VEOLIA ENVIRONNEMENT
Form 6-K
April 01, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of March 2010

Commission File Number: 001-15248

VEOLIA ENVIRONNEMENT
(Exact name of registrant as specified in its charter)

36-38, avenue Kléber
75116 Paris, France
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): _____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): _____

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

If "Yes" marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-__

PRESS RELEASE

Posting of consolidated financial statements at December 31, 2009

Paris, March 25, 2010. Veolia Environnement announces that it is posting today its consolidated financial statements at December 31, 2009 on the company's website (www.veolia-finance.com). These financial statements are no different to those disclosed on March 5, 2010. They include notes to the consolidated accounts, including Note 42 (post- balance sheet events) referring to the unwinding of common subsidiaries between Veolia Eau-Générale des Eaux and Lyonnaise des Eaux in water division and preliminary notifications of a tax reassessment (notices of proposed adjustments) by the United States Internal Revenue Service.

Veolia Environnement (Paris Euronext: VIE and NYSE: VE) is the worldwide reference in environmental services. With more than 310,000 employees the company has operations all around the world and provides tailored solutions to meet the needs of municipal and industrial customers in four complementary segments: water management, waste management, energy management and freight and passenger transportation. Veolia Environnement recorded revenue of €34.5 billion in 2009. www.veolia.com

The review of results by auditors is still in progress

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Press release also available on our web site: http://www.veolia-finance.com

Consolidated Financial Statements for the year ended December 31, 2009 DRAFT

Contents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - ASSETS	Notes	As of Decemb	
(€ million)		2009	2008
Goodwill	4	6,624.6	6,723.3
Concession intangible assets	5	3,624.8	3,637.7
Other intangible assets	6	1,437.8	1,535.2
Property, plant and equipment	7	9,382.4	9,427.1
Investments in associates	8	268.5	311.6
Non-consolidated investments	9	174.6	202.8
Non-current operating financial assets	10	5,275.2	5,298.9
Non-current derivative instruments - Assets	28	431.9	508.4
Other non-current financial assets	11	753.9	817.3
Deferred tax assets	12	1,621.3	1,579.5
Non-current assets		29,595.0	30,041.8
Inventories and work-in-progress	13	997.3	1,022.0
Operating receivables	13	12,247.5	13,093.2
Current operating financial assets	10	376.6	452.3
Other current financial assets	11	217.7	321.4
Current derivative instruments - Assets	28	45.6	142.8
Cash and cash equivalents	14	5,614.4	3,849.6
Assets classified as held for sale(1)	24	722.6	203.0
Current assets		20,221.7	19,084.3
Total assets		49,816.7	49,126.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - EQUITY AND LIABILITIES	Notes	As of Decemb	
(€ million)		2009	2008
Share capital		2,468.2	2,362.9
Additional paid-in capital		9,433.2	9,197.5
Reserves and retained earnings attributable to owners of the Company		(4,440.8)	(4,559.2
Total equity attributable to owners of the Company	15	7,460.6	7,001.2
Total equity attributable to non-controlling interests		2,670.1	2,530.5
Equity	15	10,130.7	9,531.7
Non-current provisions	16	2,291.1	2,160.2
Non-current borrowings	17	17,647.3	17,063.9
Non-current derivative instruments – Liabilities	28	139.3	159.9
Deferred tax liabilities	12	1,951.2	1,936.0
Non-current liabilities		22,028.9	21,320.0
Operating payables	13	13,075.7	13,591.8
Current provisions	16	749.2	773.1
Current borrowings	17	2,983.1	3,219.7
Current derivative instruments - Liabilities	28	84.8	125.9
Bank overdrafts and other cash position items	14	454.9	465.7
Liabilities directly associated with assets classified as held for sale	24	309.4	98.2
Current liabilities		17,657.1	18,274.4
Total equity and liabilities		49,816.7	49,126.1

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

CONSOLIDATED INCOME STATEMENT

(€ million)	Notes	Year ended December 31, 2009	2008 (2)	2007 (2)
Revenue	18	34,551.0	35,764.8	31,574.1
o/w Revenue from operating financial assets		394.4	397.9	342.1
Cost of sales		(28,786.2)	(30,013.4)	(25,710.4)(1)
Selling costs		(602.6)	(621.4)	(560.4)(1)
General and administrative expenses		(3,338.1)	(3,218.6)	(2,905.8)(1)
Other operating revenue and expenses		196.0	49.4	63.6
Operating income	19	2,020.1	1,960.8	2,461.1
Finance costs	20	(880.4)	(1,111.2)	(958.0)
Finance income	21	96.1	202.2	151.1
Other financial income and expenses	22	(110.3)	(39.2)	2.3
Income tax expense	22	(242.2)	(462.0)	(399.7)
Share of net income of associates	8 & 23	1.4	19.4	17.1
Net income from continuing operations		884.7	570.0	1,273.9
Net income from discontinued operations	24	(42.8)	139.2	(19.1)
Net income for the year		841.9	709.2	1,254.8
Non-controlling interests	25	257.8	304.1	326.9
Attributable to owners of the Company		584.1	405.1	927.9
(in euros)				
Net income attributable to owners of the Company per share(3)	26			
Diluted		1.24	0.87	2.11
Basic		1.24	0.88	2.13
Net income from continuing operations attributable to owners of the Company per share(3)	26			
Diluted		1.33	0.71	2.17
Basic		1.33	0.71	2.19

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

(1) In 2008, as part of ongoing efficiency measures, the Group reclassified certain expenses from cost of sales to selling costs and general and administrative expenses. These reclassifications had no impact on operating income (see Note 19 Operating income).

(2) In accordance with IFRS 5, Non-current assets held for sale and discontinued operations, the Income Statements of:

- the Clemessy and Crystal entities in the Energy Services Division, divested in December 2008;
- the entities of the U.S. incineration activity in Environmental Services (Montenay International) and Freight activities (essentially in France, Germany and the Netherlands) divested in the second half of 2009;

- Transportation activities in the United Kingdom and Renewable energy activities in the process of divestiture at the year end, are presented in a separate line, “Net income from discontinued operations,” for the years ended December 31, 2008 and 2007.

(3) Pursuant to IAS 33, the weighted average number of shares outstanding taken into account for the calculation of 2008 and 2007 net income per share was adjusted following the distribution of a scrip dividend in June 2009. The adjusted number of earning per share is therefore 462.2 million as of December 31, 2008 and 434.8 million as of December 31, 2007 (see Note 26).

