was required. U.K. management performed an analysis of the business and overall industry conditions. As a result of this review, several additional actions were taken in 2000. These actions included the closure of several treatment facilities, the termination of certain unprofitable long-term municipal contracts and further cost reductions. The actions were taken because the management believed that the prevailing industry conditions would continue for the foreseeable future. The management also revised the operating forecast to reflect the estimated effect of its actions and its view of long term industry conditions. Based upon the resulting forecast of estimated undiscounted future cash flows, the management determined that the goodwill was impaired, and the goodwill was written down based upon an estimate of discounted future cash flow. The analysis was performed at the lowest level of identifiable assets. The analysis was based on the business plans over 20 years with a discount rate of 7% for the goodwill and the current market value for fixed assets (landfills, treatment plants and properties). Onyx's U.K. operations mainly relate to contracts that are highly predictable on a long-term basis.

4. OTHER INTANGIBLE ASSETS

The evolution of net intangible assets as follows:

	2000	*2001*	*Additions*	*Utilization*	*Change in scope*	*Foreign exchange translation*	*Other movements*	*2002*
				(€ millions)				
Fees paid to local authorities(1)	517.1	567.6	43.9	(41.7)	3.0	(14.8)	10.5	568.5
Trademarks, market share and business assets acquired(2)	2,619.6	2,922.6	28.3	(29.1)	(183.1)	(439.3)	(15.9)	2,283.5
Software	59.5	69.4	38.0	(42.4)	4.7	(0.5)	21.7	90.9
Prepaid expenses(3)	423.8	469.9	70.5	(54.7)	6.6	(7.3)	(44.2)	440.8
Other intangible assets	603.4	447.5	150.1	(46.3)	(0.5)	(27.2)	(2.4)	521.2
Total	4,223.4	4,477.0	330.8	(214.2)	(169.3)	(489.1)	(30.3)	3,904.9

(1) Fees paid to local authorities relating to public service contracts, which are primarily located in France, amounted to €568.5 million in 2002, compared with €567.6 million in 2001 and €517.1 million in 2000. These are amortized over the term of the contracts to which they relate.

(2) Trademarks, market share and business assets amounted to €2,283.5 million in 2002, compared to €2,922.6 million in 2001, and €2,619.6 million in 2000. These assets include the allocation to trademarks of part of the purchase price of USFilter for €1,919 million (these assets have been the object of a review by an independent expert who has confirmed their value), and the waste treatment operating rights of Onyx Waste Services for €77.8 million. The carrying value of trademarks, market share and business assets are reviewed every year on the same basis of criteria used to assess their initial value, such as the position of the market, net sales and gross operating surplus or deficit. If the review indicates an other than temporary reduction in value, a valuation allowance is recorded. Trademarks and market shares are not amortized. Acquired business assets, such as customer lists and operating rights, are amortized over their estimated useful lives.
The changes in scope of consolidation are principally due to US Filter trademarks for €(185.6) million as a result of the sale of Filtration and Separation.

(3) Prepaid expenses include expenses of €440.8 million, €469.9 million and €423.8 million, as of December 31, 2002, 2001 and 2000, respectively, to be allocated over several financial years, mainly relating to the difference between the contractual amounts of debt servicing payments made to local authorities and the expense charged to income over the contract period.
Certain subsidiaries of the Group may repay the debt entered into by local authorities relating to the utility network they manage. These obligations are part of the contracts between Vivendi Environnement and the local authorities, there are no guarantees given to the lenders. The annual payments generally decrease each year and extend over a period shorter than the contract period. This difference between the amounts paid to the local authorities and the expense charged to income is recorded as a prepaid expense on the balance sheet.

Total amortization expense for other intangible assets for the years ended December 31, 2002, 2001 and 2000 was €214.2 million, €184.2 million and €182.5 million, respectively. Accumulated amortization amounted to €874.5 million, €774.9 million and €609.8 million, as of December 31, 2002, 2001 and 2000, respectively.

5. PROPERTY, PLANT AND EQUIPMENT

Evolution of property, plant and equipment:

	December 31,						
	2000	*2001*	*Change in scope*	*Additions and amortizations charged to operating income*	*Utilizations*	*Other movements*	*2002*
				(€ millions)			
Property, plant and equipment	14,275.8	16,843.4	282.0	1,738.8	(677.5)	(507.5)	17,679.2
Publicly-owned utility networks	5,619.2	6,156.7	73.7	382.8	(103.9)	(45.7)	6,463.6
Total gross book value	19,895.0	23,000.1	355.7	2,121.6	(781.4)	(553.2)	24,142.8
Property, plant and equipment	(5,756.4)	(6,898.0)	66.2	(1,342.2)	521.0	51.5	(7,601.5)
Publicly-owned utility networks	(1,755.8)	(1,910.8)	(0.3)	(152.7)	36.1	27.2	(2,000.5)
Depreciation	(7,512.2)	(8,808.8)	65.9	(1,494.9)	557.1	78.7	(9,602.0)
Total net book value	12,382.8	14,191.3	421.6	626.7	(224.3)	(474.5)	14,540.8

Publicly-owned utility networks are assets financed by the Group as part of their management of public service contracts, and will be returned to the local authority at the end of the contract.

Changes in scope are mainly related to, in the water segment, the entry of Pudong for €123.2 million and Redal for €82.2 million and to the sale of Schwarzepumpe for €(84) million, in the energy services segment, the entry of Vilnius for €65.5 million and Poznan for €48.7 million and in the transportation segment the entry of the Verney Group for €32.7 million.

Additions and amortizations charged to operating income mainly come from Water €(310.8) million, Waste Management €(202.2) million and FCC €(129.7) million.

Utilizations come from water segment for €(47.9) million, Waste Management for €(39.9) million, Energy Services for €(77.9) million and transportation for €(53.2) million.

Other movements include the effects of foreign currency translation adjustments and final allocations.

Property, plant and equipment by segment are detailed as follows:

	At December 31,					
	2002				*2001*	*2000*
	Property, Plant and equipment	*Publicly-owned utility networks*	*Accumulated depreciation/ amortization*	*Net tangible assets*	*Net tangible assets*	*Net tangible assets*
			(€ millions)			
Water	5,455.8	5,272.2	(3,738.6)	6,989.4	7,130.2	6,457.8
Waste Management	5,987.9	40.0	(2,769.0)	3,258.9	3,304.1	2,734.6
Energy Services	2,502.7	737.2	(1,237.0)	2,002.9	1,724.5	1,503.1
Transportation	2,347.2	264.3	(1,167.8)	1,443.7	1,321.9	1,092.7
FCC	1,385.6	149.9	(689.6)	845.9	710.6	594.6
Total	17,679.2	6,463.6	(9,602.0)	14,540.8	14,191.3	12,382.8

The detail of net property, plant and equipment is as follows :

	At December 31,		
	2002	*2001*	*2000*
		(€ millions)	
Land	1,416.7	1,210.8	1,061.5
Buildings	1,663.3	1,686.2	1,333.4
Technical systems	5,040.7	5,052.1	3,770.0
Assets under construction	647.3	562.0	471.2
Other	1,579.7	1,434.0	1,883.2
Property, plant and equipment	10,077.7	9,945.1	8,519.3
Publicly owned utility networks	4,463.1	4,246.2	3,863.5
Total	14,540.8	14,191.3	12,382.8

Depreciation expense for the years ended December 31, 2002, 2001 and 2000 was €1,485.1 million, €1,322.8 million and €1,186.4 million, respectively.

Total depreciation for the years ended December 31, 2002, 2001 and 2000 was €9,602.0 million, €8,808.8 million and €7,512.2 million, respectively.

Tangible assets financed under capital lease are detailed as follows :

	Gross value	*Accumulated amortization*	*Net value*
		(€ millions)	
Land	22.8	(1.5)	21.3
Buildings	302.9	(129.1)	173.8
Technical systems	701.1	(287.1)	414.0
Other	348.8	(146.5)	202.3
Property, plant and equipment	1,375.6	(564.2)	811.4
Publicly owned utility networks	268.0	(77.1)	190.9
Total 2002	1,643.6	(641,3)	1,002.3
Total 2001	1,039.3	(388.6)	650.7
Total 2000	784.0	(342.7)	441.3

6. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	At December 31,								
	Interest			Proportionate share of equity			Proportionate share of net income		
	2002	*2001*	*2000*	*2002*	*2001*	*2000*	*2002*	*2001*	*2000*
					(€ millions)				
Realia[1]	24.10%	24.10%	23.31%	75.6	74.4	89.8	13.3	18.2	15.0
Philadelphia Suburban[2]	–	16.88%	17.02%	–	104.0	73.1	–	11.6	10.5
Domino	30.00%	30.00%	30.00%	28.2	54.3	57.4	(0.5)	6.7	8.4
South Staffordshire[2]	–	31.74%	31.74%	–	59.6	54.3	9.2	9.9	10.6
Grubar Hoteles	19.70%	18.31%	18.31%	46.0	43.2	38.3	(2.1)	(0.2)	0.7
Bristol Water[2]	–	24.14%	24.14%	–	37.6	35.6	–	3.8	1.3
Midkent	–	–	23.75%	–	–	28.9	–	–	4.3
Intan Utilities Berhad	30.00%	30.00%	30.00%	10.7	12.0	11.0	0.8	(10.7)	1.4
Acque Potabili	14.36%	14.36%	20.52%	13.4	13.6	9.6	(0.1)	–	–
Venditelecom	–	17.23%	12.23%	–	–	7.6	–	–	–
Egyptian company for prestressed concrete	–	30.00%	30.00%	–	5.6	6.7	–	1.2	2.2
Fovarosi Csatomazasi Muvek Resvenytarasag	25.00%	25.03%	–	95.4	89.8	–	0.5	1.8	–
Eaux du Centre et du Rhône	34.97%	34.97%	34.97%	5.6	5.3	5.8	0.2	–	0.4
Tiru	24.00%	24.00%	24.00%	6.4	4.6	2.9	2.7	2.2	0.8
Technoborgo	49.00%	–	–	6.6	–	–	(0.1)	–	–
Other (per unit < €5 million)	–	–	–	160.1	114.0	102.4	15.1	3.3	5.0
Total				448.0	618.0	523.4	39.0	47.8	60.6

(1) Realia (a subsidiary of FCC and Caja Madrid) has purchased the real estate assets of FCC Immobilaria SA in 2000.

(2) Shares sold in 2002.

The December 31, 2002 quoted market price for these investments is as follows: Acque Potabili : €22.2 million.

The evolution in 2002 of equity investments is as follows:

	2002 Interest	*2001*	*Change in scope*	*Net income*	*Distribution of dividends*	*Foreign exchange translation*	*2002*
				(€ millions)			
Realia	24.10%	74,4	(3.3)	13.3	(8.8)	–	75.6
Philadelphia Suburban	–	104,0	(104.0)	–	–	–	–
Domino	30.00%	54,3	(2.7)	(0.5)	–	(22.9)	28.2
South Staffordshire Water	–	59,6	(61.2)	9.2	(5.0)	(2.6)	–
Grubar Hoteles	19.70%	43,2	4.9	(2.1)	–	–	46.0
Bristol Water	–	37,6	(36.1)	–	–	(1.5)	–
Intan Utilities Berhad	30.00%	12,0	(0.1)	0.8	(0.5)	(1.5)	10.7
Acque Potabili	14.36%	13,6	–	(0.1)	(0.1)	–	13.4
Egyptian company for prestressed concrete	–	5,6	(5.6)	–	–	–	–
Fovarosi Csatomazasi Muvek Reszvenytarsas ag	25.00%	89,8	(0.7)	0.5	–	5.8	95.4
Eaux du Centre et du Rhône	34.97%	5.3	0.1	0.2	–	–	5.6
Tiru	24.00%	4.6	(0.9)	2.7	–	–	6.4
Technoborgo	49.00%	–	6.7	(0,1)	–	–	6.6
Other		114.0	48.6	15.1	(9.4)	(8.2)	160.1
Total		618.0	(154.3)	39.0	(23.8)	(30.9)	448.0

Dividends received from equity affiliates amount to €23.8 million in 2002, €32.9 million in 2001 and €30.1 million in 2000.

Summarized financial information for the major equity method investees is as follows:

	At December 31, 2002	2001	2000
	(€ millions)		
Balance sheet data			
Long term assets	1,865.6	2,470.6	2,553.2
Current assets	878.9	474.8	854.5
Total assets	2,744.5	2,945.4	3,407.7
Shareholders' equity	1,126.2	1,033.4	1,256.2
Minority interests	176.8	33.2	92.3
Financial debt	905.1	740.6	989.4
Other liabilities and reserves	536.4	1,138.2	1,069.8
Total liabilities and shareholders' equity	2,744.5	2,945.4	3,407.7
Income statement data			
Net revenue	523.7	938.5	1,087.2
Operating income	104.4	291.9	213.3
Net income (loss)	65.7	138.7	158.5

7. FINANCIAL ASSETS

Investments accounted for using the cost method

Investments accounted for using the cost method are detailed as follows:

	At December 31, 2002				2001	2000
	Interest	Gross	Allowance[4]	Net	Net	Net
		(€ millions)				
Alazor Inversiones SA	15.75%	10.9	–	10.9	–	–
Stadtwerke Weis Wasser Gmbh[1]	74.90%	29.8	–	29.8	–	–
Fovarosi Csatomazasi Muvek Resvenytarsasag[2]	25,00%	–	–	–	–	76.2
Rhodia Eco Services[3]	50,00%	–	–	–	–	11.7
Other (Per unit ≤ €10 million in 2002)		285.4	(48.1)	237.3	245.8	156.2
Total		326.1	(48.1)	278.0	245.8	244.1

(1) Acquired on December 30, 2002 and consolidated in 2003.

(2) Accounted for under equity method since 2001.

(3) This company, which is jointly owned by Rhodia, was set up towards the end of 2000 and is consolidated under proportionate method since January 1, 2001.

(4) Allowances expenses amount to (8.4) million in 2002.

Other portfolio investments held as financial assets can be analyzed as follows:

	At December 31, 2002	2001	2000
	(€ millions)		
Long-term loans[1]	521.2	349.5	284.6
Other[2]	783.4	739.2	662.9
Impairment[3]	(61.1)	(15.9)	(15.5)
Net value	1,243.5	1,072.8	932.0

(1) Of which mainly €110 million related to long-term loans pertaining to the participation of Vivendi Water in Berlin and €84 million related to the re-evaluation of long-term hedging instruments. Other loans are under €60 million. Net long term loans amounted to €512.4 million at December 31, 2002.

(2) Of which €138.5 million in assets in connection with pension liabilities in the U.K, €60.4 million corresponding to the net amount of the redemption premium of our convertible bonds, €72.0 million corresponding to subordinated borrowings assumed by Vivendi Environnement as part its securitization of accounts receivable (see note 8), €94.7 million corresponding to the balancing cash adjustment of Vivendi Universal / Vivendi Environnement swap and €57.0 million in the U.S. activities related to consumer financing. Net other financial assets amounted to €731.1 million at December 31, 2002.

(3) Net depreciation expense amount to €(79.7) million in 2002.

8. WORKING CAPITAL

Net working capital is detailed as follows:

	At December 31, 2001	*Variation of working capital*	*Change in scope*	*Foreign exchange translation*	*Other movements*	*At December 31, 2002*
			(€ millions)			
Inventories and work in progress	1,543.7	(57.4)	(191.2)	(78.9)	(41.7)	1,174.5
Accounts receivable	12,066.0	(539.1)	83.7	(397.6)	(67.2)	11,145.8
Accounts payable	12,939.3	(1,173.8)	181.4	(259.1)	(80.1)	11,607.7
Working capital net	670.4	577.3	(288.9)	(217.4)	(28.8)	712.6
USF securitization		(181.0) *				
Variation of deferred taxes		66.8				
Working capital net		463.1				

* This amount is reported in the consolidated statement of cash-flows as a reduction of the proceeds from sales of financial assets (USF Distribution Division).

Inventories and work in progress

The breakdown by segment is as follows:

	At December 31,		
	2002	*2001*	*2000*
		(€ millions)	
Water[1]	660.0	1,088.4	981.2
Waste Management	101.8	112.2	119.1
Energy Services	229.3	233.2	282.9
Transportation	44.2	31.2	27.5
FCC	209.0	175.7	167.3
Total	1,244.3	1,640.7	1,578.0
Less valuation allowance[2]	(69.8)	(97.0)	(94.6)
Net value	1,174.5	1,543.7	1,483.4

(1) In 2002, the decrease in the water sector is related to sales (€(246) million of which €(150) million for USFilter and €(34) million for Bonna Sabla) and to the effects of foreign currency translation adjustments €(79) million).

(2) Allowance expenses for 2002 are €(8.5) million.

Accounts receivable

Accounts receivable are detailed as follows:

	At December 31,		
	2002	*2001*	*2000*
		(€ millions)	
Trade accounts receivable	9,271.2	8,623.0	9,041.1
Valuation allowance	(484.6)	(472.7)	(435.8)
Total trade accounts receivable	8,786.6	8,150.3	8,605.3
VAT and other accounts receivable	1,347.4	2,904.7	1,257.3
Other including deferred tax	1,011.8	1,011.0	865.3
Total accounts receivable, net	11,145.8	12,066.0	10,727.9

The majority of trade receivables are due in less than one year.

Securitization in France

In the extension of the previous agreement, a new 5-year securitization agreement has been signed in June 2002 with a SPE (Special Purpose Entity), the Group securitized through its water segment accounts receivable for a total amount of €416 million net of discount (€752 million at December 31, 2001). The securitized receivables are the assets of the SPE. The SPE is financed by senior borrowings assumed by banks and by retained interests of €72 million assumed by Vivendi Environnement. Reimbursements of the retained interests will occur only after complete reimbursement of the senior borrowings.

According to the securitization agreement, the subsidiaries are responsible for collecting the receivables. The Group provides guarantees on the performance of its subsidiaries in recovering these amounts.

The decrease of the French securitization program since December 31, 2001 (€(336) million) is reflected in the decrease in working capital in the consolidated statement of cash-flows.

Securitization in the USA

The securitization, initiated by US Filter in 2001 for $155 million, has been extinguished following the sale in 2002 of the Distribution activities.

The exit of the securitization program is reported as a reduction of the proceeds from sales of financial assets in the consolidated statement of cash flows for an amount of €181 million.

Discounting of receivables

The Group has discounted €624 million of receivables at December 31, 2002 (€520 million at December 31, 2001).

Allowances for doubtful accounts

The allowances for doubtful accounts for the years ended December 31, 2002, 2001 and 2000 are as follows:

	At December 31,		
	2002	*2001*	*2000*
		(€ millions)	
Balance at beginning of period	(472.7)	(435.8)	(431.3)
Amounts charged to expense	(165.7)	(141.4)	(83.6)
Deductions of reserve	100.3	117.8	51.0
Other adjustments*	53.5	(13.3)	28.1
Balance at end of period	(484.6)	(472.7)	(435.8)

* Other adjustments mainly reflect translation adjustments (€28.2 million).

Accounts payable

Accounts payable are detailed as follows (in millions of euros):

	At December 31,		
	2002	*2001*	*2000*
Trade accounts payable	6,307.5	6,438.7	7,166.7
Social costs payable	4,359.5	5,716.7	2,990.4
Other[(1)]	940.7	783.9	697.3
Total accounts payable	11,607.7	12,939.3	10,854.4

(1) Including deferred tax liabilities of €928.0 million at December 31, 2002

9. SHORT TERM LOANS

At December 31, 2002, net short term loans amounted to €487.6 million. Except for the pre-financing of an investment of €155 million linked to an Australian contract, this heading is made up of per unit amounts smaller than €50 million.

Net valuation allowances amounted to €(136.9) million in 2002. According to the sale agreement of Schwarze Pumpe, Vivendi Environnement retains a loan which has been totally impaired at December 31, 2002 for an amount of €141.5 million.

10. CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES

Marketable Securities

	At December 31,								
	2002					*2001*		*2000*	
	Gross value	*Deprecia-tion*	*Net value*	*Unreali-zed gains*	*Estimated fair value*	*Net value*	*Estimated fair value*	*Net value*	*Estimated fair value*
					(€ millions)				
Vinci	37.9	–	37.9	45.5	83.4	37.9	102.3	37.8	101.7
Vivendi Environnement	100.1	(8.4)	91.7	–	91.7	159.2	159.2	44.3	44.3
Vivendi Universal	7.9	(3.2)	4.7	–	4.7	7.9	19.0	9.1	26.9
Others[(a)]	127.1	(0.8)	126.3	–	126.3	119.1	119.1	405.4	405.4
Total	273.0	(12.4)	260.6	45.5	306.1	324.1	399.6	496.6	578.3

(a) This amount includes mainly short term highly liquid investments with fair value equal to cost value.

Vivendi Environnement shares have been acquired to cover stock options (770,000 shares) for a total of €26.2 million and to cover Employee Stock Purchase Plans (3,624,844 shares) for a total of €73.9 million. The exercise price of these options is €32.5.

In accordance with Board meeting of December 11, 2002, shares acquired to stabilize the market price (4,747,518 shares) for a total amount of €198.4 million have been reclassified in "other portfolio investments" in Vivendi Environnement's statutory accounts and have been accounted for as a reduction of the Group consolidated shareholder's equity at June 30, 2002 net book value €151 million).

Cash and cash equivalents amount to €2,381.9 million, consisting at December 31, 2002 of cash for €1,153.1 million, commercial papers for €566.3 million and short term investments for €662.5 million (maturity of less than three months).

Net valuation allowances amounted to €14.6 million in 2002.

11. SHAREHOLDERS' EQUITY

In 1999, €2,776 million of the goodwill arising from the acquisition of USFilter was allocated, in anticipation, to the paid-in premium to be recorded on the public offering of Vivendi Environnement. In 2000, taking into account the results of the capital increase realized in July, €687 million of the goodwill initially recorded as a reduction of shareholders' equity was recorded as an asset.

In 2000, the Group issued 75,005,023 new shares for €2,408.7 million in a global offering and 52,941,425 new shares with a carrying value of €1,396.6 million on conversion of its convertible bonds, with a total value of €3,805.3 million. Prior to the global offering the total number of shares outstanding was 218,228,507 ordinary shares with a nominal value of €13.50 per share.

