Registration Document 2011
Annual financial report

VEOLIA ENVIRONNEMENT

This is a free translation into English of Veolia Environnement's *document de référence* (the "registration document"), filed by Veolia Environnement with the French Regulatory Authority (*Autorité des marchés financiers* (AMF)) on March 21, 2012 under number D.12-0192, and is provided solely for the convenience of English-speaking readers. This document does not include the annexes to the French version of the registration document.

Veolia Environnement's Annual Report on Form 20-F, filed with the US Securities and Exchange Commission on April 13, 2012, contains substantially all of the information set forth in this registration document and certain additional information not included herein.

Pursuant to article 28 of European Regulation n° 809/2004, the following information is incorporated by reference in this registration document: (i) the consolidated financial statements and the corporate financial statements for the 2010 fiscal year and the corresponding statutory auditor's report, included in chapter 20, paragraphs 20.1 and 20.2, respectively, of Veolia Environnement's reference document for the 2010 fiscal year, filed with the French Regulatory Authority (AMF) financiers on March 30, 2011 under number D.11-0200, and (ii) the consolidated financial statements and the corporate financial statements for the 2009 fiscal year and the corresponding statutory auditor's report, included in chapter 20, paragraphs 20.1 and 20.2, respectively, of Veolia Environnement's reference document for the 2009 fiscal year, filed with the French Regulatory Authority (AMF) on March 30, 2009 under number D.10-0190.

AMF

This registration document was filed with the French Regulatory Authority (AMF) on March 21, 2012, pursuant to Article 212-13 of its general regulations. This registration document may be used in connection with a financial transaction if supplemented by a *note d'opération* approved by the French Regulatory Authority (AMF). This document has been prepared by the issuer under the liability of the signatories.

Table of contents

1 Persons assuming responsibility for the registration document

1.1 Person assuming responsibility for information contained herein

Mr Antoine Frérot, Chairman and Chief Executive Officer of Veolia Environnement (hereafter, the « Company » or « Veolia Environnement »).

1.2 Certification

I certify, after having taken all reasonable measures to ensure the accuracy thereof, that the information contained in this registration document is, to my knowledge, true and does not omit any information that could make it misleading.

I certify that, to my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and provide an accurate view of the financial condition and results of operation of the Company and all of the companies within its scope of consolidation, and the management report contained in this document presents a faithful and accurate picture of the business, results and financial condition of the Company and the companies within its scope of consolidation, as well as the principal risks and uncertainties that they face.

I have obtained a letter *(letter de fin de travaux)* from the statutory auditors indicating that they have verified the information relating to the Company's financial condition and the financial statements included in this document and that they have read this document in its entirety.

Financial information presented in this registration document is the subject of the statutory auditors' report on page 487 which contains the following observation: *Without qualifying our opinion, we draw your attention to the note 1.1.5 of the consolidated financial statements which sets out the correction of error related to a series of accounting irregularities identified during the second quarter of the year and whose effects were apprehended in its accounts by your company in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors".*

The Chairman and Chief Executive Officer

Antoine Frérot

2 Persons responsible for auditing the financial statements

2.1 Principal statutory auditors

KPMG SA

Commissaire aux comptes (Statutory Auditor), Member of the *Compagnie régionale de Versailles*

A company represented by Messrs. Jay Nirsimloo and Baudouin Griton

1, Cours Valmy, 92923 Paris - La Défense Cedex.

Company appointed by the combined general shareholders' meeting of May 10, 2007 in replacement of Salustro Reydel, for a period of 6 fiscal years, expiring in 2013 at the end of the general shareholders' meeting called to approve the financial statements for the fiscal year ending December 31, 2012.

Ernst & Young et Autres

Commissaire aux comptes (Statutory Auditor), Member of the *Compagnie régionale de Versailles*

A company represented by Messrs. Pierre Hurstel and Nicolas Pfeuty

1-2, Place des Saisons - Paris - La Défense 1 - 92400 Courbevoie.

Company appointed on December 23, 1999, with a term that was renewed at the combined general shareholders' meeting held on May 17, 2011 for a period of 6 fiscal years, expiring in 2017 at the end of the general shareholders' meeting called to approve the financial statements for the fiscal year ending December 31, 2016.

2.2 Deputy statutory auditors

Mr Philippe Mathis

1, Cours Valmy, 92923 Paris - La Défense Cedex.

Appointed by the combined general shareholders' meeting of May 10, 2007 for a period of 6 fiscal years, expiring in 2013 at the end of the general shareholders' meeting called to approve the financial statements for the fiscal year ending December 31, 2012.

AUDITEX

1-2, Place des Saisons - Paris - La Défense 1 - 92400 Courbevoie.

Company appointed on December 23, 1999, with a term that was renewed at the combined general shareholders' meeting held on May 17, 2011 for a period of 6 fiscal years, expiring in 2017 at the end of the general shareholders' meeting called to approve the financial statements for the fiscal year ending December 31, 2016.

3 Selected financial information (1)

Selected Consolidated financial statement figures presented in accordance with IFRS

	As of and for the year ended December 31,		
(in € million)	**2011**	**2010 (i) (ii)**	**2009(i) (ii)**
Revenue	29,647.3	28,764.2	27,847.7
Operating cash flow before changes in working capital (v)	3,352.9	3,718.7	3,559.4
Operating income	1,017.2	1,982.1	1,788.9
Net income attributable to owners of the Company	(489.8)	558.5	559.0
Net income attributable to owners of the Company per share – Diluted *(in euros)*	(0.99)	1.16	1.18
Net income attributable to owners of the Company per share – Basic *(in euros)*	(0.99)	1.16	1.18
Dividends paid (iii)	586.8	579.5	553.8
Dividend per share paid during the fiscal year *(in euros)*	1.21	1.21	1.21
Total assets	50,405.6	51,427.3	49,754.7
Total current assets (iv)	21,948.5	20,371.9	20,196.2
Total non-current assets	28,457.1	31,055.4	29,558.5
Equity attributable to owners of the Company	7,069.7	7,875.9	7,397.4
Equity attributable to non-controlling interests	2,765.4	2,928.5	2,670.1
Adjusted operating cash flow (v)	3,152.3	3,314.6	3,155.9
Adjusted operating income	1,700.5	1,891.4	1,695.8
Adjusted net income attributable to owners of the Company	289.8	474.0	452.2
Net financial debt	14,729.9	15,218.0	15,127.7

(i) In accordance with IFRS 5, Non-current assets held for sale and discontinued operations, the Income Statements of:
- *the entire Transportation business, in the course of divestiture;*
- *Water activities in the Netherlands, divested in December 2010 and Environmental Services activities in Norway, divested in March 2011;*
- *German operations in the Energy Services Division, partially divested in May 2011;*
- *household assistance services (Proxiserve) held jointly by the Water and Energy Services Divisions, divested in December 2011;*
- *urban lighting activities (Citelum) in the Energy Services Division;*

are presented in a separate line, Net income from discontinued operations, for the years ended December 31, 2011, 2010 and 2009. Furthermore, as the divestiture process for Water activities in Gabon and Pinellas incineration activities in the United States was interrupted in the first and second halves of 2011 respectively, these activities are no longer presented in Net income from discontinued operations.

(ii) Amounts as of December 31, 2010 and December 31, 2009 restated pursuant to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

(iii) Dividends paid by the Company.

(iv) Including assets classified as held for sale of €3,256.5 million as of December 31, 2011, €805.6 million as of December 31, 2010 and €722.6 million as of December 31, 2009.

(v) Operating cash flow before changes in working capital, as presented in the Cash Flow Statement, is comprised of three components: adjusted operating cash flow consisting of operating income and expenses received and paid ("cash"), operating cash flow from financing activities including cash financial items relating to other financial income and expenses, and operating cash flow from discontinued operations comprised of cash operating and financial income and expense items classified in net income from discontinued operations pursuant to IFRS 5. Pursuant to the new amendment specifying the conditions for implementing IAS 7 from January 1, 2010, the 2009 adjusted operating cash flow was re-presented for replacement costs of €360.9 million.

(1) Definitions of the non-GAAP indicators appearing in the table are presented in Chapter 9, Section 9.7.2 below.

4 Risk factors

The Veolia Environnement Group's position as a major player in the Environmental sector and the diversity of its activities and establishments exposes it to a variety of risks: human, financial, industrial and commercial (see Section 4.1 below). The global economic crisis of 2011, and especially the credit crisis in the Eurozone, influenced the Company's risk profile by intensifying some of its risks (counterparty risks, liquidity risks, customer failure, etc.).

The Group deals with these risks by deploying a risk management process (see Section 4.2 below) as well as through audit and internal control (see Section 4.3 below). Special attention is also given to compliance with a certain set of ethics within the Group (see Section 4.4 below).

The risks presented below are the main risks identified as significant, relevant and able to negatively impact the Group's operations and financial position as at the date of filing of this registration document with the French Financial Markets Authority. However, other risks not presented or as yet unidentified could impact the Group, its financial position, reputation, outlook or the Company’s share price.

- Risks relating to the business environment in which the Group operates (see Section 4.1.1 below):
  - Market risks (see Section 4.1.1.1 below),
  - Risks relating to regulatory changes regarding health, environment, hygiene and safety (see Section 4.1.1.2 below),
  - Risks relating to climatic uncertainty (see Section 4.1.1.3 below),
  - Country risks (see Section 4.1.1.4 below).
- Risks relating to conducting the Group's businesses (see Section 4.1.2 below):
  - Financial risks and risks relating to changes in the Group’s activities (see Section 4.1.2.1 below),
  - Risks relating to changes in the Company’s markets (see Section 4.1.2.2 below),
  - Risks arising from human resource management (see Section 4.1.2.3 below),
  - Operational risks (see Section 4.1.2.4 below),
  - Legal, contractual and commercial risks (see Section 4.1.2.5 below),
  - Risks relating to information system security (see Section 4.1.2.6 below).

4.1 Risks relating to the issuer

4.1.1 Risks relating to the business environment in which the Group operates

4.1.1.1 Market risks

Interest rate risk and exchange risk

In the course of its operational and financial activities, the Group is exposed to market risks. Fluctuations in interest rates and exchange risk could have an impact on the Group's results.

Veolia Environnement holds assets, earns income and incurs expenses and liabilities in a variety of currencies. The Group's financial statements are presented in euros. Accordingly, when it prepares its financial statements, the Group must translate its foreign currency-denominated assets, liabilities, income and expense items into euros at applicable exchange rates. Consequently, fluctuations in the exchange rate of the euro against these other currencies can affect the value of these items in the financial statements, even if their intrinsic value is unchanged in the original currency. For example, an increase in the value of the euro may result in a decrease in the reported value, in euro, of the Company's investments held in foreign currencies.

These fluctuations in interest rates may also affect the Company's future growth and investment strategy since a rise in interest rates may force Veolia Environnement to finance acquisitions or investments or refinance existing debt at a higher cost in the future.

At the end of 2011, net financial debt amounted to €14,729.9 million, with 29% denominated at floating rates and 71% at fixed rates (see Chapter 20, Section 20.1, Note 29.1.1 to the consolidated financial statements below).

For information on the management of interest rate and exchange risks, please refer to Section 4.2.2.1.1 below as well as Chapter 20, Section 20.1, Notes 29.1.1 and 29.1.2 to the consolidated financial statements below.

Counterparty risk

The Group's activities expose it to the risks of failure of its counterparties (customers, suppliers, partners, intermediaries, banks).

Counterparty risk is the risk that an entity is unable to respect its financial commitments (debt repayment, breach of guarantees, offset under a derivative transaction, etc.). Counterparty risk for subsidiaries is limited to local deposits, settlement and account keeping banking activities, signature commitments and the continuation of confirmed credit facilities obtained from banks. Veolia Environnement counterparty risk is mainly associated with cash investments and positive market values on derivatives.

Management rules require cash surpluses to be invested with monetary UCITS managers or in short-term notes and deposits with banks and financial institutions with a minimum credit rating of A1/P1 and A2/A (long-term rating).

Counterparty risks on financial transactions are monitored constantly by the middle office.

For information on the management of counterparty risk, please refer to Section 4.2.2.1.1 as well as Chapter 20, Section 20.1, Note 29.4 to the consolidated financial statements below.

Risks relating to prices of energy, commodities and recycled raw materials

The prices of the Company's supplies of energy and other commodities can be subject to significant fluctuations and represent major operating expenses of the businesses and in particular diesel for the Environmental Services and Transportation division activities, gas for Dalkia activities and electricity for Water Division activities. Although most of the Company's contracts include price adjustment provisions that are intended to pass on any changes in the price of Company supplies, using, in particular, price indexing formulae, certain events such as a time delay between fuel price increases and the moment when the Company is authorized to increase its prices to cover the additional costs or a mismatch between the price-increase formula and the cost structure (including taxes), may prevent the Company from being fully protected against such increases. To the extent that the Company is unable to increase its prices sufficiently to cover such additional costs, a sustained increase in supply costs and/or related taxes could undermine the Company's operations by increasing costs and reducing profitability (see Section 6.2.7 below). Nevertheless, the large number of price indexing formulae in its contracts limits the Group's net sensitivity to such variations.

In addition, a substantial portion of the Company's Environmental Services division's revenue is generated by its sorting-recycling and trading businesses, which are particularly sensitive to fluctuations in the price of recycled raw materials (paper and ferrous and non-ferrous metal). A significant and long-term drop in the price of recycled materials, combined with the impact of the current economic crisis on volumes, has affected and could continue affecting the Company's operating results.

For more details on the hedging of risks arising from the price of energy, commodities and raw materials and sensitivity to this, see also Section 4.2.2.1.1 and Chapter 20, Section 20.1. Note 29.1.3 below.

For information on the management of commodity risks, please refer to Chapter 20, Section 20.1, Note 29.1.3 below.

Risks arising from the greenhouse gas emission allowance trading scheme

As an operator of energy installations, the Group is exposed to the inherent risks of the CO_2 allowance system introduced by the European Union and the Kyoto Protocol.

Phase 3 (2013-2020) of the National Allowance Allocation Plan involves a strengthening of the regulations in order to reduce greenhouse gas emissions by 20% by 2020 (compared to 1990). As a consequence of this, from January 1, 2013, some of the allowances necessary for Dalkia will have to be purchased (through an auction system), which will create extra expense.

In all this, Veolia Environnement is exposed to a double-sided risk: firstly, not being able to realize the reductions in emissions imposed by the system on a multi-year basis, which would mean the Group would have to incur extra expense to obtain the shortfall in allowances and, secondly, not being able to adjust its pricing policy so as to pass on the extra cost of purchasing allowances from January 1, 2013.

For information on the management of risks arising from the greenhouse gas emission allowance trading scheme, please refer to Section 4.2.2.1.1 below.

4.1.1.2 Risks relating to regulatory changes regarding health, the environment, hygiene and safety

The Company has incurred and will continue incurring significant costs and other expenditures to comply with its environmental, health and safety obligations and to manage its hygiene-related risks. In particular, these risks concern water emissions, drinking water quality, waste processing, soil and ground water contamination, the quality of smoke emissions and gas emissions. While regulatory changes offer new market opportunities for the Group's businesses, they also generate a number of risks. In accordance with legal, regulatory and administrative requirements (see Section 6.3.1 below), including specific precautionary and preventative measures, the Company is required to incur expenditure and invest to ensure that the installations that it operates are in compliance or, when it has no investment responsibility, to advise its customers so that they undertake the necessary compliance work themselves. Failure by the client to meet its compliance obligations could be prejudicial to the Group as operator and adversely affect its reputation and growth capacity.

Furthermore, regulatory bodies have the power to launch proceedings which could lead to the suspension or cancellation of permits or authorizations held by the Group or injunctions to suspend or cease certain activities. These measures may be accompanied by fines and civil or criminal sanctions which could have a significant negative impact on the Group's reputation, activities, financial position, results or outlook. If the Company is unable to recover this expenditure through higher prices, this could adversely affect its operations and profitability.