As of December 31, 2009, the weighted average number of shares is 471.7 million (diluted and basic).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€ million)	Year ended December 31, 2009	2008	2007
Net income for the year	841.9	709.2	1,254.8
Actuarial gains or losses on pension obligations	(67.8)	(138.1)	114.4
Related income tax expense	14.3	34.1	(26.4)
Amount net of tax	(53.5)	(104.0)	88.0
Fair value adjustments on available-for-sale assets	(3.3)	(18.2)	33.8
Related income tax expense	(0.6)	(0.2)	(0.1)
Amount net of tax	(3.9)	(18.4)	33.7
Fair value adjustments on cash flow hedge derivatives	46.2	(112.8)	15.5
Related income tax expense	(5.8)	24.2	(6.7)
Amount net of tax	40.4	(88.6)	8.8
Foreign exchange gains and losses:			
- on the translation of the financial statements of subsidiaries drawn up in a foreign currency	65.2	(279.8)	(251.5)
Amount net of tax	65.2	(279.8)	(251.5)
- on the net financing of foreign operations	2.2	(31.8)	(6.5)
- related income tax expense	3.8	15.9	1.0
Amount net of tax	6.0	(15.9)	(5.5)
Other comprehensive income	54.2	(506.7)	(126.5)
Total comprehensive income for the year	896.1	202.5	1,128.3
- Attributable to owners of the Company	657.1	(84.4)	778.5
- Attributable to non-controlling interests	239.0	286.9	349.8

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

CONSOLIDATED CASH FLOW STATEMENT

(€ million)

	Notes	Year ended December 31, 2009	2008	2007
Net income for the year attributable to owners of the Company		584.1	405.1	927.9
Net income for the year attributable to non-controlling interests	25	257.8	304.1	326.9
Operating depreciation, amortization, provisions and impairment losses	19	2,230.4	2,301.6	1,816.7
Financial amortization and impairment losses		7.2	19.5	8.0
Gains/(losses) on disposal and dilution	19	(306.1)	(288.2)	(173.5)
Share of net income of associates	8	0.9	(18.5)	(16.9)
Dividends received	21	(8.7)	(8.4)	(8.8)
Finance costs and finance income	20	792	922.8	817.1
Income tax expense	22	311.9	470.9	420.1
Other items (including IFRS 2)		69.1	69.5	101.9
Operating cash flow before changes in working capital		3,938.6	4,178.4	4,219.4
Changes in working capital	13	432.1	(80.9)	(167.1)
Income taxes paid		(408.5)	(347.5)	(417.7)
Net cash from operating activities		3,962.2	3,750.0	3,634.6
Capital expenditure	41	(2,465.7)	(2,780.6)	(2,518.7)
Proceeds on disposal of intangible assets and property, plant and equipment		258.7	329.8	212.9
Purchases of investments		(187.0)	(800.7)	(1,835.4)
Proceeds on disposal of financial assets		582.3	361.1	181.7
Operating financial assets:		-	-	
New operating financial assets	10	(483.1)	(507.0)	(404.1)
Principal payments on operating financial assets	10	455.2	358.2	360.7
Dividends received	8 & 21	14.8	15.8	15.3
New non-current loans granted		(43.8)	(252.7)	(65.0)
Principal payments on non-current loans		65.8	30.0	61.6
Net decrease/(increase) in current loans		140.9	(89.0)	(27.4)
Net cash used in investing activities		(1,661.9)	(3,335.1)	(4,018.4)
Net increase/(decrease) in current borrowings	17	(1,323.9)	(1 437.0)	(1,534.5)
New non-current borrowings and other debt	17	3,301.2	3,590.2	2,060.4
Principal payments on non-current borrowings and other debt	17	(1,514.8)	(184.8)	(1,362.9)
Proceeds on issue of shares		157.1	51.0	3,039.2
Share capital reduction	15		(131.0)	-
(Purchases of)/proceeds from treasury shares (1)		4.9	3.2	18.9
Dividends paid(1)		(434.0)	(754.4)	(564.3)
Interest paid		(729.8)	(847.6)	(716.0)
Net cash from/(used in) financing activities		(539.3)	289.6	940.8
Net cash at the beginning of the year		3,383.9	2,656.2	2,202.0
Effect of foreign exchange rate changes and other		14.6	23.2	(102.8)

Net cash at the end of the year		5,159.5	3,383.9	2,656.2
Cash and cash equivalents	14	5,614.4	3,849.6	3,115.6
Bank overdrafts and other cash position items	14	454.9	465.7	459.4
Net cash at the end of the year		5,159.5	3,383.9	2,656.2

(1) See the Statement of Changes in Equity

Net cash flows attributable to discontinued operations as defined in IFRS 5 contributed -€31.1 million, +€37.8 million and +€55.1 million to net cash from operating activities, +€266.6 million, +€148.4 million and -€94.1 million to net cash from investing activities and -€5.7 million, -€26.3 million and -€26.9 million to net cash from financing activities in 2009, 2008 and 2007, respectively.

Discontinued operations are presented in Note 24.

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

STATEMENT OF CHANGES IN EQUITY

(€ million)	Number of shares outstanding	Share Capital	Additional paid-in capital	Treasury shares	Consolidated reserves and retained earnings	Foreign exchange translation reserves	Fair value reserves	Equity attributable to owners of the Company	Non-controlling interests	Total equity
As of January 1, 2007	412,626,550	2,063.1	6,641.2	(479.6)	(3,986.7)	144.6	(21.8)	4,360.8	2,192.6	6,553.4
Issues of share capital of the parent company	59,136,206	295.7	2,538.3	-	33.8	-	-	2,867.8	-	2,867.8
Elimination of treasury shares		-	-	18.9	(0.3)	-	-	18.6	-	18.6
Share purchase and subscription options		-	-	-	15.6	-	-	15.6	-	15.6
Third party share in share capital increases of subsidiaries and changes in consolidation scope		-	-	-	-	-	-	-	178.5	178.5
Parent company dividend distribution		-	-	-	(419.7)	-	-	(419.7)	-	(419.7)
Third party share in dividend distributions of subsidiaries		-	-	-	-	-	-	-	(144.6)	(144.6)
Foreign exchange translation		-	-	-	-	(264.3)	-	(264.3)	15.4	(248.9)
Fair value adjustments		-	-	-	-	(8.1)	47.1	39.0	(0.8)	38.2
		-	-	-	79.5	-	-	79.5	8.5	88.0