On December 31, 2000 the translation adjustments concerned principally the US dollar for €707 million and pound sterling for €(6)million. The accumulated foreign currency translation adjustments were €684.6 million as of December 31, 2000.

In December 2001, the Group issued a total of 346,174,955 warrants. These warrants give the holder the right to convert seven warrants into one common share at an exercise price of €55.0 per share. In 2001, a total of 5,719 warrants were converted, resulting in the issuance of 817 new shares, over the course of 2002 a total of 93,415 warrants were converted, resulting in the issuance of 13,345 new shares.

In 2001, the translation adjustments concern principally the US dollar for €(24.5) million. This amount includes the appreciation of the US dollar against the euro for €294.5 million. In addition, the write-off of goodwill resulted in the reclassification to earnings of foreign currency translation adjustments for €319 million. Accumulated foreign currency adjustments were €654.1 million, as of December 31, 2001.

On August 2, 2002 Vivendi Environnement completed its €1.5 billion capital increase, this capital increase, subscribed by a group of declared investors, was made by issuing 57.7 million new shares at a subscription price of €26.5 per share.

During December 2002, Vivendi Environnement issued 1.2 million new shares at a subscription price of €26.5 per share. The shares were subscribed to by the employee stock purchase plan "Sequoia".

In accordance with Board meeting of December 11, 2002, shares acquired to stabilize the market price (4,747,518 shares) have been reclassified in "other portfolio investments" in Vivendi Environnement statutory accounts and have been accounted for as a reduction of the Group shareholder's equity.

As of December 31, 2002 foreign currency transaction adjustment (€(957.2) million) is due for €(821) million to the depreciation of the dollar against the euro. As of December 31, 2002 the accumulated foreign currency adjustments were €(303.1) million.

At December 31, 2002, "other" include proceeds from transferred contracts by Vivendi Universal for an amount of €25.4 million and call options on shares of Vivendi Environnement agreed by Vivendi Universal for an amount of €(7.6) million.

The Group's consolidated and unconsolidated subsidiaries have certain restrictions on the distribution of net equity. These restrictions mainly concern French companies where, pursuant to French law, they are legally required to reserve a minimum of 5% of its annual net income within the retained earnings account. This minimum contribution is not required once the reserve equals 10% of the aggregate nominal share capital. The legal reserve is distributable only upon liquidation.

The share capital of the Group consisted of 405,070,459 shares at December 31, 2002. All shares have one voting right and may be registered upon request by the owners.

12. MINORITY INTERESTS

Minority interests are detailed as follows (in millions of euros):

	2002	*2001*	*2000*
Minority interests at January 1,	2,531.1	2,031.1	1,330.4
Changes in consolidation	58.8	139.0	580.4
TSAR (1)	–	300.0	
Minority interests in income of consolidated subsidiaries	142.2	131.2	161.4
Dividends paid by consolidated subsidiaries	(112.9)	(76.4)	(46.5)
Impact of foreign currency fluctuations in minority interests	(33.9)	5.4	5.7
Other Changes	(0.1)	0.8	(0.3)
Minority interests at December 31,	2,585.2	2,531.1	2,031.1

(1) TSAR-VEFO (Vivendi Environnement Financière de l'Ouest), a company fully controlled by Vivendi Environnement SA) issued in December 2001, €300 million of company obligated mandatorily redeemable securities maturing on December 28, 2006. As a result of their profile, these securities are accounted for as a minority interest. The remuneration of these securities is included in the minority interest table above. VEFO holds 8% of CGEA Onyx's capital.

In 2000, the year-end disposal of 26.67% of capital of CGC Holding to EDF led to an increase in minority interests of €435.1 million.

13. DEFERRED INCOME

Deferred income includes mainly €634.6 million in investment subsidies received in connection with the management of municipal outsourcing contracts and €739.0 million in payments in respect of income from the securitization of future receivables. To finance most of its cogeneration plants, Dalkia has sold in advance the proceeds from the sale of electricity that EDF has pledged to acquire under long-term contracts. Since January 1, 1998, the proceeds have been amortized on an actuarial basis over the duration of these loans, which ranges between 5 and 12 years.

14. RESERVES AND ALLOWANCES

Reserves and allowances are detailed as follows (in millions of euros):

	At December 31, 2000	*At December 31, 2001*	*Charged to expenses*	*Utilization*	*Reversal*	*Changes to scope*	*Translation adjustments*	*Others*	*At December 31, 2002*
Litigation including social and fiscal	342.0	246.0	149.6	(43.5)	(16.3)	24.4	(7.2)	13.7	367.7
Financial depreciation	532.5	627.8	49.7	(56.6)	–	(17.5)	(0.1)	(4.3)	599.0
Maintenance and repair costs accrued in advance	361.5	322.6	59.9	(68.8)	(1.4)	24.2	(0.5)	(11.1)	324.9
Valuation allowance on work in progress	236.0	370.3	52.4	(83.9)	(0.3)	(50.9)	(25.0)	(29.1)	233.5
Reserves related to fixed assets	173.1	128.7	0.9	(26.0)	(0.5)	(56.3)	0.6	0.5	47.9
Closure and post closure costs	354.7	362.0	71.9	(41.8)	(0.7)	15.6	(23.8)	5.2	388.4
Pensions	167.7	215.0	37.3	(44.6)	(0.3)	35.7	(1.3)	(7.8)	234.0
Restructuring costs	183.0	172.9	40.5	(141.5)	(1.1)	13.1	(7.0)	(7.4)	69.5
Losses on investment in unconsolidated companies	122.0	221.8	40.9	(132.7)	–	(43.5)	(1.0)	9.2	94.7
Warranties and customer come	180.5	235.3	119.0	(57.4)	(1.1)	(16.8)	(11.7)	41.7	309.0
Others	432.4	293.3	134.5	(145.8)	–	13.9	(6.6)	(10.8)	278.5
Total reserves and allowances	3,085.4	3,195.7	756.6	(842.6)	(21.7)	(58.1)	(83.6)	(0.2)	2,946.1

The principal reserves and allowances incite the following comments :

Reserves for litigation

Includes those losses that are considered probable that relate to the litigation that Vivendi Environnement experiences in conducting its normal business operations.

The water and energy businesses account for €179 million and €107 million respectively of the total reserves for litigation.

Financial depreciation

Vivendi Environnement finances individual installations which, as a consequence of a specific contractual dispositions, are accounted for as tangible assets and amortized, up to their estimated residual value over the shorter of their useful lives and the period of the contract. When the contract period is shorter than the useful life of the asset, such depreciation is recorded as a liability as a financial depreciation. These reserves mainly relate to the Water business (€349.4 million) and Energy business (€200.1 million).

Maintenance and repair costs accrued in advance

The Group, as part of these contractual obligations through public services contracts, assume responsibility for the replacement of fixed assets in the publicly owned utility networks they manage. The group forecasts the expenditures required in this record over the remaining duration of the relevant contracts, these expenditures will either be expensed or amortized over the shorter of the estimated useful lives of the assets or the contract period, according to the terms of the contract. These reserves concern the water business for €189.8 million and Energy business for €134.9 million.

Valuation allowance on work in progress

The principal reserves are for the energy business €32 million and the engineering activities of the water business for €130 million.

Closure and post-closure costs

The Group has financial obligations relating to closure and post-closure costs and the remediation of disposal facilities it operates or for which it is otherwise responsible.

Landfill final closure and post-closure accruals consider estimates for costs of the final cap and cover for the site, methane gas control, leachate management, groundwater monitoring, and other monitoring and maintenance to be incurred after the site discontinues accepting waste. The cost estimates are prepared by engineers based on the applicable local, state and federal regulations and site specific permit requirements. These estimates do not take into account discounts for the present value of total estimated costs. The Group accrues a reserve for these estimated future costs pro rata over the estimated useful life of the sites.

Those reserves amounted to €322.2 million in 2002, compared to €321.1 million and €256.1 million in 2001 and 2000 respectively. As of December 31, 2002 the total anticipated costs, undiscounted, amounted to €500 million. Other reserves and accruals are related to the plant dismantling and site remediation in the Water and Waste business with an amount of €54.1 million, €40.9 million and €98.6 million for the years ended December 31, 2002, 2001 and 2000 respectively.

Pensions

The Group has accrued reserves of €124 million and €40 million to cover retirement obligations in France and Germany respectively, principally to cover the indemnities paid on retirement. Those defined pension schemes are essentially limited to the British subsidiaries of Vivendi Environnement. The €138 million of net assets invested in funds, are accounted for on the balance sheet as other financial assets (Note 7). The analysis of pension and other retirement benefits is undertaken in note 27H.

Restructuring charges

Restructuring reserves are primarily in the water business, including reserves for restructuring of USFilter for €33.8 million and Vivendi Water Systems for €5.2 million.

The developments in the reserve for restructuring costs for the years ended December 31, 2002, 2001 and 2000 are as follows (in million of euros):

	At December 31,		
	2002	*2001*	*2000*
Balance at beginning of period	172.9	183.0	193.2
Amount charged to expenses	40.5	83.1	49.5
Utilization (cash)	(141.5)	(128.6)	(60.1)
Other adjustments*	(2.4)	35.4	0.4
Balance at the end of period	69.5	172.9	183.0

* Reflects primarily changes in the scope of consolidation.

Losses on investments in unconsolidated companies

Within its normal activities, Vivendi Environnement is drawn to make allowances for certain affiliated companies. The decline by €127 million in 2002 is principally due to the disposal of Schwarze Pumpe (€94 million).

Warranties and customer care

These reserves are principally those obligations related to the construction activity of FCC and the engineering and equipment activities of the water business.

Other

Other reserves and allowances include those obligations recorded as part of the normal operating of the Group's subsidiaries.

15. DEBT

Long term financial debt

The table below presents an analysis of the consolidated long-term debt balance by type of debt instrument (in millions of euros):

	At December 31,		
	2002	*2001*	*2000*
Société Générale borrowing[(a)]	1,519.9	2,076.5	2,164.7
Deutsche Bank borrowing[(b)]	745.8	590.0	1,800.0
Berliner Wasser Betriebe[(c)]	1,977.6	1,987.8	1,822.0
Onyx Waste Services[(d)]	226.9	416.4	418.8
Vivendi Environnement 1.5% bond[(e)]	1,535.3	1,535.6	1,535.4
EMTN[(f)]	3,551.6	2,806.7	–
Vinci convertible bond[(g)]	120.0	120.0	–
Montgomery[(h)]	119.5	121.5	115.0
Tyseley[(i)]	110.5	121.1	131.7
Capital Leases[(j)]	812.3	602.4	476.4
Bonds, Bank Loans[(k)]	2,193.6	2,756.0	3,004.7
Total	12,913.0	13,134.0	11,468.7

(a) This Syndicated credit (€2,164.7 million) maturing on November 3, 2004 is led by the Société Générale. At December 31, 2002 the outstanding credit reaches $1,593.9 million (€1,519.9 million) and bears interest based on a rate indexed on LIBOR USD.

The debt contains two clauses :

- The syndicated interest rate is linked to the debt coverage ratio.
- In the case of breaking the following financial ratios, the debt contains an accelerated redemption clause, otherwise redemption will occur at maturity.
- Interest cover ratio (EBITDA/net interest expense):
  >4.00 to 1 in 2002 and 2003.
  - Debt ratio (Net financial debt/EBITDA):
    <4.25 to 1 in 2002 and 2003.

(b) On December 31, 2002 Vivendi Environnement issued a €3,000 million syndicated loan led by Deutsche Bank, that has been reduced on March 14, 2002 to €2,250 million and which matures on March 13, 2006. As of December 31, 2002 the amount that has been drawn on is composed of $520 million and €250 million, that is a total of €745.8 million respectively indexed on LIBOR USD and EURIBOR.

The debt contains two clauses :

- The syndicated interest rate is linked to the debt coverage ratio.
- In the case of breaking the following financial ratios, the debt contains an accelerated redemption clause, otherwise redemption will occur at maturity.
- Interest cover ratio (EBITDA/net interest expense):
  >4.00 to 1 in 2002 and the following years.
  - Debt ratio (Net financial debt/EBITDA):
    <4.25 to 1 in 2002 and 2003 and <4.00 to 1 for the following years.

(c) Berliner Wasser Betriebe debt as of December 31, 2002 consists of two lines: the acquired debt of €645 million which matures in 2004, and debt of €1,332.6 million.

The acquired debt is guaranteed by Vivendi Environnement and contains two clauses.

- The interest rate is linked to the debt coverage ratio.
- In the case of breaking the following financial ratios, the debt contains an accelerated redemption clause.
  - Interest cover ratio (EBITDA/net interest expense):
    >4.00 to 1 in 2002 and 2003.
  - Debt ratio (Net financial debt/EBITDA):
    <4.25 to 1 in 2002 and 2003.
    N.B.: "Rating triggers" have been cancelled during 2002.

(d) This credit facility "stand-alone" of Onyx Waste Services (previously Superior Services) allows borrowings up to $650 million. Only $238 million (€226.9 million) have been used as of December 31, 2002 maturing on August 18, 2005.
The debt contains two redemption clauses at the Onyx Waste Services level:
The interest rate is linked to the cover debt ratio. The non respect of one of this four covenants might carry an accelerated redemption.

- Leverage ratio: < 3.00 to 1.
- Interest cover ratio (EBITDA/total interest expense): > 3.00 to 1.
- Debt to shareholders' equity ratio: < 50 %
- Capital expenditure (capital expenditure/depreciation expense): < 1.75.

(e) In April 1999, Vivendi Environnement issued a €2,850 million of bonds that bear interest at 1.5%, which mature on January 1, 2005, and that were convertible, at the option of the bondholder, into Vivendi Universal shares.

These bonds could also be converted into shares of Vivendi Environnement at a predetermined conversion rate if there was an initial offering of Vivendi Environnement shares. As a consequence of an initial offering conversion into Vivendi Environnement shares, the number of bonds in circulation was on December 31, 2002 of 5,331,058, which are only convertible into Vivendi Universal shares. The liability recorded for these bonds €1,535.3 million, includes a premium of €91 million, the counterpart is recorded against other long-term investments (see Note 7 Financial assets and Financial provisions). Taking into account, the growing possibility of the non convertion of Vivendi Environnement's obligation into Vivendi Universal shares, the premium has been amortized since January 1, 2002. These bonds contained a reciprocal default agreement with Vivendi Universal as part of the guarantee given by Vivendi Universal to investors. On August 20, 2002, this guarantee was removed at the extraordinary general meeting of bondholders. The coupon was modified from 1.50% to 2.25% per year, starting from September 1, 2002.

(f) On December 31, 2002, EMTN consists of €3,820.1 million, from which a €3,551.6 million matures over one year, and is made as following :
- €500 million bears interest of 4.75%, maturing on November 8, 2005,
- €2,000 million bears interest of 5.875%, maturing on June 27, 2008,
- €1,000 million bears interest of 5.875%, maturing on February 1, 2012.

(g) Vivendi Environnement borrowed from Vivendi Universal €120 million, which matures on March 1, 2006, and bears interest of 1%. This debt, was not the subject of a premium.

This debt has similar characteristics to those issued in the prospectus by Vivendi Universal for the Vinci bonds exchangeable for Vinci shares which was issued on February 27, 2001:

- Number of bonds issued by Vivendi Universal: 6,818,695.
- Face value of €88.81 per bond.
- Conditions for exchange: 1 Vinci share for 1 bond.
- Repayment:
  At the initiative of the issuer from March 1, 2003 under certain conditions.
  At the initiative of the bondholder from April 1, 2004.
- Conversion
  At the initiative of the bondholder, from April 1, 2001 until March 1, 2006.
- It is the interest of the bondholder to convert when the market price of Vinci is above €88.81. The market price of Vinci was €53.70 as of December 31, 2002.
- The average price of Vinci shares acquired by Vivendi Environnement is €24.4.

(h) This bond financed the Montgomery plant, bears interest at a 4.5% fixed rate and matures on January 1, 2012.

(i) This bond which outstanding is £71.59 million (€110.5 million) finances the Tyseley project, bears interest at a 6.675% rate and matures on July 30, 2018. The principal is amortized over the entire life of the bond.

(j) As of December 31, 2002, capital leases mature between 2003 and 2021 and bear fixed interest rate between 3.40% and 12.09% and variable interest rate are mainly indexed on EONIA, T4M and TAM.

(k) Other bonds and banks loans mature between 2003 and 2024 and are indexed on fixed-interest rates between 2.0% and 12.82% and on various variable-interest rates, mainly EURIBOR.
Besides, this amount includes €91.1 million subordinated debt (TSDI) underwritten by OTV, to finance the Wastewater plant in Zaragoza, Spain, and which matures on December 20, 2006.

Long-term financial debt listed according to the currency in which it is denominated is as follows (in millions of euros):

	At December 31,		
	2002	*2001*	*2000*
Euro	9,223.8	8,331.9	10,258.5
U.S. Dollar	2,564.5	3,618.5	685.8
Pound Sterling	286.2	281.0	180.0
Australian Dollar	198.2	138.0	83.1
Korean Won	171.6	203.8	86.9
Norwegian Crown	23.1	80.0	–
Other	445.6	480.8	174.4
Total	12,913.0	13,134.0	11,468.7

The table below presents a summary of the repayment schedules of the long-term financial debt excluding subordinated securities (in millions of euros):

	At December 31,		
	2002	*2001*	*2000*
Due between one and two years	2,311.5	1,227.4	2,527.9
Due between two and five years	4,660.8	7,461.8	6,449.2
Due after five years	5,940.7	4,444.8	2,491.6
Total	12,913.0	13,134.0	11,468.7

Unused credit lines

The main unused credit lines amounted as of December 31, 2002 to €3,872 million. It was composed as follows:

In Vivendi Environnement holding:

- €1,150 million of short-term credit line.
- €150 million of middle-term credit line.
- €2,149 million of unused credit facility.

In Vivendi Environnement's subsidiaries :

- €423 million of middle-term credit line.

The main unused credit lines amounted to €2,889 million at December 31, 2001 of which €1,809 million are long term credit lines maturing between 2004 and 2006.

The main unused credit line amounted as of December 31, 2000, to €1,479.7 million including a €1,200 million short-term unused credit facility backing the commercial paper issued between October 17, 2000 and December 15, 2000. This unused credit facility can be decomposed into 4 lines indexed on EONIA and EURIBOR, with spread indexed on the credit rating of Vivendi Environnement (given by Standard & Poor's or Moody's) or the use ratio.

Short term borrowings

The table below summarizes Vivendi Environnement's short-term borrowings (all amounts are in millions of euros):

	At December 31,		
	2002	*2001*	*2000*
Bank overdrafts and other short-term borrowings	3,795.9	4,889.5	4,243.6
Average rate	3.10%	3.10%	5.46%

The Group's main short term borrowings as of December 31, 2002 are detailed below:

- Cash liabilities: €746 million.
- €268 million EMTN maturing in 2003.
- Commercial paper program amounting to €1,139 million issued by Vivendi Environnement holding with a maximum amount of €4 billion, interest rates are based on EONIA or fixed rates, with maturities between 30 to 180 days.
- €154 million of accrued interest at Vivendi Environnement holding level.
- €214 million of short-term borrowings in Berlin (Vivendi Water).

The Group's main short term borrowings as of December 31, 2001 are detailed below:

- Syndicated Credit facility amounting to $650 million, with an interest rate of LIBOR USD 3 months, maturing on March 12, 2002.
- Commercial paper program amounting to €2,005 million, interest rates are based on EONIA or fixed rates, with maturities between 30 to 180 days.

The Group's main short term borrowings as of December 31, 2000 are detailed below:

- Syndicated credit facility amounting to €600 million, with an interest rate indexed on EURIBOR 4 months, with a maturity on March 19, 2001.
- Current account with Vivendi Universal amounting to a net value of €1,175 million. Vivendi Environnement pays 5.70% fixed-rate to Vivendi Universal.
- Commercial paper program amounting to €686.2 million, bearing interests at EONIA plus a spread, with a maturity between 30 and 180 days.

Bank borrowings supported by collateral guarantees

At December 31, 2002, €590 million in bank borrowings was supported by collateral guarantees. The breakdown by type of asset is as follows (in millions of euros):

	Amount pledged[(a)]	*Total amount in the balance sheet*[(b)]	*%* (a)/(b)
On intangible assets	4	3,905	0.10%
On tangible assets	337	14,541	2.32%
On financial assets[(1)]	212	–	–
Total long term assets	553	–	–
On current assets	37	15,450	0.23%
Total assets	590	–	–

(1) Financial assets pledged as collateral being essentially stocks of consolidated subsidiaries, the ratio is not meaningful.

The breakdown by maturity is as follows:

	At December 31, 2002	*Maturity*		
		Less than 1 year	*1 to 5 years*	*More than 5 years*
		(€ millions)		
Intangible assets	4	3	–	1
Tangible assets	337	23	23	291
Land	180	21	6	153
Other tangible assets	157	2	17	138
Financial assets[(1)]	212	–	56	156
Wyuna Water PTY stocks[(2)]	74	–	–	74
Vivendi Water Korean Daesan stocks[(2)]	56	–	56	–
Vivendi Water Industrial Development stocks[(2)]	71	–	–	71
Technoborgo stocks[(3)]	5	–	–	5
Connex Regiobahn stocks[(2)]	6	–	–	6
Current assets	37	32	–	5
Accounts receivable	33	30	–	3
Inventories	4	2	–	2
Total	590	58	79	453

(1) 100% of the capital.

(2) Companies consolidated at December 31, 2002.

(3) Companies accounted for under equity method at December 31, 2002.

16. INCOME TAXES

Analysis of Income Tax Expense

Components of the income tax provision are as follows (in millions of euros):

	At December 31,		
	2002	*2001*	*2000*
France	(93.8)	(128.5)	(341.0)
Other countries	(248.9)	(256.3)	(125.1)
Current income tax expense	(342.7)	(384.8)	(466.1)
France	(11.9)	9.6	12.3
Other countries	(82.7)	(87.1)	(5.4)
Deferred income tax (benefit)	(94.6)	(77.5)	6.9
Total income tax expense	(437.3)	(462.3)	(459.2)

In 2001, a French Tax Group was created. Vivendi Environnement SA paid the Group tax to the French tax authority. The tax saving is recorded at the Vivendi Environnement SA level.