Environmental laws and regulations are constantly being amended and tightened and these amendments can generate significant compliance expenditure or investment which it is not always possible to foresee, despite watch systems implemented.

For information on the management of health, environmental, hygiene and safety risks, please refer to Section 4.2.2.1.2 below.

4.1.1.3 Risks relating to climatic uncertainty

Weather changes from one year to the next can have an impact on the operating results of some of the Group's businesses. For example, Dalkia generates the bulk of its results in the first and fourth quarters of the year, corresponding to periods in which heating is used in Europe, while in the water sector, household water consumption tends to be highest between May and September in the northern hemisphere. Accordingly, these two businesses and therefore the Group's earnings may be affected by significant deviations from seasonal weather patterns.

For information on the management of risks relating to climatic uncertainty, please refer to Section 4.2.2.1.3 below.

4.1.1.4 Country risks

Veolia Environnement generates 61% of its revenue outside France, with an activity centered mainly on Europe and the United States. The Group also conducts business in certain emerging countries. In a complex and sometimes unstable international environment, risks relating to conducting business in certain countries can affect the Company's financial position and results and even its reputation and outlook. In particular, given the nature of Veolia Environnement's activities and the term of its contracts, the Company's results can partially depend on external operating conditions, whether the geopolitical, economic, social or financial situation or the level of development, working conditions and environmental conditions of a given country.

The Group's presence in certain countries in particular can generate or exacerbate certain risks for the businesses.

Conducting business in certain countries can thus expose the Group to a risk of non-payment or slower payment of invoices, sometimes aggravated by the absence of legal coercive measures, an increased exchange rate risk or restrictions on fund repatriation. The setting of public utility fees and their structure may depend on political decisions that can impede increases in fees for several years, such that they would no longer cover service costs or provide compensation for the Company. Major amendments to or the imperfect application of regulations, social unrest, local authority claims challenging the tax system or the application of contractual terms, foreign exchange control measures and other negative actions or restrictions imposed by governments can also significantly affect the operating conditions of the Group, particularly in emerging countries. The Company may not be able to insure or hedge against these risks. Furthermore, the Group may find it is unable to defend its rights before a court of law in certain emerging countries should it come into conflict with their governments or other local public entities. Unfavorable events or circumstances (particularly in emerging countries) may lead the Company to record exceptional provisions, write-downs and/or impairments, which could have an adverse effect on Veolia Environnement's financial position, results and outlook.

The destabilization of a country can generate emergency situations and exceptional risks

In certain cases, the exacerbation of these risk factors can lead to the general political and economic destabilization of the country and even make it difficult for the Company to conduct business because of reduced security and stability. This risk could be reinforced in certain cases for companies of foreign origin exposed to nationalization or expropriation of private assets.

The Company's businesses can be the subject of acts of malice or terrorism. In this respect, public passenger transport, energy services, environmental services or water distribution can be targets. In addition, certain Veolia Environnement employees work or travel in countries where the risks of occurrence of acts of terrorism or malice can be temporarily or permanently high (see also Section 4.1.2.4 below).

Very large-scale or repetitive natural disasters can also lead to the exceptional disorganization of external infrastructures (roads, means of communication) on which the Company depends for the conduct of its business and can cause damage to the infrastructures for which it is responsible. The Company could thus temporarily be unable to perform services according to the conditions defined by the contracts.

As a result, despite the preventive and safety measures implemented by the Company and the insurance policies subscribed, the occurrence of these exceptional situations could negatively affect the Company's results.

For information on the management of country risks, please refer to Section 4.2.2.1.4 below.

4.1.2 Risks relating to conducting the Group's businesses

4.1.2.1 Financial risks and risks relating to changes in the Group's activities

Risks relating to the strategic transformation plan and the Group savings plan

Since 2003, Veolia Environnement has set up savings plans to improve its operational performance. In addition, the Group began a plan to transform its organization – known as the "Convergence" plan – in 2011 to standardize its processes, reinforce the control and steering of operations and streamline its structure.

These plans could take longer to implement than expected and, for the "Convergence" plan, lead to more costs than planned. Overall, the risk lies in failing to attain the announced savings objectives.

Risks relating to changes in the scope of activities

As announced in its strategic plan, the Company has performed transactions impacting its scope of activities and primarily asset sales and, to a lesser extent, acquisition and merger transactions. whose impact on business and profits could turn out to be less favorable than expected or detrimental to its financial position.

Risks relating to divestitures

The Veolia Environnement Group has announced a strategic plan to refocus the business portfolio, involving the disposal of €5 billion in assets over the next two years. This strategic plan includes, in particular: the concentration of activities on three business lines (Water, Environmental Services, Energy Services); a modification of the Veolia Transdev shareholding structure in conjunction with the Caisse des Dépôts; the sale of rate-regulated Water activities in the United Kingdom and solid waste activities in the United States and continued streamlining of the Group's geographical coverage. Firstly, the conditions under which the activities sold are hived-off expose the Group to risks relating to the need to set up independent functional services in each activity, when those services were previously provided on a shared basis. These risks concern human resources, as certain individuals with significant expertise may leave the Company, and the means used to manage these functional services, such as methods, suppliers or IT tools. The main areas concerned are financial services, human resources (including the training campus), real estate and general services. Secondly, planned divestitures may not be carried out within the deadlines, performed at the expected valuation level or finalized at conditions beneficial to the Group.

Risks relating to growth transactions

In addition, the Company has conducted and may continue carrying out external growth operations, of any legal nature whatsoever, particularly through acquisitions of businesses or companies or mergers of varying sizes, some of which are significant at Group level. These external growth operations involve numerous risks, including the following: (i) the assumptions underlying the business plans supporting the valuations may prove inaccurate, in particular with respect to synergies and expected commercial demand; (ii) the Company may fail to successfully integrate the companies acquired or merged and their technologies, products and personnel; (iii) the Company may fail to retain key employees, customers and suppliers of the companies acquired; (iv) the Company may be required or wish to terminate pre-existing contractual relationships, which could prove costly and/or be executed at unfavorable terms and conditions; (v) the Company may increase its indebtedness to finance these external growth operations; and (vi) the Company may be forced to hive off businesses or limit the growth of certain businesses so as to obtain the necessary authorizations for carrying out these operations, particularly with regard to antitrust legislation. As a result, the expected benefits of completed or future acquisitions or other external growth operations may not be realized within the time periods or to the extent anticipated, or may impact the Company's financial position.

Liquidity risk

Liquidity risk corresponds to the Company's ability to have enough financial resources to meet its commitments. The Company's gross liquidity is defined as all available cash and confirmed bank lines. Net liquidity deducts current financing requirements from gross liquidity. The Group could be exposed to a liquidity risk and not have sufficient financial resources to meet its contractual commitments.

For information on liquidity risk, please refer to Section 4.2.2.2.1 below and the description of loan arrangements as well as the tables in Chapter 20, Section 20.1, Note 29.3 to the consolidated financial statements.

For information on the management of liquidity risks, please refer to Section 4.2.2.2.1 below.

4.1.2.2 Risks relating to changes in the Company's markets

Due to the competitive nature of the Company's business and the rapid changes in environment-related businesses, the Group must enhance its competitiveness and adapt its business model.

The Company's operations are carried out in highly competitive sectors. Large international companies, niche companies and companies whose structure costs or profitability requirements are lower than those of Veolia Environnement (in particular public sector operators such as mixed public-private companies in France and Stadwerke in Germany) serve each of the markets in which the Company competes. The Group may not remain competitive enough to convince its potential customers of the quality and value of its services and could thus suffer the loss of existing contracts or a substantial fall in profitability on contract renewal or have access to new contracts blocked.

As such, it may need to develop new technologies, new services or new activities but also decrease its structure costs (see Section 4.1.2.1 above) in order to maintain or increase its competitive position, which could result in significant costs.

The non-renewal of major contracts may require the Company to implement costly restructuring measures. The impact on Company results could be substantial, if the contract does not then provide for the transfer of the related assets and employees to the succeeding operator and/or appropriate compensation to cover Veolia Environnement's costs of termination. Another source of contract non-renewal may come from the desire of certain public authorities to assume once again the direct management of water or waste services (particularly under management contracts).

For information on the management of risks relating to changes in the business model, please refer to Section 4.2.2.2.2 below.

4.1.2.3 Risks arising from human resource management

Risks relating to employee health and safety

The labor-intensive requirements of the Group's businesses, their nature, the wide geographical spread of Veolia Environnement's employees in the field (in particular, on public roads and at customer sites), as well as difficult working conditions, make the management of employee health and safety particularly important. Despite the special attention paid by the Group to this issue (the question of risks arising from human resource management is dealt with in more detail in Section 4.2.2.2.3, which sets out risk management steps taken), the increase in the frequency and severity of work accidents and the increasing incidence of work-related illnesses constitute a risk.

Risks relating to availability of skills

The Group engages in highly diverse businesses, which require varied skills that constantly evolve to adapt to changes in environmental businesses. The need to constantly seek out new profiles, train staff in new techniques and recruit and train managers in every country where the Group operates represents a risk for the Group if it is unable to mobilize in a timely manner the skills required at all of its locations. This risk can be intensified by the Group's current reorganization conditions ("Convergence" plan).

Risks relating to deterioration of the industrial relations climate

The transformation of the Group, with the launch of the "Convergence" plan and the refocus on certain businesses and geographical regions, could cause the company's industrial relations climate to deteriorate and negatively affect productivity and, consequently, the Group's results. The Company's businesses, which it conducts on behalf of industrial companies and public authorities, consist very often of essential services that always require human labor. The Company cannot rule out the occurrence of labor disputes (strikes, go-slows or the destruction of property in extreme cases) that could disrupt business over a significant period of time. Such disputes could have a negative impact on the Company's financial position, results, outlook and reputation.

For information on the management of risks arising from human resource management, please refer to Section 4.2.2.2.3 below.

4.1.2.4 Operational risks

Health and environmental third-party liability risks in respect of past and present activities

The increasingly broad laws and regulations under which the Company operates expose it to greater risks of liability, particularly in environmental matters, including liability related to assets that Veolia Environnement no longer owns and activities that have been discontinued. In addition, the Company may be required to pay fines, repair damage or undertake improvement work, even when it has conducted its activities with care and in full compliance with operating permits.

Some of Veolia Environnement's activities could cause injury to people (sickness, injury or death), business interruption or damage to the environment (including biodiversity), movable property or real estate. It is the Company's general policy to contractually limit its liability, implement the necessary prevention and protection measures and to take out insurance policies that cover its main accident and operational risks (see Section 4.2.3.2). However, these precautions may prove to be insufficient, and this could generate significant costs for the Company.

In addition, the Company's subsidiaries in France or abroad may, under environmental services outsourcing contracts, perform activities at certain environmentally sensitive sites known as high threshold Seveso sites (classified “AS” under the French “Installations Classified for the Protection of the Environment” (ICPE) system) or low threshold Seveso sites (or the foreign equivalent), operated by industrial customers (particularly petrochemical industry sites). In these instances, the Group must manage the provision of services with even greater care, given the more dangerous nature of the products, waste, effluents and emissions to be treated, as well as the close proximity of installations managed by the Group to customer sites. The regulatory regime governing Seveso facilities applies only within the European Union, but the Group operates several similar sites outside of this region that are often subject to the same level of stringent regulation.

See also Chapter 6, Section 6.3.2 and Chapter 20, Section 20.1, Note 17 to the consolidated financial statements.

Risks relating to the protection of sites and employee safety

Veolia Environnement's activities must comply with very strict regulations regarding protection of sites, resources or installations against criminal and terrorist acts. For example, the distribution of drinking water is a strategic activity for public health, while the Company's public passenger transport activities, energy or environmental services, installations or vehicles can be the target of acts of terrorism.

In addition, Veolia Environnement employees work and travel in countries where the risk of criminal or terrorist acts is either temporarily or permanently high.

As a result, despite the preventive and safety measures implemented by the Company and the insurance policies subscribed, the occurrence of such acts could negatively affect the Company's reputation, financial position or results.

Risks relating to design and construction activities

The Company carries out, particularly through Veolia Water Solutions & Technologies, "turnkey" structure design and build contracts, which are remunerated on a non-revisable fixed-price basis. The Company's remuneration is often conditional on meeting performance objectives, and non-compliance with these objectives triggers penalties. The risks to which the Company is exposed under this type of contract are generally technical (design and choice of tailored versus tried-and-tested technology), operational (site management during the performance, acceptance and warranty phases or ability to use technology imposed by the customer) and economic (fluctuations in raw material prices, foreign exchange rates or commodities). In accordance with standard practice, to the extent possible, the Company seeks to hedge this risk contractually. The Company may, however, encounter difficulties over which it has no control, relating, for example, to the complexity of certain infrastructure, climate or economic risks or construction contingencies, the purchasing and ordering of equipment and supplies of commodities, or changes in performance schedules for some work. In certain cases also, the Company must integrate existing information or studies provided by the customer that may prove inaccurate or inconsistent or may be required to use existing infrastructure with poorly-adapted operating characteristics. These difficulties and hazards may result in non-compliance with contractual performance indicators, additional expense, lost revenue and/or the application of contractual penalties that could negatively affect the Company's financial position, results or outlook.

Risks relating to competition procedures and authorization procedures for the conduct of certain activities

In order to conduct its activities, Veolia Environnement is generally required to win a contract and sometimes to obtain, or renew, various permits or authorizations issued by regulatory authorities. Competition and/or negotiation procedures preceding the award of these contracts are often long, costly, complex and difficult to foresee the outcome. This is similarly the case for authorization procedures for activities with a large environmental footprint, which are often preceded by increasingly complex studies and public inquiries. The Company may invest significant resources in a project or tender bid without obtaining the right to perform the planned activity or receiving sufficient compensation to cover the cost of its investment, should it, for example, fail to obtain the permits and authorizations necessary to perform the activity or the necessary authorizations from antitrust authorities. In addition, obtaining an authorization may require the Company, under certain conditions, to abandon certain growth projects. Such situations increase the cost of activities and, where the risk of failure appears substantial, may lead the Company to abandon certain projects. The extent and profitability of the Company's activities could be affected if such situations increase.

Emerging health or environmental risks

Risks may be undetectable, at a given time, because they are not completely identified because of the absence or lack of scientific data. Adverse effects could occur several years after the materialization of these risks.

For information on the management of operational risks, please refer to Section 4.2.2.2.4 below.

4.1.2.5 Legal, contractual and commercial risks

Risks relating to long-term contracts

The fact that a major part of the Company's business is transacted within long-term contracts may limit its capacity to quickly and effectively react to financially negative news.

The initial circumstances or conditions under which the Company enters into a contract may change over time, which may result in adverse economic consequences. Such changes vary in nature and foreseeability. Certain contractual mechanisms may help in addressing such changes and restoring the initial balance of the contract, but these may not be fully effective. The implementation of such mechanisms may be triggered more or less automatically by the occurrence of a given event (for instance, price indexing clauses), or they may require certain formalities or allow revision or amendment of the contract only with the agreement of both parties or of a third party. Accordingly, the Company may not be free to adapt its compensation to reflect changes in the Company's costs or demand, regardless of whether this compensation consists of a price paid by the customer or a fee levied on end users based on an agreed-upon scale. These constraints on the Company are exacerbated by the long-term nature of contracts. In all cases, and most particularly with regard to public service management contracts, the Company's actions must remain within the scope of the contract and ensure continuity of service. The Company cannot unilaterally and suddenly terminate a business that it believes to be unprofitable, or change its features, except, under certain circumstances, in the event of obvious misconduct by the customer.

Risk relating to the rights of public authority

The rights of governmental authorities to terminate or modify the Company's contracts unilaterally could have a negative impact on its revenue and profits.