Actuarial gains or losses on pension obligations										
Net income for the year		-	-	-	927.9	-	-	927.9	326.9	1,254.8
Other changes		-	-	-	(17.3)	8.7	(3.7)	(12.3)	1.3	(11.0)
As of December 31, 2007	471,762,756	2,358.8	9,179.5	(460.7)	(3,367.2)	(119.1)	21.6	7,612.9	2,577.8	10,190.7
Issues of share capital of the parent company	813,910	4.1	17.9					22.0	-	22.0
Elimination of treasury shares				3.2	2.3			5.5	-	5.5
Share purchase and subscription options					5.5			5.5		5.5
Third party share in share capital increases of subsidiaries and changes in consolidation scope									(129.0)	(129.0)
Parent company dividend distribution					(553.5)			(553.5)		(553.5)
Third party share in dividend distributions of subsidiaries									(200.8)	(200.8)
Foreign exchange translation						(591.9)		(591.9)	(1.9)	(593.8)
Fair value adjustments						298.1	(101.6)	196.5	(10.5)	186.0
Actuarial gains or losses on pension					(94.8)			(94.8)	(9.2)	(104.0)

obligations										
Net income for the year					405.1			405.1	304 .1	709.2
Other changes					13.1	(20.0)	0.8	(6.1)		(6.1)
As of December 31, 2008	472,576,666	2,362.9	9,197.4	(457.5)	(3,589.5)	(432.9)	(79.2)	7,001.2	2,530.5	9,531.7

Page 9

(€ million)	Number of shares outstanding	Share Capital	Additional paid-in capital	Treasury shares	Consolidated reserves and retained earnings	Foreign exchange translation reserves	Fair value reserves	Equity attributable to owners of the Company	Non-controlling interests	Total equity
As of December 31, 2008	472,576,666	2,362.9	9,197.4	(457.5)	(3,589.5)	(432.9)	(79.2)	7,001.2	2,530.5	9,531.7
Issues of share capital of the parent company (1)	21,053,708	105.3	235.8					341.1		341.1
Elimination of treasury shares				4.9				4.9		4.9
Share purchase and subscription options					10.3			10.3		10.3
Third party share in share capital increases of subsidiaries									149.8	149.8
Third party share in changes in consolidation scope									(45.0)	(45.0)
Parent company dividend distribution					(553.8)			(553.8)		(553.8)
Third party share in dividend distributions of subsidiaries									(202.0)	(202.0)
Foreign exchange translation						82.4		82.4	(17.2)	65.2
Foreign investments						82.0		82.0	(0.1)	81.9
Actuarial gains or losses on pension obligations					(51.2)			(51.2)	(2.3)	(53.5)
Fair value adjustments on cash flow hedge derivatives						(75.9)	35.6	(40.3)	4.8	(35.5)
Fair value adjustments on							0.1	0.1	(4.0)	(3.9)

available-for-sale assets										
TOTAL other comprehensive income					(51.2)	88.5	35.7	73.0	(18.8)	54.2
Net income for the year					584.1			584.1	257.8	841.9
Other changes					(0.2)			(0.2)	(2.2)	(2.4)
As of December 31, 2009	493,630,374	2,468.2	9,433.2	(452.6)	(3,600.3)	(344.4)	(43.5)	7,460.6	2,670.1	10,130.7

The dividend distribution per share was €1.21 in 2009 and 2008 and €1.05 in 2007.

A dividend distribution of €1.21 per share is proposed to the Annual General Meeting of Shareholders of May 7, 2010.

The total dividend paid recorded in the Consolidated Cash Flow Statement for the year ended December 31, 2009 of €434 million includes:

(€ million)	
Dividend distribution by the parent company	(554)
Third party share in dividend distributions of subsidiaries	(202)
Scrip dividend (1)	322
Total dividend paid	(434)

(1) The lines “Proceeds on issue of shares” and “Dividends paid” in the Consolidated Cash Flow Statement are presented net of scrip dividends as such distributions do not generate cash flows.

1 Accounting principles and methods

1.1 Accounting standards framework

1.1.1 Basis underlying the preparation of the financial information

Pursuant to Regulation n°1606/2002 of July 19, 2002, as amended by European Regulation n°297/2008 of March 11, 2008, the consolidated financial statements for the year ended December 31, 2009 are presented in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union and IFRS as published by the International Accounting Standards Board (IASB). These standards may be consulted at the following European Union website: http://ec.europa.eu/internal_market/accounting/ias/index_fr. htm
These financial statements are accompanied, for comparative purposes, by financial statements for fiscal years 2008 and 2007 drawn up in accordance with the same standards framework.

Since fiscal year 2006, the Group has accounted for its concession business in accordance with the principles set out in IFRIC 12, Service Concession Arrangements, published by the IASB on November 30, 2006 and adopted by the European Union on March 26, 2009.

In the absence of IFRS standards or interpretations and in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Veolia Environnement uses other standard references and in particular U.S. standards.

1.1.2 Standards, standard amendments and interpretations applicable from fiscal year 2009

The accounting principles and valuation rules applied by the Group in preparing the consolidated financial statements for the year ended December 31, 2009 are identical to those applied by the Group as of December 31, 2008, with the exception of the following standards, standard amendments and interpretations which came into mandatory effect as of January 1, 2009 or July 1, 2009:

IFRS 8, Operating Segments
The impact of the implementation of this new standard is presented in Note 1.26 below.
IAS 1 Revised, Presentation of Financial Statements
Pursuant to the revised standard, the “Balance sheet” is now known as the “Consolidated Statement of Financial Position” and the changes resulting from transactions with owners of the Company acting in this capacity are presented separately from transactions with non-controlling interests in the Statement of Changes in Equity, which is now presented with the financial statements.
IFRIC 18, Transfers of assets from Customers
IFRIC 18, Transfers of Assets from Customers, is applicable from July 1, 2009 but was not adopted by the European Union until December 1, 2009. The interpretation is of prospective applicable and the Group did not elect for early adoption.
The interpretation covers situations where a customer transfers an asset to a supplier at the beginning of a contract, which the supplier must then use for the supply of goods or services. This interpretation also applies to cash transferred by a customer to finance the acquisition or construction of assets by the supplier to be used for the supply of goods or services. Contracts and services covered by the provisions of IFRIC 12 are specifically excluded from the scope of this interpretation.
Within the Group, this interpretation is likely to impact the Water and Energy Services Divisions. The Group has allocated the necessary resources to analyze the contracts signed since July 1, 2009, likely to fall within the