Deferred Tax Assets and Liabilities

The timing differences which give rise to significant deferred tax assets and liabilities are as follows (in millions of euros):

	At December 31,		
	2002	*2001*	*2000*
Deferred tax assets:			
– Employee benefits	62.8	53.2	47.6
– Provisions for risks and liabilities	30.9	19.9	6.7
– Tax loss	442.6	593.9	679.4
– Other timing differences	648.3	451.0	226.7
Gross deferred tax assets	1,184.6	1,118.0	960.4
Unrecorded deferred tax assets (1)	(172.8)	(107.0)	(95.9)
Deferred tax assets recorded in the books	1,011.8	1,011.0	864.5
Deferred tax liabilities:			
– Depreciation	356.8	207.6	264.0
– Reevaluation of assets	160.3	151.2	69.7
– Other taxable timing differences	410.9	403.7	363.8
Gross deferred tax liabilities	928.0	762.5	697.5

(1) Represents tax savings from operating losses or other non-activated tax savings. They have not been recorded as assets because their recovery is not probable. Net valuation allowance amounted to €(86.1) million in 2002.

In the consolidated balance sheets, deferred tax assets are classified in "accounts receivable" and deferred tax liabilities in "accounts payable".

Tax Rate Reconciliation

	At December 31,		
	2002	*2001*	*2000*
Statutory tax rate	35.43%	36.43%	37.77%
Goodwill amortization not deductible for tax purposes	12.75%	(61.30)%	9.36%
Permanent differences	8.91%	(2.07)%	(8.73)%
Lower tax rate on long-term capital gains and losses	(5.89)%	1.76%	(4.78)%
Tax losses	5.13%	(4.42)%	11.19%
Other, net	(8.73)%	1.71%	(7.64)%
Effective tax rate (a)	47.60%	(27.89)%	37.17%

(a) The effective tax rate is computed by dividing "income taxes and deferred taxes" by "Income before minority interest, income taxes and deferred taxes."

Net Operating Tax Loss

At December 31, 2002, the Group had tax losses which represent a potential tax saving of €442.6 million (based on the effective tax rate).

Tax losses expire as follows (in millions of euros):

Years	*Amount*
2003	50.0
2004	85.4
2005	6.8
2006	5.8
2007	62.6
2008 and thereafter	159.4
Unlimited	72.6
Total	442.6

17. FINANCIAL INSTRUMENTS AND COUNTERPARTY RISKS

The Group uses various financial derivative instruments to manage its exposure to fluctuations in interest rates and foreign currency rates.

The Group does not anticipate any third-party defaults, which could have a significant impact on its financial position and the results of its transactions.

Interest rate and foreign currency agreements

The contractual amounts stated below are outstanding as of December 31, 2002, 2001 and 2000. These amounts represent the levels of involvement by the Group and are not indicative of gains or losses. The amounts are in millions of euros.

	As of December 31, 2002			
	Total	*Less than 1 year*	*1 to 5 years*	*More than 5 years*
Interest rate hedging activity				
Interest rate swaps-pay at fixed rate / receivable at variable rate				
Nominal amount	1,382.1	255.6	866.8	259.7
Weighted average received rate (evaluated on December, 31)	2.29%			
Weighted average paid rate (evaluated on December, 31)	5.50%			
Interest rate swaps-pay at variable rate / receivable at fixed rate				
Nominal amount	2,707.6	–	507.6	2,200.0
Weighted average received rate (evaluated on December, 31)	5.63%			
Weighted average paid rate (evaluated on December, 31)	3.06%			
Interest rate swaps-pay at variable rate / receivable at variable rate				
Nominal amount	1,573.0	238.4	1,334.6	–
Weighted average received rate (evaluated on December, 31)	1.60%			
Weighted average paid rate (evaluated on December, 31)	1.61%			
Swap-cross currency				
Nominal amount	775,9	78.9	183.8	513.2
Weighted average received rate (evaluated on December, 31)	2.23%			
Weighted average paid rate (evaluated on December, 31)	4.74%			
Interest caps, floors and collars (a)				
Nominal amount	2,052.7	238.4	1,791.9	22.4
Average guarantee rate	4.11%			
Foreign currency hedging activity				
Forward exchange contracts (b)				
Nominal amount	1,242.6	1,227.6	15.0	–

(a) Interest caps are used to protect the group from the interest fluctuation which should impact the variable debt, limiting the interest paid. On December 31, 2002, the cap portfolio is made of the following:

- Covering exposure to Euribor 3 month, with a nominal of €622.4 million. The weighted average guarantee rate is 4.96%.
- Covering exposure, to Libor USD 3, 6 and 12 month, with a nominal of $1,250 million (€1,192 million). The weighted average guarantee rate is 3.03%.

(b) The use of forward exchange contracts is linked to foreign currency borrowing. Mainly short term contracts

On December 31, 2002, the exchange operation portfolio is as follows:

Currency	*Forward buy*	*Forward sale*
AUD	4.5 M AUD	273.7 M AUD
GBP	49.1 M GBP	190.0 M GBP
NOK	–	645.0 M NOK
USD	37.4 M USD	493.7 M USD
Other currency (€ equivalent)	8.0 MEUR	88.4 MEUR

	As of December 31, 2001			
	Total	*Less than 1 year*	*1 to 5 years*	*More than 5 years*
Interest rate hedging activity				
Interest rate swaps-pay at fixed rate / receivable at variable rate				
Nominal amount	4,721.2	1,157.4	3,557.3	6.5
Weighted average received rate (evaluated on December, 31)	3.17%			
Weighted average paid rate (evaluated on December, 31)	4.94%			
Interest rate swaps-pay at variable rate / receivable at fixed rate				
Nominal amount	2,449.1	15.2	426.3	2,007.6
Weighted average received rate (evaluated on December, 31)	5.67%			
Weighted average paid rate (evaluated on December, 31)	3.31%			
Swap-cross currency				
Nominal amount	262.7	–	262.7	–
Weighted average received rate (evaluated on December, 31)	4.07%			
Weighted average paid rate (evaluated on December, 31)	3.42%			
Interest caps, floors and collars				
Nominal amount	174.8	–	152.4	22.4
Average guarantee rate	4.69%			
Foreign currency hedging activity				
Forward exchange contracts				
Nominal amount	186.8	186.8	–	–

	As of December 31, 2000 (restated)			
	Total	*Less than 1 year*	*1 to 5 years*	*More than 5 years*
Interest rate hedging activity				
Interest rate swaps-pay at fixed rate / receivable at variable rate				
Nominal amount	2,793.5	8.9	2,778.1	6.5
Weighted average received rate (evaluated on December, 31)	5.16%			
Weighted average paid rate (evaluated on December, 31)	5.22%			
Interest rate swaps-pay at variable rate / receivable at fixed rate				
Nominal amount	289.1	61.0	217.7	10.4
Weighted average received rate (evaluated on December, 31)	5.86%			
Weighted average paid rate (evaluated on December, 31)	4.76%			
Swap-cross currency				
Nominal amount	256.5	–	256.5	–
Weighted average received rate (evaluated on December, 31)	4.04%			
Weighted average paid rate (evaluated on December, 31)	4.90%			
Interest caps, floors and collars				
Nominal amount	188.1	10.4	155.3	22.4
Average guarantee rate	4.68%			
Foreign currency hedging activity				
Forward exchange contracts				
Nominal amount	22.9	–	22.9	–

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

On December 31, 2002, 2001 and 2000 Vivendi Environnement used for financing, notes receivables, as well as derivative financial instruments used to manage interest rate risk, foreign currency risk and equity risk. They were characterized by investments, invoices, loans and advances, short and long-term borrowings.

The carrying value of cash equivalents, short-term receivables, short-term borrowings and the short-term part of long -term debt was approximately equal to the fair value due to their short maturities. The fair value of financial instruments detailed as follows, is generally determined using quoted prices. When no quoted prices are available, fair value is based on estimates using discounted future cash flows or other estimates.

	At December 31,					
	2002		2001		2000	
Assets (liabilities)	*Carrying amount*	*Estimated fair value*	*Carrying amount*	*Estimated fair value*	*Carrying amount*	*Estimated fair value*
			(€ million)			
Investments*	1,600.8	1,514.3	1,598.6	1,674.1	1,646.2	1,734.8
Long-term debt	(12,913.0)	(13,125.0)	(13,134.0)	(13,265.0)	(11,468.7)	(11,680.0)
Treasury management						
Interest rate swaps		139,5	–	(25.7)	–	(21.4)
Cross Currency interest rate swaps		117.2	–	(4.1)	–	2.2
Forward exchange contracts		16.5	–	3.6	–	0.8
Interest caps, floors and collars		(5.8)	–	0.4	–	4.0

* Excluding treasury shares held for stock option purposes, Vivendi Environnement 1.5% bond premium redemption, balancing cash adjustment of Vivendi Universal / Vivendi Environnement swap.

Financial instruments including cash and cash equivalents, accounts receivables, short term loans, accounts payable and bank overdrafts and short term borrowings are excluded from the table above. For these instruments, fair value was estimated to be the carrying amount due to the short maturity.

19. COMMITMENTS AND CONTINGENCIES

Commitments related to cooperation agreement between Vivendi Universal and Vivendi Environnement are detailed in note 22.

Specific Commitments

Operation Southern Water: The transaction is detailed in note 25.

Put FCC

The Group has agreed to buy the 51% partner's interest in B1998 SL if the partner exercises the option agreement, which remains valid during 10 years, until October 6, 2008 at a price based on the average of the market value of FCC's shares during the three months preceding the exercise of the option (up to seven times FCC's EBITDA or 29.5 times FCC's earnings per share for the previous year, whichever is lower). B1998 SL is a holding company which owns 52.5% of FCC. Based on the price of FCC's common stock on December 31, 2002, the price would be approximately €751.4 million.

If the partner exercises the option agreement, the Group would be the sole shareholder of B1998 SL. As a result of which, the Spanish law could require the Group to launch take over bid on the remaining shares of FCC (47.5%) not held by B1998 SL. The offering price would be determined by the Spanish market authority. According to the share price of FCC on 26th February 2003, the acquisition price of the remaining 47.5% would be around €1,361 million, subject to adjustment by the Spanish authority.

EDF agreements

EDF entered into a call option with the Group on Dalkia shares in case of a take over bid on the Group by a competitor of EDF.

Furthermore, the Group entered into a call option with EDF on its Dalkia shares in case of a change in EDF's status or a take over bid on EDF by a competitor of Vivendi Environnement. The share price would be determined by an independent expert if there is no agreement.

Replacement engagement

The Group and its water distribution and energy services subsidiaries, as part of their contractual obligations through public services contracts and in return for the revenue they receive, assume responsibility for the replacement of fixed assets in the publicly owned utility networks they manage. The Group forecasts the expenditures required in this regard over the remaining duration of the relevant contracts. The accumulated expenditure forecast is estimated at €2.4 billion (€1.9 billion for water and €0.5 billion for energy). These expenditures will either be expensed or amortized over the shorter of the estimated useful lives of the assets or the contract period, according to the contract terms.

Performance bonds issued for US subsidiaries

Insurance companies have issued performance guarantees in connection with the activities of the Group's US subsidiaries (operational guarantees, guarantees of site restoration), which have been underwritten by Vivendi Environnement SA up to a maximum amount of $0.9 billion (maximum amount used at December 31, 2002).

Specific Berlin contract engagement

Under the Berlin water contract, the Group may be obligated to pay approximately €610 million to previous land owners, not indemnified by the Berlin government, who present claims for payments.

Securitization

According to the securitizaton agreement, the subsidiaries are responsible for collecting the receivables. The Group provides guarantees on the performance of its subsidiaries in recovering these amounts.

Fees obligations with local authorities

As described in note 2, under certain public service contracts, the Group has assumed fees obligations with local authorities. At December 31, 2002, the minimum future payments of these commitments is €219.4 million.

The breakdown by maturity of specific commitments is as follows:

	At December 31, 2002	Maturity		
		Less than 1 year	1 to 5 years	More than 5 years
		(in millions of euros)		
Put Southern Water	575	–	575	–
Put FCC / B	751	–	–	751
Water replacement engagement	1,937	299	668	970
Energy Services replacement engagement	514	53	262	199
Performances bonds VE issued for US subsidiaries*	861	–	–	861
Specific Berlin contract engagement	610	–	–	610
Fees obligations with local authorities	219	41	115	63
Total	5,467	393	1,620	3,454

* Indefinite maturity

Other commitments and contingencies

Other commitments and contingencies do not include collateral given in guarantee of banking loans (see note 15) nor specifics commitments and contingencies described above.

Other commitments and contingencies are detailed as follows (in millions of euros)

	At December 31, 2002	*Less than 1 year*	*1 to 5 years*	*Maturity More than 5 years*
Operational guarantees	2,974.9	637.0	631.8	1,706.1
Financial guarantess				
Debt guarantees	185.1	23.1	29.5	132.5
Warranty obligation given	338.6	191.2	67.6	79.8
Commitments given				
Obligation to buy	55.7	39.8	15.9	–
Obligation to sell	27.0	14.0	13.0	–
Other commitments given				
Letters of credit	290.8	23.8	–	267.0
Other commitments given	398.7	77.4	160.7	160.6
Total	4,270.8	1,006.3	918.5	2,346.0

Operational guarantees (performance bonds): the Group's subsidiaries in the course of their normal activities, give guarantees to their customers. If the company does not reach its specified targets, it may have to pay penalties.

This commitment is often guaranteed by an insurance company, a financial institution, or the parent company of the Group. These guarantees included in the contract are performance commitments. The insurance company or the financial institution often requires counter guarantees from the parent company. The commitment is the amount of the guarantee anticipated in the contract and given by the parent company to the customer or the counter guarantee given by the parent company to the insurance company or to the financial institution.

Debt guarantees: they relate to guarantees given to financial bodies in connection with financial debt of non consolidated companies, companies accounted for under the equity method, or companies consolidated through proportional consolidation.

Warranty obligations given: they include guarantees in connection to sale of Filtration and Separation, Distribution units for €191 million and €48 million and the sale of Bonna Sabla for €65 million.

Letter of credits: The amount of the credit line given by a bank or financial institution which has not been drawn against. In fact it is a commitment received.

The Group's contingent liabilities relating to certain performance guarantees by segments are as follows (in millions of euros):

	At December 31,		
	2002	*2001*	*2000*
Water	1,783.0	1,005.0	571.7
Waste Management	347.2	302.8	617.3
Energy Services	466.2	242.0	101.8
Transportation	114.4	229.5	31.5
FCC/Proactiva	748.7	687.5	579.8
Holding	794.0*	641.0	95.4
Others	17.3	8.2	–
Total	4,270.8	3,116.0	1,997.5

* Including €611 million of operational guarantees on behalf of its Water business (€573 million) and Waste business (€38 million).

Capital Leases and Operating Leases

The Group uses capital leases in order to finance certain operating assets and investment properties. As stated in Note 2 to the consolidated financial statements, the Group has capitalized these assets (see note 5) and recorded the principal portion of the related capital leases as long-term debt for its present value (€812.3 million) (see note 15-j). Payments under these capital lease obligations at December 31, 2002, 2001 and 2000 represent €1.2 billion, €0.8 billion and €0.6 billion, respectively. Furthermore, the Group uses operating leases (mainly transportation equipment and treatment plants).

Vivendi Environnement has concluded capital and operating leases. As of December 31, 2002, minimum future payments for these contracts amount to (in millions of euros):

	Operating leases	*Capital leases (balance sheet)*
2003	419.1	171.6
2004	405.3	173.0
2005	389.4	136.9
2006	377.9	109.0
2007	241.0	96.7
2008 and thereafter	606.2	559.2
Total minimum future capital lease payments	2,438.9	1,246.4
Less amounts representing interest	–	434.1
Present value of net minimum future capital lease payments	–	812.3

Litigation (other than those accounted for)

The Group is subject to various litigation in the normal course of business. Although it is not possible to predict the outcome of such litigation with certainty, based on the facts known to the Group and after consultation with counsel, management believes that such litigation will not have a material adverse effect on the Group's financial position or results of operations.

Commitments received

	2002 (€ millions)
Commitments received	1,408.1
Debt guarantees	167.6
Warranty obligations given	20.4
Other engagements received *	1,220.1

* Including €1,042 million behalf EDF's electric contracts commitments.

Commitments received amount to €1,385.5 million as of December 31, 2001 and to €1,192 million as of December 31, 2000.

20. TAX AUDITS

As a part of their normal activities the Group's subsidiaries are subjected to regular tax audits.

Tax audits were carried out on the French subsidiaries of Vivendi Environnement's four business segments, and cover the period 1998 to 2001. Additional tax assessments were sent out at the end of 2002, the most important of which concern the taxation of financial operations. These additional tax assessments concern either timing differences or are for subjects for which the Group considers that its arguments will be favorably considered by the tax authorities.

Vivendi Environnement has made allowances for those risks it considers appropriate.

21. SEGMENT INFORMATION

In accordance with the provision of SFAS 131, the Group has identified five reportable segments which include: Water, Waste Management, Energy Services, Transportation, and FCC. These segments are consistent with the basis on which management evaluates investments and results.

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

The Waste Management segment collects, processes and disposes of household and trade and industrial waste.

The Energy Services segment includes energy optimization and related services.

The Transportation segment focuses on the operation of passenger transportation services, both road and rail networks.

FCC is a separate segment that operates in construction, urban sanitation and water services, cement production and urban related activities mostly in Spain.

Revenue From External Customers

	For the year ended at December 31,		
	2002	*2001*	*2000 restated*
		(€ millions)	
Water	13,293.7	13,641.2	12,768.2
Waste management	6,138.8	5,914.4	5,260.0
Energy	4,570.9	4,017.4	2,988.5
Transportation	3,422.2	3,098.9	3,131.1
FCC	2,653.1	2,454.8	2,114.7
Total	30,078.7	29,126.7	26,262.5

Revenue Between Segments

	For the year ended at December 31,		
	2002	*2001*	*2000 restated*
		(€ millions)	
Water	9.0	10.3	6.8
Waste management	42.1	32.3	44.2
Energy	13.5	5.9	12.1
Transportation	4.4	4.1	0.8
FCC	0.5	1.8	–
Other	–	4.9	28.8
Total	69.5	59.3	92.7

Amortization Expense

	For the year ended at December 31,		
	2002	*2001*	*2000 restated*
		(€ millions)	
Water	573.2	527.6	531.3
Waste management	564.3	505.2	462.6
Energy	230.7	160.2	129.0
Transportation	189.7	149.8	145.4
FCC/Proactiva	126.8	129.9	87.6
Other	14.6	11.9	7.4
Total	1,699.3	1,484.6	1,363.3

EBIT and operating income (previous method):

	For the year ended at December 31,		
	2002 EBIT	*2001 EBIT*	*2000 Operating income (previous method)*
		(€ millions)	
Water	1,024.3	1,089.6	1,021.2
Waste management	385.2	390.7	393.9
Energy	244.0	220.5	191.3
Transportation	115.6	112.1	105.3
FCC/Proactiva	250.3	229.5	208.1
Other	(48.1)	(29.3)	(10.2)
Total	1,971.3	2,013.1	1,909.6

Total Assets

	At December 31,		
	2002	*2001*	*2000*
		(€ millions)	
Water	16,095.1	19,095.8	18,470.6
Waste management	5,280.0	5,474.9	6,483.8
Energy	4,950.7	4,471.0	3,515.3
Transportation	2,631.3	2,576.0	1,992.8
FCC/Proactiva	3,191.8	3,749.5	2,996.4
Other	9,869.5	9,042.1	6,364.1
Total	42,018.4	44,409.3	39,823.0

Expenditures for Long Lived Assets

	For the year ended at December 31,		
	2002	*2001*	*2000*
		(€ millions)	
Water	1,086.3	1,188.3	1,040.8
Waste management	739.5	794.2	869.9
Energy	342.2	401.5	361.8
Transportation	154.7	287.8	181.6
FCC/Proactiva	278.9	206.7	131.6
Other	1.8	–	0.5
Total expenditures	2,603.4	2,878.5	2,586.2

Long-term Assets

	At December 31,		
	2002	2001	2000
		(€ millions)	
Water	13,945.4	15,441.0	14,800.7
Waste management	5,245.4	5,504.2	5,083.3
Energy	2,867.5	2,565.1	2,155.0
Transportation	1,967.5	1,762.6	1,374.2
FCC/Proactiva	2,130.4	1,883.9	1,889.0
Other	411.8	243.9	60.0
Total long-term assets	26,568.0	27,400.7	25,362.2

Equity Method Investments

	At December 31,					
	2002		2001		2000	
	Investment	Share in net earnings	Investment	Share in net earnings	Investment	Share in net earnings
			(€ millions)			
Water	140.9	11.8	397.3	21.6	275.7	38.8
Waste management	57.1	6.5	26.1	7.2	20.8	3.3
Energy	9.9	(0.4)	9.0	1.0	6.3	1.1
Transportation	5.7	(2.1)	10.7	0.4	5.9	0.5
FCC/Proactiva	205.2	19.6	174.9	16.2	208.6	16.9
Other	29.2	3.6	–	1.4	6.1	–
Total	448.0	39.0	618.0	47.8	523.4	60.6

Geographical Breakdown of Net Sales

	At December 31, 2002					
	France	United Kingdom	Rest of Europe	United States of America	Rest of the world	Total
			(€ millions)			
Water	6,201.2	654.9	1,669.6	3,378.7	1,389.3	13,293.7
Waste management	2,543.4	708.5	794.5	1,306.0	786.4	6,138.8
Energy	2,972.8	302.4	1,226.8	0.4	68.5	4,570.9
Transportation	1,268.0	661.1	1,266.4	83.5	143.2	3,422.2
FCC	10.4	33.8	2,487.9	102.0	19.0	2,653.1
Total	12,995.8	2,360.7	7,445.2	4,870.6	2,406.4	30,078.7

	At December 31, 2001					
	France	*United Kingdom*	*Rest of Europe*	*United States of America*	*Rest of the world*	*Total*
			(€ millions)			
Water	6,193.7	729.7	1,517.2	3,817.3	1,383.3	13,641.2
Waste management	2,440.8	655.1	668.6	1,434.3	715.6	5,914.4
Energy	2,733.8	313.5	896.3	0.2	73.6	4,017.4
Transportation	993.3	906.9	1,028.1	35.2	135.4	3,098.9
FCC	10.5	33.4	2,228.1	138.4	44.4	2,454.8
Total	12,372.1	2,638.6	6,338.3	5,425.4	2,352.3	29,126.7

	At December 31, 2000 (restated)					
	France	*United Kingdom*	*Rest of Europe*	*United States of America*	*Rest of the world*	*Total*
			(€ millions)			
Water	5,748.6	648.5	1,434.7	3,678.2	1,258.2	12,768.2
Waste management	2,353.1	573.0	485.8	1,192.8	655.3	5,260.0
Energy	1,795.7	379.7	781.7	–	31.4	2,988.5
Transportation	941.2	1,135.3	913.0	–	141.6	3,131.1
FCC	10.0	25.4	1,913.2	95.1	71.0	2,114.7
Total	10,848.6	2,761.9	5,528.5	4,966.1	2,157.5	26,262.5

Geographical Breakdown of Long Lived Assets

	As of December 31,					
	France	*Kingdom*	*Europe*	*United States of America*	*Rest of the world*	*Total*
			(€ millions)			
2002	7,304.6	2,136.2	8,452.3	6,568.3	2,106.6	26,568.0
2001	6,897.5	2,199.5	7,986.2	8,685.6	1,631.9	27,400.7
2000	7,964.1	1,881.0	6,242.3	8,347.7	927.1	25,362.2

22. RELATED PARTY TRANSACTIONS

The main transactions with related parties (principally Vivendi Universal, its subsidiaries and some minority stockholders in Vivendi Environnement subsidiaries) and amounts receivable from and payable to them were as follows (in millions of euros):

	At December 31,		
	2002	*2001*	*2000*
Call option/shares of Vivendi Environnement	7.6	–	–
Treasury shares purchased from Vivendi Universal	73.9	–	–
Vivendi Universal / Vivendi Environnement swap cancelled	75.8		
Receivables			
Trade accounts	37.6	40.2	115.3
Loans	54.6(1)	352.0	74.7
Payables			
Vinci convertible bonds	120.0	120.0	
Trade accounts	19.6	105.9	22.6
Loans	1.3	1.0	1,245.7

	At December 31,		
	2002	*2001*	*2000*
Sales	10.8	13.9	336.4
Operating income (expense)	17.0(2)	(16.2)	(176.0)
Interest expense	(58.8)	(91.2)	(584.5)
Interest income	58.5	100.3	113.9

(1) include €35.7 million relating to receivables in connection with Water contracts transferred.