Contracts with public authorities make up a significant percentage of the Company's revenue. In numerous countries, including France, public authorities may amend or terminate contracts under certain circumstances unilaterally but with compensation paid to the co-contracting party. This may not be true in all cases and, even when compensation is due, the Company may not be able to obtain full compensation should the relevant public authority unilaterally terminate a contract.

Significant litigation

Several actions, procedures and inquiries involving the Company were initiated in 2011, including a procedure launched by the European Commission and alleging the existence of an anti-competitive cartel in the water sector, several actions concerning Société Nationale Maritime Corse Méditerranée (SNCM) and certain State assistance payments received, as well as a class action brought before the Federal Court of the Southern District of New York. There remains a risk that the final resolution of these actions, procedures and inquiries or other disputes could have an adverse effect on the Company’s activities, financial position or results.

Significant litigation involving the Company or its subsidiaries are described in Chapter 20, Section 20.4 below.

For information on the management of legal, contractual and commercial risks, please refer to Section 4.2.2.2.5 below.

4.1.2.6 Risks relating to information system security

Information systems are indispensable tools for carrying out our operational activities and managing the functional departments (Finance, HR, etc.) of the Company. The unavailability of information systems because of a disaster or a malicious intrusion involving one or more of these information systems could have major consequences on the quality or even the continuity of the service delivered internally and the availability, integrity and confidential nature of the Group's data and thus potentially have an impact on the activity of its customers. Despite all of the efforts and resources implemented to protect and secure its information systems, the Group cannot rule out a successful cyber attack.

For information on the management of information system security risks, please refer to Section 4.2.2.2.6 below.

4.2 Risk management arrangements within Veolia Environnement

4.2.1 Risk management organization

4.2.1.1 Implementation of a coordinated risk management system

Veolia Environnement has always built long-lasting relationships with its customers based on its capacity to manage risks delegate by them.

The Group faces this challenge, which is of fundamental importance to its development, by putting coordinated risk prevention and risk management systems into place. In order to strengthen its ability to foresee, analyze and weigh various risks and to ensure that the Group's development and the management of these risks are coordinated, the Group created a Risk Department at the end of 2004. It is supported by a risk network of Risk Managers at division and operating unit level.

The Risk Department has a cross-discipline servicing role, cutting across the Company's various administrative divisions and its operating units with the help of the risk network. The department’s targets with regard to risk management are as follows:

- Identify and foresee: ensure ongoing oversight of the Group's major risks in order to guarantee that no risk is overlooked or underestimated, and also to foresee changes in the nature or intensity of those risks;
- Organize: ensure that the main identified risks are addressed by the organization at the most appropriate level within the Group. Numerous operational risks are managed at subsidiary level, while others, which require specific expertise or are of a primarily transversal or strategic nature, are handled at division and/or Veolia Environnement level;
- Manage: ensure that the structure and resources employed effectively reduce and monitor identified risks;
- Inform: the implementation of a coordinated risk management scheme is an important factor in corporate financial and non-financial appraisals. Overall risk management enhances the Group's development and the predictability of its results.

The risk network developed a process of identifying and ranking the events that may prevent the Group from reaching its objectives. To this end, the Group and each of its divisions now have a detailed analysis and a summarized ranking of the main risks (risk map), drawn up on the basis of the main references available (COSO II, the ISO standard, the Australian ANZ and UK Turnbull guidelines and the methods used by audit firms). The identified risks are assessed in terms of their impact and frequency, taking account of risk mitigation measures already implemented. The "risk owners" are in charge of designing and implementing action plans in liaison with the risk managers of the divisions and Veolia Environnement, so as to limit and manage risk exposures.

The risk network contributes to the definition of the corresponding action plans and drives the whole process. It also has an alert role on emerging risks (monitoring).

In order to complete its missions, the Group Risk Department relies on several steering bodies including the risk committee (see also Section 4.2.1.2 below), some of which adapted at the division and operating unit level.

The Group Risk Department works closely with the Internal Audit Department and with the Systems sand Business Processes Department, which ensure financial internal monitoring:

Internal monitoring in all its aspects (financial, human resources, purchasing, etc.) is essential because it ensures monitoring at the lowest levels as to respect the Group's rules on implementation of the procedures whether financial or operational. Responsibility for the definition of these procedures and the monitoring of them lies with the administrative and technical departments; the Group's annual internal audit program is designed by reference to the map of the Group's major risks. The results of the audit show, where applicable, those risks which have not been identified or not sufficiently so. The results also provide assurance that the risk management plans have been implemented and are effective.

In addition, audits are regularly performed of the Group’s risk management system by the Company's Internal Audit Department. The main objective of these audits is to ensure the Group has the right risk management tools and processes (risk identification, implementation of action plans, updating of risk map, deployment of the risk management function throughout the Group).

The overall objective is to contribute to improving the Group's technical, operational and financial performance by deploying risk analyses of existing systems and projects at all levels of the organization.

4.2.1.2 Risk Committee

The Group Risk Committee is the body responsible for validating and monitoring the effectiveness of action plans put in place to act on the major risks identified in risk mapping. It ensures the effectiveness of the risk management systems and supports them. It can also take a position on risks that it deems to be unacceptable within the context of the activities. It meets three to four times per year. The composition of this committee may be increased depending on the topics placed on the agenda. It is led by the Group Risk Manager and chaired by the Secretary General.

Each of the divisions has its own Risk Committee just like Veolia Environnement, so as to validate and monitor the deployment of action plans acting on the major risks identified during the mapping process.

The Group Risk Committee held four meetings in 2011. These meetings discussed, in particular, the structuring and roll-out of the Group's insurance programs designed to improve coverage and competitiveness, the analysis of the impacts of nanoparticles on the Group's activities (emerging risk), the organization and implementation of alert and crisis management schemes, the development of the business continuity plan (BCP) for the Group Finance Department, the examination of the mapping results on specific risks and the analysis of risks relating to the information systems used to prepare the financial and accounting information.

The Risk Department, in application of the 8th directive, presented the subject of risks on two occasions in 2011 to the Accounts and Audit Committee of the Board of Directors.

4.2.1.3 Crisis management arrangements

The organization of crisis management at Veolia Environnement revolves around three separate but complementary arrangements that come together to deal rapidly and efficiently with any subnormal or critical situation that the Company or its entities may encounter.

The process begins with an alert system that functions 24/24 and is deployed across all the Company's locations. This is designed to move information quickly up the line to Veolia Environnement executive management on any critical or delicate situation. The alert arrangements have been in place since 2003 and are regularly updated so as to correspond as well as possible to geographical and organizational changes in the Company worldwide.

The system then moves into crisis management mode and, if the situation is critical enough, then operational cells can be quickly mobilized bringing together all the necessary functional skills and the divisions concerned. Predetermined objective criteria are used to assess the seriousness of the situation and determine whether the situation will be either managed at operating division level with information passed to head office or whether to bring together the crisis management team comprising representatives from Company and division senior management. This process is constantly refined on the basis of feedback and post-crisis evaluations on each of the situations that have been managed.

The alert procedure and the Group's Crisis Management procedure were updated in 2011 in order to reinforce their responsiveness and effectiveness.

As from 2005, in response to recommendations from the World Health Organization (WHO), the Veolia Environnement Group has organized itself so as to be able to maintain its essential services in the face of a health emergency.

Having drawn vital conclusions from the pandemic alert of 2008, Veolia Environnement has decided to extend its business continuity plan at head office essentially to take account of temporary unavailability of staff by drawing up a continuity plan to respond to the deterioration or unavailability of key material resources. The first stage of this process was carried out in 2011.

4.2.2 Details on risk management measures

4.2.2.1 Management of risks relating to the business environment in which Veolia Environnement operates

4.2.2.1.1 Management of market risks

Interest rate and foreign exchange risk management

As a result of its operational and financial activities, the Group is exposed to risks, such as interest rate risk and foreign exchange risk. To avoid having to bear all of these risks, the Company implemented management guidelines relating to these uncertainties, in order to ensure better risk control. The Veolia Environnement Treasury Department is directly responsible for implementing and monitoring these measures. The Treasury Department is responsible for helping divisions and their teams to identify and hedge exposure in different countries around the world. This department relies, in part, on a treasury management system, which allows for the continued monitoring of the principal liquidity indicators and all major financial instruments used at headquarters (interest rate/foreign exchange). The Middle and Back Office teams in the Financial Services Department control transactions and monitor limits, which ensures the security of transactions processed. Reports are produced daily, weekly and monthly, thus enabling Company's senior management to stay abreast of market trends and their effect on the Group's liquidity (current and forecast), the value of the Group's derivative portfolio and details of hedging transactions and their impact on the proportion of Group debt at fixed and floating rates.

The interest rate risk management policy is decided centrally. The Group uses interest rate risk management tools available on the market, including interest rate swaps and options (see Chapter 20, Section 20.1, Notes 29.1.1 and 30.1.1, below).

Foreign exchange risk is linked to the international business of the Group, which is conducted in 67 countries outside of the Eurozone and generates cash flows in numerous currencies. As both income and expenses are usually in the currency of the country where the Group conducts business, the Group's exposure to exchange rate risk from service activities is relatively low. This risk is systematically hedged when it is certain (using currency futures) and on a case-by-case basis when uncertain (using options), generally when tenders are submitted. To manage foreign exchange risk associated with debt and financial receivables in the balance sheet, the Company has implemented a policy aimed at financing its subsidiaries in local currency, consisting of backing foreign currency-denominated financing by asset class (debts and receivable). For more information regarding foreign exchange risk, see Chapter 20, Section 20.1, Notes 29.1.2 and 30.2 below.

Counterpart risk management

The risk of counterparty default is assessed through changes in its creditworthiness. As such, the Group distinguishes the counterparty risk relating to its operational activities, which generate receivables on customers, and the counterparty risk relating to investment and hedging activities, which lead to receivables on financial institutions.

For more information on the management of risks relating to changes in the creditworthiness of the Group's customers and its financial counterparties, see also Chapter 20, Section 20.1.1, Notes 29.4.1 and 29.4.2 respectively.

Management of risks inherent in fluctuations in prices of energy, commodities and recycled raw materials

Most of the contracts entered into by the Company include clauses aimed at passing on any fluctuations in prices of energy, commodities and recycled raw materials to the Company's revenue sources, particularly by means of indexation formulae.

Furthermore, the supply of energy may, in certain countries and for certain energy sources, be the subject of long-term supply contracts. It should be noted that this risk management is non-speculative, i.e. the volumes purchased under these contracts correspond to those sold on to customers.

For more information on the management of risks inherent in the price of energy and raw materials and, in particular, raw materials hedging instruments, please see Chapter 20, Section 20.1, Notes 30.3 (for hedging) and 29.1.3 (for risk management) to the consolidated financial statements below.

Management of risks arising from the greenhouse gas emission allowance trading scheme

Very early on, Veolia Environnement embarked on actively managing its carbon emissions and the allowances it is granted, by implementing an appropriate structure and creating a special-purpose legal entity to purchase, sell and price different types of greenhouse gas credits.

In addition, through its subsidiary Dalkia, the Group allocates a significant share of its investment to reducing greenhouse gas emissions. In particular, these investments are designed to modernize the Group's plants, which today mostly consist of gas (France) or coal (central Europe) fired installations, by moving over to low CO_2 emission facilities using biomass or combining biomass and gas.

Also, Dalkia makes every effort to negotiate pricing schemes with its customers that enable it to recover its entire production costs, including the purchase at market prices of greenhouse gas emission allowances. See Chapter 20, Section 20.1, Notes 1 and 29 to the consolidated financial statements below.

4.2.2.1.2 Management of risks relating to regulatory changes in health, the environment, hygiene and safety

The environment and health are at the heart of Veolia Environnement's concerns. Veolia Environnement is committed to providing full professional guarantees regarding the quality of its products and services, as well as compliance with security and environmental standards (especially relating to emissions in the air, water and soil). The risks facing the Group are particularly acute when it takes over installations, given that the Group is not always responsible for the necessary investment and customers have varying levels of awareness of these issues. Given the nature of Veolia Environnement's business, regulatory compliance efforts involving installations and services mainly concern air pollution (including, for example, the control of exhaust fumes from transportation vehicles and smoke from heat generation plants and waste incineration facilities), water quality (relating to wastewater treatment plants, the quality of drinking water and the disposal of wastewater and other effluents) and the protection of ground soil and biodiversity and health and safety support for staff.

In order to manage better its environmental risks, the Group, in coordination with its four divisions, implemented an “Environmental Management System” based on ISO 14001, which aims to constantly improve its environmental performance throughout the world. In this manner, quantifiable objectives relating to the monitoring of compliance of high-priority installations have been set.

Moreover, in application of existing standards and taking account of the recommendations of internal and external experts, Veolia Environnement implements control, maintenance and improvement measures either directly or in collaboration with customers when they assume responsibility for investments relating to the installations. When Veolia Environnement designs new installations, it strives to meet technical specifications that are often more stringent than current prevailing standards. For older installations, Veolia Environnement regularly carries out renovations on its own facilities and strongly recommends to the owners of facilities that they do the same.

As regards the European REACH regulations, after the systematic pre-registration of all substances potentially concerned and compliance with the first registration deadline of November 30, 2010, the next deadlines are being monitored as well as the application of the CLP regulations (Classification Labeling Packaging) (EC 1272/2008).

4.2.2.1.3 Management of risks relating to climatic uncertainty

The risk relating to climate uncertainty is offset in certain cases, first by the variable compensation terms included in contracts, and second by the geographical coverage of the Group's businesses.

4.2.2.1.4 Management of country risk

In a context of increased uncertainties surrounding the international economic situation and geographical refocusing of the Company's activities, the arrangements put in place by the Company to take country risks into account are of two kinds:

- A department responsible for the safety of employees, within the Human Resources Department.
- A country risk assessment unit within the Risk Department.

In order to inform and protect employees, Veolia Environnement management created a Security Watch Committee to address criminal and terrorist risks in 2003. It brings together security professionals and representatives of the functional departments from Group headquarters and the divisions.

The Committee has four duties:

- *Information:* Each month, the Committee prepares a risk mapping for the countries in which Veolia Environnement is present or is likely to operate and circulates it to all the entities of the Group.
- *Prevention:* The Group's Human Resources Department must authorize or be informed of employee trips to high-risk countries. Advice on behavior and vigilance is circulated. In high-risk countries where Veolia Environnement has operating units, the Group has implemented security plans to ensure the safety of employees and their families.
- *Training*: on the behavior to adopt in dangerous situations.
- *Action in crisis situations:* whenever necessary, the Group sets up a special security crisis unit. The role of these crisis units is to make all decisions necessary to ensure the safety of employees and their families.

In late 2011, Veolia Environnement reinforced the country risk assessment unit created in 2010 within the Risk Department. The assessment of country risk involves all conditions associated with a particular geographical region that can affect the company's operations and expected results.

To meet this objective, the unit has the following duties:

- *Monitoring and consolidation of information* relating to country risk, based on the collection of information reflecting the Company's issues: country context indicators and assessments (provided by external sources of reference or, in certain cases, collected directly from managers of the Company), continuous monitoring of targeted information arising from current events;

- *Country risk assessment and issuance of recommendations*: the unit produces topical comparative maps as well as a country assessment (rating and qualitative information); these analyses incorporate not only indicators relating to geopolitical, legal and economic conditions but also societal, social, environmental and sector conditions;
- *Assessment of the Group's exposure*: the comparison of the country risk indicators, presence indicators (country and location of main establishments) and performance indicators (financial, social, environmental) of the Company is particularly intended to support the strategy;
- *Informing management and raising awareness:* this is achieved through the distribution of the various analyses produced by the country risk unit (including a country risk bulletin) and the provision of information on a dedicated intranet community.

4.2.2.2 Management of risks relating to conducting the Group's businesses

4.2.2.2.1 Management of financial risks and risks relating to changes in the Group’s activities

Risk relating to the transformation project and the savings plan

Management of the Convergence plan is integrated and structured, with dedicated resources in each division and function, clearly defined project financing rules, rigorous validation/decision-making processes and centralized communication. Regular reporting on the progress of transformation measures enables the Veolia Environnement Executive Committee to adjust the project portfolio, priorities and resources on a real-time basis.