application scope of IFRIC 18.
IAS 23 Revised, Borrowing Costs
Amendments to IAS 32 and IAS 1, Financial Instruments – Presentation: puttable financial instruments and obligations arising on liquidation\
Amendments to IFRS 1 and IAS 27 relating to the cost of an investment on first-time adoption of IAS/IFRS
Amendment to IFRS 2, Share-based Payment – vesting conditions and cancellations
Amendments arising from the 2006-2008 annual improvement process, with the exception of the amendments to IFRS 5
Amendment to IFRS 7, Financial Instruments: Disclosures – Improvements to Financial Instrument Disclosures
Amendment to IAS 39 and IFRIC 9 relating to embedded derivatives
IFRIC 13, Customer Loyalty Programmes
IFRIC 15, Agreements for the Construction of Real Estate
IFRIC 16, Hedges of a Net Investment in a Foreign Operation

Implementation of these standards and interpretations did not have a material impact.

1.1.3 Texts which enter into mandatory effect after December 31, 2009 and which have not been adopted early

Veolia Environnement has not elected for early adoption of the following standards, standard amendments and interpretations published as of December 31, 2009 (adopted or in the course of being adopted by the European Union):

IFRS 3 Revised, Business Combinations
Amendment to IAS 27, Consolidated and Separate Financial Statements

The application of IFRS 3 Revised and IAS 27 Revised is likely to have a material impact on future business combinations or transactions with non-controlling interests.

Amendments resulting from the 2007-2009 annual improvement process (not adopted by the European Union).

Pursuant to the new amendment specifying the conditions for implementing IAS 7, the Group will eliminate the replacement costs detailed in Note 19, Operating income, from "Net cash from operating activities" in the Consolidated Cash Flow Statement, from January 1, 2010.

Consequently, when adjusting "Net income attributable to owners of the Company" to obtain "Net cash from operating activities", replacement costs will no longer be eliminated under "Operating depreciation, amortization, provisions and impairment losses." This amendment has no impact on net income or equity.

Amendments to IAS 28 and IAS 31 subsequent to IFRS 3 revised
IAS 24 Revised, Related Party Disclosures (not adopted by the European Union)
Amendment to IAS 32, Financial Instruments: Disclosures: Classification of rights issues
Amendment to IAS 39, Financial Instruments: Recognition and Measurement: Eligible Hedged Items
Amendment to IFRS 2, Share-based Payment - Group cash-settled share-based payment transactions, (not adopted by the European Union)
Amendment to IFRS 5 resulting from the 2006-2008 annual improvement process
IFRIC 17, Distribution of Non-cash Assets to Owners
IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (not adopted by the European Union)
Amendment to IFRIC 14, Prepayments of a Minimum Funding Requirement (not adopted by the European Union)
IFRS 9, Financial Instruments, Classification and Measurement (not adopted by the European Union)

Subject to their definitive adoption by the European Union, these standards, standard amendments and interpretations are of mandatory application from July 1, 2009 or later, that is from January 1, 2010 or later for the Group. The Group is currently assessing the potential impact of the first-time application of these new texts.

1.2 General principles underlying the preparation of the financial statements

The accounting methods presented below have been applied consistently for all periods presented in the consolidated financial statements.

The consolidated financial statements are presented on the basis of historical cost, with the exception of assets and liabilities recognized at fair value: derivatives, financial instruments held for trading, financial instruments designated at fair value and available-for-sale financial instruments (in accordance with IAS 32 and IAS 39).

The Veolia Environnement consolidated financial statements for the year ended December 31, 2009 were adopted by the Board of Directors on March 24, 2010 and will be presented for approval to the Annual General Meeting of Shareholders on May 7, 2010.

1.3 Basis of presentation as of December 31, 2009

The consolidated financial statements are presented in millions of euro, unless stated otherwise.

The consolidated financial statements comprise the financial statements of Veolia Environnement SA and its subsidiaries. The financial statements of subsidiaries are drawn up for the same reference period as those of the parent company, from January 1, to December 31, 2009, in accordance with uniform accounting policies and methods.

All inter-company balances and transactions, together with all income and expense items and unrealized gains and losses included in the net carrying amount of assets, resulting from internal transactions, are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, which is the date on which the Group obtains control, up to the date on which it ceases to exercise control.

Non-controlling interests represent the part of net income or loss and of net assets not held by the Group. They are presented in the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income and in equity in the Consolidated Statement of Financial Position, separately from equity attributable to the owners of the Company.

1.4 Principles of Consolidation

Veolia Environnement fully consolidates all entities over which it exercises control. Control is defined as the ability to govern, directly or indirectly, the financial and operating policies of an entity in order to obtain the benefit of its activities.

Pursuant to the provisions of IAS 28, Investments in Associates, Veolia Environnement accounts for associates using the equity method where it exercises significant influence over financial and operating policies. Significant influence is presumed to exist where the Group holds at least 20% of share capital or voting rights.

Companies over which Veolia Environnement exercises joint control as a result of a contractual agreement between partners are consolidated using the proportionate method in accordance with IAS 31, Interests in Joint Ventures.

Pursuant to SIC 12, Consolidation - Special Purpose Entities, special-purpose entities (SPEs) are consolidated when the substance of the relationship between the SPE and Veolia Environnement or its subsidiaries indicates that the SPE is controlled by Veolia Environnement. Control may arise through the predetermination of the activities of the SPE or through the fact that, in substance, the financial and operating policies are defined by Veolia Environnement or Veolia Environnement benefits from most of the economic advantages and/or assumes most of the economic risks related to the activity of the SPE.

Pursuant to IAS 27, Consolidated and Separate Financial Statements, potential voting rights available for exercise attached to financial instruments which, if exercised, would confer voting rights on Veolia Environnement and its subsidiaries, are taken into account where necessary in assessing the level of control or significant influence exercised.