(2) include €32.9 million of payments by Vivendi Universal associated with the maintenance or replacement of equipment.

Financial Agreement

In 2000

- At the time of the IPO, the Group was fully financed by Vivendi Universal as a result of a financial agreement signed on June 20, 2000. The current account with Vivendi Universal bore interest at 5.7%, which corresponded to the market rate of 5.2% plus a margin of 0.5 %. An annual payment of €41.2 million was paid by Vivendi Universal to the Group.
- In September 2000, the Group entered into an interest rate swap with Vivendi Universal (Vivendi Environnement pays 5.2% fixed and receives EURIBOR 3 months variable). The maximum notional amount of this swap is €5 billion, and this swap expires in 2004.

In 2001

- The current account with Vivendi Universal was fully reimbursed in May 2001.
- Further to different refinancing operations, the maximum notional amount has been reduced to €3.266 billion. This decrease of €1.734 billion led to payment by the Group of €58 million to Vivendi Universal. Its relates to the fair value of the portion of the swap that has been cancelled. The payment is expensed over the life of the swap.
- In connection with the above paragraph, the Group and Vivendi Universal have changed some of the terms of the financial agreement. The quarterly amount of €10.3 million paid by Vivendi Universal to the Group is reduced to €5.15 million from January 1, 2002. Vivendi Universal paid to Vivendi Environnement €58 million, a compensation equal to the present value of the reduction in future payments.

In 2002

In order to benefit from the low level of interest rates, the Group has cancelled the interest swap with Vivendi Universal. This cancellation led to a payment by the Group of €75.8 million in 2002. It relates to the fair value of the swap that has been cancelled. The payment is expensed over the life of the swap.

Vivendi Universal and Vivendi Environnement agreed that Vivendi Universal would not pay the quarterly amount. Vivendi Universal paid to Vivendi Environnement €52.6 million euros, a compensation equal to the present value of the reduction in future payments. This income was accounted for under the item financial income (expense) in 2002.

Cooperation agreement between Vivendi Universal and Vivendi Environnement

In order to finalize the separation of Vivendi Environnement from Vivendi Universal, Vivendi Environnement and Vivendi Universal reached an agreement, on December 20, 2002.

Transfer of interest

The most significant transfers represent the sale to Générale des Eaux of interests in foreign water companies such as the Rumanian company Apa Nova Bucaresti, the Italian company Genova Acque, the Moroccan company Société des Eaux et de l'électricité du Nord (Tanger-Tétouan).

Transfer of Water Distribution and Treatment Operations to Compagnie Générale des Eaux

Vivendi Universal has economically transferred to Générale des Eaux (wholly-owned subsididary of Vivendi Environnement, previously named Compagnie Générale des Eaux-Sahide) all its water-related operations in France and the right to the operating income including income relating to contracts not yet transferred.

The transfer of water distribution and treatment operations contracts owned by Vivendi Universal to Générale Des Eaux should be completed during the first quarter 2003. These contracts represent less than 0.5 % of the portfolio managed by Compagnie Générale Des Eaux.

Counter-Guarantee Agreement

Vivendi Universal and Vivendi Environnement agreed that Vivendi Universal would be replaced by Vivendi Environnement for some guarantees given to Vivendi Environnement by Vivendi Universal. These agreements have no effect on off balance sheet position.

Guarantees

In connection with the formation of the Group and Vivendi Universal's contribution or sale to the Group of its interests in its water and energy services, the Group has replaced Vivendi Universal as managing partner (associé commandité) of substantially all Vivendi Universal's historic water and energy services subsidiaries. As managing partner of these subsidiaries, the Group has agreed, or will agree, to reimburse those subsidiaries for expenses related to the maintenance and replacement of equipment.

The guarantee agreement dated June 20, 2000 in connection with the maintenance or replacement of equipments has been modified. The annual initial limit of €15.2 million is increased to €30.4 million. The initial maximum total amount of €228.7 million that the Group can recover for recurring expenses is increased by €76.2 million.

Vivendi Environnement received €16.2 million in 2002 and earned €16.2 million in deferred income in 2002 payable in 2005. These amounts are reductions from the operating expenses.

Trademark License agreement

Under a trademark license agreement the group has the right to use the "Vivendi" trademark. This license has a term of five years and carries an annual license fee of €30,500 before tax.

Vinci bonds

The Group indirectly took part in the issuance of the Vivendi Universal bonds convertible into Vinci shares. Vivendi Universal lent to the Group €120 million against 1,552,305 shares of Vinci held by the Group through Dalkia France. The terms of the loan are similar to those of the bond issued by Vivendi Universal: a fixed rate of 1% per annum and maturing on March 1, 2006.

This loan was economically transferred to Dalkia France in 2001.

FCC agreement

Prior to the restructuring of Vivendi Environnement's capital, on June 17, 2002, Vivendi Environnement and Ms. Esther Koplowitz signed an agreement making Vivendi Environnement the partner in all the contractual documents concerning B 1998 SL, in place of Vivendi Universal. Ms. Esther Koplowitz thereby accepted to not exercise her purchase right on her partner's stake in B 1998 SL, should Vivendi Universal's holding be reduced to less than 50% of Vivendi Environnement's capital and voting rights.

In consideration for this, Vivendi Environnement awarded Ms. Esther Koplowitz and her group of shareholders in B 1998 SL a preferential purchase right for the B 1998 SL shares held by Vivendi Environnement, should Vivendi Environnement be the target of a hostile takeover. A hostile takeover is defined as the direct or indirect acquisition of at least 25% of Vivendi Environnement's capital, which has not been approved by Vivendi Environnement's Supervisory and Management Board, by a direct competitor of FCC in Spain. The strike price of the preferential purchase right would be the average between the price paid by Vivendi Environnement for its stake, which is about €691 million, and the market value of that stake, calculated in a transparent manner on the basis of the average price of FCC's shares during the quarter preceding the hostile takeover.

In addition, Vivendi Environnement confirmed its intention to strengthen revenue growth in FCC's business activities other than Realia and Grucycsa. Vivendi Environnement thus awarded the Chairman of FCC's board of directors a casting vote, until December 31, 2004, to be used in the event of a deadlock on the decisions of FCC's executive committee on projects with this objective. The casting vote may become permanent after December 31, 2004, if FCC's revenue does not meet certain growth targets.

23. INCOME STATEMENT

Employees and personnel charges

Personnel charges including profit sharing amount to €8.7 billion in 2002, compared to €8.0 billion in 2001 and €7.3 billion in 2000.

	For the year ended at December 31,		
	2002	*2001*	*2000*
		(€ millions)	
Personnel costs	8,654	7,992	7,295
Profit sharing	39	42	38
	8,693	8,034	7,333

Weighted-average number of employees

By category	*For the year ended at December 31,*		
	2002	*2001*	*2000*
Executives	34,393	33,320	25,062
Employees	222,784	205,716	190,314
	257,177	239,036	215,376

By segment	*For the year ended at December 31,*		
	2002	*2001*	*2000*
Water	74,223	72,538	69,103
Waste management	65,007	60,710	53,175
Energy	34,075	30,691	24,051
Transportation	48,389	42,122	37,348
Proactiva	9,876	9,779	9,618
FCC	25,408	23,124	22,075
Other	199	72	6
	257,177	239,036	215,376

By method of consolidation	*For the year ended at December 31,*		
	2002	*2001*	*2000*
Fully consolidation	206,359	191,466	188,602
Proportional consolidation	50,818	47,570	26,774
	257,177	239,036	215,376

Research and development costs were €92.5 million, €101.6 million and €79.4 million for 2002, 2001 and 2000 respectively.

Depreciation and Amortization

		At December 31, 2002		
	Notes	*Additions*	*Utilization/ Reversal* (*€ millions*)	*Net*
In the statement of cash-flows				
Amortization				
Goodwill	3	327.2	–	(327.2)
Tangible assets	5	1,494.9	9.8	(1,485.1)
Intangible assets	4	215.6	1.4	(214.2)
Depreciation of financial assets				
Investments accounted for using the cost method	7	23.2	14.8	(8.4)
Other financial assets	7	134.0	54.3	(79.7)
Short term loans	9	146.2	9.3	(136.9)
Cash and cash equivalent and other marketable securities	10	12.9	27.5	14.6
Reserves and allowances(1)	14	756.6	864.3	107.7
Valuation allowances on deferred taxes	16	97.7	11.6	(86.1)
				(2,215.3)
Renewal expenses(2)				(293.7)
				(2,509.0)
Valuation allowance on current assets				
Inventories and work in progress	8	26.7	18.2	(8.5)
Trade accounts receivables	8	165.7	100.3	(65.4)
Other accounts receivables		9.0	11.7	2.7
				(71.2)

(1) Operational, financial and others

(2) All renewal costs for publicity-owned utility networks are considered in the cash flow statement, as investments, whether the utility network have been originally financed by the concessionary or not. In addition, in the passage from net income (loss) to net cash provided by operating activities, all renewal costs are eliminated under adjustments for depreciations and amortizations.

Goodwill amortization is detailed as follows:

	For the year ended at December 31,		
	2002	*2001*	*2000 restated*
		(€ millions)	
Goodwill amortization	(250.2)	(257.9)	(232.1)
Impairment of goodwill	(77.0) **	(2,652.2)*	(74.2)
Total	(327.2)	(2,910.1)	(306.3)

* Including €(2,611) million of US Filter Corporation goodwill impairment.

** Including €(40.6) million of Latin America goodwill impairment.

Financial income and expenses

Net financial income for 2002, 2001 and 2000 amounts to a loss of €648.1 million, €798.0 million and €891.8 million, respectively.

It includes interest expenses, foreign exchange income and provisions.

	For the year ended at December 31,		
	2002	*2001*	*2000 restated*
		(€ millions)	
Interest expense	(680.9)	(764.2)	(875.3)
Other financial income (expense)	142.2	19.7	(36.8)
Provisions	(109.4)	(53.5)	20.3
Financial income (expense)	(648.1)	(798.0)	(891.8)

Three reasons explain the reduction in interest expense: the capital increase in August 2002, significant proceeds from sales and decreases in interest rates for euros and dollars between 2001 and 2002 from which the Group has benefited.

The other components of the financial expense represent €32.8 million in 2002 and €(33.8) million in 2001. They include:

- A gain on the sale of Philadelphia Suburban shares for €110.3 million. This investment accounted for using the equity method until December 31, 2001 was deconsolidated and reclassified in marketable securities on January 1st, 2002 because of the planned sale. Consequently, the gain on sale is included in financial income.
- A provision of €(32.2) million on Vivendi Environnement treasury stock made up of €(23.8) million for shares charged to equity at June 30th, 2002 book value (average price of €31.8) and €(8.4) million to treasury shares affected to employee stock purchase plans (average price of €23.08 as of December 31st, 2002).
- A foreign exchange income of €44 million, mainly due to the effects of the sale of the Distribution Branch of USFilter.
- Amortizations of the premium on bonds payable for €(33.4) million, mainly the premium on Vivendi Environnement 1.5% bond.
- Amortizations of borrowing expenses for €(13.5) million.
- Dividends received from non-consolidated affiliates for €16.4 million.
- Valuation allowances (€(30.3) million) on financial assets including Argentina (€(5.0) million), non consolidated subsidiary in Slovaquia (€(6.5) million) and Vivendi Universal shares (€(8.7) million) and mainly bank commissions for the rest (€(28.5) million).

Other income (expenses)

	For the year ended at December 31,		
	2002	2001	2000 restated
	(€ millions)		
Capital gains and losses	(31.4)	150.0	729.0
Losses, reserves and impairment of assets	(30.4)	(117.0)	–
Other	2.1	5.9	48.3
	(59.7)	38.9	777.3

In 2002, capital gains and losses include the losses on sales of Bonna Sabla for €(44) million, of the Distribution Branch of USFilter for €(59) million and of Schwarze Pumpe ("Eaux de Berlin" subsidiary) for €(24) million. They also include the gains on sales of the minority participations in the subsidiaries of Bristol Water holding and South Staffordshire for €73 million and a capital gain on FCC/Portland merge for €10.7 million.

Losses, reserves and impairment of assets include a reserve on a German subsidiary not linked to water distribution activity for €(10) million taking into account the expectations in terms of results.

In 2001, capital gains and losses are related to the sale of Dalkia to EDF for €121 million and the capital gain on the sale of SAFEI and Midkent for €34 million.

2002 Bank ratio	*2002*	*Reference*
"EBITDA" bank definition		
EBIT	1,971.3	Income statement
+ Operational amortization	1,699.3	Note 23 Depreciation and amortization
+ Operational valuation allowance on long term assets	–	idem
+ Profit sharing	39.0	Note 23 Employees and personnel charges
(a) "EBITDA" bank definition	3,709.6	
"Net interest expenses" bank definition		
Interest expenses	680.9	Note 23 Financial income and expenses
Other financial incomes (expenses)	(142.2)	idem
(b) Net interest expenses bank definition	538.7	
Debt		
Financial long term debt	12,913.0	Balance sheet
Financial short term debt	3,795.9	Balance sheet
Total gross debt	(16,708.9)	
Short term financial loans	487.6	Balance sheet
Long term financial loans	512.4	Note 7 : Other financial asset
Marketable securities	260.6	Balance sheet
Cash and cash equivalent	2,381.9	Balance sheet
Total financial assets	(3,642.5)	
(c) Total net financial debt	13,066.4	
(d) Interest coverage ratio = (a) / (b)	6.9	4.78 for 2001
(e) Debt payout ratio = (c) / (a)	3.5	4.01 for 2001

The economic ratio "Interest coverage ratio", excluding Philadelphia Suburban disposal, amounts to 5.7.

24. INVESTMENTS ACCOUNTED FOR USING THE PROPORTIONATE CONSOLIDATION METHOD

Investments accounted for using the proportionate consolidation method represent companies in which the Group and other shareholders have agreed to exercise joint control over significant financial and operating policies.

Summarized financial information for major subsidiaries consolidated under the proportionate consolidation method is as follows (in millions of euros):

	At December 31,		
	2002	*2001*	*2000*
Balance sheet data			
Non-current assets	9,185.5	8,081.6	5,224.5
Current assets	4,655.0	4,693.9	2,169.6
Total assets	13,840.5	12,775.5	7,394.1
Shareholders equity	5,435.4	5,145.4	2,098.3
Minority interests	5.0	163.3	278.5
Financial debt	3,093.2	2,851.9	1,776.2
Reserves and other liabilities	5,306.9	4,614.9	3,241.1
Total liabilities and shareholders' equity	13,840.5	12,775.5	7,394.1

	2002	*2001*	*2000*
Income statement data			
Net sales	5,569.8	4,923.3	3,050.8
Operating income	464.3	426.3	345.5
Net income	204.3	128.3	184.3
Cash flow data			
Operating cash flow	590.9	449.2	274.9
Investing cash flow	(849.6)	(677.9)	(309.4)
Financing cash flow	145.0	311.2	201.8

25. RECENT DEVELOPMENTS

Southern Water

The operation involves both 2002 and 2003. As a result, the whole description is disclosed in this note.

On March 8, 2002, First Aqua Holdings Limited ("FAH"), a third party company to Vivendi Environnement, concluded an agreement to acquire the company Southern Water, from Scottish Power on the basis of an enterprise value of £2 billion, which corresponded to its estimated gross Regulatory Asset Value (RAV) in March 2002. Southern Water is one of the largest and best performing British water companies and provides water and wastewater treatment services in the South East of England. This agreement was finalized on April 23, 2002.

On May 7, 2002, Vivendi Water UK ("VW UK"), a 100% owned subsidiary of Vivendi Water, reached an agreement with FAH to acquire First Aqua (JV Co) Limited ("FA (JVCo)"), the parent company of Southern Water, on the same economic basis. By this acquisition, Vivendi Environnement looked to take control of a major well recognized operator in the UK water market, operating in a dynamic geographical region, with an access to the wastewater treatment market which will enable it to develop local synergies with other activities of the Group.

In parallel, Vivendi Environnement gave to the financial investors who subscribed to £374 million of preferred shares of FA (JVCo) a put option exercisable on the third anniversary of the conclusion of the acquisition agreement, that is April 23, 2005. Vivendi Environnement has a call option exercisable between the first and fifth anniversaries of the conclusion of the FA (JVCo) purchase agreement, that is between April 23, 2003 (or the date of the conclusion of the purchase agreement between VWUK and FAH, if this is prior to April 23, 2003) and April 22, 2007.

The acquisition of FA (JVCo) by VW UK was subject to approval by U.K. Competition Commission as well as the setting up of long-term non-recourse financing in order to refinance the existing debt of FA (JVCo) and Southern Water (the European Commission had already given its agreement to the transaction on August 23, 2002). These conditions should have been fulfilled before January 30, 2003.

Vivendi Environnement concluded that both pending conditions requested by the agreement of May 7, 2002 were not satisfied as at January 30, 2003 and decided not to take over Southern Water. Consequently, Vivendi Environnement opened negotiations with Royal Bank Investments Limited ("RBIL"), a subsidiary of The Royal

Bank of Scotland plc ("RBS") in the late 2002, in order to transfer the control to RBIL immediately after the acquisition of Southern Water.

In February 2003, Southern Water Capital ("SWC") and Vivendi Environnement announced the signature of an agreement by which Southern Water Investments Limited ("SWI"), a newly created company, will acquire FA (JVCo), Southern Water's shareholder. RBS will own 49% of SWC capital, with the remainder held by other investors. SWC will hold 80.1% of SWI, and Vivendi Environnement will hold 19.9%. SWC has granted Vivendi Environnement an option to purchase 5.1% of the common shares of SWI.

This acquisition will be implemented by the simultaneous completion of two agreements (together the "Transaction"):

1) Vivendi Water UK's acquisition of FA (JVCo), through SWI, pursuant to the agreement entered into on May 7, 2002; and

2) SWC's acquisition of 80.1% of SWI, the holding company through which SWC will exercise control on Southern Water.

As a result of these transactions, the £374 million (€568 million) of preference shares issued on March 7, 2002 will be redeemed by FA (JVCo).

The agreements are subject to regulatory clearances from the UK authorities and other procedural matters. Contacts are on going with the UK General manager of Water Services and the UK General manager of Office of Fair trading in connection with this transaction and some requirements from the UK Competition Commission. VE believes that regulatory clearance should be forth coming.

SWC and Vivendi Environnement will invest £273 million (€415 million) and £160 million (€243 million) respectively through a combination of equity and debt instruments. Vivendi Environnement also intends to underwrite the subscription by third party investors for a further £110 million (€167 million) of preferred shares with a put at par value onto Vivendi Environnement after 5 years, bringing its total investment in Southern Water lower than the previous commitment of £374 million (€568 million).

It is intended that Southern Water will undertake a refinancing of its regulated business through the capital markets by a ring-fencing whole business securitization with a structure consistent with those used successfully in the previous re-financings in this sector.

Commitments as of December 31, 2002

Further to the agreement of March 8, 2002, (relating to the acquisition of Southern Water), Vivendi Environnement entered into a put option agreement with a number of financial investors. The put option relates to 74,800 preference shares issued by FA (JVCO) for a total amount of £374 million (€568 million). At the end 2002, Vivendi Environnement does not hold any ordinary shares or debt instruments issued by FA (JVCo). The put option to be exercised by May 23, 2005 is an off-balance sheet commitment.

The simplified balance sheet of FA (JVCo) is the following (in millions of pounds sterling) :

Financial assets	1,941	Equity	–6
Current assets	86	Preference shares	370
		Debts	1,656
		Other liabilities	7
Total	2,027		2,027

NB: The preference shares are net of issuance costs.

The 74,800 preference shares for an amount of £374 million (€568 million) are held by financial investors. The debts correspond to provisional financing assumed by a banking pool led by The Royal Bank of Scotland plc for an amount of £1,656 million (€2,515 million). The other liabilities are an existing bond.