Management of risks relating to changes in the scope of activities of the Group

Over recent years, the Group has sold a number of non-strategic assets; debt reduction is a key component of the Group’s strategic plan, with asset sales of over €5 billion planned for 2012 and 2013.

To safeguard against the risks associated with these disposals, and in particular the problem of re-establishing shared services, dedicated steering committees have been setup to identify the different issues, establish formal action plans and monitor implementation.

Furthermore, Veolia Environnement must be increasingly more selective in its strategic choices of development and investment. Whether internal growth or company acquisitions, development projects are subject to a comprehensive review during which all risks are studied and assessed. Financial profitability criteria and minimum return criteria, widely known and used throughout Veolia Environnement, are applied. The expected return is as a matter of course placed in the perspective of the risks assumed.

Projects (development and disposals) are validated at Investment Committee level both in the divisions and at Veolia Environnement. All aspects (strategic, technical, operational, financial, legal and human) of projects are reviewed based on comprehensive standardized formats.

Management of liquidity risk

The Financing and Treasury Department is responsible for the short-term management of liquidity and financing. Similarly, the implementation and management of significant new financing is centralized to optimize the management of present and future liquidity.

The Group is financed through bank loans, commercial paper, international bond offerings and the international private placement markets (see also Section 4.2.2.1.1 above and Chapter 20, Section 20.1, Notes 29.3 below).

4.2.2.2.2 Management of risks relating to changes in the Company's markets

Veolia Environnement has launched implementation of a strategic plan aimed at transforming the Group and involving a change in the business model. The new Group business models are founded on high added-value service offerings: treatment or recovery of difficult pollution, solutions to optimize resource consumption, etc. The aim is to move the Company from a supply market to a demand market, while offering customers cutting-edge solutions to their most complex problems and proposing the remuneration of these solutions on a performance basis. This strategy has been confirmed by recent commercial wins by the Company involving energy performance contracts, integrated waste management offerings (collection, processing and recovery) and offerings aimed at optimizing resources in the water and wastewater treatment sectors.

To support these new offerings, the Group continues to invest in Research and Innovation (see also Chapter 11, Research and Innovation, Patents and Licenses, below). Research programs are defined in close relation with the activities and operational needs and seek to develop offerings based on the specific expertise and added-value of operating staff.

Finally, in September 2006, the Company's Board of Directors created a Committee for Research, Innovation and Sustainable Development to assess and direct the Company's strategy in relevant areas (see Section 16.2.3 below).

4.2.2.2.3 Management of risks arising from human resource management

Management of the risk relating to employee health and safety

The approach to issues relating to prevention, health and safety is mainly shaped by the desire to guarantee the physical and mental integrity of employees. That being said, aware that good performance in these areas is synonymous with good performance for the company, Veolia Environnement has positioned these subjects as a permanent concern by virtue of the very nature of its activities.

For a few years, Veolia Environnement's Workplace Health and Safety results showed a slow decline. Veolia Environnement decided to reject this inevitability and set the goal of quickly reaching a level comparable to that of the top industrial companies.

Observations at the beginning of 2011 identified the complementary approaches of the policy pursued until then. Many actions were launched to involve line management and raise operator awareness of the risks to which they are exposed in their everyday activities: implementation of a process for immediate reporting of workplace accidents and the most serious incidents, involvement of the operational line in the analysis of causes of accidents, internal communication actions on accidents, control of the greatest risks and monitoring of the results obtained.

Other structuring actions, like the introduction of managerial safety visits, were prepared in 2011 and will be rolled-out in 2012.

The professional risk prevention approach is based on management's involvement as well as a continuous improvement system allowing the Company to keep its commitments, achieve its objectives and help to implement its prevention and safety ideas, including workplace health, that appear in the general policy declaration regarding health and safety in the workplace. In addition, it is also expected that suppliers will take the required steps to guarantee the prevention, health, safety and wellness of their employees.

By implementing Veolia Environnement's prevention, health and safety management system, it was possible to effectively manage issues of health and safety at all of the Group's entities.

This system is based on six areas:

- *Commitment and motivation*: they must be visible for the entire hierarchy; a factor crucial for the system's success so that everyone is involved in the goal of creating the desired corporate culture;
- *Policy*: the definition of intentions, objectives and ideas applicable within Veolia Environnement and the operating units determines the main lines of the prevention, health and safety policy;
- *Planning*: the improvement and monitoring of approaches are intended to meet the legal provisions in force as well as the objectives and results expected at Group and operating unit level, particularly through the definition of internal standards and procedures;
- *Implementation and execution*: the organization of human and physical resources and systems contributes to optimal performance in terms of health and safety. The implementation of programs makes it possible to achieve the objectives and obtain the expected results;
- *Control and corrective measures*: the control and evaluation of performance particularly through the implementation and monitoring of the audit program make it possible to define the corrective measures and be part of a continuous improvement approach;
- *Management assessment*: this regular examination of each element of the health and safety management system is analyzed by the Executive Committee. Its objective is to readjust this system to ensure its relevance and effectiveness.

All of these areas underlie Veolia Environnement's professional risk prevention policy in order to develop a strong and consistent safety culture, which is an essential component of the approach. This cultural change is the consequence of the visible commitment of leadership at all levels, in addition to the active motivation of everyone as well as awareness and training actions (in 2011, 47% of employees received safety training).

Skills management

Given the aging of the working population and rapid development of technologies and working methods, Veolia Environnement has enhanced its forecasting capabilities with regard to skills management. The signature in France, on February 3, 2011, of the agreement on Forward management of jobs and skills (GPEC in French) rounds off the 2004 agreement on "the development of skills and vocational training". In this new agreement Veolia Environnement has focused its attention on foreseeing changes in its businesses, support and encouragement for career development and offering the right training solutions. To do this the GPEC agreement provides for the setting up of labor market surveillance groups run both by management and staff representatives in each division backed up by a coordinating committee at Group level. The agreement also provides for improved job planning within the industrial relations framework and underscoring policies that favor job mobility and skills development (see Section 17.1.3 below).

Management of risks relating to the deterioration of the industrial relations climate

Veolia Environnement attaches great importance to this aspect of its HR policy and has set itself the challenge of making industrial relations negotiations one of the major elements in staff cohesion and the Group's organizational and economic performance.

Veolia Environnement's industrial relations model aims first and foremost to create and maintain a relationship of confidence with its staff and their representatives via a policy of fair and coherent remuneration, promotion within the Company, training, career and skills management that facilitates job progression and via constant enhancement of its health, safety and accident prevention policies.

The Group has enshrined such commitment(s) in recent group-wide agreements signed with all of the trade unions representing staff: the December 2008 agreement on health, safety and accident prevention and the GPEC agreement of March 2011. These agreements both individually and collectively have been extended by a large number of local agreements signed at division and site levels. On a European level, in October 2010 Veolia Environnement also renegotiated, modernized and reinforced the resources and functioning of the European works council and industrial relations in Europe. The European works council worked with Management to initiate exchanges relating to Sustainable Development and CSR in 2011, which will be extended by a working group in 2012.

In February 2010, with a view to improving industrial relations, the Group signed an agreement on the quality and the development of industrial relations with all the trade unions representing staff. Action and training plans are defined with players involved in industrial relations dialog and were implemented in 2011.

In this period of profound transformation of the Group, the development and structuring of the industrial relations framework is all the more essential given that it makes it possible to reinforce social cohesion and ensure that the Group's social commitments and social responsibility are maintained in a difficult economic environment.

Social support for change marks the Group's desire to guarantee the employability of employees and promote internal mobility. This involves ensuring that divestitures are systematically conducted with a formalized social component. The Group is thus attentive to the quality of projects and buyers and requires concrete social commitments pertaining to the management of personnel. During Veolia Transport's divestitures in Norway and the United Kingdom as well as that of Proxiserve's, social guarantees were defined with the acquiring entities and the industrial relations partners.

In order to guarantee the transparency and fluidity of communication with the industrial relations partners during changes in the Group, it has been reaffirmed that European and French offices would be called in on projects that could impact the future of employees.

In 2011, the France and Europe works councils were heavily involved in the construction of the new Veolia Transdev entity, including its legal aspects until the closing, but also the definition of the social commitments of shareholders during the formation of the new entity.

The strategic announcements of August 4 and December 6, 2011, were managed on this continuous consultation model with the industrial relations partners.

Members of the Executive Committee are involved with industrial relations partners in order to explain the strategic choices in a close dialogue during successive and regular studies and plenary meetings. In late 2011, the Human Resources Department also initiated meetings with industrial relations partners on employment, held at the beginning of 2012.

4.2.2.2.4 Management of operational risks

Management of health and environmental third-party liability risks in respect of past and present activities

Faced with the systematic risk of being held jointly liable with its customers in the event of serious contamination or accidents, Veolia Environnement strives to satisfy its own obligations while helping to ensure that customers do the same.

On operating sites (waste treatment centers, landfill sites, incineration facilities, heat generation plants, drinking water production facilities, wastewater treatment plants, bus depots, etc.), an analysis of the various scenarios of industrial accidents is regularly performed, which permits the establishment of adapted prevention plans as well as the development of a business continuity plan.

Given the nature and potential seriousness of all of the risks mentioned above, the Group has implemented three principal types of actions to help control and manage these risks.

- Firstly, the prevention of accidents that may damage property and as a consequence cause harm to people or the environment necessitates the implementation of procedures aimed at ensuring the compliance of installations and monitoring their operation; this is the aim of the environmental management system which is accompanied by a certification and general appraisal approach (in particular ISO 14001, internal guidance, etc).
- Secondly, internal and external audits are conducted regularly to identify and prevent industrial risks (fire, machine breakdown, environmental damage, etc.).
- Thirdly, the Group has purchased insurance covering public liability and liability resulting from unavoidable or accidental pollution and has also taken out material damage policies (see Section 4.2.3 below).

All of these actions are implemented by the Group's operating units in coordination with the Technical, Legal and Health Departments, the Sustainable Development Department in charge of EMS and the Insurance Department. The Research and Innovation Department also contributes to this effort, alongside the Legal Department and Veolia Environnement's office in Brussels which monitors changes in regulation.

In its environmental services, water, or energy services activities, when the company provides services at a “Seveso” facility or its foreign equivalent, it actively participates in the implementation of health and safety measures at these sites.

The application of more stringent regulatory standards for these sites requires Group employees to undergo specialized training, participate in health and safety committee meetings at industrial customers' sites and comply with the Major Accident Prevention Policies (MAPP) implemented by its customers. Seveso facilities are also subject to specific internal control measures that seek to prevent accidents and protect employees, the public and the environment. In addition to policies for the prevention of major accidents, there are also disaster recovery and operational plans that apply to these facilities, as well as crisis intervention measures coordinated with public authorities in the event of an accident.

Based on its desire to apply safety protection rules and in anticipation of regulatory changes under consideration, the Company has decided to apply all or part of the Seveso regime at certain sites. This is the case at the hazardous waste incineration facility operated by SARP Industries (Veolia Propreté) in Limay in the Yvelines region of France.

Management of emerging health and environmental risks

Believing that mere compliance with regulatory requirements is not sufficient to ensure adequate control of health and environmental risks, Veolia Environnement has also voluntarily implemented a number of measures based on strict prevention and control procedures as part of a global approach, particularly with respect to its multi-service contracts (for example, hazard studies, evaluation of impacts and checkpoint controls and inspections).

The Veolia Environnement Group also actively monitors research on subjects like nanomaterials and nanotechnologies, emerging biological parameters, household toxicity, environmental consequences of climate change, etc. It develops research projects, alone or in partnership with research centers or French or foreign specialized bodies, on certain subjects that are deemed to be priorities.

4.2.2.2.5 Management of legal, contractual and commercial risks

Veolia Environnement places great importance on the management of legal risks given the nature of its business, environmental services, an area subject to increasingly complex regulation.

The Legal Departments of Veolia Environnement and each division help to ensure, on a daily basis, the adequate management of Veolia Environnement's legal risks. This is performed in liaison with operating teams in the field and in compliance with the Group's overall risk management process.

The specific nature of Veolia Environnement's activities (management of local public services with operations in more than seventy countries and relationships with a variety of representatives and counterparties) has led Veolia Environnement to adopt legal compliance rules to guide its employees in their activities and in the preparation of legal documents and to ensure compliance with such rules. In particular, these rules cover the Group's legal structure and notably the delegation of powers and monitoring thereof, and the selection of corporate officers. They also cover the reporting of major litigation (litigation and dispute reporting procedure) and large operating contracts, antitrust law, ethics, standard contractual clauses, sponsorship and patronage and commercial intermediaries. They are accompanied in certain instances by training programs.

The Legal Department set up (i) in 2004-2005, an "Ethics and Business Life" training program for 400 senior managers around the world, (ii) in 2007-2008, a "compliance with antitrust laws" training program in France and abroad for several thousand managers and (iii) in 2010, a "prevention of criminal law risk and awareness of the risk of corruption" program in France and abroad for around 1,600 people to date. In January 2009, it published a "Guide to Compliance with Antitrust Law" and, in November 2010, a "Guide to Managing Business Criminal Law Risk".

As a company with shares listed on the Paris and New York Stock Exchanges, Veolia Environnement must also adhere to certain rules concerning:

- Publications: a Disclosure Committee supervises and controls the collection and communication of information regarding the Company's French "document de reference" and US Form 20-F (see Section 4.3.6 below);
- Corporate Governance: notably regarding the composition and activities of the Board of Directors and its committees, relations between these entities and management, the provision of information to shareholders and the proper application of regulations applicable to listed companies (see Chapter 16 below);
- Insider Trading: to help prevent insider trading, Veolia Environnement has adopted a code of conduct governing trading in the Company's shares, which is regularly updated. Pursuant to this code, the Group's senior managers are deemed to be "permanent insiders" and trading by any of them in the Company's shares is prohibited, except during strictly defined periods and provided that they do not hold material inside information during such periods. These measures also cover so-called "occasional" insiders and in general all persons possessing confidential information. The Company revised its code of conduct in 2006 to take into account new regulatory requirements applicable to issuers and their executives (including compilation of a list of named "insiders" and reporting trades in the Company's shares executed by certain members of management) and completed additional updates in 2007 and 2008.

4.2.2.2.6 Management of risks relating to information system security

Veolia Environnement has established an Information Systems Security Policy (PSSI), representing a minimum common basis applied by the various businesses and the functional networks of the Group.

This PSSI pertains to:

- Terms and conditions of use (information system user charter);
- Infrastructures security (local and wide area networks, workstations, etc.);
- Security of application systems by complying with prevailing standards and best practices (SOX, ISO 27002, ITIL, etc.).

This policy is periodically reviewed so as to be consistent with trade practices and potential risks. A major review is planned for 2012.

4.2.3 Insurance

4.2.3.1 Objectives

Veolia Environnement Group's insurance procurement policy, for all of its divisions, has the following objectives:

- Subscribing common insurance policies to implement a coherent risk transfer and coverage policy designed to maximize economies of scale, while taking into account the specific characteristics of the Group's businesses and legal or contractual constraints; and
- Optimizing thresholds and the means for accessing the insurance or reinsurance markets through use of appropriate deductibles.

4.2.3.2 Implementation of the insurance policy

Insurance policy

Veolia Environnement's insurance policy involves (i) defining the global insurance coverage policy for the Group's activities particularly based on the expression of the needs of subsidiaries, (ii) selecting and entering into contracts with outside service providers (brokers, insurers, loss adjusters, etc.), (iii) leading specialized consolidated subsidiaries in insurance or reinsurance services, and (iv) leading and coordinating the network of insurance managers of the main subsidiaries.