1.5 Translation of foreign subsidiaries' financial statements

Balance sheets, income statements and cash flow statements of subsidiaries whose functional currency is different from the presentation currency of the Group are translated into the presentation currency at the applicable rate of exchange (i.e. the year-end rate for balance sheet items and the average annual rate for income statement and cash flow items). Foreign exchange translation gains and losses are recorded in other comprehensive income in equity. The exchange rates of the major currencies of non-euro countries used in the preparation of the consolidated financial statements were as follows:

Year end exchange rate (one foreign currency unit = €xx)	As of December 31, 2009	As of December 31, 2008	As of December 31, 2007
U.S. Dollar	0.6942	0.7185	0.6793
Pound Sterling	1.1260	1.0499	1.3636
Czech Crown	0.0378	0.0372	0.0376

Average annual exchange rate (one foreign currency unit = €xx)	Average annual rate 2009	Average annual rate 2008	Average annual rate 2007
U.S. Dollar	0.7177	0.6782	0.7248
Pound Sterling	1.1222	1.2433	1.4550
Czech Crown	0.0378	0.0399	0.0361

1.6 Foreign currency transactions

Foreign currency transactions are translated into euro at the exchange rate prevailing at the transaction date. At the year end, foreign currency-denominated monetary assets and liabilities are remeasured in euro at year-end exchange rates. The resulting foreign exchange gains and losses are recorded in net income for the period.

Loans to a foreign subsidiary the settlement of which is neither planned nor probable in the foreseeable future represent, in substance, a portion of the Group's net investment in this foreign operation. Foreign exchange gains and losses on monetary items forming part of a net investment are recognized directly in other comprehensive income in foreign exchange translation adjustments and are released to income on the disposal of the net investment. The impact on the Veolia Environnement financial statements is not material.

Exchange gains and losses on foreign currency-denominated borrowings or on currency derivatives that qualify as hedges of a net investment in a foreign operation, are recognized directly in other comprehensive income as foreign exchange translation adjustments. Amounts recognized in other comprehensive income are released to income on the sale date of the relevant investment.

Foreign currency-denominated non-monetary assets and liabilities recognized at historical cost are translated using the exchange rate prevailing as of the transaction date. Foreign currency-denominated non-monetary assets and liabilities recognized at fair value are translated using the exchange rate prevailing as of the date the fair value is determined.

1.7 Property, plant and equipment

Property, plant and equipment are recorded at historical acquisition cost to the Group, less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are recorded by component, with each component depreciated over its useful life.

Useful lives are as follows:

	Range of useful lives in number of years *
Buildings	20 to 50
Technical systems	7 to 24
Vehicles	3 to 25
Other plant and equipment	3 to 12

*The range of useful lives is due to the diversity of property, plant and equipment concerned

Borrowing costs attributable to the acquisition or construction of identified installations, incurred during the construction period, are included in the cost of those assets in accordance with IAS 23, Borrowing costs.

A finance lease contract is a contract that transfers to the Group substantially all the risks and rewards related to the ownership of an asset.

Pursuant to IAS 17, Leases, assets financed by finance lease are initially recorded in property, plant and equipment at the lower of fair value and the present value of future minimum lease payments. Subsequently, these assets are recognized at the lower of the present value of minimum lease payments less accumulated depreciation and any accumulated impairment losses, and market value, and depreciated over the shorter of the lease term and the expected useful life of the assets, unless it is reasonably certain that the asset will become the property of the lessee at the end of the contract.

Given the nature of the Group's businesses, the subsidiaries do not own investment property in the normal course of their operations.

1.8 Government grants

1.8.1 Investment grants for property, plant and equipment

In accordance with the option offered by IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, investment grants are deducted from the gross carrying amount of property, plant and equipment to which they relate.

They are recognized as a reduction in the depreciation charge over the useful life of the depreciable asset.

When the construction of an asset covers more than one period, the portion of the grant not yet used is recorded in “Other liabilities” in the Consolidated Statement of Financial Position.

1.8.2 Grants relating to concession arrangements

Grants received in respect of concession arrangements (see Note 1.21 for further details) are generally definitively earned and, therefore, are not repayable.

In accordance with the option offered by IAS 20, these grants are presented as a deduction from intangible assets or financial assets depending on the applicable model following an analysis of each concession arrangement (IFRIC 12). Under the intangible asset model, the grant reduces the amortization charge in respect of the concession intangible asset over the residual term of the concession arrangement.

Under the financial asset model, investment grants are equated to a means of repaying the operating financial asset.

1.8.3 Operating grants

Operating grants concern, by definition, operating items.

Where operating grants are intended to offset costs incurred, they are recognized as a deduction from the cost of goods sold over the period that matches them with related costs.

Where operating grants represent additional contractual remuneration of a recurring nature, such as contributions or compensation for inadequate revenue provided under certain public service delegation contracts, they are recognized in revenue.

1.9 Intangible assets excluding goodwill

Intangible assets are identifiable non-monetary assets without physical substance. They are recorded at acquisition cost less accumulated amortization and any accumulated impairment losses.

Intangible assets mainly consist of certain assets recognized in respect of concession arrangements (IFRIC 12), entry fees paid to local authorities for public service contracts, the value of contracts acquired through business combinations, patents, licenses, software and operating rights.

1.10 Business combinations and goodwill

Business combinations are recorded in accordance with the purchase accounting method as set out in IFRS 3. Under this method, assets acquired and liabilities and contingent liabilities assumed are recorded at fair value.

Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities and contingent liabilities assumed, if any. It is valued in the functional currency and recognized in assets in the Consolidated Statement of Financial Position.

Pursuant to IFRS, goodwill is not amortized but is subject to impairment tests performed annually or more frequently where there is evidence calling into question the net carrying amount.

Where the fair value of assets acquired and liabilities and contingent liabilities assumed, if any, exceeds the purchase price, “negative goodwill” is immediately recognized in net income.

Treatment of costs directly attributable to acquisitions incurred during 2009 and concerning acquisitions to be completed after January 1, 2010:

Costs directly attributable to business combinations incurred during 2009, and relating to acquisitions to be completed during fiscal year 2010, were expensed in net operating income for the year.

1.11 Impairment of intangible assets, property, plant and equipment and non-financial assets

The net carrying amount of non-financial assets, other than inventory and deferred tax assets, is reviewed at each period-end in order to assess the existence of any indication of loss in value. Where such indication exists, the recoverable amount of the asset (equal to the higher of fair value less costs to sell and value in use) is estimated.

The net carrying amount of an asset or group of assets is reduced to its recoverable amount (higher of the fair value less costs to sell and the value in use), where this is lower.

Impairment losses can be reversed, with the exception of those relating to goodwill.