The preference shares on which Vivendi Environnement is committed bear interest at a fixed rate of 7% until 2005, and thereafter at a rate of 3% payable on their initial value indexed to the value of the company.

The other characteristics of the put option are the following. Each holder is able to exercise his put option on the all preferred shares held. The amount to be paid by Vivendi Environnement in case of exercise by one or several holders of the put option mainly results from:

(i) issuing price (premium reserve) of each preferred share

(ii) accrued but not paid dividends

(iii) annual compounded interest of 7% applied to accrued but not paid dividends.

Each holder may address an exercise notification of its put option to Vivendi Environnement with copies sent to the auditors of FA (JVCo), who will compute, within two days after the reception of the notification, the amount to be paid by Vivendi Environnement.

Year 2003 situation

Vivendi Environnement should hold by the end of the first half year 2003 less than 20% of the capital of SWI, the controlling shareholder, controlled itself by RBS. SWC and Vivendi Environnement, with invest £273 million (€415 million) and £160 million (€243 million) respectively through a combination of equity and debt instruments. Vivendi Environnement intends to underwrite the subscription by third party investors for a further £110 million (€167 million) of preferred shares with a put at par value onto Vivendi Environnement after 5 years.

Following the completion of the agreements, the commitments of Vivendi Environnement, SWC and other third parties would be:

	VE	*SWC*	*Third parties*	*Total*	
		€ millions			
Equity Instruments					
Ordinary shares	15	61		76	
Debt Instruments					
Preference shares junior A	228			228	(1)
Preference shares junior A2	Neg				(2)
Preference shares senior B 7%			167	167	(3)
Subordinated debt senior A 10%		193		193	(4)
Subordinated debt junior B 16%		161		161	(5)
Bonds			2,916	2,916	
Total	243	415	3,083	3,741	

(1) Non voting rights, junior, redeemable by 35 years

(2) With additional remuneration

(3) Non voting rights, senior, redeemable by 35 years, 7% interest, put on Vivendi Environnement after 5 years

(4) Subordinated debt senior, 10%, redeemable by 35 years

(5) Subordinated debt junior, 16%, redeemable by 35 years

Vivendi Environnement would exercise significant influence through its holding and through its representation on the board of directors of SWI (2 directors out of 7) and Southern Water board (3 directors out of 11). Vivendi Environnement will account for SWI under the equity method (19.95%) once the transaction is completed. Vivendi Environnement will account for the junior preference shares A as a portfolio investment.

The impact in 2003 of the completion of the Southern Water transaction on Vivendi Environnement's gross debt will be €243 million.

As a result of these transactions, the £374 million (€568 million) of preference shares issued on March 7, 2002 will be redeemed by FA (JVCo). Consequently, the end of the put option would not have any effect on 2003 net income. These preferred shares would be reimbursed at par value. Furthermore, the economic valuation of the preferred shares based on discounted expected cash flows over the life of the instruments leads to a present value higher than the book value.

26. LISTING OF MAIN COMPANIES INCLUDED IN CONSOLIDATED FINANCIAL STATEMENTS IN 2002

In 2002, the Group consolidated or accounted for a total of slightly over 2,404 companies, of which the principal companies are:

Group and Address	*Consolidation*	*% Holding*
Vivendi Environnement 36-38, avenue Kléber – 75016 Paris	Full	100.00
Water		
Vivendi Water 52, rue d'Anjou – 75008 Paris	Full	100.00
Générale des Eaux – Sahide and subsidiaries 52, rue d'Anjou – 75008 Paris	Full	100.00
Of which in France :		
Compagnie des Eaux et de l'Ozone 52, rue d'Anjou – 75008 Paris	Full	100.00
Compagnie des Eaux de Paris 4, rue du Général Foy – 75008 Paris	Full	100.00
Société Française de Distribution d'Eau 4, rue du Général Foy – 75008 Paris	Full	99.60
Compagnie Fermière de Services Publics 3, rue Marcel Sembat – Immeuble CAP 44 – 44100 Nantes	Full	99.86
Compagnie Méditerranéenne d'exploitation des Services d'Eau 12, boulevard René Cassin – 06100 Nice	Full	99.52
Société des Eaux de Melun Zone Industrielle – 198/398, rue Foch – 77000 Vaux Le Pénil	Full	99.22
Société des Eaux de Marseille et ses filiales 25, rue Edouard Delanglade – BP 29 – 13254 Marseille	Prop	48.82
Société des Eaux du Nord 217, boulevard de la Liberté – 59800 Lille	Prop	49.54
Société des Eaux de Versailles et de Saint-Cloud 145, rue Yves le Coz – 78000 Versailles	Prop	50.00
Sade-Compagnie Générale de Travaux d'Hydraulique and subsidiaries 28, rue de la Baume – 75008 Paris	Full	98.57
Omnium de Traitements et de Valorisation (OTV) and subsidiaries 1'Aquarène – 1, place Montgolfier – 94417 St Maurice Cedex	Full	100.00
Sainte-Lizaigne SA Tour Ariane – 5, place de la Pyramide – 92800 Puteaux La Défense	Full	99.45
Prague Water CGE AW 52, rue d'Anjou – 75008 Paris	Full	99.76
Of which outside France :		
Vivendi Water UK Plc and subsidiaries 37-41 Old Queen Street, London SW1H 9JA (Great-Britain)	Full	100.00
US Filter Corporation and subsidiaries 40-004 Cook Street – 92211 Palm Desert (USA)	Full	100.00

Group and Address	*Consolidation*	*% Holding*
Berliner Wasser Betriebe Anstalt des Offentlichen Rechts – Hohenzollerndamn 45 – 10631 Berlin (Germany)	Prop	24.95
Servitec KFT Lovas UT 131b – 1012 Budapest (Hungary)	Full	100.00
Vivendi Water Ceska Republica Sokolovska 238 – Prague 9 (Czech Republic)	Full	99.76
OEWA Wasser und Abwasser Walter Köhn Strasse 1 – 04358 Leipzig (Germany)	Full	94.50
Energy		
Dalkia – Saint André 37, avenue du Mal de Lattre de Tassigny – 59350 St André les Lille	Full	66.00
Dalkia France 37, avenue du Mal de Lattre de Tassigny – 50350 St André les Lille	Full	65.94
Cogestar – Saint André 37, avenue du Mal de Lattre de Tassigny – 59350 St André les Lille	Full	65.86
Cogestar 2 – Saint André 33 Place Ronde, Quartier Valmy – 92800 Puteaux	Full	65.81
Crystal S.A. – Saint André 37, avenue du Mal de Lattre de Tassigny – 59350 St André les Lille	Full	65.94
Dalkia Morava AS 28 Rijna 152 – 70974 Ostrava (Czech Republic)	Prop	49.18
Dalkia PLC and subsidiaries Elizabeth House – 56-60 London Road – Staines TW18 4BQ (Great-Britain)	Full	50.02
Clemessy and subsidiaries 18, rue de Thann – 68200 Mulhouse	Full	65.63
Siram, SPA and subsidiaries Via Sempone 230 – 20016 Pero – Italy	Prop	50.02
Waste Management		
Compagnie Générale d'Entreprises Automobiles and subsidiaries (Onyx) Parc des Fontaines – 163 / 169, avenue Georges Clémenceau – 92000 Nanterre	Full	100.00
Société d'Assainissement Rationnel et de Pompage and subsidiaries (S.A.R.P.) 162/16 Energy Park IV – 162/166, boulevard de Verdun – 92413 Courbevoie Cedex	Full	99.51
SARP – Industries and subsidiaries 427, route du Hazay – Zone Portuaire Limay-Porcheville-78520 Limay	Full	99.79
Onyx Environmental Group Plc Onyx house – 401 Mile end Road – E34 PB – London (Great-Britian)	Full	100.00
Onyx North America Corp. 3225 Aviation Avenue – 4th Floor – 33133 Miami (USA)	Full	100.00
Onyx Waste Services One Honey Creed Corporate Center – 125 South – 84th Street – Suite 200 WI 53214 Milwaukee (USA)	Full	100.00

Group and Address	*Consolidation*	*% Holding*
Collex Waste Management Pty Ltd 280 Georges Street – Level 12 – P.O. Box H126 Australia Square – NSW 1215 – Sydney (Australia)	Full	100.00
Onyx Umweltservice GmbH Am Mühlengarten 4 – 66292 Riegelsberg (Germany)	Full	100.00
Marius Pedersen Obaekvej 49 – 5863 Ferritslev (Denmark)	Full	65.00
Transportation		
CGEA Connex (Compagnie Générale d'Entreprises Automobiles) Parc des Fontaines – 163 / 169, avenue Georges Clémenceau – 92000 Nanterre	Full	100.00
Connex Transport AB (formerly Aktiebolaget Linjebuss) Englundavagen 9 – Box 1820 – 17124 Solna (Sweden)	Full	100.00
Connex Transport UK Ltd (formerly Connex Rail Ltd) 41/45 Blackfriars Road – SE1 8PG London (Great-Britain)	Full	100.00
CGTV (Compagnie Générale des Transports Verney) 20, avenue du Général Leclerc – 72000 Le Mans	Full	99.58
Connex Verkehr GMBH Rödelheimer Bahnweg 31, 60489 Frankfurt (Germany)	Full	100.00
Connex Group Australia PTY LTD Level 3, Flinders St Station, 223 Flinders St Melbourne, Victoria 3000 (Australia)	Full	100.00
F.C.C.		
F.C.C. and subsidiaries (F.C.C.) Calle Balmes 36 – 08007 Barcelona (Spain)	Prop	25.72
Proactiva 216 Paso de la Castellana – 28046 Madrid (Spain)	Full	62.86

Prop Proportionate

27. SUPPLEMENTAL DISCLOSURES

The following information has been prepared to present supplemental disclosures required under U.S. GAAP and SEC regulations applicable to the Group.

27A. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING POLICIES GENERALLY ACCEPTED IN THE UNITED STATES AND FRANCE

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in France ("French GAAP") which differ in certain respects from accounting principles generally accepted in the United States ("U.S. GAAP"). The principal differences between French GAAP and U.S. GAAP as they relate to the Group are discussed in further detail below.

Use of the Proportionate Consolidation Method

Under French GAAP, it is appropriate to use the proportionate consolidation method for subsidiaries over which the Group and other shareholders have agreed to exercise joint control over significant financial and operating policies. Under the proportionate consolidation method, the Group recognizes the assets, liabilities, equity, revenues and expenses of subsidiaries to the extent of its interest in the Group ownership.

Under U.S. GAAP, when the Group controls a subsidiary based on majority ownership or voting or other rights, the subsidiary is fully consolidated. When the Group does not exercise control over a subsidiary, but has joint control or significant influence over the entity, the Group uses the equity method to account for its investment. Summarized financial information for those investments accounted for under the proportionate consolidation method are included in note 24.

This difference in accounting policy has no effect on either net income or shareholders' equity.

Use of the Equity Method

Under French GAAP there are several criteria to be met which result in the presumption that equity accounting should be used. For investments under 20%, equity accounting is followed if the investor is determined to have significant influence due to the relative level of ownership, board of directors representation, and other contractual relationships. Another consideration is the level of ownership by others in the investee. The Group applies the criteria described in Note 2.

Under U.S. GAAP, equity accounting is generally required when an investor's ownership interest is equal to or greater than 20% of the investee's total voting securities. In unusual situations where the ownership interest is less than 20% equity accounting may be appropriate if significant influence exists as the result of other contractual relationships and board representation.

Income taxes

Under French GAAP, the Group does not recognize deferred tax assets on net operating loss carryforwards or on temporary differences when the recovery of the related deferred tax asset is not probable.

Under U.S. GAAP, deferred tax assets are recognized for deductible temporary differences and net operating loss carryforwards and are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

This difference in accounting policy has no effect on either net income or shareholders' equity.

Goodwill

Under both U.S. and French GAAP, goodwill arising from purchase business combinations is determined as the excess of the consideration paid by the acquirer over the fair value of the identifiable assets acquired and liabilities assumed as of the acquisition date.

Reduction of Shareholders' equity

Under French GAAP, the Group recognizes goodwill as an asset and amortizes it over the estimated useful life. However until December 1999, if the acquisition was financed with equity securities of the Group, the resulting goodwill could be recorded as a reduction of shareholders' equity (this option was adopted in 1999 and 2000 for the acquisition of United States Filter Corporation as described in Note 3). Under U.S. GAAP, this option is not available and goodwill is recorded as an asset and amortized over the estimated useful life, not to exceed 40 years. This difference is related to the year 2000.

Under French GAAP on January 1, 2001, Vivendi Environnement has forgone the imputation of the goodwill of US Filter recorded as a reduction of shareholder's equity. As a consequence of which, there is no longer a difference between French GAAP and U.S. GAAP.

Specific transactions: Businesses sold by Vivendi Universal

Upon forming the Group, Vivendi Universal sold certain subsidiaries and affiliates to the Group. According to French GAAP, these transactions were at market value which, in certain cases, has resulted in the generation of additional goodwill. Under U.S. GAAP, transfers of assets among entities under common control, including transfers of operating subsidiaries, are recorded at the predecessor's historical cost basis.

Impairment of goodwill

See note 27B

Dilution profit or capital gain

There is a difference between French and U.S. GAAP regarding the amount of dilution profit or capital gain due to the impact of U.S. GAAP adjustments on the carrying value of sold entities. These U.S. GAAP adjustments are posted as goodwill and therefore have been reported on this line item.

Intangible Assets

Start-up Costs

Under French GAAP, certain costs, such as start-up costs, are capitalized and amortized over their useful lives or the duration of the contract, if applicable.

Under U.S. GAAP, start-up costs are charged to expense in the period they are incurred.

Other Intangible Assets Acquired in Business Combinations

Under French GAAP, trademarks and market shares acquired in a business combination are not required to be amortized.

For 2001 and 2000 under USGAAP intangible assets acquired were amortized over their useful lives up to 40 years.

From January 1, 2002, those intangible assets with a finite useful life are amortized over their useful lives, those intangible assets with an indefinite useful life are not amortized and are subject to an annual impairment test, or more frequently if circumstances dictate. (Described in note 27B)

Public Service Contracts

Commitments to Maintain and Repair Assets

Under French GAAP, a few consolidated subsidiaries, being generally jointly controlled, apply the accrue in advance method to account for repair costs.

Under U.S. GAAP, the Group applies the expensed as incurred method for maintenance and repair expenditures.

Payments to Local Authorities

Under French GAAP, these obligations are not recorded as a liability on the balance sheet. The debt service payments are expensed in a manner that results in the straight line recognition of the total payments over the contract period. The payments made in early years of the contract period may exceed the straight line expense amount. This difference is recorded as a prepaid expense and amortized to income over the remaining contract period so as to achieve the straight line expense amount throughout the contract period.

Under US GAAP, the present value of the total obligation has been recorded as debt on the balance sheet. The interest element of the obligation is amortized to income so as to achieve a constant rate of interest on the outstanding liability.

Reserves

Under French GAAP, certain reserves and allowances may be provided, including reserves for repairs and replacement, when it is probable that those costs will be incurred.

Under U.S. GAAP, contingent losses are accrued only if it is probable that a liability had been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. In addition, for certain reserves, such as restructuring charges, additional criteria must be met. If these criteria are not met, the provision for these reserves and allowance may not be recognized.

Since 2001, the Group applies the same criteria for recognition of restructuring reserves under French GAAP as those applicable under U.S. GAAP.

Reconciling adjustments were made to certain restructuring reserves because the probability criteria under SFAS 5 had not been met or the criteria for severance ratification and employee identification under EITF 94-3 had not been completed at the time the reserves were established under French GAAP. Reconciling adjustments were also made to reverse reserves recorded under French GAAP for estimates of future possible repair and maintenance costs. The conditions under which the reserves were recorded did not meet the liability criteria under SFAS 5.

Under French GAAP, reserves related to fixed assets, inventories and investments in unconsolidated subsidiaries may be accounted as liabilities. Under U.S. GAAP, these reserves are recognized as a reduction of the carrying value of the related assets.

Securitization and discounting of receivables

The Group has entered into various securitizations agreements, various discounting of receivables and sales of future receivables as described in Note 8 and Note 13.

The securitization agreement signed in June 2002 with a SPE (Special Purpose Entity) described in Note 8 does not comply with all the requirements of SFAS 140 which notably states that the Originator and its affiliates cannot be entitled and obligated to repurchase or redeem the receivables, or have the ability to unilaterally cause the return of specific receivables, other than through exercise of a clean-up call.

The call option held by the Group allows the repurchase of the receivables irrespective of any default payments. Consequently, the securitization is restated under U.S. GAAP.

Under French GAAP, future receivables sale (see Note 13) are accounted as deferred income and the discounting of receivables are accounted for as a sale. Under U.S. GAAP, the deferred income is reclassified as long-term financial debt whereas the discounting of receivables does not qualify as a true sale in compliance with the provisions of SFAS 140.

Financial Instruments

Investment Securities

Under French GAAP, investments in debt and non-consolidated equity securities are recorded at acquisition cost and an allowance is provided if management deems that there has been an other-than-temporary decline in fair value. Unrealized gains and temporary unrealized losses are not recognized.

Under U.S. GAAP, investments in debt and equity securities are classified into three categories and accounted for as follows:

Debt securities that the Group has the intention and the ability to hold to maturity, are carried at cost and classified as “held-to-maturity”.

Debt and equity securities that are acquired and held principally for the purpose of sale in the near term are classified as “trading securities” and are reported at fair value, with unrealized gains and losses included in earnings. All other investment securities not otherwise classified as either “held-to-maturity” or “trading” are classified as “available-for-sale” securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in shareholders’ equity.

Under U.S. GAAP, Vivendi Universal shares owned by the Group are accounted for as “available-for-sale securities”.

Convertible bonds

Under French GAAP, the accrual of redemption premium is optional. Under U.S. GAAP, the redemption premium is accrued as financial interest expense. The Group’s convertible bonds include a beneficial conversion feature associated with the contingent conversion of the bonds into the Group’s shares or Vivendi Universal’s shares. The conversion was contingent upon the Group effecting an initial public offering of its shares, which it did in July, 2000. In accordance with French GAAP, the Group has not recorded financial interest expense in connection with the beneficial conversion feature. Under U.S. GAAP, a financial interest expense related to the feature computed upon the full amount of bonds eligible was recorded as of the date of the initial public offering.

Treasury Shares

Under French GAAP, shares of the Group’s own stock owned by the Group and its subsidiaries are recorded as financial assets in statutory accounts and as a reduction of consolidated shareholder’s equity, or as marketable securities in the consolidated financial statements if those shares are acquired to stabilize the market price or in connection with stock options granted to directors and employees.

Under U.S. GAAP, treasury shares are recorded as a reduction of shareholders’ equity. Profit and loss on the disposal of treasury shares is recognized as an adjustment to shareholders’ equity.

Derivative Financial Instruments

According to French GAAP, derivative financial instruments are not recorded to the consolidated balance sheet. The effects of financial instruments which qualify as hedging instruments are included in net income along with the corresponding hedged item for those financial instruments which do not qualify as hedging instruments, a provision is recorded when their market value is negative.

On January 1, 2001, Vivendi Environnement adopted SFAS 133 "Accounting for derivative instruments and hedging activities". According to SFAS 133, derivative financial instruments (including those embedded in other contracts and the FCC put) should be recorded on the balance sheet at their fair value. Changes to fair value are recorded depending on whether the derivative instrument is classified as a fair value hedge or a cash-flow hedge, or is regarded as not being a hedging instrument under SFAS 133.

The variations of fair value hedges are recorded in financial income (expenses). The effect on income is matched by the reevaluation of the hedged asset, debt or firm commitment which is also recorded in financial income (expenses).

The variations of cash-flow hedges are recorded under other comprehensive income. They are recorded in income depending on the realization of the underlying cash-flow.

The qualification of the hedge, results from the initial intention of the financial instrument as a means of hedging an asset, debt, firm commitment or future cash-flow. The effectiveness of the hedging instrument should be periodically tested to show the correlation between the changes in the hedging instrument and the hedged item. The ineffective part of the hedging instrument is systematically recorded to financial income (expenses).

The derivative instruments used by Vivendi Environnement as part of its risk management, but which do not constitute hedging instruments under SFAS 133 are recorded at their fair value, with changes to their value included in net income of the exercise.

Due to its financial operations, Vivendi Environnement is exposed to market risks (essentially due to changes in interest rate or exchange rates). Management uses these financial instruments to limit these financial risks. Nevertheless, some of the financial instruments used do not satisfy the criteria defined by SFAS 133 to qualify as hedging instruments. Consequently, the volatility of the market value of these derivative instruments is reflected in financial income (expenses).

On January 1, 2001, the effect of the adoption of SFAS 133 on the consolidated accounts was an increase of €6 million on net income and a reduction of €18 million on other comprehensive income.

The amount of other comprehensive income that has been reclassified into earning during the year is €7.8 million, compared to €(10.3) million in 2001.

At December 31, 2002, the amount of accumulated other comprehensive income relating to Cash-Flow hedges amounts to €(111.3) million (net of tax) of which an amount of €(14.3) million (net of tax) will be reclassified into earnings during the next year. Cash-Flow hedges are used by the Group to hedge underlying on the 2003-2005 period.

The amount of the inefficiency is not significant as of December 31, 2002 both for fair value hedges and cash flow hedges. The Group did not have any amount excluded from the measure of effectiveness. No contracts that qualified as hedges were cancelled during 2002. There are no net investment hedges as of December 31, 2002.

Stock Based Compensation

Vivendi Universal has adopted stock option incentive plans that grant options on its common shares to certain directors and officers, including those of the Group. Vivendi Universal also maintains employee stock purchase plans that allow substantially all full-time employees of the Group and its subsidiaries to purchase shares of Vivendi Universal.

According to the agreement signed on December 20, 2002 between Vivendi Universal and Vivendi Environnement, Vivendi Universal assumes the responsibility for these plans until their maturity.

In addition, Vivendi Environnement has implemented a stock option plan attributed to a limited number of employees.