Implementation

The policy of covering risks through insurance is implemented in coordination with Veolia Environnement's global risk management process (see Section 4.2 above). Implementation takes into account the insurability of risks associated with Veolia Environnement's activities, the availability of insurance and reinsurance coverage on the market and the premiums proposed compared with the level of coverage, exclusions, limits, sub-limits and deductibles.

The main actions undertaken in 2011 primarily concerned:

- The continuation of efforts to identify, prevent and protect against risks, in particular through a rating system corresponding to the "property damage and business interruption" risk profile of Veolia Environnement's most important facilities throughout the world;
- The ongoing roll-out of Group programs;
- The organization of broker services for the placement and administration of Group insurance programs.

4.2.3.3 Main Group insurance policies

Third-party liability

The general third-party liability and environmental damage program was renegotiated on July 1, 2011, for the whole world (excluding the US and Canada) for a period of three years. Initial coverage of up to €100 million per claim was subscribed. In the US and Canada, several contracts cover third-party liability and environmental damage for Group subsidiaries, up to a maximum of US$50 million per claim and per year.

For all Group subsidiaries worldwide, an insurance program provides excess coverage of up to €400 million per claim, in addition to the basic coverage of €100 million outside the US and Canada, and of €450 million per claim in excess coverage over and above the basic coverage of US$50 million in the US and Canada. This program encompasses liability resulting from environmental damage sustained by third parties as a result of a sudden and accidental event.

Third-party liability coverage for terrorist acts is included in the general liability program set-up for three years on July 1, 2011, with coverage of up to €200 million per claim and per year, excluding the US and Canada. Coverage for the US and Canada is €150 million per claim and per year, in addition to coverage of US$50 million.

Certain activities, such as maritime transport, automobile and construction, have their own specific insurance policies.

Property damage and business interruption

All four Veolia Environnement divisions are covered by property damage insurance policies, insuring the installations they own as well as those they operate on behalf of customers. The Group insurance program provides either “business interruption” coverage or “additional operating cost” coverage depending on each subsidiary's ability to use internal or external solutions to ensure service continuity. These policies contain standard insurance market terms.

The Group damage insurance program initially set up on January 1, 2007 for a period of three years was extended to January 1, 2012 to maintain existing competitive insurance coverage.

The level of premiums, deductibles and sub-limits for exceptional socio-political or natural events reflects the terms proposed, or sometimes required, by insurers in the markets in which the risk is underwritten. Group insurance coverage carries a limit per event of €300 million per claim. Some of this coverage includes additional sub-limits per claim or per year.

4.2.3.4 Self-insurance and retained risks

For any insured claim or loss, Veolia Environnement remains liable for the deductible amount set out in the policy. This amount may range from several thousand euros to more than one million euros.

The Group self-insurance system is entirely based on its reinsurance subsidiary, Veolia Environnement Services-Ré, which retains a self-insured risk of €1.5 million per loss for the coverage of the third-party liability risk and €2.5 million per loss for the coverage of property damage risks and resulting financial losses, thereby limiting the accumulation risk.

For both property damage and third-party liability, Veolia Environnement Services-Ré has set up reinsurance contracts to limit its exposure to frequency risk (“stop loss”-type contracts).

The insurance policy described above is constantly changing in response to the constant appraisal of risks, market conditions and available insurance capacity. Veolia Environnement ensures that the main accidental and operating risks brought to its attention are covered by the insurance markets, when insurance is available on the market and it is economically feasible to do so.

4.3 Audit and internal control

4.3.1 Definition and objectives of internal control

The purposes of the internal control procedures in force within the Group are:

- To ensure that management acts fall within the framework defined by applicable laws and regulations, the corporate bodies and the values, standards and rules of the company as well as the strategy and objectives defined by general management.
- To ensure that the accounting, financial and management information communicated to the Company's corporate bodies honestly reflects the activity and position of the Company and the Group.

The main objective of the internal control system is to prevent and manage the risks arising from the company's businesses and particularly the risks of errors or fraud in accounting and finance. Like any control system, however, no absolute guarantee can be provided that these risks are completely eliminated.

The scope of accounting and financial internal control includes the parent company and the companies consolidated in the Group's consolidated financial statements.

4.3.2 Organization and procedures relating to the development and processing of financial and accounting information

Organization

The Systems and Business Processes Department, a branch of the Group Finance Department, is responsible for coordinating the work of functional departments in identifying, standardizing and making more reliable the key processes for producing the Group's financial information.

The Systems and Business Processes Department manages a network of internal control officers present in each division and operating unit. It focuses its activities on three areas:

- Formalizing and updating the key financial reporting processes in rolled-out and widely distributed procedures;
- Harmonizing financial management systems relating to their implementation;
- Ensuring employees possess the skills required by the organization.

Internal control relies initially on the effective management of all of the Group's business processes, including non-finance related processes (commercial, technical, human resources, legal and economic). The Internal Audit Department then conducts a rigorous appraisal of the application of the Group's rules.

All aspects of internal control, and especially financial and operational aspects, are essential to Veolia Environnement. The Group's ongoing objective is to maintain the right balance between the decentralization that is necessary for its service activities, the highest level of operational and financial control, and the dissemination of expertise and best practices. Veolia Environnement thus launched the development of an integrated management system to replace the various accounting systems currently used by the subsidiaries. The roll-out of this system, developed around management and internal control rules, has already commenced in France, Benelux and the UK.

Finally, a permanent training program for Group financial officers has been set up in conjunction with the internal training departments.

Within the Financial Services Department, the Financial Control Department is responsible for preparing the consolidated financial statements and financial documentation of the Group as well as defining and implementing the accounting principles, methods and management systems within the Group. It leads the analytical reviews of the interim and annual closings, the budget procedure and the monitoring of annual forecasts. In addition, the Financial Services Department leads the financial aspects of the work of the strategic plan.

The Internal Audit Department performs assignments in the entire Group, according to a charter and an annual program. The Audit Department is made up of 29 people and the Audit Director reports to the Group Chairman and Chief Executive Officer. The Audit Director participates in meetings of the Accounts and Audit Committee and periodically presents to it an activity report summarizing procedures performed, the follow-up of recommendations as well as the annual audit program.

The objective of the Veolia Environnement Internal Audit Department is to appraise risk management, control and corporate governance processes and to contribute to their improvement through a systematic and methodical approach. This appraisal covers all aspects of internal control and in particular the accuracy and integrity of financial information, the effectiveness and efficiency of operations, the protection of assets and compliance with laws, regulations and contracts.

The Internal Audit Department operates based on two main mechanisms:

- The implementation of an annual audit program approved by the Company's Accounts and Audit Committee;
- A detailed and formal appraisal of internal controls prior to issuing the internal control report published each year, commencing fiscal year 2006, in accordance with the provisions of the 2002 Sarbanes-Oxley Act.

In 2006, the Group Internal Audit Department was certified by the French Audit and Internal Control Institute (IFACI). This certification, confirmed annually since then, relates to professional standards and benchmarks and attests to the Internal Audit Department's ability to fulfill its role.

Procedures

In addition to the Group procedures, detailed by process and accessible in French and English on the intranet and prior to each accounts closing, an instruction memorandum is sent by the Financial Control Department to those responsible for preparing the consolidated financial statements of the divisions. It identifies all of the information necessary for preparing published financial documentation. It recalls the new accounting regulations and texts and details their application procedures.

The financial statements come from the financial reporting system.

Upon receipt of the financial statements, review meetings are organized between the Group Finance Department and the division Finance Departments. Their purpose is to verify that the financial statements were prepared according to the rules, understand changes in the main aggregates and indicators in relation to the previous accounting year and budget forecasts as well as to analyze the substantiation of the main balance sheet components. A consolidated reporting package is presented to the Executive Committee each month (with the exception of January and July).

The statutory auditors also have access to the analyses performed by the Group Finance Department by participating in review meetings at division and Group level. They also perform procedure reviews.

Regulatory context

Over recent years, several laws have increased the reporting and internal control requirements of companies.

Pursuant to the provisions of Article L.225-37 of the French Commercial Code (*Code de commerce*), as amended by the Law of July 3, 2008, Veolia Environnement must report to shareholders in a report prepared by the Chairman of the Board of Directors and approved by the Board, on the make-up of the Board of Directors and the preparation and organization of its activities and the internal control and risk management procedures implemented by the Company. The report must provide detailed information relating to the procedures for the preparation and processing of accounting and financial information as well as the principles and rules adopted by the Board of Directors to determine the remuneration and benefits-in-kind granted to corporate officers and any limits placed by the Board of Directors on Executive Officer powers. Since the Law of July 3, 2008, whenever a company voluntarily refers to a corporate governance code drafted by an outside association that represents corporations, the report must also indicate the provisions of such code which were not adopted and the reasons for such rejection. Finally, it must detail any specific procedures governing the participation of shareholders in general meetings.

The report of the Chairman of the Board of Directors prepared in accordance with the provisions of Article L. 225-37 of the French Commercial Code will be presented to the Annual Shareholders' Meeting of May 16, 2012, together with the statutory auditors' report prepared in accordance with Article L. 225-235 of the French Commercial Code and is appended to this registration document.

In addition, as a company listed on the New York Stock Exchange (NYSE), Veolia Environnement is subject to the requirements of the US Sarbanes-Oxley Act of 2002 and in particular Article 404 on the adequacy of internal control over financial reporting. Since 2006 this law requires the Chief Executive Officer and the Chief Financial Officer of all US listed companies every year to attest to the existence of internal financial control procedures and give reasonable assurance as to the reliability of the process of preparing the financial statements.

As a French company listed in the United States, Veolia Environnement must comply with both sets of regulations.

In this context, Veolia Environnement launched a process in 2005, which enabled the Company to certify the efficiency of internal controls at Group level as of December 31, 2006. This assessment process has been repeated each year since then and is based primarily on the roll-out, in over 400 subsidiaries, of an electronic application composed of self-assessment questionnaires and tests, which allow for the traceability of controls performed to be documented. Over 1,200 people contribute to this corporate project, while nearly 23,000 key controls are performed annually.

This task, managed by the Internal Audit Department, is implemented in concert with management of the divisions concerned and in close collaboration with the statutory auditors, under the supervision of the Accounts and Audit Committee of Veolia Environnement.

This analysis was conducted based on the following criteria: potential impact on internal financial control and level of dissemination (percentage of entities indicating a risk and verification of the materiality of the entities concerned where appropriate).

Legal requirements aside, this project resulted in key changes, in particular the appropriation of a stringent appraisal process appropriate for the Group's decentralized culture and organization, and a positive momentum strengthening not only rules but also the collective awareness of these issues.

4.3.3 Control duties of functional departments

Within the Financial Services Department, the Group tax unit contributes to the definition of consistent procedures for the management of taxes within the Group. An organization memorandum on the Group tax function updating the duties, means, responsibilities and operating principles of the network of tax professionals has been established. The tax specialists of each division, in conjunction with the Group tax unit, are responsible for the application of tax procedures by a network of correspondents located in the Group's operating units. The Group tax unit is closely associated with the closing process for the calculation of the tax expense.

The Financing and cash unit helps define management rules and procedures for the implementation of financing, the management of cash surpluses and the management of interest and foreign exchange rates within the Group. Together with the financing and cash unit, Division Cash Managers are responsible for applying these rules within the Group's operating units.

The Standards and balance sheet valuation unit is responsible for defining Group accounting policies in compliance with IFRS and ensuring their correct application within the Group, both for standard transactions and transactions impacting the Company's assets, through supervising the network of Accounting standard officers in the divisions. This unit is also responsible for monitoring, controlling, and valuing employee commitments and Group market transactions (middle-office and control of related financial risks).

Control structures are also developed within the divisions and subsidiaries of the Group.

Each division has a Finance Department whose responsibilities include the preparation of the consolidated financial statements and the budget procedure for the division. More broadly, several Group procedures are rolled out in the divisions according to defined delegation thresholds. An example is the investment selection procedure.

In each subsidiary, specific procedures can be established based in particular on the activity, the geographical location or the composition of the share ownership of the Company.

4.3.4 Evaluation of internal control over financial reporting (Section 404 *Sarbanes-Oxley Act)*

Pursuant to US law and for the 2010 annual report (*Form 20-F*) filed in 2011 with the SEC, the Company's general management prepared an internal control assessment report concluding with reasonable assurance as to the reliability of the financial reporting and the preparation of financial statements according to IFRS. This assessment also resulted in a positive opinion from the statutory auditors. Each fiscal year, the Company implements action plans dealing with specific identified weaknesses.

The steering and coordination of internal control at Group level is performed by general management and the functional departments involved. The Risk Committee and the Disclosure Committee formed by general management also contribute to this.

During the second quarter of 2011, the Company was informed of a significant accounting fraud affecting the financial statements of the Marine Services activity in the United States, although not material in relation to the Group financial statements. While this fraud did not reveal a systemic deficiency in the company's control system, it prompted general management and the Finance Department to launch an action plan aimed at strengthening the effectiveness of operational control. A "process and control" function was made mandatory within the operating units. A code of conduct for financial professionals was defined: this code particularly provides for all financial managers and Systems and Business Processes managers to report to both functional and hierarchical management and formally recalls the responsibility and autonomy of financial managers in the effective performance of their operation control function.

The deployment of this system accompanied by training to raise the awareness of financial and operational managers of the risk of fraud should be finalized in mid-2012.

In addition, the Executive Committee has decided to reinforce the Group's alert system by extending its application to all major countries and by ensuring its proper dissemination in all of the subsidiaries.

4.3.5 Reporting on fraud

Under a continuous improvement approach, reporting on fraud has been implemented since 2006. As part of this, the financial and operational managers of the Group's subsidiaries must inform the Audit Director and the Chief Financial Officer of any fraud that comes to their knowledge that would have direct or indirect accounting consequences. Two major categories of fraud must be reported: (i) misappropriation of assets, particularly tangible or financial, cash or revenue from the company to an employee or persons with a close relationship with an employee; this category relates to risks described as "transactional" in the internal control classification and (ii) the incorrect presentation of the company's consolidated financial statements; this category relates to "reporting risks" in the internal control classification.

The Accounts and Audit Committee is informed once annually, and more frequently if necessary, of any such identified fraud. The lessons learned from this information are incorporated into the definition of plans and the content of audit assignments.

4.3.6 Disclosure Committee

The Disclosure Committee was created by the Chairman of the Executive Board and the Company’s Chief Finance Officer on December 11, 2002, the date on which the proposal to create such committee was submitted to the Company’s Executive Board. The meetings of the committee are chaired by the Chief Executive Officer.

In addition to the Chairman and Chief Executive Officer, the Disclosure Committee is composed of the members of the Company’s Executive Committee, the financial managers of each division and the key managers of the Company’s major centralized departments.

According to its internal regulations, the main duties of the Disclosure Committee are to oversee the implementation of internal procedures for gathering and verifying information to be made public by the Company, to define the procedures for preparing and drafting reports and communications, to review information communicated and to approve the final version of draft reports and communications, in particular Form 20-F, that are to be filed with the French and U.S. stock exchange authorities, as well as the manner in which they are published, filed or registered.

The Disclosure Committee meets as often as is necessary to perform its duties and, in any event, at least twice a year. It meets first before the end of each year to organize and initiate the process of drafting the registration document and Form 20-F for the past fiscal year, and it meets again before Form 20-F is filed with the U.S. Securities and Exchange Commission (SEC) in order to approve the content of this report. If necessary, the committee may meet before the announcement of any significant events.

The Disclosure Committee met twice in 2011. At its meeting of April 15, it reviewed, among other things, the procedures for preparing and approving Form 20-F before it was filed with the SEC on April 18, 2011, as well as the certificates required to be provided by the Chief Executive Officer and the Chief Finance Officer in accordance with U.S. stock exchange regulations. At its meeting of November 29, 2011, the Disclosure Committee mainly reviewed recent regulatory developments that could have an impact on the communication and publication of information intended for the market, in particular through the registration document and Form 20-F, and initiated the process of gathering information and drafting the annual reports for the 2011 fiscal year.