Veolia Environnement performs systematic annual impairment tests in respect of goodwill and other intangible assets with an indefinite useful life following the preparation of a long-term plan, or more frequently where there is an indication of loss in value. Where an exceptional impairment must be recorded, it is deducted in priority from goodwill allocated to the cash-generating unit (CGU) and then, where applicable, pro rata to the net carrying amounts of the other assets of the CGU.

The value in use is determined by discounting the future cash flows expected to be derived from the asset, CGU or group of CGUs considered, taking into account, where appropriate, the residual value. Given the Group's activities, the cash-generating units generally represent a country in each Division. Future cash flows are taken for the first six years from the long-term plan validated by Executive Management. The main assumptions included in the calculation of the value in use of each cash-generating unit are the discount rate, changes in activity volumes, prices and direct costs (inflation) over the period and investments.

- Ø A discount rate (weighted average cost of capital) is determined for each asset, CGU or group of CGUs: it is equal to the risk-free rate plus a risk premium weighted for country-specific risks. The discount rates estimated by management for each cash-generating unit therefore reflect current market assessments of the time value of money and the country specific risks to which the cash-generating unit is exposed, with the other risks reflected in the expected future cash flows from the assets.
  - Ø Changes in volumes, prices and direct costs are based on past changes and expected future market trends.
- Ø The terminal value is calculated based on discounted forecast flows for the last year (2015). These flows include organic growth such as inflation.

As Water activities in China follow a specific economic model, with extremely long contract terms (up to fifty years) and high investment flows during the initial contract years, fiscal year 2015 may not be considered a standard year. Therefore, exceptionally, the business plan was extended to 2024 for the "Water–China" cash-generating unit, in order to identify standard flows for the calculation of the terminal value. The growth rate to perpetuity set out in Note 4 applies from this year.

1.12 Inventories

In accordance with IAS 2, Inventories, inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1.13 Assets classified as held for sale and liabilities directly associated with assets classified as held for sale, discontinued operations

IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, sets out the accounting treatment applicable to assets held for sale and presentation and disclosure requirements for discontinued operations.

The standard notably requires the separate presentation of assets held for sale in the Consolidated Statement of Financial Position at the lower of net carrying amount and fair value less costs to sell.

In addition, the standard requires the separate presentation in the income statement of the results of discontinued operations for all comparative periods on a retrospective basis.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and:
- represents a separate major line of business or geographical area of operations,
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or,
- is a subsidiary acquired exclusively with a view to resale.

Therefore, as of December 31, 2009, the results of operations sold or in the course of being sold in 2009 must also be adjusted in the comparative financial statements as of December 31, 2007 and 2008. The 2008 and 2007 comparative income statements therefore differ from those published previously.

The impact of these operations on cash flows from operating, investing and financing activities is presented at the foot of the Consolidated Cash Flow Statement for the year ended December 31, 2009 and comparative periods.

The 2008 and 2007 Consolidated Statements of Financial Position are unchanged.

1.14 Provisions

Pursuant to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, a provision is recorded when, at the year end, the Group has a current legal or implicit obligation to a third party as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated.

As part of its obligations under public services contracts, the Group generally assumes responsibility for the maintenance and repair of installations of the publicly-owned utility networks it manages. The resulting maintenance and repair costs are analyzed in accordance with IAS 37 on provisions and, where necessary, a provision for contractual commitments is recorded where there is outstanding work to be performed.

In the event of a restructuring, an obligation exists if, prior to the period end, the restructuring has been announced and a detailed plan produced or implementation has commenced. Future operating costs are not provided.

In the case of provisions for restoration of waste storage facilities, Veolia Environnement accounts for the obligation to restore a site as waste is deposited, recording a non-current asset component and taking into account inflation and the date on which expenses will be incurred (discounting). The asset is amortized based on its depletion.

Provisions giving rise to an outflow after more than one year are discounted if the impact is material. Discount rates reflect current assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recorded in the Consolidated Income Statement in "Other financial income and expenses".

1.15 Financial instruments

1.15.1 Financial assets and liabilities

Financial assets include assets classified as available-for-sale and held-to maturity, assets at fair value through the Consolidated Income Statement, asset derivative instruments, loans and receivables and cash and cash equivalents.

Financial liabilities include borrowings, other financing and bank overdrafts, liability derivative instruments and operating payables.

The recognition and measurement of financial assets and liabilities is governed by IAS 39.

1.15.2 Measurement, recognition and derecognition of financial assets

Financial assets are initially recognized at fair value including transaction costs, where the assets concerned are not subsequently measured at fair value through the Consolidated Income Statement. Where the assets are measured at fair value through the Consolidated Income Statement, transaction costs are expensed directly to net income.

The Group classifies financial assets in one of the four categories identified by IAS 39 on the acquisition date:

Held-to-maturity assets

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturities, other than loans and receivables, that the Group acquires with the positive intention and ability to hold to maturity. After initial recognition at fair value, held-to-maturity assets are recognized and measured at amortized cost using the effective interest method.

Held-to-maturity assets are reviewed for objective evidence of impairment. An impairment loss is recognized if the carrying amount of the financial asset exceeds the present value of future cash flows discounted at the initial EIR. The impairment loss is recognized in the Consolidated Income Statement.

Net gains and losses on held-to-maturity assets consist of interest income and impairment losses.

Available-for-sale assets

Available-for-sale assets mainly consist of non-consolidated investments and marketable securities that do not qualify for inclusion in other financial asset categories. They are measured at fair value, with fair value movements recognized directly in other comprehensive income, except where there is a material or long-term unrealized capital loss. This can arise when future cash flows decrease to such an extent that the fair value of these assets falls materially or long-term below the historical cost. Where this is the case, the impairment loss is recognized in the Consolidated Income Statement. Impairment reversals are recognized in the Consolidated Income Statement for debt securities only (receivables and bonds).

Amounts recognized in other comprehensive income are released to income on the sale of the relevant investment. Fair value is equal to market value in the case of quoted securities and an estimate of the fair value in the case of unquoted securities, determined based on financial criteria most appropriate to the specific situation of each security. Non-consolidated investments which are not quoted in an active market and for which the fair value cannot be measured reliably, are recorded as a last resort by the Group at historical cost less any accumulated impairment losses.

Net gains and losses on available-for-sale assets consist of interest income, dividends, impairment losses and capital gains and losses on disposal.

Loans and receivables

This category includes loans to non-consolidated investments, operating financial assets, other loans and receivables and trade receivables. After initial recognition at fair value, these instruments are recognized and measured at amortized cost using the effective interest method.