Under French GAAP, common shares issued upon the exercise of options granted to employees and directors are recorded as an increase to share capital at the cumulative exercise price. Vivendi Environnement shares sold to employees through qualified employee stock purchase plans are reclassified from marketable securities to share capital. The difference between the carrying value of the treasury shares and the cumulative exercise price by the stock purchase plan is recognized as a gain or loss in the period that the shares are sold. In accordance with French GAAP, the Group has not recorded compensation expense on stock-based plans with a discounted exercise price of up to 20% off the fair value of the common shares at the date of grant.

Under U.S. GAAP, APB opinion No. 25 defines plans that grant or sale of common shares to employees as compensatory if such plans are not open to substantially all employees and do not require the employee to make a reasonable investment in the shares, usually defined as no less than 85% of the market value at the grant date. If a plan is deemed to be compensatory, APB Opinion No. 25 requires that the compensation arising from such plans be measured based on the intrinsic value of the shares granted or sold to employees. For fixed plans remuneration is the difference between the exercise price of the stock option and the market value of the corresponding shares. For compensatory stock option plans, remuneration is recognized in the period for which the relative service is performed.

These reconciling items are further described in Note 27G.

Pension Plans

Since January 1997, the Group has adopted an accounting policy to record pension obligations, covering all eligible employees, using the projected unit credit method. The transition obligation as of the date of adoption is amortized over the average residual life of the employees.

Under U.S. GAAP, the projected unit credit method is required to be applied as of January 1, 1989. The transition obligation or fund excess determined as of January 1, 1989 is amortized over the average residual active life of the population that was covered under the plan at that date.

Under French GAAP, postretirement benefits other than pensions are recorded as expense when amounts are paid.

Under U.S. GAAP, the Group must recognize an obligation for amounts to be paid under postretirement plans, other than pensions. A postretirement transition obligation may be determined as of January 1, 1995 and amortized over the estimated average life of retirees covered by the plan. Current period charges are based on estimated future payments to expected retirees.

Southern Water transaction

Under French GAAP, the put option related to preferred shares issued by FA (JVCo) is considered as an off-balance sheet commitment. Under US GAAP, FA (JVCo) is treated as a special purpose entity and is fully consolidated.

February 2003 agreements between Southern Water Capital and Vivendi Environnement are currently analyzed. The consolidation method of Southern Water Investments Limited is not yet determined.

27B. APPLICATION OF SFAS 141 "BUSINESS COMBINATIONS" AND SFAS 142 "GOODWILL AND OTHER INTANGIBLE ASSETS".

Business combinations in 2002

SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for as purchases. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives acquired after June 30, 2001 should not be amortized. The Group has accounted for business combinations according to SFAS 141 and SFAS 142. During 2002, the Group has not undertaken any significant acquisitions.

Application of the new accounting pronouncements during the transition period

Review of existing intangible assets and goodwill with regard to the new criteria

The review of intangible assets and goodwill existing on January 1, 2002 with regard to the changes in accounting method has driven the Group to reclass to goodwill net amount of €240 million from market share, which no longer fulfill the conditions to be accounted for as a separate intangible asset.

Review of the useful lives of intangible assets

The review of the useful lives of intangible assets has lead the Group to reclassify under U.S. GAAP an amount of €1.6 billion as assets with an indefinite useful life.

Those intangible assets are almost exclusively the trademarks of USFilter. As of December 31, 2001 USFilter trademarks amounted to €2,350.1 million under U.S. GAAP. They were up until 31 December 2001 amortized over 40 years under U.S. GAAP, and were not amortized under French GAAP. The review by an independent expert lead to the classification of a part of these trademarks as intangible assets with an indefinite useful life. As of December 31, 2002 USFilter indefinite useful life trademarks amount to €1,611.4 million and finite useful life trademarks amount to €198.1 million. The impact of this reclassification on US GAAP net income in 2002 is €43 million.

As of December 31, 2002 intangible assets with an indefinite useful life in U.S. GAAP amount to €1.6 billion, intangible assets with a finite useful life amount to €1.8 billion.

Transitional impairment test on indefinite useful life intangible assets

Those intangible assets with an indefinite useful life are almost exclusively the trademarks of US Filter (€1.6 billion). These trademarks have been reviewed by an independent expert who has confirmed their value. As of December 31, 2002 no impairment charge has been accounted for those intangible assets with an indefinite useful life.

Transitional impairment test on goodwill

The application of the different criteria to determine the reporting units has lead the Group to define 6 reporting units: US Filter, Water rest of the world, Onyx, Dalkia, Connex and Latin America. As part of the first step of the impairment testing, these units were valued according to the discounted cash flow method. This has enabled the comparison of their estimated fair value to their carrying value. The fair values of US Filter and Latin America were inferior to their carrying values, and for these reporting units the Group has undertaken the second step of goodwill impairment testing. The evaluation of US Filter was undertaken using a projection over 10 years, a terminal value and a discount rate of 7%. The evaluation of Latin America was undertaken using cash flow projections for each country and using discount rates of between 10.9 and 17.9%. After completion of the second stage of the impairment tests, the Group was lead to recognize an impairment charge on January 2, 2002 of €2,587 million for US Filter and €34 million for Latin America.

Impairment testing during 2002 for intangible assets with an indefinite useful life and goodwill

The Group has actualized at the end of 2002 those evaluations undertaken during the transition period. For US Filter, the discount rate used was 6% which takes into account the fall in the risk free interest rate for the US. The impairment tests which were undertaken lead to an additional impairment charge of €83 million.

27C. NEW ACCOUNTING STANDARDS IN THE UNITED STATES

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143 "Accounting for Asset Retirement Obligations" which becomes effective in January 2003. This statement addresses accounting and reporting for obligations and costs, which will occur when the long-term assets are retired. Among other things, the statement requires that the present value of the liability associated with future asset retirements be recorded on the balance sheet when an obligation has been incurred and when it can be reasonably measured. The amortization of the capitalized costs and increase in the present value of the obligation which result from the passage of time, are charged to earnings. During 2002, the Group has carried out an inventory of all sites concerned but has not determined the financial impact on its 2003 consolidated financial statements.

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("SFAS 146"). SFAS 146 replaces EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), and changes the timing of recognition for certain exit costs associated with restructuring activities. Under SFAS 146 certain exit costs would be recognized over the period in which the restructuring activities occur. Currently, exit costs are recognized when the Company commits to a restructuring plan. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002, though early adoption is allowed. The Company will adopt SFAS 146 for exit or disposal activities that are initiated after January 1, 2003. The provisions of SFAS 146 could result in the Company recognizing the cost of future restructuring activities over a period of time as opposed to as a one-time expense.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN 45 are effective for financial statements of annual periods that end after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. The Group is currently assessing the impacts of FIN 45 on its financial statements.

In December 2002, the Financial Accounting Standards Board issued FASB Statement No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure ("SFAS 148"). This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), to provide alternative methods of transition to SFAS 123's fair value method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS 123 to require prominent disclosure in the summary of significant account policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual financial statements. SFAS 148's amendment of the transition and annual disclosure requirements are effective for fiscal years ending after December 15, 2002. Refer to Note 27G for disclosures related to stock based compensation. The Company intends to continue to account for stock-based compensation based on the provisions of APB Opinion No. 25.

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities an interpretation of ARB No. 51 ("FIN 46"). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The disclosure provisions of FIN 46 are effective for financial statements initially issued after January 31, 2003. Public entities with a variable interest in a variable interest entity created before February 1, 2003 shall apply the consolidation requirements of FIN 46 to that entity no later than the beginning of the first annual reporting period beginning after June 15, 2003. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. The Group is currently assessing the impacts of FIN 46 on its financial statements.

In November 2002, the EITF reached a consensus on issue No. 00-21 Accounting for Revenue Arrangements with Multiple Deliverables ("EITF 00-21") on a model to be used to determine when a revenue arrangement involving the delivery or performance of multiple products, services and/or rights to use assets should be divided into separate units of accounting. Additionally, EITF 00-21 addresses if separation is appropriate, how the arrangement consideration should be allocated to the identified accounting units. EITF 00-21 will be applicable to agreements entered into in fiscal periods beginning after June 15, 2003, with early adoption permitted. In addition, companies are permitted to apply EITF 00-21 to all existing arrangements as the cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, Accounting Changes. The Group is currently assessing the impact on its financial statements.

27D. RECONCILIATION OF SHAREHOLDERS' EQUITY AND NET INCOME TO U.S. GAAP

The following is a summary reconciliation of shareholders' equity as reported in the consolidated balance sheet to shareholders' equity as adjusted for the approximate effects of the application of U.S. GAAP for the period ended December 31, 2002, 2001 and 2000, and net income as reported in the consolidated statement of income to net income as adjusted for the approximate effects of the application of U.S. GAAP for the period ended December 31, 2002, 2001 and 2000 (in millions of euros).

		At December 31,	
	2002	*2001*	*2000*
Shareholders' equity as reported in the consolidated balance sheets	6,329.6	5,740.0	6,208.3
Adjustments to conform to U.S. GAAP:			
Goodwill (Gross)	(852.2)	(1,213.4)	687.4
Goodwill accumulated amortization	(61.5)	2,518.1	(134.4)
Dilution profit or capital gain/loss	39.1	16.5	17.0
Intangible assets (Gross)	(343.2)	(103.0)	(61.8)
Intangible assets depreciation	(119.8)	(153.5)	(97.1)
Commitments to maintain and repair assets	200.2	189.1	349.8
Payments to local authorities	(171.2)	(166.1)	(168.0)
Reserves for restructuring liabilities	–	37.3	49.1
Other reserves	44.4	44.2	15.7
Treasury shares	(92.1)	(159.4)	(44.3)
Other financial instruments	(243.9)	79.7	36.3
Stock based compensation	(14.9)	(199.8)	(188.0)
Pension plans	(9.9)	(5.1)	(12.9)
Leases (property, plant & equipment)	(3.0)	0.4	(6.9)
Use of equity method	**–**	**(38.5)**	**(20.0)**
Others	**(25.4)**	**16.4**	**(1.6)**
Tax effect of above adjustments	247.0	177.8	(59.4)
U.S. GAAP Shareholders' Equity	4,923.2	6,780.7	6,569.2

	For the year ended at December 31,		
	2002	2001	2000
Net income as reported in the consolidated statements of income	339.2	(2,251.2)	614.8
Adjustments to conform to U.S. GAAP:			
Goodwill (Gross)	67.7		
Goodwill amortization	(2,415.2)	2,481.3	(37.7)
Dilution profit or capital gain/loss	33.4	(15.6)	(22.5)
Intangible assets (Gross)	(10.5)	(9.7)	(24.1)
Intangible assets amortization	(27.4)	(47.9)	(41.1)
Commitments to maintain and repair assets	(9.9)	(43.8)	25.7
Payments to local authorities	(1.6)	2.0	(0.7)
Reserves for restructuring liabilities	(53.4)	(10.9)	49.1
Other reserves	5.2	(1.9)	(5.9)
Treasury shares	33.6	21.0	(8.4)
Other financial instruments	(8.8)	(84.5)	(71.6)
Stock based compensation	3.6	(19.3)	(47.0)
Pension plans	2.1	0.3	(5.7)
Leases (property, plant & equipment)	(1.8)	(1.1)	(0.2)
Use of equity method	–	(0.4)	(5.0)
Others	(3.4)	(6.2)	(0.6)
Tax effect of above adjustments	58.4	168.2	14.3
U.S. GAAP Net Income	(1,988.8)	180.3	433.4

Basic and Diluted Earnings Per Share

For U.S. GAAP purposes, basic earnings per share are computed in the same manner as basic earnings per share under French GAAP, i.e., by dividing net income by the weighted average number of shares outstanding. Diluted earnings per share reflect the potential dilution that would occur if all securities and other contracts to issue ordinary shares were exercised or converted. Net income represents the earnings of the Group after minority interests. The computation of diluted earnings per share is as follows (except earnings per share, in millions of euros or millions of shares):

	At December 31,		
	2002	2001	2000
Net income (under U.S. GAAP)	(1,988.8)	180.3	433.4
Net income before cumulative effect of adoption of SFAS 133	–	174.3	–
Net income before cumulative effect of adoption of SFAS 142	559.8	–	–
Weighted average number of shares			
Outstanding-basic	364.7	343.8	275.1
Dilutive effect of:			
Shares issuable on exercise of dilutive options	–	0.5	0.2
Weighted average number of shares			
Outstanding-diluted	364.7	344.3	275.3
Earnings per share:			
Basic	(5.45)	0.52	1.58
Diluted	(5.45)	0.52	1.57
Earnings per share before cumulative effect of adoption of SFAS 133:			
Basic		0.51	–
Diluted		0.51	–
Earnings per share before cumulative effect of adoption of SFAS 142:			
Basic	1.53	–	–
Diluted	1.53	–	–

27E. PRESENTATION OF THE INCOME STATEMENT IN U.S. GAAP FORMAT

For purposes of presenting consolidated income statements in a format consistent with U.S. GAAP, the Group has reflected the financial statements impacts of the reconciling differences between French and U.S. GAAP presented in Note 27A. In addition, the joint ventures consolidated using the proportionate method under

French GAAP are accounted for using the equity method under U.S. GAAP and all material reclassifications are reflected in the income statement presented using U.S. GAAP.

Net sales

Management contracts

Under its management contracts, the Group manages a public service for a fixed fee and an incentive calculated with reference to the performance of the contract.

Under French GAAP, billings to customers are recognized as revenue and the related costs are recognized as costs of sales. The difference between revenue and related costs represents the remuneration of the operator which consists of a fixed fee and incentive payments.

Under U.S. GAAP, only a fixed fee and incentive are recognized as revenue when the service is rendered.

This difference in accounting policy has no effect on net income or shareholders' equity. The impact on presentation is €813 million for 2002, €784 million for 2001, and €753 million for 2000.

Other Income

Until January 1, 2001, capital gains or losses on sales of consolidated entities or equity affiliates and related costs were considered for French GAAP purposes as exceptional income, and were classified for U.S. GAAP purposes as other income (loss). The Group recorded a gain in this category of €796.8 million for 2000.

Income Taxes

The difference in accounting policy between French GAAP and U.S. GAAP results in a presentation impact amounting to €172.8, €107.0, and €95.9 million in 2002, 2001 and 2000, respectively, on both gross deferred tax assets and the corresponding valuation allowance.

Income Statement in U.S. GAAP Format

	For the year ended at December 31,					
	2002		*2001*		*2000*	
	*Adjusted US GAAP**	*US GAAP*	*Adjusted US GAAP**	*US GAAP*	*Adjusted US GAAP**	*US GAAP*
			(€ millions)			
Net Sales**	29,258.8	23,938.5	28,343.1	23,440.8	25,480.1	22,461.4
Cost of sales	(23,861.2)	(19,534.1)	(22,836.9)	(18,887.2)	(19,373.2)	(16,929.1)
Selling, general and administrative costs	(3,513.3)	(3,000.9)	(3,588.4)	(3,096.7)	(4,248.4)	(3,937.3)
Goodwill amortization/ impairment	(83.3)	(83.3)	(426.8)	(364.8)	(344.0)	(312.8)
Other operating expense and revenue	(86.9)	(56.5)	(56.4)	(58.9)	(296.7)	(378.9)
Operating income	1,714.1	1,263.7	1,434.6	1,033.2	1,217.8	903.3
Financial income (expense)	(656.1)	(480.1)	(901.7)	(733.3)	(1,010.6)	(886.0)
Other income (expense)	(17.5)	13.1	2.2	(5.4)	770.6	752.6
Net income before taxes, minority interests and equity interest	1,040.5	796.7	535.1	294.5	977.8	769.9
Taxes	(366.3)	(289.3)	(286.6)	(163.4)	(437.9)	(362.2)
Net income before minority interests and equity interest	674.2	507.4	254.5	137.1	539.9	407.7
Equity interest	19.1	93.9	47.6	69.2	55.0	83.5
Minority interest	(133.5)	(32.2)	(121.8)	(26.0)	(161.5)	(57.8)
Cumulative effect of change in accounting principles	(2,548.6)	(2,557.9)	6.0	6.0	–	–
Net income	(1,988.8)	(1,988.8)	180.3	180.3	433.4	433.4

* These figures represent U.S. GAAP format after reconciling adjustments and reclassifications exclusive of those adjustments and reclassifications related to proportionate consolidation.

** Includes excise taxes and contributions collected on behalf of local authorities for an amount of €1,675 million in 2002, €1,770 million in 2001 and €1,729 million in 2000.

27F. COMPREHENSIVE INCOME

The concept of comprehensive income does not exist under French GAAP. In U.S. GAAP, SFAS 130 "Reporting comprehensive income" defines comprehensive income to include, net of tax impact (in millions of euros):

- minimum pension liability adjustments (MLA),
- unrealized gains and losses on investment securities classified as "available for sale" including Vivendi Universal shares owned by the Group,
- foreign currency translation adjustments.

	Comprehensive Income	*Accumulated foreign translation*	*Accumulated unrealized gains (losses) on equity securities and hedging instruments*	*Minimum liability adjustments*	*Accumulated other comprehensive income*
Comprehensive income for the year ended December 31, 1999 (U.S. GAAP)	**(52.9)**	271.3	23.2	–	294.5
Net income 2000 (U.S. GAAP)	**433.4**				
Other comprehensive income 2000, net of tax (U.S. GAAP):	**446.6**				
Including:					
foreign currency translation adjustments	455.5	455.5			455.5
holding losses arising during the period on equity securities	(7.5)		(7.5)		(7.5)
deferred income taxes on holding losses on equity securities	1.8		1.8		1.8
reclassification adjustment (net of tax)	(3.2)		(3.2)		(3.2)
Comprehensive income for the year ended December 31, 2000 (U.S. GAAP)	**880.0**	**726.8**	**14.3**	**–**	**741.1**
Net income 2001 (U.S. GAAP)	**180.3**				
Other comprehensive income 2001, net of tax (U.S. GAAP):	**291.4**				
Including:					
foreign currency translation adjustments	323.2	323.2			323.2
holding losses arising during the period on equity securities	(6.7)		(6.7)		(6.7)
unrealized losses on hedging derivatives	(46.4)		(46.4)		(46.4)
deferred income taxes	19.3		19.3		19.3
MLA	2.0			2.0	2.0
Comprehensive income for the year ended December 31, 2001 (U.S. GAAP)	**471.7**	**1,050.0**	**(19.5)**	**2.0**	**1,032.5**
Net income 2002 (U.S. GAAP)	**(1,988.8)**				
Other comprehensive income 2002, net of tax (U.S. GAAP):					
Including:					
foreign currency translation adjustments	(1,219.7)	(1,219.7)			(1,219.7)
holding losses arising during the period on equity securities	(11.2)		(11.2)		(11.2)
unrealized losses on hedging derivatives	(124.0)		(124.0)		(124.0)
deferred income taxes	46.4		46.4		46.4
MLA	9.5			9.5	9.5
Comprehensive income for the year ended December 31, 2002 (U.S. GAAP)	**(3,287.8)**	**(169.7)**	**(108.3)**	**11.5**	**(266.5)**

27G. STOCK BASED COMPENSATION

Vivendi Environnement stock option plans

Vivendi Environnement has adopted a series of stock option plans pursuant to which options on its common shares are granted to certain directors and officers, including officers and directors of the Group.

The purpose of the stock option plans is to align the interest of management with the interest of shareholders by providing certain officers and other key employees with additional incentives to increase the company's performance on a long term basis. Vivendi Environnement has operated certain "classic" fixed stock option plans and a senior management "variable" plan.

The Group granted on June 23, 2000, 780,000 options on its common shares to certain directors and officers. Under this plan, the number of exercisable options is based on a formula that measures the performance of Vivendi Environnement stock against the performance of a basket of peer companies. The exercise price is €32.5 and the maturity is 8 years.

In 2001, the Group granted 3,462,000 options on its common shares to a range of employees. The exercise price and the maturity are respectively €42 and 8 years. These options vest over a period of 3 years.

In 2002, the Group granted 4,413,000 options on its common shares, including 336,300 options on its ADS's, these options were granted to a range of employees. The exercise price and the maturity of these options are €37.53 and 8 years, and $33.26 and 8 years for options on ADS's. These options vest over a three year period.

Information relating to options to purchase the Group's shares granted during 2002, 2001 and 2000 is summarized as follows:

	Number of shares Outstanding	*Number of shares Exercisable*	*Weighted average Exercise price (in euros)*
December 31, 1999	–	–	–
Granted	780,000	–	32.50
Exercised	–	–	–
Forfeited	–	–	–
Expired	–	–	–
December 31, 2000	780,000	–	32.50
Granted	3,462,000	–	42.00
Exercised	(10,000)	–	32.50
Forfeited	–	–	–
Expired	–	–	–
December 31, 2001	4,232,000	–	40.27
Granted	4,076,700	–	37.53
Exercised	–	–	–
Forfeited	67,800	–	37.53
Expired	–	–	–
December 31, 2002	8,240,900	–	38.94

Information relating to the stock options on ADS's is summarized as follows:

	Number of shares outstanding	*Number of shares exercisable*	*Weighted average exercise price (in dollars)*
December 31, 2001	–	–	–
Granted	336,300	–	33.26
Exercised	–	–	–
Forfeited	–	–	–
Expired	–	–	–
December 31, 2002	336,300	–	33.26

No compensation expense has been recorded in connection with stock options granted by Vivendi Environnement under French GAAP. Under U.S. GAAP, the compensation expense recorded by the Group was €5.3 million and €0.9 million for the year ended December 31, 2002 and 2001 respectively .

Information about Vivendi Environnement stock options outstanding at December 31, 2002 is summarized as follows:

Exercise price	*Number outstanding*	*Average exercise price (in euros)*	*Average remaining life (in years)*	*Number vested*
30-35	770,000	32.50	5.48	–
35-40	4,008,900	37.53	7.08	–
40-45	3,462,000	42.00	6.12	–
	8,240,900	38.94	6.53	–

Information about Vivendi Environnement's ADS stock options outstanding at December 31, 2002 is summarized as follows

Exercise price	*Number outstanding*	*Average exercise price (in USD)*	*Average remaining life (in years)*	*Number vested*
33-34	336,300	33.26	7.08	–
	336,300	33.26	7.08	–

Employee Stock Purchase Plans

Vivendi Environnement maintains savings plans that allow substantially all full time employees of Vivendi Environnement and its subsidiaries to purchase shares of Vivendi Environnement. The shares are sold to employees at a discount of 20% from the average market price of Vivendi Environnement stock over the last 20 business days prior to the date of authorization by the management committee. The exercise price of the shares is defined as the maximum of the average market price of Vivendi Environnement stock over the last 20 business days at a discount of 20% price and the price on the day of the board of Directors meeting discounted by 15%. Shares purchased by employees under these plans are subject to certain restrictions over the sale or transfer of the shares by employees.