4.3.7 Internal information and communication

The procedures developed by Veolia Environnement are disseminated on the Group intranet.

The Managing and Finance Directors of the divisions submit representation letters to Group general management attesting particularly to the accuracy of the financial and accounting information communicated to the parent company and compliance with prevailing laws and regulations.

As specified in the first part of this report, the Accounts and Audit Committee of the Board of Directors works with the statutory auditors to examine the relevance and permanence of the accounting methods adopted for the preparation of the company and consolidated financial statements. It is regularly advised on the internal control system relating to financial and accounting information, the main procedures and measures implemented within this framework at Group level, as well as the content and implementation of the internal audit plan.

4.4 Ethics and vigilance

Present in 77 countries around the world, Veolia Environnement is particularly attentive to compliance with values and principles relating to human and social rights set forth in international laws and treaties.

These principles must take into account the Company's cultural diversity and emphasize environmental protection, one of the Company's foremost concerns. These principles must also take into account the Company's traditional values, which are based on proximity with customers, consumers and civil society.

4.4.1 “Ethics, Commitment and Responsibility” program

In February 2003, the Company implemented the “Ethics, Commitment and Responsibility” program, which was updated in 2004, 2008 and 2011. This corporate program seeks to guide the everyday behavior of Veolia Environnement employees. The “Ethics, Commitment and Responsibility” program reaffirms the fundamental principles shared by all Veolia Environnement employees, such as strict compliance with the laws of the different countries where Veolia Environnement operates, loyalty within the Company and to all stakeholders, social responsibility, risk control, quality information and effective corporate governance and a commitment to sustainable development.

Since 2009, the country delegates have been the ethics committee's correspondents on the program (see below). Since 2010, general management has entrusted the implementation and control of the Group's ethics policy to the Group Secretary General.

In 2004 and 2005, Veolia Environnement set up a program of awareness known as “Ethics and Business Life”, which was rolled out to 400 senior managers in France and abroad. The Ethics Committee attended all these seminars held to raise awareness of the “Ethics, Commitment and Responsibility” program, in order to gather the reactions and questions of the target audience.

Veolia Environnement continued these actions by developing and rolling out in 2008-2009 a training program on “compliance with antitrust laws”, in France and abroad, targeting more than 3,500 Group managers. This program consists of seminars, training handouts and e-learning. It was renewed in several countries by some divisions in 2010 and 2011. In addition, Veolia Environnement published a "Guide to Compliance with Antitrust Law" in several languages (French, English, German, Spanish, Italian, Chinese and Japanese) and distributed it within the Group in December 2008.

In late 2009, Veolia Environnement designed a training program on “prevention of the criminal law risk and awareness of the risk of corruption”. This program was rolled out within the Group in France in 2010 to more than 800 managers and has been in the course of being rolled out internationally since 2011 (around 800 people to date). In 2010 Veolia Environnement also published a “Guide to managing the business criminal law risk” in several languages (French, English, German, Spanish, and Italian), which has been distributed within the Group to more than 5,000 people to date.

These guides are available on the Company's intranet and website.

In 2011, an ethical action steering committee was established by the Group Secretary General, particularly in order to consider updating the program.

In addition, at the end of 2011, internal communication on the whistleblowing system was reinforced, and an internal audit assignment was carried out on the operation of this system in the United States in order to make recommendations for reinforcement.

4.4.2 Ethics committee

In March 2004, an Ethics Committee made up of independent members and governed by rules of procedure was established by the Executive Committee in order to examine any questions relating to the "Ethics, Commitment and Responsibility" program. It includes three to five members chosen by the Company's Executive Committee. The Committee elects a chairperson from among its members, who does not hold any special rights other than a deciding vote in the event of a tie. Members of the Committee can be employees, former employees or people from outside the Company, chosen from among candidates with good knowledge of the Group's businesses and a career situation guaranteeing independence of judgment and hindsight. The Committee's decisions are made by a majority vote. Its members are subject to a strict obligation of independence and confidentiality and are not authorized to announce their personal position externally. In order to guarantee their freedom of judgment, they may not receive any instructions from Company general management and cannot be removed during their term of office (four years, renewable).

The role of the Ethics Committee is to present recommendations regarding Veolia Environnement's fundamental values. It verifies that this program is accessible to all. Any issue relating to ethics can be brought before this committee by any employee or by itself. "Ethics visits" can be performed at any of the Group's operations. The goal of this approach is particularly to assess, through individual interviews with a sample of employees as representative as possible of the visited operation, the degree of ethical maturity of the employees, their knowledge of the Group's values, ethical problems that they may encounter and the training that they receive from their hierarchy or give to their employees on the subject.

In this way the Ethics Committee continued in 2011 the major review of the Group's employee standards commenced in 2008, with since 2009, visits to sites where the Company operates (Germany, Egypt, United Arab Emirates, Norway, Japan, South America).

The Ethics Committee is also the last resort for alerts that cannot be expressed to operating management about breaches of rules of conduct, and particularly those detailed in the Group's "Ethics, Commitment and Responsibility" program. This is the whistleblowing system. The committee is vested with all the necessary authority to carry out this mission; it can thus hear from any employee of the Group, the statutory auditors and any third party. It can also call on the Veolia Environnement Internal Audit Department or the services of outside experts. Starting in 2009, the committee has reinforced an internal communication program intended to increase awareness of this whistleblowing system. In order to increase its visibility within the Group, and particularly with non-managers, a comic strip was produced in 2010 describing its mission in a fun way, available in four languages. This comic strip is available on the Company's website.

In 2011, as in previous years, the Committee received few significant ethics alerts. The Committee reports on its work every year to the Accounts and Audit Committee and the Executive Committee.

5 Information relating to the issuer

5.1 History and development of the Company

5.1.1 History of the Company

The Company traces its roots back to the creation of Compagnie Générale des Eaux by Imperial Decree on December 14, 1853. During the same year, Compagnie Générale des Eaux won its first public service concession for the distribution of water in the city of Lyon, France. The Company developed its municipal water distribution activities in France by obtaining concessions in Nantes (1854), Nice (1864), a 50-year concession for Paris (1860) and its suburbs (1869).

In 1980, Compagnie Générale des Eaux reorganized its water activities by bringing together all of its design, engineering and operating activities relating to drinking water and wastewater treatment facilities within its subsidiary Omnium de Traitement et de Valorisation (OTV). At the same time, Compagnie Générale des Eaux expanded its business during the 1980s with the acquisition of Compagnie Générale d'Entreprises Automobiles (CGEA, which would become Connex and Onyx, and later Veolia Transport and Veolia Propreté) and Compagnie Générale de Chauffe and Esys-Montenay (which would merge to become Dalkia). It also began significant international expansion.

In 1998, Compagnie Générale des Eaux changed its name to "Vivendi" and renamed its main water subsidiary "Compagnie Générale des Eaux".

In April 1999, in order to better distinguish the separate existence of its two main businesses, communications and environmental services, Vivendi created "Vivendi Environnement" to conduct all of its environmental management activities, which were then conducted under the names Vivendi Water (water), Onyx (environmental services), Dalkia (energy services) and Connex (transportation).

On July 20, 2000, Vivendi Environnement shares were listed on the Premier Marché of Euronext Paris, which became the Eurolist of Euronext Paris on February 21, 2005 and Euronext Paris since January 1, 2008.

In August 2001, Vivendi Environnement shares were included in the CAC 40, the main equity index published by Euronext, and in October 2001 were listed in the form of American Depositary Receipts (ADR) on the New York Stock Exchange.

From 2002 to 2004, Vivendi Universal, progressively decreased its stake in the Company through successive disposals and dilution and, by December 2004, held only 5.3% of the Company's shares. Since July 6, 2006, Vivendi no longer holds any shares in Veolia Environnement (see Section 18.2 below).

In April 2003, the Company changed its name to Veolia Environnement.

Between 2002 and 2004, Veolia Environnement undertook a major restructuring in order to refocus on its core environmental services activities. This process was completed in 2004 with the sale of various U.S. subsidiaries in the Water Division and Veolia Environnement's indirect interest in Fomento de Construcciones y Contratas (FCC), a Spanish company whose activities include construction and cement activities.

In November 2005, Veolia Environnement rolled out a new brand policy aimed at increasing consistency between the Divisions of the Group, the visibility of the Company and strengthening the identity and common culture of Veolia Environnement around its service values. The Water, Environmental Services and Transportation Divisions are now united under a single brand, "Veolia", which is linked to the name of their activity. The Energy Services Division primarily operates under the brand "Dalkia" (see Section 6.2.5 below).

On May 4, 2010, the Caisse des dépôts et consignations and Veolia Environnement concluded their agreement on the Transdev-Veolia Transport combination by the creation of a 50/50 joint venture combining Transdev and Veolia.

As part of this transaction, Veolia Transport and Transdev were transferred by their shareholders to the newly created joint venture, Veolia Transdev. Prior to completing the transaction, Caisse des Dépôts et consignations subscribed to a €200 million share capital increase by Transdev.

Following completion of the combination, Veolia Environnement became the industrial operator of the new entity and Caisse des dépôts et consignations a long-term strategic partner.

On March 3, 2011, the transaction was effectively completed:

- following authorization of the combination by the relevant antitrust authorities and approval by the French Ministry of the Economy of the privatization of Transdev.
- following the final amendments to the shareholders' agreement in order to simplify measures regarding the governance of the new entity.

On December 6, 2011 in Paris, during the Investors' Day, the Group presented its strategic plan and mid-term outlook founded on the refocus of its activities and business portfolio and encompassing €5 billion in asset disposals over the next two years, the concentration of activities on the three main business lines (Water, Environmental Services and Energy Services) and the sale of rate-regulated Water activities in the United Kingdom and solid waste activities in the United States.

5.1.2 General information regarding the Company

Corporate Name and Registered Office

Since April 30, 2003, the name of the Company is Veolia Environnement. The Company's abbreviated name is VE.

The Company's registered office is located at 36/38, avenue Kléber, 75116 Paris. The telephone number is (33) 1 71 75 00 00.

Legal Form and Applicable Law

Veolia Environnement is a French *société anonyme à conseil d'administration* (limited liability company with a Board of Directors) subject to the provisions of Book II of the French Commercial Code (*Code de commerce*).

Date of Incorporation and Term

The Company was incorporated on November 24, 1995, for a term of 99 years beginning on the date of its registration in the Trade and Companies Register, i.e. for a term lasting until December 18, 2094.

Trade and Companies Registry

The Company is registered in the Paris Trade and Companies Register under number 403 210 032. The Company's APE business code is 7010 Z.

5.2 Investments

Total Group industrial investments, financial investments (enterprise value), new operating financial assets and transactions with non-controlling interests (partial purchases where there is no change in control) amounted to €3,134 million in 2011, compared to €3,256 million in 2010 and €2,970 million in 2009 (re-presented for replacement costs).

In response to the economic climate, the Group adopted a selective investment policy in 2011, without jeopardizing industrial investments that are contractually required or necessary to maintain industrial equipment.

A detailed description of investments made in 2011, as well as their financing, is set forth in Chapter 9, Section 9.1.4 (Acquisitions, divestitures and partnerships) and Section 9.3.2 (Net Investment Flows) and Chapter 20, Section 20.1, Note 6 (Concession Intangible Assets), Note 8 (Property, Plant and Equipment), Note 11 (Non-Current and Current Operating Financial Assets) and Note 42 (Reporting by operating segment) to the consolidated financial statements.

Veolia Environnement's investment strategy is focused on environmental activities, primarily in Europe, North America, and Northern Asia. These priority geographic areas have the following common characteristics: high urban concentration, legal stability and high level of client solvency. Besides these qualitative attributes, the quantitative profitability of the Group's investment choices (primarily profitability run rates, return on investment and capital intensity) is taken into consideration.

Veolia Environnement makes certain growth investments (financial investments and industrial investments) in order to capture new markets, win new contracts, increase capacity, or extend its services. Some investments in particular may be made over several years, primarily in certain types of concession arrangements. Veolia Environnement also makes financial investments in companies carrying contracts, particularly as part of privatizations and targeted acquisitions. All of these investments are carefully reviewed by the Commitment Committee in order to ensure they comply with the Group's standards of profitability, financial structure and risk.

The Group also carries out maintenance-related industrial investments consisting in the renovation and/or maintenance of existing infrastructure so as to extend its lifespan or improve efficiency.

In both cases, industrial investments are spread over a large number of entities and is subject to budget authorizations.

Major external growth investment projects over the last three years were as follows:

- in 2011: acquisition of SPEC and its subsidiary, Finpol, for an enterprise value of €227 million (Group share) in the Energy Services division;
- in 2010: acquisition of certain United Utilities Group businesses for an enterprise value of €193 million in the Water division and of New World Resources Energy Group for an enterprise value of €97 million (Group share) in the Energy Services division;
- in 2009: no major external growth operations were performed.

Finally, the Group is often subject to numerous types of price adjustment clauses as part of its divestitures and acquisitions activities. As of the date of this registration document, none of these price adjustment clauses are likely to have a material impact at Group level.

As of the date of this registration document, no material external growth transactions are planned.

6 Business overview

6.1 Main business activities

6.1.1 General description of Veolia Environnement

Veolia Environnement is a global reference in the environmental services sector[1], offering a comprehensive range of services and having the expertise necessary to define a service offer tailored to individual customer needs, whether the supply of water and wastewater recycling, waste collection, processing and recycling, the supply of heating and cooling services, and the optimization of industrial processes.

Veolia Environnement's operations are conducted through four divisions, each specializing in a single business sector: Veolia Eau (Water), Veolia Energie (Dalkia, Energy Services), Veolia Propreté (Environmental Services) and Veolia Transdev (Transportation, in the course of divestiture). Through these divisions, Veolia Environnement currently provides drinking water to 103 million people and treats wastewater for 73 million people in the world, processes nearly 60 million tons of waste, satisfies the energy requirements of hundreds of thousands of buildings for its industrial, public authority and private individual customers and transports more than 3.3 billion passengers each year. Veolia Environnement also develops service offers combining several Group businesses, either through several individual contracts or by combining services within a multi-service contract.

The following table breaks down Veolia Environnement 2011 consolidated revenue by geographical market and division, after elimination of inter-company transactions. Veolia Environnement has commenced withdrawing from the Transportation sector and, as such, the results of Veolia Transdev are presented in discontinued operations in the consolidated financial statements. Accordingly, Veolia Transdev revenue is not included in the following table (see Section 20.1, Note 4 below).

2011 Revenues

(in € million)	**Water**	**Environmental Services**	**Energy Services**	**Total consolidated**
Europe	**8,732.8**	**7,098.7**	**6,534.3**	**22,365.8**
of which France	4,560.1	3,384.2	3,515.1	11,459.4
of which Germany	1,519.3	1,210.2	9.5	2,739.0
of which the United Kingdom	811.6	1,626.0	194.2	2,631.8
of which other European countries	1,841.8	878.3	2,815.5	5,535.6
United States	**743.0**	**1,230.3**	**314.0**	**2,287.3**
Rest of the world	**3,141.3**	**1,411.2**	**441.7**	**4,994.2**
of which the Middle East	*281.0*	*105.1*	*93.4*	*479.5*
of which Oceania	*238.6*	*704.6*	*49.8*	*993.0*
of which Asia	*1,573.3*	*237.8*	*100.6*	*1,911.7*
of which Rest of the world	*1,048.4*	*363.7*	*197.9*	*1,610.0*
TOTAL	**12,617.1**	**9,740.2**	**7,290.0**	**29,647.3**

(1) Unless otherwise indicated, information and statistics presented herein regarding market trends and Veolia Environnement's market share relative to its competitors have been estimated by Veolia Environnement based on revenue figures published by competitors or by analysts.