An impairment loss is recognized if, where there exists an indication of impairment, the carrying amount of these assets exceeds the present value of future cash flows discounted at the initial EIR. The impairment loss is recognized in the Consolidated Income Statement.

The impairment of trade receivables is calculated using two methods:

- a statistical method : this method is based on past losses and involves the application of a provision rate by category of aged receivables. The analysis is performed for a group of similar receivables, presenting similar credit characteristics as a result of belonging to a client category and country.
- an individual method: the probability and amount of the loss is assessed on an individual case basis in particular for non-State public debtors (past due period, other receivables or payables with the counterparty, rating issued by an external rating agency, geographical location).

Net gains and losses on loans and receivables consist of interest income and impairment losses.

Assets and liabilities at fair value through the Consolidated Income Statement

This category includes:

- trading assets and liabilities acquired by the Group for the purpose of selling them in the near term in order to realize a capital gain, which form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives not qualifying for hedge accounting are also considered trading assets and liabilities.

- assets designated at fair value and primarily the portfolio of cash UCITS whose performance and management is based on fair value.

Changes in the value of these assets are recognized in the Consolidated Income Statement.
Net gains and losses on assets at fair value through the Consolidated Income Statement consist of interest income, dividends and fair value adjustments.

Net gains and losses on derivatives entered into for trading purposes consist of flows exchanged and the change in the value of the instrument.

Derecognition of financial assets
The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the contractual rights to the cash flows from the financial asset in a transaction under which nearly all the rights and obligations inherent to ownership of the financial asset are transferred. Any interest created or retained by the Group in a financial asset is recognized separately as an asset or liability.

1.15.3 Cash and cash equivalents

Cash equivalents are held to meet short-term cash commitments. Cash and cash equivalents include all cash balances, deposits with a maturity of less than 3 months when initially recorded in the Consolidated Statement of Financial Position, monetary UCITS and negotiable debt instruments. These investments can be converted into cash or sold in the very short term and do not present any material risk of loss in value. Cash equivalents are designated as assets at fair value through the Consolidated Income Statement.

Bank overdrafts repayable on demand which form an integral part of the Group's cash management policy represent a component of cash and cash equivalents for the purposes of the cash flow statement.

1.15.4 Recognition and measurement of financial liabilities

With the exception of trading liabilities and liability derivative instruments which are measured at fair value, borrowings and other financial liabilities are recognized initially at fair value less transaction costs and subsequently measured at amortized cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the estimated term of the financial instrument or, where applicable, over a shorter period, to the net carrying amount of the financial asset or liability.

When the financial liability issued includes an embedded derivative which must be recognized separately, the amortized cost is calculated on the debt component only. The amortized cost at the acquisition date is equal to the proceeds from the issue less the fair value of the embedded derivative.

1.15.5 Non-controlling interest put options

Pursuant to IAS 27, non-controlling interests in fully consolidated subsidiaries are considered a component of equity.

Furthermore, in accordance with IAS 32, non-controlling interest put options are considered as liabilities.

Pending an IFRIC interpretation or a specific IFRS, the Group has adopted the following accounting treatment:

- the present value of purchase commitments is recorded in borrowings in the Consolidated Statement of Financial Position, through non-controlling interests and where necessary goodwill for the residual balance
- gains or losses resulting from the unwinding of the discount on the liability are recorded in finance costs and, when the put exercise price varies, changes in the value of the instrument resulting from changes in valuation assumptions concerning the commitment are recorded in borrowings through goodwill.

If the non-controlling interests have not been purchased on the expiry of the commitment, equity attributable to non-controlling interests is reconstituted through goodwill and the liability recognized in respect of the commitment (no longer necessary).

1.15.6 Recognition and measurement of derivative instruments

The Group uses various derivative instruments to manage its exposure to interest rate and foreign exchange risks resulting from its operating, financial and investment activities. Certain transactions performed in accordance with the

Group interest rate and foreign exchange risk management policy do not satisfy hedge accounting criteria and are recorded as trading instruments.

Derivative instruments are recognized in the Consolidated Statement of Financial Position at fair value. Other than the exceptions detailed below, changes in the fair value of derivative instruments are recorded through the Consolidated Income Statement. The fair value of derivatives is estimated using standard valuation models which take into account active market data.

Net gains and losses on instruments at fair value through the Consolidated Income Statement consist of flows exchanged and the change in the value of the instrument.

Derivative instruments may be designated as hedges under one of three types of hedging relationship: fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation:

Ø a fair value hedge is a hedge of exposure to changes in fair value of a recognized asset or liability, or an identified portion of such an asset or liability, that is attributable to a specific risk (notably interest rate or foreign exchange risk), and could affect net income for the period.

- a cash flow hedge is a hedge of exposure to variability in cash flows that is attributable to a specific risk associated with a recognized asset or liability or a highly probable forecast transaction (such as a planned purchase or sale) and could affect net income for the period.
- a hedge of a net investment in a foreign operation hedges the exposure to foreign exchange risk of the net assets of a foreign operation including loans considered part of the investment (IAS 21, The Effects of Changes in Foreign Exchange Rates).

An asset, liability, firm commitment, future cash-flow or net investment in a foreign operation qualifies for hedge accounting if:

- the hedging relationship is precisely defined and documented at the inception date;
- the effectiveness of the hedge is demonstrated at inception and by regular verification of the offsetting nature of movements in the market value of the hedging instrument and the hedged item. The ineffective portion of the hedge is systematically recognized in the Consolidated Income Statement.

The use of hedge accounting has the following consequences:

- in the case of fair value hedges of existing assets and liabilities, the hedged portion of these items is measured at fair value in the Consolidated Statement of Financial Position. The gain or loss on remeasurement is recognized in the Consolidated Income Statement, where it is offset against matching gains or losses arising on the fair value remeasurement of the hedging financial instrument, to the extent it is effective;
- in the case of cash flow hedges, the portion of the gain or loss on the fair value remeasurement of the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income, while the gain or loss on the fair value remeasurement of the underlying item is not recognized in the Consolidated Statement of Financial Position. The ineffective portion of the gain or loss on the hedging instrument is recognized in the Consolidated Income Statement. Gains or losses recognized in other comprehensive income are released to the Consolidated Income Statement in the same period or periods in which the asset acquired or liability issued impacts net income;
- in the case of net investment hedges, the effective portion of the gain or loss on the hedging instrument is recognized in translation reserves in other comprehensive income, while the ineffective portion is recognized in the Consolidated Income Statement. Gains and losses recognized in foreign exchange translation reserves are released to the Consolidated Income Statement when the foreign investment is sold.