Shares sold to employees of Vivendi Environnement were as follows:

	2002
Number of shares	1,183,158
Proceeds on sales (in millions of euros)	31.4
Average cost of treasury sales (in euros)	26.5

Under French GAAP, no compensation expense is recorded in connection with employee stock purchase plans.

Under U.S. GAAP, the compensation cost recorded by the Group for years ended December 31, 2002 of €6.7 million.

Vivendi Environnement applies the intrinsic value method to account for compensation cost associated with options granted to employees. In accordance with French GAAP, the Group has not recorded compensation expense on options granted with a discounted strike price up to 20% from the fair value of shares at the date of grant. Had compensation cost for stock options awarded under these plans been determined based on the fair value at the dates of grant consistent with the methodology of SFAS 123, Vivendi Environnement's net income and basic earnings per share would have reflected the following pro forma amounts (in millions of euros):

	At December 31,		
	2002	*2001* (*€ millions*)	*2000*
Net Income under US GAAP	(1,988.8)	180.3	433.4
As reported			
Include : Total stock based-employee compensation expense determined under APB25 for all awards net of related tax effects	(3.6)	19.3	47.0
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(48.8)	(70.0)	(60.9)
Pro Forma	(2,041.2)	129.6	419.5
Net income basic earning per share	(5.45)	0.52	1.58
Net income diluted earning per share	(5.45)	0.52	1.57
Net income pro forma per share	(5.60)	0.38	1.52
Net income pro forma diluted per share	(5.60)	0.38	1.51

The fair value of Vivendi Environnement grant is estimated on the date of grant using the Binomial option pricing model with the following assumptions for the grants:

Vivendi Environnement	*2002*	*2001*	*2000*
Expected life (in years)	7.50	7.80	7.90
Interest rate	4.33%	4.99%	4.80%
Volatility	30.00%	30.00%	n/a
Dividend yield	1.00%	1.00%	1.00%

In 2001, the Group assumed a volatility of 30%, an interest rate of 4.9%, a dividend yield of 1%. In 2000, the fair value of Vivendi Environnement options were estimated on the date of grant using the minimum value method, as no reliable data was available to estimate volatility, as Vivendi Environnement was listed only after July 20, 2000. The average fair value of Vivendi Environnement options granted in 2002, 2001 and 2000 was €15.29, €16 and €6.67 respectively.

27H. PENSION PLAN AND OTHER COST RETIREMENT BENEFITS OTHER THAN PENSION PLANS

Disclosures, presented in accordance with SFAS 132, are as follows (in millions of euros):

	Pension Benefits			*Other Benefits*		
	2002	*2001*	*2000*	*2002*	*2001*	*2000*
Change in benefit obligation						
Benefit obligation at beginning of year	927.9	1,085.0	983.8	–	8.3	7.4
Service cost	42.2	51.5	46.8	–	–	0.1
Interest cost	54.8	48.7	60.6	–	–	0.4
Plan participants contributions	8.2	6.6	10.7	–	–	–
Business combinations	36.4	5.1	11.4	–	–	–
Disposals	(5.4)	(239.5)	(5.7)	–	(1.6)	–
Curtailments	(16.9)	(1.3)	(2.2)	–	(6.7)	–
Actuarial loss (gain)	(40.0)	(16.7)	22.1	–	–	1.0
Benefits paid	(33.6)	(28.2)	(41.3)	–	–	(0.7)
Special termination benefits	–	1.8	–	–	–	–
Others (foreign currency translation)	(0.5)	15.0	(1.2)	–	–	0.1
Benefit obligation at end of year	973.1	927.9	1,085.0	–	–	8.3
Change in plan assets						
Fair value of plan assets at beginning of year	902.7	1,258.7	1,278.4	–	–	–
Actual return on plan assets	(117.4)	(57.2)	(15.6)	–	–	–
Group contributions	16.1	17.8	23.4	–	–	–
Plan participant contributions	8.2	6.6	10.7	–	–	–
Acquisitions	0.3	0.3	1.3	–	–	–
Disposals	(3.8)	(314.9)	(0.1)	–	–	–
Curtailments	(7.5)	–	(2.7)	–	–	–
Benefits paid	(29.0)	(26.7)	(32.4)	–	–	–
Others (foreign currency translation)	(3.6)	18.2	(4.3)	–	–	–
Fair value of plan assets at end of year	766.0	902.7	1,258.7	–	–	–
Funded status of plan	(207.2)	(25.2)	173.7	–	–	(8.3)
Unrecognized actuarial loss	264.3	131.6	(11.3)	–	–	(0.6)
Unrecognized actuarial prior service costs	(71.2)	(74.9)	(141.1)	–	–	–
Unrecognized actuarial transition obligation	(9.2)	(16.1)	(17.9)	–	–	–
Others	(7.7)	(38.0)	(45.2)	–	–	–
Accrued benefit cost	(31.0)	(22.6)	(41.8)	–	–	(8.9)

Prepaid arising from multi-employer plans overtime (activities under lease contract) are written off since there are serious doubts that they could be recoverable through future contribution holidays.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligation in excess of plan assets were €201.0 million, 172.5 million and €28.0 million as of December 31, 2002, €226.1 million, €47.2 million and €194.0 million as of December 31, 2001, €138.5 million, €97.7 million and €37.4 million as of December 31, 2000.

Amounts recognized in the balance sheets consist of (in millions of euros):

	Pension Benefits			*Other Benefits*		
	2002	*2001*	*2000*	*2002*	*2001*	*2000*
Accrued benefit liability (including MLA)	(188.2)	(157.2)	(157.8)	–	–	(8.8)
Prepaid benefit cost	138.5	132.6	115.4	–	–	–
Net amount accrued for under U.S. GAAP	(49.7)	(24.6)	(42.4)	–	–	(8.8)
Intangible assets (MLA)[(a)]	18.7	2.0	0.6	–	–	–
Net amount recognized under U.S. GAAP	(31.0)	(22.6)	(41.8)	–	–	(8.8)

(a) Adjustment for U.S. GAAP purpose: the benefit liability accrued under U.S. GAAP has to be the minimum between the accumulated benefit obligation net of fair value of plan assets and the net amount recognized under U.S. GAAP.

Net accruals in the accompanying consolidated balance sheet can be compared with balances determined under U.S. GAAP as follows (in millions of euros):

	Pension Benefits			*Other Benefits*		
	2002	*2001*	*2000*	*2002*	*2001*	*2000*
Net amount accrued for under U.S. GAAP	(49.7)	(24.6)	(42.4)	–	–	(8.8)
Excess funding of plans recognized in income only when paid back to the Group	–	–	–	–	–	–
Changes in scope	(64.5)	–	–	–	–	–
Impacts of transition obligation, of prior service cost and of actuarial gains recognized with a different timing under local regulations	–	(73.0)	(0.8)	–	(1.6)	(0.6)
Minimum liability adjustments (MLA)	18.8	2.0	0.6	–	–	–
Net amount accrued for under French GAAP in the accompanying consolidated balance sheet	(95.4)	(95.6)	(42.7)	–	(1.6)	(9.4)
Accrued	(233.7)	(228.2)	(158.1)	–	(1.6)	(9.4)
Prepaid	81.9	132.6	115.4	–	–	–

Net periodic cost under U.S. GAAP was as follows (in millions of euros):

	Pension Benefits			*Other Benefits*		
	2002	*2001*	*2000*	*2002*	*2001*	*2000*
Service cost	42.2	51.5	46.8	–	–	0.1
Expected interest cost	54.8	48.7	60.6	–	–	0.4
Expected return on plan assets	(69.7)	(69.1)	(88.7)	–	–	–
Amortization of unrecognized prior service cost	(8.5)	(8.5)	(8.7)	–	–	–
Amortization of actuarial net loss (gain)	22.2	8.0	(13.1)	–	–	(0.1)
Amortization of net transition obligation	(3.1)	(5.4)	(2.4)	–	–	–
Curtailments/Settlements	(11.5)	(2.4)	0.5	–	(6.7)	–
Others	(10.0)	7.1	20.3	–	–	–
Net periodic benefit cost under U.S. GAAP	16.4	29.8	15.3	–	(6.7)	0.4

The retained assumptions are as follows :

	Pension Benefits			*Other Benefits*		
	2002	*2001*	*2000*	*2002*	*2001*	*2000*
Discount rate	5.9%	5.6%	5.8%	–	–	5.4%
Expected return on plan assets	7.4%	7.0%	7.4%	–	–	6.4%
Expected residual active life (in years)	13.3	13.7	13.4	–	–	14.6

As regards health insurance plans, an increase of one percent in health expenses would not have any significant impact.

27I. RESTRUCTURING COSTS

Reserves for restructuring liabilities, according to US GAAP, by segment are detailed as follows (in millions of euros):

	Dec. 31, 1999	*Change in scope of consolidation*	*Additions charged to operating Income*	*Utilization*	*Reversal*	*Dec. 31, 2000*	*Change in scope of consolidation*	*Additions charged to operating Income*	*Utilization*	*Reversal*	*Dec. 31, 2001*	*Change in scope of consolidation*	*Additions charged to operating Income*	*Utilization*	*Reversal*	*Dec. 31, 2002*
Water	116.4	17.2	–	(52.0)	–	81.6	20.8	18.7	(56.9)	–	64.2	(16.7)	32.0	(32.7)	–	46.7
Other activities	25.8	–	–	(25.8)	–	–	19.2	–	(12.3)	–	6.9	0.2	0.6	–	–	7.7
Employee termination costs	–	–	–	–	–	–	19.2	–	(12.3)	–	6.9	0.2	0.6	–	–	7.7
Other restructuring costs	25.8	–	–	(25.8)	–	–	–	–	–	–	–	–	–	–	–	–
United States Filter Corporation	46.8	10.8	–	(16.6)	–	41.0	1.6	18.7	(27.8)	–	33.5	(3.0)	24.9	(21.6)	–	33.8
Employee termination costs	7.4	–	–	(6.1)	–	1.3	–	17.6	(5.6)	–	13.3	(2.1)	15.3	(13.4)	–	13.1
Lease termination costs	10.8	3.6	–	(5.5)	–	8.9	–	–	(6.6)	–	2.3	(2.7)	7.5	(0.6)	–	6.5
Other restructuring costs	28.6	7.2	–	(5.0)	–	30.8	1.6	1.1	(15.6)	–	17.9	1.8	2.1	(7.6)	–	14.2
USFI—Benelux	31.2	6.4	–	–	–	37.6	–	–	(13.8)	–	23.8	(13.9)	–	(8.6)	–	1.3
Employee termination costs	29.0	–	–	–	–	29.0	–	–	(12.8)	–	16.2	(8.9)	–	(7.3)	–	–
Lease termination costs and other costs	2.2	6.4	–	–	–	8.6	–	–	(1.0)	–	7.6	(5.0)	–	(1.3)	–	1.3
USFI—Other locations	12.6	–	–	(9.6)	–	3.0	–	–	(3.0)	–	–	–	6.5	(2.6)	–	3.9
Employee termination costs	6.5	–	–	(3.5)	–	3.0	–	–	(3.0)	–	–	–	6.5	(2.6)	–	3.9
Other restructuring costs	6.1	–	–	(6.1)	–	–	–	–	–	–	–	–	–	–	–	–
Energy	5.3	–	–	(5.3)	–	–	4.9	–	–	–	4.9	2.8	8.3	(4.8)	(0.3)	10.9
Employee termination costs	5.3	–	–	(5.3)	–	–	4.9	–	–	–	4.9	2.2	5.2	(4.7)	(0.3)	7.3
Other restructuring costs	–	–	–	–	–	–	–	–	–	–	–	0.6	3.1	(0.1)	–	3.6
Waste Management	4.1	–	–	(2.5)	–	1.6	–	7.3	(1.1)	–	7.8	(0.4)	0.9	(0.3)	–	8.0
Employee termination costs	4.1	–	–	(2.5)	–	1.6	–	0.6	(1.1)	–	1.1	(0.4)	0.1	(0.3)	–	0.5
Other restructuring costs	–	–	–	–	–	–	–	6.7	–	–	6.7	–	0.8	–	–	7.5
Transportation	0.9	–	0.4	(0.3)	–	1.0	–	0.8	(1.0)	–	0.8	–	0.2	(0.8)	–	0.2
Other restructuring costs	0.9	–	0.4	(0.3)	–	1.0	–	0.8	(1.0)	–	0.8	–	0.2	(0.8)	–	0.2
Total	126.7	17.2	0.4	(60.1)	–	84.2	25.7	26.8	(59.0)	–	77.7	(14.3)	41.4	(38.7)	(0.3)	65.8

Over the past few years, the Group has engaged in several plans to restructure its activities, especially to rationalize its regional organization. In 1997, the Group implemented a three-year restructuring plan associated with its water businesses in France. This plan resulted in the closure of approximately 20 regional agencies and 200 local units and was completed in 2000.

The Group acquired United States Filter Corporation in April 1999 and performed several actions to merge it with its existing water operations, most of which did not impact the income statement since they were recorded as a component of the purchase price of acquired companies.

Onyx as part of a program to reduce its overhead costs has implemented a reorganization of its IT services, the total cost of which is €7.3 million. Over the course of 2002, employee termination costs of €0.3 million were utilized, other restructuring costs of €6.7 million are anticipated to be utilized over the course of 2003.

Water

Concurrently with the acquisition of United States Filter Corporation, the Group designed and implemented a restructuring plan to streamline its manufacturing and production base, redesign its distribution network, improve its efficiency and enhance its competitiveness. Immediately after the consummation of the transaction, the Group established an Integration Committee consisting of various representatives from Générale des Eaux and United States Filter Corporation. By the end of May 1999, the working groups defined by the Integration Committee were formed and their objectives assigned. In mid-September 1999, the plans and recommendations of the Integration Committee were presented to the Group's management for approval. On September 20, 1999, the new organization and integration plan was communicated to senior management of Vivendi Water at a meeting in Berlin, Germany. From September 1999 through March 2000 the termination and relocation arrangements were communicated to impacted employees of United States Filter Corporation.

The restructuring plan focused on two primary activities: (i) the combination of certain United States Filter Corporation operating groups outside the United States with OTV and (ii) the combination and restructuring of the remaining United States Filter Corporation entities (primarily in North America) with the operations of PSG, a subsidiary of Aqua Alliance. These restructuring plans identified certain manufacturing facilities, distribution sites, sales and administrative offices and related assets that became redundant or non-strategic upon consummation of the transaction. The costs associated with these plans totaled €109.3 million, of which €63.3 million related to the combination with OTV and €46.0 million related to the North American combination. These costs are reflected in "Purchase accounting adjustments" and were included in the acquisition cost allocation for United States Filter Corporation (including USF International).

United States Filter Corporation International was combined with OTV to create Vivendi Water Systems. This combination was achieved through several restructuring plans, the most significant of which was the restructuring of USFI Benelux. The plan involved the closure or sale of three facilities and the significant down-sizing of a fourth, costs totaled €37.6 million, of which €29.0 million was for severance costs and other associated costs of €8.6 million, principally for lease terminations. This plan extended until the beginning of 2002 due to the significant legal constraints, which required long termination periods. No employee had been terminated as of December 31, 2000, in 2001, 17 employees were terminated including 8 executives for a total cost of €12.8 million. In 2002, the restructuring plan was completed with the exception of lease termination costs of €1.3 million, the plan was completed with the disposal of the Hubert subsidiary, and the termination of 40 employees for a total cost of €7.3 million. Plans relating to other locations involved severance costs of €9.6 million in 1999 in connection with the termination of 81 employees and €3.5 million in 2000 in connection with the termination of 36 employees. The remaining reserve of €3.0 million was utilized in 2001 with the termination of 5 senior executives included in a total of 30 terminated employees. Other restructuring costs include lease termination costs, relocation costs and other costs to exit facilities. Additions in 2000 were recorded as adjustments to the liabilities of USF International, and thus had no impact on the net income for the period. These amounts are reflected in "purchase accounting adjustments."

In 2002, as part of its plan to focus on profitable activities, Vivendi Water Systems implemented restructuring plans in the UK, Germany, the Netherlands and Turkey. These plans call for the closure of two facilities and the significant down-sizing of four additional facilities, these restructuring plans will be completed in 2003. Total severance costs under the plan are €6.5 million, for the termination of a total of 146 employees of whom 46 are executives. Over the course of 2002, 78 employees were terminated of whom 31 were executives for a total of €2.6 million.

The North American restructuring plan had total costs of €46 million, originally consisting of €9.1 million in severance and employee termination costs related to a reduction in the combined workforce of 443 employees (66 management employees, 111 administrative employees, 234 manufacturing employees and 32 sales employees). The restructuring plan also included €36.9 million of facility exit costs, consisting of lease termination costs of €19.9 million and other related charges of €17.0 million (primarily pension termination accruals). The restructuring plan involved the closure of four manufacturing facilities in United States Filter Corporation's water and wastewater group. Within United States Filter Corporation's consumer group, the plan identified the closure of one manufacturing facility, one distribution facility and numerous company-owned dealerships. In addition, the plan identified two additional manufacturing sites and several distribution centers for the remaining United States Filter Corporation operating groups. As of December 31, 1999, a total accrual of €33.9 million remained. In addition, PSG was combined with United States Filter Corporation on January 1, 2000, and, as a result, €12.9 million of preexisting PSG accruals were added to the North American restructuring plan. The €12.9 million addition was recorded by PSG in 1999, and was included in the accompanying statement of income for the year ended December 31, 1999. This reserve is reflected in the addition for United States Filter Corporation in 1999.

During January 2000, additional accrued liabilities of €10.8 million were recorded to complete the North American restructuring plan, including €3.6 million of lease termination costs and €7.2 million of other related charges. During 2000, the Group incurred costs of €16.6 million in connection with the plan, including €6.1 million in severance payments in connection with the termination of approximately 250 employees. During 2001, the Group incurred costs of €23.5 million, including €1.3 million in severance payments in connection with the termination of approximately 52 employees. As of December 31, 2002, €12.2 million remained, consisting primarily of lease terminations with extended payment terms and pension termination benefits that will be paid to participants upon settlement of the related plans. Additions through "purchase accounting adjustments" in 2000 result from the revision of the calculation of liabilities recorded as of December 31, 1999, which was performed in the first quarter of 2000. The Group did not identify new actions to be taken that would result in additional liabilities.

In addition to these plans related to acquired companies, the Group implemented restructuring measures in its historical subsidiaries. The Group's 1999 income statement includes a €11 million provision, consisting of €6 million in connection with the closing of Aqua Alliance's headquarters and €5 million in connection with the consolidation of facilities in subsidiaries of OTV. These costs, which were related to lease terminations and asset disposals, were incurred in 2000.

Due to the economic decline in North America during 2001, United States Filter Corporation initiated a restructuring program to reduce headcount and consolidate its manufacturing capacity. Under this restructuring plan, costs of €18.7 million were recorded. The plan identified 696 employees for termination, of which 264 are professionals. Significant actions under the plan included the combination of 5 surface preparation regional headquarters into 2 service centers, the closure of 5 manufactory facilities, the closure of certain regeneration plants and the exit from the copper etchant recovery business. As of December 31, 2002, €6.8 million has been accrued to complete this restructuring plan.

In 2002, in response to the continued economic slowdown, United States Filter Corporation initiated restructuring activities primarily in its Consumer and Systems Groups as well as additions to its existing restructuring plans. The 2002 restructuring plans include the closure of 1 manufacturing facility, 4 distribution facilities as well as the combination of 3 sales facilities. Total severance costs of the plans are €15.3 million, covering the termination of 646 employees of whom 292 are professional. Other related costs total €9.6 million, including €7.5 million for lease termination costs. As of December 31, 2002, €14.8 million has been accrued to complete the 2002 restructuring plan.

With the entry of Apa Nova Bucuresti, the Group initiated a restructuring plan, the restructuring costs totaled €19.2 million, and are primarily for severance costs. This plans covers the termination of 1700 employees of whom 85 are professionals, at the end of 2001, 1,200 employees had been terminated for a total cost of €12.3 million. In 2002, no additional employees where terminated although anticipated in the plan for the third quarter of 2002, the plans completion was delayed by several months but are anticipated to be completed in 2003.

Energy

In 2001, with the entry of the ex-services division of EDF, Dalkia implemented several restructuring plans to integrate these companies within its existing operations. Restructuring costs amounted to €4.9 million and were completed in 2002, and principally covered the termination of 80 employees of whom 42 were professional. Since these restructuring costs were recorded as a component of the purchase price they have no effect on the income statement.

In 2002, Dalkia implemented restructuring plans to integrate recent acquisitions including SIRAM in Italy and for contracts won in 2001 and 2002, particularly the contracts for the cities of Tallinn and Vilnius in Eastern

Europe. These restructuring plans amount to a total of €7.3 million in termination costs for 596 employees of whom 6 are professional, other restructuring costs amount to €3.6 million.

Reconciliation to French GAAP disclosure

As of December 31, 2001 €57.9 million in accruals qualified as restructuring costs under French GAAP but not under U.S. GAAP (although they are U.S. GAAP-compliant under SFAS 5 as probable and estimable liabilities and would be classified as reserves for contingent liabilities). Because this is only a reclassification, there is no corresponding entry in Note 27D, for either in net income or in shareholders' equity. By the end of 2002, this amount had been reduced to €3.7 million.

As of December 31, 2001 €37.3 million of expenses, did not comply with the provisions of EITF 94-3 or SFAS 5, this amount appears as reconciling items in Note 27D as "Reserves for restructuring liabilities" item in shareholders' equity reconciliation. As of December 31, 2002 there no longer any reserves for restructuring liabilities which do not comply with EITF 94-3 or SFAS 5.