6.1.2 Strategy

6.1.2.1 Veolia Environnement's strategy

Veolia Environnement is the number one global player in the environmental services sector. The Group's expertise is currently organized into four divisions – Water, Environmental Services, Energy Services and Transportation – to best serve our public authority, industrial and service-sector customers.

A substantial portion of our activities involve long-term contracts providing repeat business and visibility. Through tailored provisions reflecting the requirements of different markets, these contracts define a framework enabling economic and environmental performance efficiency gains to be realized across all technical, social and organizational aspects.

Over the last fifteen years, Veolia Environnement has adapted and developed a range of management models in several countries. This allows it to benefit fully from the growth potential of the environmental services market through the world, by positioning itself in areas of high economic growth in countries which have already adopted the outsourcing model and demonstrated they respect contractual commitments.

Due to the long-term nature of its commitment, the extent of needs which also represent opportunities and the impact of its activities on the environment, Veolia Environnement aims for balanced and responsible growth in all aspects. It must take account of the long-term interests of all stakeholders – shareholders, lenders, employees and customers.

Faced with a changing global environment presenting new challenges, Veolia Environnement has adapted and remodeled its structure.

The financial crisis in Europe and the downturn in public finances in mature countries have increased pressure on selling prices and require tighter cost control. At the same time, expanding demand for environmental services (accelerated urbanization, new regulations, etc.) in high-growth as well as developped countries, presents substantial development opportunities that must form part of a selective growth policy. As the corporate reference in sustainable development, Veolia Environnement is supported by solid fundamentals, leading positions in several markets, an extensive portfolio of long-term contracts and growth platforms in several emerging countries.

During 2011, Veolia Environnement launched a transformation policy aimed at:

- increasing its positions in high-growth markets;
- maximizing its competitive advantages;
- developing synergies between its different businesses;
- strengthening its leading positions.

This transformation policy comprises several components:

- refocusing the business, thereby enabling a decrease in net financial debt;
- simplifying and tightening the organizational structure;
- cutting costs.

With greater financial flexibility and a service offering focused on high added-value service and technology solutions, Veolia Environnement will be well placed to seize profitable growth opportunities.

Stepping-up business refocusing and debt reduction measures

To attain this objective, Veolia Environnement launched a €5 billion disinvestment program for the period 2012/2013: as well as refocusing on core geographical regions, on December 6, 2011, the Group announced a disposal program, primarily targeting the following assets for divestiture:

- the Transportation business;
- rate-regulated water subsidiaries in the United Kingdom;
- solid waste activities in the United States.

Veolia Environnement no longer believes that the Transportation business has its place within the Group, following an increase in the capital intensity of this business (held 50% with Caisse des dépôts et consignations since March 3, 2011) and given the limited nature of synergies with the Group's other businesses. Rate-regulated water subsidiaries in the United Kingdom offer only reduced growth potential and are not part of the Group's priority core markets. Finally, following a number of disposals in the environmental services sector in the United States in 2009, the critical size of the Group in this country and this sector is insufficient to justify continuing solid waste activities in this region. The disposal program forms part of the debt reduction policy, which aims at bring net financial debt below €12 billion(1) by the end of 2013.

Simplifying and tightening the organizational structure

The Group has launched a far-reaching transformation project aimed at standardizing its processes, strengthening control and operational management and simplifying the organizational structure. The implementation of the Convergence plan is essential to this transformation and involves:

- the rationalization of organizational structures across all Group entities:
  - redefinition of responsibilities at all management levels,
  - greater control by functional teams,
  - standardization of processes.
- and a pooling process:
  - certain support functions within the regions,
  - procurement and system and technology infrastructures,
  - marketing resources, to improve and standardize commercial offerings and solutions proposed to public authorities and industrial companies.

Cost reduction program

By continuing the Efficiency Plan implemented in 2003, Veolia Environnement aims to boost the Group's operational performance and generate gross savings of €225 million in 2012 (excluding divestitures) and annual savings of €270 million from 2013 (excluding divestitures). Under the terms of certain contracts in which the Group undertakes to generate savings to be shared with the customer, some of these savings will be passed-on.

The "Convergence" plan aims to generate further savings, in addition to those produced by the Efficiency Plan, by reducing administrative, functional and operating costs in the short-term and through the transformation of the organizational structure in the long-term.

The Group's objective under the "Convergence" plan is a net impact on operating income of negative €20 million in 2012, followed by a positive impact of €120 million in 2013, €220 million in 2014 and €420 million in 2015 (after divestitures).

---

(1) excluding year-end foreign exchange impacts

Seizing profitable growth opportunities

With greater financial flexibility and through a strict and disciplined growth policy, the Group will concentrate its efforts on profitable organic growth opportunities arising from its technological, commercial and human resource expertise and wide range of high added-value environmental services.

Investment will be focused, in priority, on meeting the objectives set by the transformation program: processing or recovering highly complex pollution, offering solutions to deal with the increasing rarity of resources, managing large-scale public services with efficiency, offering public and industrial customers cutting-edge solutions to increasingly complex challenges. It will enable the Group to seize the best growth opportunities and should reflect a region/business mix offering the highest levels of profitability. Investment will be focused on the water sector (management of major networks, etc.), environmental services (hazardous waste processing, integrated contracts in the United Kingdom etc.) and energy services (local production and optimization), as well as high added-value service management and offerings for industrial companies. The Group will continue to develop in the European Union, as well as in North America and Northern Asia where it already has a strong presence. Finally, the Group will accompany major industrial customers as they expand their geographical presence, particularly in emerging countries and Australia.

The Group also launched negotiations with EDF to rejuvenate the partnership between the two groups in a bid to optimize synergies and simplify and strengthen the governance of their joint energy services subsidiary.

At the end of 2013, the new Group should comprise three divisions operating in the water, environmental services and energy services sectors. The organizational structure will enable greater reactivity and the Group will enjoy increased financial flexibility and operating cash flow enabling it to seize growth opportunities in mature countries where it has leading positions, as well as in developing countries.

6.1.2.2 Veolia Environnement’s strategy by division

Water

Veolia Environnement’s Water division intends to continue expanding its services around the world, while striving to ensure the quality and safety of the water it provides, conserve natural resources and protect the environment.

Veolia Eau will continue to optimize the allocation of its resources, operating costs and profitability, both in its “Operating” and “Technology and Network” businesses. Veolia Eau has a three-pillar strategy:

- pillar one comprises municipal activities where capital intensity is high (e.g. in China, Germany and Central Europe) or growing (France). High capital intensive municipal activities involve a public client and substantial investment for acquisitions (i.e. privatizations) or to build or modernize infrastructure. Through sustained organic growth, the aim is to increase the profitability of Chinese assets, reorganize and rationalize Veolia Eau activities in France, due to significant pressure on margins and invest selectively in Eastern and Central Europe;
- pillar two includes low capital intensive municipal activities, such as operating activities in the United States and Japan and Technology and Network activities for municipal customers. Low capital intensive municipal activities involve a public water company (generally owned by the municipality) and the provision of technical services such as asset management, maintenance optimization or subscriber relationship management services. In the case of operating activities, the aim is to capitalize on Veolia Eau’s expertise in asset renewal management, operating customer services and operating drinking water and wastewater treatment plants, and in the case of Technology and Network activities, to propose high-tech offerings;

- pillar three comprises industrial customer activities in the Operating and Technology and Networks sectors. These activities are performed at customer sites (primarily in emerging countries) and focus on three major industrial sectors:
  - heavy industry or industrial sectors exposed to substantial environmental restrictions, such as the mining or petroleum industries,
  - industries subject to strict specifications governing the use of water (e.g. food industry, cosmetics or semi-conductors),
  - industries discharging recoverable effluents, such as the petrochemical industry, or enabling the recovery of energy sources such as biogas in certain treatment sectors.

In each of these pillars, the Water division aims to stand out from the competition through the high-tech content of its offerings.

Environmental Services

Through its Environmental Services division, Veolia Environnement intends to continue its expansion as the global benchmark in the management and recovery of waste.

Demand in this sector is rising, driven by growing environmental awareness, resulting in increased regulation and higher public expectations in a number of countries, and by the increasing rarity of raw materials and energy which tends to accelerate the transformation of waste treatment and recovery methods. Depending on the local market, current trends are towards waste recycling and reduced landfilling. As a result, experts who can provide long-term services under cost-effective conditions and in compliance with environmental regulations are highly sought after. The transition towards a model with a higher recycling component also involves increased exposure to fluctuations in energy and material prices.

In this changing context, Veolia Propreté will focus its efforts on:

- transforming its activities at a rate consistent with local requirements;
- developing industrial hazardous waste processing and recycling activities, profiting from its competitive advantages and the high added value of its services;
- adapting its collection activities to reflect current market conditions (reduced volumes, significant pressure on prices) and demand for collection systems with a higher technology component;
- accelerating the transformation of waste processing methods away from elimination and towards recovery,
- increasing the profitability of its activities by renegotiating fees, maximizing the use of its production tools and reducing structural costs (particularly by adapting them to activity levels, which tend to mirror economic cycles), while seeking, wherever possible, to generate economies of scale with the Group's other businesses;
- strengthening control of risks relating to energy price volatility;
- continuing a strict and disciplined growth policy, with controlled investment.

The following growth sectors have been identified and prioritized:

- non-hazardous waste recovery in Europe;
- the treatment and recycling of industrial hazardous waste;
- PFI (Private Finance Initiative) and PPP (Public-Private Partnership) integrated waste management contracts in Europe;

The division plans to sell its solid waste activities in the United States and focus on industrial services and hazardous waste, in order to profit from synergies with industrial activities in the Water division.

Energy Services

Through its Energy Services division, Veolia Environnement is a global player in the energy services market. Dalkia provides innovative solutions for the sustainable growth of cities and companies.

In a context of climate change, energy price volatility and increasingly rare resources, Dalkia places its expertise at the service of public authorities and companies to develop, design and manage energy solutions with a higher technology component, more environmentally friendly and less expensive.

Energy needs continue to rise while resources become increasingly rare and expensive, with crude oil prices driven by global demand nearing U.S.$100 the barrel in 2011, and as environmental regulations are tightened. In this context, where energy must remain a factor of shared progress, as was the case for coal and crude oil in the last two centuries, energy and environmental efficiency is essential to meeting the energy challenges of the 21st century. It is also Dalkia's business.

Dalkia's core business focuses on optimizing the use of all sources of energy at customer sites, industrial production sites, service-sector sites and in all types of buildings. Dalkia has progressively developed a range of activities based on energy and environmental efficiency: heating and cooling networks, industrial utilities and energy services.

Its strategy focuses on establishing itself as a leader in the roll-out of new solutions which will accompany the energy revolution of the coming decades towards a more sustainable world, less energy-hungry and more respectful of the environment and climate stability. Priority is given to biomass-based offerings and energy-performance contracts.

Dalkia also intends to refocus its activities on its core businesses and the priority regions for the development of the Group where:

- roll-out of the three target activities is possible: heating networks, energy services and industrial utilities;
- local market factors are favorable: severe weather conditions, energy market characteristics, ability to form partnerships with the private sector, growth potential, public policies favorable to the development of target markets;
- Dalkia can become a major player in the market within five years and can mobilize synergies with Veolia Environnement's other activities or those of EDF.

France, Continental Europe, the United Kingdom/Ireland, North America, China and the Gulf States have already been identified as priority geographical regions.

Transportation

In December 2011, the Group decided to focus its activities on three business lines and withdraw from the Transportation business which is performed though Veolia Transdev, a 50/50 joint venture with Caisse des dépôts et consignations, since the combination in March 2011 of the subsidiaries Veolia Transport and Transdev. The Group will privilege an ordered process with a progressive withdrawal from Veolia Transdev.

Veolia Transdev aims to become a major transportation service provider on a worldwide scale. Its strategy is based on:

- strengthening its profitability, by benefiting from synergies generated by the combination of the subsidiaries Veolia Transport and Transdev, the implementation of performance and efficiency plans and improvements to the performance of certain loss-making contracts;
- a geographical refocus on certain regions, involving the consolidation of activities in major countries; priority will be given to the development of high added value activities (particularly transportation-on-demand) and a study of disposal projects for certain other activities.

The major challenges in this sector are tied to an ever-rising demand for transportation, with growing requirements in terms of fluidity and flexibility. Public transportation networks must also take account of environmental concerns and propose increasingly-performing solutions to improve the quality of city travel and reduce car congestion.

6.1.3 Description of Veolia Environnement's main businesses

6.1.3.1 Water

Veolia Environnement, through Veolia Eau-Compagnie Générale des Eaux, is the world's leading provider of water and wastewater services to public authorities and industrial companies[1]. In addition, Veolia Eau, through its subsidiary Veolia Water Solutions & Technologies, is one of the world's leaders in the design of technological solutions and the construction of structures for the performance of such services. Veolia Eau provides drinking water to more than 103 million people and supplies 73 million people with wastewater services.

As of December 31, 2011, Veolia Eau had 96,651 employees around the world[2]. The Water division is present in sixty-nine countries, principally in France for historical reasons, but also in the United Kingdom, Germany, Italy, Belgium, the Czech Republic, Slovakia and Romania. The Asia-Pacific region (mainly China, Korea, Japan and Australia) also remains an important development objective, with the signing of a number of major contracts with municipal and industrial customers over the past several years. Veolia Eau also has a presence in the United States through its contracts for the operation and maintenance of water and wastewater treatment plants, including its contract with the city of Milwaukee. Finally, Veolia Eau is present in the Middle East and Africa and primarily in Morocco and Gabon. Thanks to its network of research centers in France and abroad coordinated by the Group, Veolia Eau has mastered numerous major technologies and tools within the water sector. Veolia Eau is therefore able to offer highly-skilled services in the areas of health protection, spillage reduction, productivity enhancement of water networks and plants, and preservation of resources.

Combined with its strong local presence and more than 150 years of experience providing services to municipal and industrial customers, Veolia Eau's technical expertise is a significant advantage in the extremely competitive water services market. Increased demand within the water services market has been substantially driven by customers seeking to optimize the management of their existing resources, whether they be municipalities seeking to respond to the trend towards urbanization, or industrial customers. New solutions, such as desalination of seawater, a sector where Veolia Eau recently excelled in the Middle East, or the re-use of treated water, may represent an appropriate response to specific situations.

The following table shows the consolidated revenue (revenue from ordinary activities under IFRS) and operating income of the Water division, after elimination of inter-company transactions.

Water*

(in € million)	**Year ended December 31, 2011**	**Year ended December 31, 2010 re-presented****	**Change 2011/2010**
Revenue	12,617.1	12,250.3	3.0 %
Operating income	860.5	1,046.1	-17.7 %

* *Including Veolia Environnement's share in the results of the water activities of Proactiva, Veolia Environnement's joint venture with FCC and of the activities of Artelia.*

** *In accordance with IFRS 5, Non-current assets held for sale and discontinued operations, the Income Statement of Proxiserve in the Water division (sold at the end of 2011) is presented in a separate line, Net income from discontinued operations. Furthermore, water activities in Gabon transferred to discontinued operations in 2010 with a view to their disposal were added back in the different income statement accounts in 2011 following the interruption of the divestiture process at the beginning of 2011.*

(1) *Source: Pinsent Masons Water Yearbook 2011-2012.*

(2) *Employees managed as of December 31, 2011.*

Overview of the Water business

Veolia Eau manages municipal drinking water and/or wastewater services on five continents through a geographical structure featuring a strong local presence. Contracts with public authorities are typically long-term and range from ten to twenty years in length and potentially up to fifty years under certain circumstances. These contracts take various forms, tailored to the needs and goals of the public authority, and may include outsourcing contracts, public-private partnerships, concessions, BOT (Build, Operate & Transfer) contracts, DBO (Design, Build & Operate) contracts and others. They are generally contracts that involve the operation, design or construction of installations, with the public authority usually remaining the owner of the assets (except in the United Kingdom) and retaining authority over water policy. Changes in legislation and to certain framework agreements have enabled Veolia Environnement to integrate more elaborate mechanisms into its contracts allowing it to share in the added value (productivity gains, improvement in the level of services, efficiency criteria, etc.). Public authorities often rely on Veolia Eau to manage customer relations and the Group is constantly improving the efficiency of its services and specific information systems. In certain countries where public authorities have sought to either implement new water and wastewater treatment systems or to improve the functioning of existing ones, Veolia Eau offers feasibility studies and technical assistance, which may include research plans, coordination and acceptance, network modeling and financial analysis. Outsourcing contracts with industrial and commercial customers generally have a term of three to ten years, although certain contracts have terms of up to twenty years.