1.15.7 Embedded derivatives

An embedded derivative is a component of a host contract that satisfies the definition of a derivative and whose economic characteristics are not closely related to that of the host contract. An embedded derivative must be separated from its host contract and accounted for as a derivative if, and only if, the following three conditions are satisfied:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- the embedded derivative satisfies the definition of a derivative laid down in IAS 39; and
- the hybrid instrument is not measured at fair value with changes in fair value recognized in the Consolidated Income Statement.

1.15.8 Treasury shares

Treasury shares are deducted from equity.

Gains or losses arising from the sale of treasury shares and related dividends are recognized directly in equity and do not impact the Consolidated Income Statement.

1.16 Pension plans and other post-employment benefits

Veolia Environnement and its subsidiaries have several pension plans.

Defined contribution plans: plans under which the Group (or a Group entity) pays an agreed contribution to a separate entity, relieving it of any liability for future payments.

These obligations are expensed in the Consolidated Income Statement when due.

Defined benefit plans: all plans which do not meet the definition of a defined contribution plan. The net obligations of each Group entity are calculated for each plan based on an estimate of the amount employees will receive in exchange for services rendered during the current and past periods. This amount is then discounted to present value and unamortized past service costs and the fair value of plan assets are deducted.

Where the calculation shows a plan surplus, the asset recognized represents the difference between the discounted present value of profits, in the form of future repayments or reductions in plan contributions, less the amount of unamortized past service costs. The plan surplus is recognized in non-current financial assets.

Certain obligations of the Group or Group entities may enjoy repayment entitlement, corresponding to a commitment by a third party to repay in full or in part the expenses relating to these obligations. Repayment entitlement is recognized in non-current financial assets.

Employee obligations of the Group are calculated using the projected unit credit method. This method is based on the probability of personnel remaining with companies in the Group until retirement, the foreseeable changes in future compensation, and the appropriate discount rate. Specific discount rates are adopted for each monetary zone. This results in the recognition of pension-related assets or provisions in the Consolidated Statement of Financial Position and the recognition of the related net expenses.

Pursuant to IAS 19 revised, Employee Benefits, actuarial gains and losses are offset against other comprehensive income and are not amortized in the Consolidated Income Statement.

1.17 Share-based payments

Pursuant to IFRS 2, Share-based Payment, an expense is recorded in respect of share purchase or subscription plans and other share-based compensation granted by the Group to its employees. The fair value of these plans on the grant date is expensed in the Consolidated Income Statement and recognized directly in equity in the period in which the benefit is vested and the service is rendered.

The fair value of purchase and subscription options is calculated using the Black and Scholes model, taking into account the expected life of the options, the risk-free interest rate, expected volatility, determined based on observed volatility in the past and dividends expected on the shares.

The compensation expense in respect of employee saving plans corresponds to the difference between the subscription price and the average share price at each subscription date, less a discount for non-transferability and to the Company's contribution to subscribers.

1.18 Revenue

Revenue represents sales of goods and services measured at the fair value of the counterparty received or receivable.

Revenue from the sale of goods or services is recognized when the following conditions are satisfied:

- Ø the amount of revenue can be measured reliably;
- Ø the significant risks and rewards of ownership of the goods have been transferred to the buyer;
- Ø the recovery of the counterparty is considered probable;
- Ø the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.18.1 Sales of goods

Sales of goods mainly concern the sale of technological procedures and solutions relating to the treatment of water (drinking water and wastewater treatment) in the Water Division and sales of products related to recycling activities in the Environmental Services Division.

Revenue relating to these sales is recognized on physical delivery of the goods, which represents the transfer of the inherent risks of ownership of these goods.

1.18.2 Sales of services

The provision of services represents the majority of Group businesses such as the processing of waste, water distribution and related services, network operation and passenger transport and energy services (heat distribution, thermal services and public lighting).

Revenue from these activities is recognized when the service is rendered and it is probable that the economic benefits will flow to Group entities.

These activities involve the performance of a service agreed contractually (nature, price) with a public sector or industrial customer, within a set period. Billing is therefore based on the waste tonnage processed/ incinerated, the volume of water distributed, the thermal power delivered or the number of passengers transported, multiplied by the contractually agreed price.

It should be noted that fees and taxes collected on behalf of local authorities are excluded from Revenue when the Group does not bear the risk of payment default by third parties.

1.18.3 Construction contracts (excluding service concession arrangements)

Construction contracts primarily concern the design and construction of the infrastructures necessary for water treatment/distribution and wastewater treatment activities.

The related revenue is recognized in accordance with IAS 11, Construction Contracts (see Note 1.23).

1.18.4 IFRIC 4 Contracts

Contracts falling within the scope of IFRIC 4, Determining Whether an Arrangement Contains a Lease (see Note 1.21), involve services generally rendered to industrial/private customers. All service components to which the parties have agreed are detailed in contracts such as BOT (Build Operate Transfer) contracts.

Services include the financing of the construction of a specific asset/installation on behalf of the customer and the operation of the asset concerned.

Revenue relating to the construction of the asset is recognized in accordance with the provisions of IAS 11 and the asset is recorded in operating financial assets. Revenue is recognized on a completion basis at each period end, based on actual and expected costs.

The financing of construction work involves finance costs that are invoiced to the customer and recognized in Revenue, under Revenue from operating financial assets. This interest is recognized in Revenue from the start of construction work and represents remuneration received by the builder/lender.

Revenue relating to the operation of the asset is recognized on delivery of the goods or performance of the service depending on the operating activity.

1.18.5 Concession arrangements (IFRIC 12)

See Note 1.21 on Service concession arrangements.

1.19 Financial items in the Consolidated Income Statement

Finance costs consist of interest payable on borrowings calculated using the amortized cost method and losses on interest rate derivatives, both qualifying and not qualifying as hedges.

Interest costs included in payments under lease finance contracts are recorded using the effective interest method.

Finance income consists of gains on interest rate derivatives, both qualifying and not qualifying as hedges and income from cash investments and equivalents.

Interest income is recognized in the Consolidated Income Statement when earned, using the effective interest method.

Other financial income and expenses primarily include income on financial receivables calculated using the effective interest method, dividends, foreign exchange gains and losses, impairment losses on financial assets and the unwinding of discounts on provisions.

1.20 Income taxes