27J. OTHER FINANCIAL INSTRUMENTS

The significant components of the "other" financial instruments are as follows:

	Net Income			*Shareholders' Equity*		
	2002	*2001*	*2000*	*2002*	*2001*	*2000*
Variation of the fair value of the FCC put*	(3.1)	12.8	71.4	(3.4)	(0.3)	(13.1)
Marketable securities**	(11.5)	4.6	29.6	49.1	72.5	82.5
Derivative instruments and hedges***	(7.0)	(87.1)	—	(261.8)	(130.9)	—
Accrual of convertible bonds redemption premium	15.1	(15.1)	(30.2)	(30.2)	(45.3)	(30.2)
Convertible bonds beneficial conversion feature	—	—	(142.5)	—	—	—
Stock warrants issued	—	—	—	—	180.0	—
Others	(2.3)	0.3	0.1	2.4	3.6	(2.9)
Total	(8.8)	(84.5)	(71.6)	(243.9)	79.7	36.3

* Described in note 19.

** Vinci shares are trading securities.

*** Implementation of SFAS No. 133 "Accounting of derivative instruments and hedging activities".

These differences are described in note 27A.

SUBSCRIPTION AND SALE

SUMMARY OF DEALER AGREEMENT

Subject to the terms and on the conditions contained in an Amended and Restated Dealer Agreement dated [●], 2003 (as amended or supplemented as at the issue date, the "Dealer Agreement") between Veolia Environnement, the Permanent Dealers and the Arranger, the Notes will be offered on a continuous basis to the Permanent Dealers. Veolia Environnement has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Relevant Issuer through the Dealers, acting as agents of the Relevant Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

Veolia Environnement will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. Veolia Environnement has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant Pricing Supplement.

Veolia Environnement has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Relevant Issuer.

SELLING RESTRICTIONS

United States

The Notes and the Guarantees, if any, have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Bearer Notes having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver the Notes of any identifiable Tranche, (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Relevant Issuer, by the Fiscal Agent, or in the case of Notes issued on a syndicated basis, the Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period as defined in Regulation S (the "Distribution Compliance Period") a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Dealer has agreed that:

(i) **No offer to public:** in relation to Notes which have a maturity of one year or more, it has not offered or sold and, prior to the expiry of a period of six months from the issue date of the Notes, will not offer or sell any such Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing or investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended;

(ii) **Accepting Deposits in the United Kingdom:** in relation to any Notes which have a maturity of less than one year from their date of issue, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Issuer, the Guarantor or any Issuing Subsidiary;*

(iii) **Investments advertisements:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of such Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or any Issuing Subsidiary; and

(iv) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

France

Each of the Dealers, Veolia Environnement and the Issuing Subsidiaries (where applicable), acknowledges that the Notes are being, and shall be, issued outside the Republic of France and that it has not offered or sold or caused to be offered or sold and will not offer or sell or caused to be offered or sold, directly or indirectly, any Notes by way of a public offering in the Republic of France (an *appel public à l'épargne* as defined in Article L.411-1 of the French Code *monétaire et financier*) and that offers and sales of Notes will be made in the Republic of France in accordance with such Article L.411-1 *et seq.* and Decree no. 98-880 dated 1st October, 1998 relating to offers to a limited number of investors and/or qualified investors.

In addition, each of the Dealer, Veolia Environnement and the Issuing Subsidiaries (where applicable) has represented and agreed that it has not distributed or caused to be distributed and will not distribute or cause to be distributed in the Republic of France the Offering Circular or any other offering material relating to any Notes issued under the Programme other than to those investors to whom offers and sales of the Notes may be made as described above.

Investors in the Republic of France may only participate in the issue of Notes for their own account.

If necessary, these selling restrictions will be supplemented in the relevant Pricing Supplement.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law"). Accordingly, each of the Dealers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Securities and Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Netherlands:

Each Dealer has represented, warranted and agreed (and each further Dealer appointed under the Programme will be required to represent, warrant and agree) that is has not, directly or indirectly, offered, sold or transferred and that it will not, directly or indirectly, offer, sell or transfer in or from the Netherlands any Notes issued under the Programme (including rights representing an interest in a Note in global form) that are not and will not most likely be admitted to the official listing on the stock exchange of Euronext Amsterdam N.V., unless, in order to comply with The Netherlands Supervision of the Securities Trade Act *(Wet toezicht effectenverkeer 1995,* hereinafter the "Netherlands Securities Act"):

(a) such Notes have been or will most likely be admitted to the official listing on a stock exchange in another state which is a party to the Agreement relating to the Treaty on the European Economic Area ("EEA Member State") and, this Offering Circular has been approved by, and the applicable Pricing Supplement in respect of such Notes has been submitted to or approved by, the competent authority of that EEA Member State as referred to in Article 20 or Article 21 of EC Directive 89/298/EEC and the

* Any such Notes issued must have a minimum redemption amount of £100,000

Netherlands Authority for the Financial Markets ("*Autoriteit Financiële Markten*", hereinafter the "**AFM**") has confirmed the availability of mutual recognition in respect of such documents provided that the first issue of such Notes takes place no later than six months from the date of the approval by the competent authority of that EEA Member State; or

(b) this Offering Circular has been approved by, and the applicable Pricing Supplement in respect of such Notes has been submitted to or approved by, the competent authority of another EEA Member State as referred to in Article 20 or 21 of EC Directive 89/298/EEC in connection with a public offering of such Notes and the AFM has confirmed the availability of mutual recognition in respect of these documents provided that the first issue of such Notes takes place no later than six months from the date of the approval of the competent authority of that EEA Member State; or

(c) the Notes are part of a Series of Notes comprising only Notes with a denomination of at least EUR 50,000 or the equivalent in any other currency; or

(d) the Notes are only offered, sold or transferred, directly or indirectly, to individuals or legal entities, situated in or outside The Netherlands, who or which trade or invest in securities in the conduct of their profession or trade (which includes banks, investment banks, securities firms, insurance companies, pension funds, other institutional investors and treasury departments and finance companies of large enterprises), in which case it must be made clear upon making the offer and from any documents or advertisements in which a forthcoming offering of Notes is publicly announced that the offer is exclusively made to the said individuals or legal entities; or

(e) (for syndicated Tranches of Notes) the following criteria are met:

  (i) the Notes are subscribed for and placed by a syndicate of which at least two members are domiciled in different states which are part of the EEA;

  (ii) 60% or more of the issue is offered in one or more states other than The Netherlands; and

  (iii) investors may only acquire the Notes being offered through the intermediary of a bank or other financial institution;

  Provided that the offer or sale of such Notes has not been publicly promoted and shall not be publicly promoted by the relevant Dealer conducting a generalised advertising or coId-calling campaign within or outside The Netherlands; or

(f) any other exemption from the prohibition contained in article 3 paragraph 1 of the Netherlands Securities Act applies and the provisions of such exemption are fully complied with; or

(g) the AFM has, upon request, granted an (individual) dispensation from the above prohibition and the conditions attached to such dispensation are fully complied with.

In addition to the above, Zero Coupon Notes in definitive form or other Notes that qualify as savings certificates as defined in the Savings Certificates Act of 2lst May, 1985 *(Wet inzake Spaarbewijzen)* in definitive form may only be transferred and accepted through the mediation of either the Issuer or a member of Euronext Amsterdam N.V. in accordance with the Savings Certificates Act. Such restrictions do not apply (i) to a transfer and acceptance of Zero Coupon Notes in definitive form between individuals not acting in the conduct of a business or profession, (ii) to the transfer and acceptance of Zero Coupon Notes in definitive form within The Netherlands if all Zero Coupon Notes (either in definitive form or as rights representing an interest in the Zero Coupon Instruments in global form) are issued outside The Netherlands and are not distributed within The Netherlands in the course of initial distribution or immediately thereafter or (iii) to the initial issue of such Instruments to the first holders thereof. If the Savings Certificates Act is applicable, certain identification requirements in relation to the issue, transfer of or payment on the Zero Coupon Notes will have to be complied with. For the purposes of this paragraph "Zero Coupon Notes" are Notes that are in bearer form and that constitute a claim for a fixed sum against the Issuer and on which interest does not become due prior to maturity or on which no interest is due whatsoever.

General

These selling restrictions may be modified by the agreement of the Relevant Issuer and the Dealers following a change in a relevant law, regulation or directive and/or Supplemental to take account of any Issuing Subsidiary. Any such modification or supplement will be set out in the Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Offering Circular or any other offering material or any Pricing Supplement, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will comply with all relevant laws, regulations and directives in each jurisdiction in which it acquires, purchases, offers, sells or delivers Notes or has in its possession or distributes the Offering Circular, any other offering material or any Pricing Supplement and obtain any consent, approval or permission required for the purchase, offer or sale of Notes under the laws and regulations in force in any jurisdiction in which it makes such purchase, offer or sale none of Veolia Environnement, the Issuing Subsidiaries or any other Dealer shall have responsibility therefor.

FORM OF PRICING SUPPLEMENT

Pricing Supplement dated [●]

VEOLIA ENVIRONNEMENT

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the Euro 8,000,000,000 Euro Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Offering Circular dated [●]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.

Terms used herein shall be deemed to be defined as such for purposes of the Terms and Conditions, (the "Conditions") set forth in the Offering Circular dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date] [and the Supplemental Offering Circular dated [●]], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto.

The provisions relating to the Notes to be included in the form of Pricing Supplement that will be issued in respect of each Tranche, subject only to deletion of non-applicable provisions, are set out below:

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

1.	(i)	Relevant Issuer:	[Veolia Environnement]/[Issuing Subsidiary]
	(ii)	[Guarantor:	Veolia Environnement] [include brief details of the guarantee]
2.	[(i)]	Series Number:	[●]
	[(ii)	Tranche Number: (if fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]	[●]
3.	Specified Currency or Currencies:		[●]
4.	Aggregate Nominal Amount:		
	[(i)]	Series:	[●]
	[(ii)]	Tranche:	[●]]
5.	[(i)]	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*](*in the case of fungible issues only, if applicable*)]
	[[(ii)]	Net proceeds:	[●](*Required only for listed issues*)]
6.	Specified Denominations:		[●](1) [●]
7.	[(i)]	Issue Date:	[●]
	[(ii)	Interest Commencement Date:	[●]]
8.	Maturity Date:		[*specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]

(1) Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Relevant Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 and which have a maturity of less than one year from the date of their issue must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

9.	Interest Basis:	[[●] per cent. Fixed Rate] [[*specify reference rate*] +/– [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*specify*)] (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*specify*)]
11.	Change of Interest or Redemption/Payment Basis:	[*Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
12.	Put/Call Options:	[Put] [Call] [(further particulars specified below)]
13.	Status of the Notes:	[Senior][(1)]
14.	Listing:	[Luxembourg/Other (specify/None]
15.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	**Fixed Rate Note Provisions**	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
(i)	Rate [(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of Business Day*]/not adjusted]
(iii)	Fixed Coupon Amount [(s)]:	[●] per [●] in nominal amount
(iv)	Broken Amount:	[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate*]
(v)	Day Count Fraction (Condition 5(j)):	[30/360/Actual/Actual (ISMA/ISDA)/other] (*Day count fraction should be Actual-Actual-ISMA for all fixed rate issues other than those denominated in U.S. Dollars, unless agreed otherwise*)
(vi)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not applicable/give details]
(vii)	Determination Date(s) (Condition 5(j)):	[●] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Count Fraction is Actual/Actual (ISMA)*)
17.	**Floating Rate Provisions**	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph. Also consider whether EURO BBA LIBOR or EURIBOR is the appropriate reference rate for Notes denominated in Euro)*

(1) Add the following language if Board (or similar) authorisation is required for the particular tranche of Notes: "Date [Board] approval for issue of Notes obtained: [●]"

(i)	Interest Period(s):	[●]
(ii)	Specified Interest Payment Dates:	[●]
(iii)	Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
(iv)	Business Centre(s) (Condition 7(h)):	[●]
(v)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/ other (*give details*)]
(vi)	Interest Period Date(s):	[Not Applicable/*specify dates*]
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
(viii)	Screen Rate Determination (Condition 5(b)(iii)(B)):	
	– Relevant Time:	[●]
	– Interest Determination Date:	[[●] *[TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date*]]
	– Primary Source for Floating Rate:	[*Specify relevant screen page or* "Reference Banks"]
	– Reference Banks (if Primary Source is "Reference Banks"):	[*Specify four*]
	– Relevant Financial Centre:	[*The financial centre most closely connected to the Benchmark – specify if not London*]
	– Benchmark:	[*LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark*]
	– Representative Amount:	[*Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount*]
	– Effective Date:	[*Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period*]
	– Specified Duration:	[*Specify period for quotation if not duration of Interest Accrual Period*]
(ix)	ISDA Determination (Condition 5(b)(iii)(A)):	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
	– ISDA Definitions: (if different from those set out in the Conditions)	[●]
(x)	Margin(s):	[+/–] [●] per cent. per annum
(xi)	Minimum Rate of Interest:	[●] per cent. per annum
(xii)	Maximum Rate of Interest:	[●] per cent. per annum
(xiii)	Day Count Fraction (Condition 5(j)):	[●]

	(xiv)	Rate Multiplier:	[●]
	(xv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
18.	**Zero Coupon Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Amortization Yield (Condition 6(b)):	[●] per cent. per annum
	(ii)	Day Count Fraction (Condition 5(j)):	[●]
	(iii)	Any other formula/basis of determining amount payable:	[●]
19.	**Index Linked Interest Note Provisions**		[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i)	Index/Formula:	[*Give or annex details*]
	(ii)	Calculation Agent responsible for calculating the interest due:	[●]
	(iii)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[●]
	(iv)	Interest Period(s)	[●]
	(v)	Specified Interest Payment Dates:	[●]
	(vi)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(vii)	Business Centre(s) (Condition 7(h))):	[●]
	(viii)	Minimum Rate of Interest:	[●] per cent. per annum
	(ix)	Maximum Rate of Interest:	[●] per cent. per annum
	(x)	Day Count Fraction (Condition 5(j)):	[●]
20.	**Dual Currency Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate of Exchange/Method of calculating Rate of Exchange:	[*Give details*]
	(ii)	Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[●]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]
	(v)	Day Count Fraction (Condition 5(j)):	[●]

PROVISIONS RELATING TO REDEMPTION

21.	**Call Option**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Note of [●] specified denomination
	(iii)	If redeemable in part:	
		– Minimum nominal amount to be redeemed:	[●]
		– Maximum nominal amount to be redeemed:	[●]
	(iv)	Option Exercise Date(s):	[●]
	(v)	Description of any other Issuer's option:	[●]
	(vi)	Notice period (if other than as set out in the Conditions):	[●]
	(vii)	Notice period:[1]	[●]
22.	**Put Option**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Note of [●] specified denomination
	(iii)	Option Exercise Date(s):	[●]
	(iv)	Description of any other Noteholders' option:	[●]
	(v)	Notice period:[1]	[●]
23.	**Final Redemption Amount of each Note**		[[●] per Note of [●] specified denomination/ Other/See Appendix]
24.	**Early Redemption Amount**		
	(i)	Early Redemption Amount(s) of each Note payable on redemption for taxation reasons (Condition 6(c)) or an event of default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[●]
	(ii)	Redemption for taxation reasons permitted on days other than Interest Payment Dates (Condition 6(c)):	[Yes/No]
	(iii)	Unmatured Coupons to become void upon early redemption (Bearer Notes only) (Condition 7(f)):	[Yes/No/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25.	**Form of Notes:**		**Bearer Notes/Exchangeable Bearer Notes/ Registered Notes]** [Delete as appropriate]

(1) If setting notice periods which are different to those provided in the terms and conditions, consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example as between the Issuer and the Fiscal Agent.

	(i) Temporary or permanent global Note/ Certificate:	[temporary Global Note/Certificate exchangeable for a permanent Global Note/ Certificate which is exchangeable for Definitive Notes/Certificates on [●] days' notice/at any time/in the limited circumstances specified in the permanent Global Note/ Certificate] [temporary Global Note/Certificate exchangeable for Definitive Notes/Certificates on [●] days' notice] [permanent Global Note/Certificate exchangeable for Definitive Notes/Certificates on [●] days' notice/at any time/in the limited circumstances specified in the permanent Global Note/Certificate]
	(ii) Applicable TEFRA exemption:	[C Rules/D Rules/Not Applicable]
26.	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	[Not Applicable/Give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items 16(ii), 17(iv) and 19(iv) relate]]
27.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
28.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not applicable/*give details*]
29.	Details relating to Instalment Notes:	[Not applicable/*give details*]
	(i) Instalment Amount(s):	[●]
	(ii) Instalment Date(s):	[●]
	(iii) Minimum Instalment Amount:	[●]
	(iv) Maximum Instalment Amount:	[●]
30.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition [ ]] [annexed to this Pricing Supplement] apply]
31.	Consolidation provisions:	[Not Applicable/The provisions [in Condition [ ]] [annexed to this Pricing Supplement] apply]
32.	Other terms or special conditions:(1)	[Not Applicable/*give details*]

DISTRIBUTION

33.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilising Manager (if any):	[Not Applicable/*give name*]
	(iii) Dealer's Commission:	[●]
34.	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
35.	Additional selling restrictions:	[Not Applicable/*give details*]

(1) If full terms and conditions are to be used, please add the following here: "The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary." The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the pricing supplement.

OPERATIONAL INFORMATION

36.	ISIN Code:	[●]
37.	Common Code:	[●]
38.	Euroclear France to act as Central Depositary:	[Specify, if yes]
39.	Any clearing system(s) other than Euroclear, Clearstream, Luxembourg and Euroclear France and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
40.	Delivery:	Delivery [against/free of] payment
41.	The Agents appointed in respect of the Notes are:	[●]

GENERAL

42.	Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 11(a):	[Not applicable/*give details*]
43.	The aggregate principal amount of Notes issued has been translated into Euro at the rate of [●], producing a sum of (for Notes not denominated in Euro):	[Not applicable/Euro [●]]
44.	Governing law (Condition 15(a)):	The Notes are governed by English law [and the Guarantee is governed by French Law]

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the Euro 8,000,000,000 Euro Medium Term Note Programme of Veolia Environnement.]

[STABILISING

In connection with this issue, [insert name of Stabilising Manager] (the "Stabilising Agent") or any person acting for him may, in conformity with applicable laws and regulations, over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However there may be no obligation on the Stabilising Agent or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period.]

[MATERIAL ADVERSE CHANGE STATEMENT

[Except as disclosed in this document, there/There](1) has been no significant change in the financial or trading position of the Issuer or of the Group since [insert date of last audited accounts or interim accounts (if later)] and no material adverse change in the financial position or prospects of the Issuer or of the Group since [insert date of last published annual accounts.]]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement which, when read together with the Offering Circular contains all information that is material in the context of the issue of the Notes.

Signed on behalf of the Issuer:

By: ________________________

Duly authorised

(1) If any change is disclosed in the Pricing Supplement, it will require approval by the Stock Exchange(s). Consideration should be given as to whether or not such disclosure should be made by means of a supplemental Offering Circular rather than in a Pricing Supplement.

GENERAL INFORMATION

1 In connection with the application to list the Notes issued under the Programme on the Luxembourg Stock Exchange a legal notice relating to the issue of the Notes and copies of the constitutive documents of Veolia Environnement and, as the case may be, any Issuing Subsidiary will be deposited with the Register of Commerce and Companies in Luxembourg *(Registre du Commerce et des Sociétés de Luxembourg)* where such documents may be examined and copies obtained. The Luxembourg Stock Exchange has allocated the Programme the number 12598 for listing purposes.

2 Veolia Environnement has obtained all necessary consents, approvals and authorisations in the Republic of France in connection with the establishment of the Programme. Veolia Environnement will, by the Issue Date in respect of the issue of any Notes, have obtained all necessary consents, approvals and authorisation in the Republic of France in connection with the issue and performance of the Notes and, as the case may be, the issue and performance of any relevant Guarantee. The issue of Notes by Issuing Subsidiaries will be subject to an authorisation of the relevant governing body of such Issuing Subsidiaries and to any consents, approvals or authorisations in the jurisdiction of such Issuing Subsidiaries. Details of any such authorisation will be set out in the supplement to the Offering Circular issued in respect of such Issuing Subsidiaries.

3 Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of Veolia Environnement or of the Group since 31st December, 2002 and no material adverse change in the financial position or prospects of Veolia Environnement or of the Group since 31st December, 2002. The supplement to this Offering Circular issued in respect of each Issuing Subsidiary will contain this statement in relation to such Issuing Subsidiary.

4 Veolia Environnement is not involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Notes nor so far as Veolia Environnement is aware is any such litigation or arbitration pending or threatened. The supplement to this Offering Circular issued in respect of each Issuing Subsidiary will contain a statement to this effect in relation to such Issuing Subsidiary.

5 Each Bearer Note with a maturity of more than 12 months and each Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

6 Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Pricing Supplement.

7 For so long as Notes may be issued pursuant to this Offering Circular and for so long as Notes are listed on the Luxembourg Stock Exchange, the following documents (including English translations where applicable) will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection (and, in the case of the documents specified in sub-paragraphs (d), (e), (f), (g) and (h) can be obtained) at the registered office of Veolia Environnement and at the specified offices of the Fiscal Agent and the Paying Agent:

(a) the Agency Agreement (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons);

(b) the Dealer Agreement;

(c) the Deed of Covenant;

(d) the *Statuts* of the Veolia Environnement and the constitutive documents of the Issuing Subsidiary;

(e) the Guarantee of the Guarantor;

(f) the published annual report (and any future annual report) and audited consolidated and non-consolidated accounts, and the interim semi-annual unaudited accounts, of Veolia Environnement and any Issuing Subsidiary for the two financial years ended 31st December, 2001 and 31st December, 2002;

(g) each Pricing Supplement for Notes that are listed on the Luxembourg Stock Exchange or any other stock exchange and, in the case of issues by an Issuing Subsidiary, any Supplemental Offering Circular;

(h) a copy of this Offering Circular together with any supplement to this Offering Circular or further Offering Circular;

(i) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Offering Circular.

Any agreements entered into, or other documents provided, by any Issuing Subsidiary which require to be made available for public inspection, will be set out in the supplement to this Offering Circular issued in respect of such Issuing Subsidiary.

8 Though Veolia Environnement publishes both consolidated and non-consolidated accounts, the non-consolidated accounts do not provide significant additional information as compared to the consolidated accounts.

9 On 3 June 2003 the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from 1 January 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

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(48348) Printed by RR Donnelley Financial