Service contracts with Public Authorities and Industrial Customers

The main focus of Veolia Environnement's water business is on water and wastewater management services for public authorities and industrial customers. Veolia Eau provides integrated services that cover the entire water cycle. Its activities include the management and operation of large-scale, customized drinking water plants, wastewater decontamination and recycling plants, drinking water distribution networks and wastewater collection networks. Veolia Eau also manages customer relations, providing billing services and call centers, etc. Veolia Eau and its subsidiaries have provided outsourced water services to public authorities in France and in the rest of the world for more than 150 years under long-term contracts tailored to local environments. Veolia Eau continues to develop its service offering for industrial customers, capitalizing on its local presence in many regions and an appropriate organizational structure.

Engineering and Technological Solutions for the Treatment of Water

Through its Technology and Network activities, Veolia Eau develops technological solutions and designs/builds the infrastructures necessary to provide water services on behalf of public authorities and industrial and service sector customers. In addition, Veolia Water Solutions & Technologies designs, assembles, manufactures, installs and operates modular standardized and semi-standardized equipment, which is both reliable and high-performing, designed to treat water for municipal and industrial uses. A local technical assistance network is available at all times for the upkeep, maintenance and customer service of these installations. Veolia Eau treats groundwater, surface water, brackish or seawater, wastewater and refined sludge. Thanks to the combination of physical, chemical and biological treatments, Veolia Eau has developed a comprehensive range of specific solutions for the purification of water or the reduction or elimination of impurities in effluents. The recycling/reuse systems installed by Veolia Eau provide customers with the ability to circulate part or all of their treated water back into plant processes, thereby reducing water consumption, operating costs and environmental damage. Through SADE, Veolia Eau also designs, builds, renews and recovers urban and industrial drinking water and wastewater networks and related infrastructures, in France and around the world. SADE's services cover each stage of the water cycle, from collection to release, and its public and industrial customers benefit from SADE's experience in this area.

Key factors

The key factors that may influence the activities of Veolia Eau are of a technical, contractual and economic nature. They mainly concern the following success factors:

- The key factors potentially impacting the "service contracts with public authorities and industrial customers" business are, from an economic point of view, trends in volumes billed, the ability to obtain, within the planned time-period, price increases in line with Group objectives and the ability to implement cost cutting programs. From a technical point of view, the ability to satisfy service commitments negotiated with the customer or regulator and, from a commercial point of view, the ability to renew existing contracts under satisfactory terms and conditions in a highly competitive environment, are also essential. The division's ability to control costs and impose favorable terms and conditions in its contracts are key success factors, particularly in the operating business in France.

The following table presents annual revenue generated by certain of these contracts which are to be renewed or renegotiated during the period 2012 to 2014:

City	2010 Revenue (in € million)	Contract expiry date
Marseilles	112	2013
Lyon *	100	2016
Toulouse – Water treatment	48	2020
Toulouse – Drinking water	42	2020
Nice **	36	2017
Montpellier	20	2014
Toulon	21	2019

* *This contract, scheduled for renegotiation in 2012, is concerned by the "'Olivet Commune" Order: contract term beyond February 2015 is not confirmed (see Section 6.2.4 below).*

** *This contract is concerned by the "'Olivet Commune" Order: contract term beyond February 2015 is not confirmed to date (see Section 6.2.4 below).*

- The Engineering and Technological Solutions business is potentially affected, at an economic level, by the rate of projects launched by public authorities and certain major industrial companies, as trends in demand levels have a direct impact on the order book. Continued technological leadership in tender bids and the ability to manage constraints and master technical solutions in the performance of contracts, are determining factors. Finally, at a contractual level, meticulousness in the negotiation and performance of contracts are also key factors in this sector (particularly the ability to meet deadlines and cost budgets).

Description of activities in 2011

Veolia Eau activity levels increased slightly year-on-year in 2011 (+3.0%) and were marked by a minor slowdown in operating activities in France, mainly due to the new contractual terms and conditions of the Paris suburbs contract (Syndicat des Eaux d'Ile de France (SEDIF) contract renewed in 2010), strong growth in Europe following the acquisition of certain United Utilities businesses in 2010 and modest growth in Asia.

The Technologies and Network business reported a slight increase at constant exchange rates and consolidation scope (+0.6%), as completion of the desalination worksites in the Middle East was more than offset by the marked recovery in industrial activities and the start-up of work on the Hong Kong sludge incinerator.

In France, Veolia Eau provides approximately 24 million residents with drinking water and 17 million with wastewater services. Public service delegated management contracts renewed in 2011 represent expected total cumulative revenue of €1.01 billion in a highly competitive environment. The major successes of the period include the Montauban 9-year public service delegation contract. This city with a population of 58,000 decided to place its confidence in the delegated management model. Other successes include the renewal of drinking water contracts for the cities of Perpignan, Mandelieu, Ville du Port in the Réunion and Beauvais. The main contract renewals include wastewater treatment contracts with Perpignan and the Melun Val de Seine Conurbation and the Caen and Aix en Provence wastewater treatment plants. Veolia Eau also lost a number of contracts and particularly the operating contract for the provision of drinking water to the cities of Hyères and Rambouillet and for the Angers wastewater treatment plant. Overall, lost annual revenue represented by these contracts was offset by new public service delegation contract wins (services previously rendered by local authorities or the competition) and service contracts wins.

In this context and with the continued fall in unit consumption (down approximately 1% on volumes sold in 2010), Veolia Eau launched the reorganization of its activities in France (Hellébore project) to increase standardization of its operations and strengthen resources allocated to commercial development.

In addition, Veolia continues to respond to the “ecological emergency” and proposes services with an exemplary environmental footprint in terms of both resource use and carbon emissions.

Over and above the favorable impact of the acquisition of United Utilities activities at the end of 2010, activity rose significantly in Europe (6.2% increase in revenue at constant consolidation scope and exchange rates) mainly due to a rise in volumes observed by our German companies and the impact of price increases in the Czech Republic and Romania.

In Asia, 2011 was marked by further price increases in China (e.g. Shenzhen), by a surge in activity in Japan following the earthquake in March 2011 and by the completion of the Adelaide contract in Australia.

In the United States, 2011 was marked by the early termination of the Indianapolis contract and by commercial wins in the industrial sector (see below).

Major contracts

Public authority or company and location thereof	Month of signature of contract	New contract or renewal	Contract term	Estimated cumulative revenue *(in euros)*	Services provided
OPERATIONS					
France					
Montauban	November	New	9 years	46 million	Public service delegation contract for drinking water
Perpignan	October	Renewal	12 years	196 million	Public service delegation contracts for drinking water and wastewater treatment
Melun	December	Renewal	12 years	105 million	Public service delegation contract for wastewater treatment
Asia					
Hefei, China	December	New	15 years	10 million	Operation of an industrial wastewater treatment plant
North America					
California, United States	January	New	10 years	51 million	Contract to design, build and operate a water treatment plant for a petroleum field
Oklahoma City, United States	January	Renewal	6 years	46 million	Operation and maintenance of wastewater treatment services
Western Virginia, United States	May	New	10 years	37 million	Contract to design, build and operate a wastewater treatment plant (mining industry)
Europe					
Bucharest, Romania	May/July	New*	14 years	600 million	Operation of a wastewater collection system (Caseta) and a wastewater treatment plant (Glina)
Middle East					
Oman	January	New	5 years	31 million	Assistance with the operation of drinking water services
TECHNOLOGY & NETWORKS					
Az Zour Sud, Kuwait	March	New	30 months construction + 5 years operation	79 million	Contract to design, build and operate a seawater desalination plant
Yanbu, Saudi Arabia	July	New	17 months	45 million	Technology supply contract for a drinking water plant
Achères, France	July	New	6.75 years	196 million	Contract to design/build the biological treatment system as part of renovation work at the Seine plant
Niger	November	Renewal	10 years	290 million	Public service operating contract for the production, transportation and distribution of drinking water

* *More specifically the extension of the existing contract scope*

Main acquisitions and divestitures in 2011

The main acquisition and divestitures during the year include:

- in France,
  - the sale to Fonds Latour Capital of Proxiserve, held jointly by Veolia Eau-CGE and Dalkia,
  - the sale to Claire of Sainte-Lizaigne,
  - the sale of the P.I.C.A. (Produits Industriels Charbons Actifs) Group,
- in Europe, the sale by Berlinwasser International of its subsidiary Berlinwasser China Holdings to Metito Group,
- in Asia,
  - the sale by Veolia Water Philippines of its subsidiary Clark Water Corporation to Manila Water, a subsidiary of Ayala Group

Following the creation, acquisition or consolidation of twenty-five companies in 2011 and the liquidation, divestiture or transfer of thirty-eight companies, the Water division (excluding Proactiva) comprised 742 companies as of December 31, 2011, compared to 755 in 2010.

6.1.3.2 Environmental Services

Veolia Environnement, through its subsidiary Veolia Propreté, is the number one reference in its sector[(1)], where it is involved in waste collection, recycling and processing and handles waste in all forms and at all stages of the waste cycle. Veolia Propreté manages liquid and solid waste, non-hazardous and hazardous waste (with the exception of nuclear waste) from collection to recovery, on behalf of both industrial and service-sector customers, such as local authorities.

As of December 31, 2011, Veolia Propreté employed 77,421 people[(2)] around the world, in approximately 33 countries.

Veolia Propreté is a partner of over 750,000 industrial and service-sector customers[(3)] and serves nearly 61 million residents on behalf of local authorities.

As of December 31, 2011, Veolia Propreté managed approximately 746 waste processing units (excluding landfill sites in the post-closure phase and soil decontamination plants).

The term of Veolia Propreté contracts usually depends on the nature of services provided, applicable local regulations and the level of industrial investment required. Collection contracts usually range from one to five years, while waste processing contracts can range from one year (for services provided on sites belonging to Veolia Propreté), to thirty years (for services involving the financing, construction, installation and operation of new waste processing infrastructures).

The following table shows the consolidated revenue (revenue from ordinary activities under IFRS) and operating income of the Environmental Services division, after elimination of inter-company transactions.

---

(1) Sources: Internal studies and Eurostat.

(2) Employees managed as of December 31, 2011, including 7,070 Proactiva employees allocated to its environmental services business and 1,169 employees of joint companies allocated to the environmental services business.

(3) The commercial figures appearing in Section 6.1.3.2 (number of customers, residents served, tonnage, etc.) do not include Proactiva, unless otherwise indicated.

Environmental Services*

(in € million)	Year ended December 31, 2011	Year ended December 31, 2010 re-presented**	Change 2011/2010
Revenue	9,740.2	9,337.8	4.3%
Operating income	359.6	585.8	-38.6%

* *Including Veolia Environnement's share in the results of the environmental services activities of Proactiva, Veolia Environnement's joint venture with FCC.*

** *In accordance with IAS 8, Accounting policies, changes in accounting estimates and errors, 2010 figures have been adjusted for the impact of the 2010 fraud in the Marine Services business in the United States, discovered during the second quarter of 2011.*

Overview of Environmental Services

Veolia Propreté furnishes waste management and logistical services, which include waste collection, waste processing, cleaning of public spaces, maintenance of production equipment, treatment of polluted soil, and management of waste discharge at industrial sites.

Downstream, Veolia Propreté conducts basic or more complex waste processing operations in order to eliminate pollutants and transform waste into a resource. Thus, Veolia Propreté:

- sorts and processes waste in order to create new raw materials, otherwise referred to as recycling or material recovery;
- transforms organic material into compost to be returned to the soil, otherwise referred to as composting or agricultural recycling;
- processes waste in the least damaging way possible, through landfill sites or incineration;
- produces electricity or heat using waste in landfill sites or incineration, otherwise referred to as waste-to-energy recovery.

The services referred to above fall into three major business sectors: environmental services and logistics for public authorities and industrial companies, sorting and recycling of materials and waste recovery, and processing through composting, incineration and landfilling.

Key factors

The key factors that may influence the activities of Veolia Propreté are of a technical, contractual and economic nature and mainly concern the following success factors:

- A presence at all points of the waste value chain, from pre-collection through to processing and recovery, in an appropriate range of geographical areas at different stages of maturity, enabling the identification and control of innovative, tailored solutions for proposal to customers and setting the Group apart from the competition in the market;
- The management of risks relating to the protection of the environment and the safety of individuals and installations (see Section 4.2.2.2 above);
- The quality of employee management in sectors which are often labor-intensive (limiting absenteeism and industrial action, developing skills and training);
- The ability to innovate using new technologies (processing, rolling stock) and processes (sorting-recycling), founded on an effective technology, regulatory and competition watch system;
- Operating efficiency (purchases, sales, logistics, maintenance management) enabling the optimization of unit costs and the utilization rate of equipment, while ensuring the high level of quality required for products and services delivered;
- Investment management in certain capital-intensive activities (selectivity, risk analysis, installation size);

- The quality of contractual management for long-term contracts (major clauses, price review formulae, guarantees and deposits, etc.) (see Section 4.1.2.3 above);
- Management of economic and financial risks: volumes fluctuation, volatility of raw material prices (fuel, materials sold such as paper and metals), customer risk, foreign exchange and interest rate risk (see Section 4.2.2.1.1 above).

Environmental Services and Logistics for Public Authorities and Industrial Companies

Maintenance of Public Spaces and Urban Cleaning

Each day, Veolia Propreté provides urban cleaning services in many cities throughout the world, including London, Paris, Singapore and Dresden. Veolia Propreté also provides mechanized street cleaning and building facade treatment services.

Cleaning and Maintenance of Industrial Sites

Veolia Propreté provides cleaning services at the sites of its industrial and service sector customers, including cleaning of offices and maintenance of production lines.

In the industrial sector, cleaning services are extended to food-processing plants, and heavy industry and high-tech sites, where Veolia Propreté offers specialized cleaning services (high pressure or extreme high pressure cleaning). Veolia Propreté also offers cryogenic cleaning, and reservoir cleaning services at refineries and petrochemical sites. Finally, Veolia Propreté has developed emergency services to treat site contamination in the event of an accident or other incident.

Liquid Waste management

Through its specialized subsidiary SARP, Veolia Propreté provides liquid waste management services that consist primarily of pumping and transporting sewer network liquids and oil residues to treatment centers.

Veolia Propreté has developed liquid waste management procedures that emphasize environmental protection, such as on-site collection and the recycling and reuse of water during the processing of liquid waste. Used oil, which is hazardous for the environment, is collected before processing and re-refining by a Veolia Environment Services subsidiary specializing in the management of hazardous waste.

Soil Decontamination

Land redevelopment and the expansion of residential and business areas may lead to the use of sites where the soil has been polluted through prior use. Veolia Propreté has specific techniques for treating difficult sites, which include treating polluted soil and rehabilitating temporarily inactive industrial areas, cleaning accidental spills and bringing active industrial sites into compliance with applicable environmental regulations.

Collection

In 2011, nearly 61 million people around the world benefited from Veolia Propreté's waste collection services. Veolia Propreté collects household waste through door-to-door pickup or through pickup at designated drop-off sites, and collects commercial and non-hazardous industrial waste. It maintains the cleanliness of green areas and carries away "green" waste and also collects hazardous waste on behalf of its service sector and industrial customers, including hospital waste, laboratory waste and oil residue (ships, gas stations, etc.) and diffused hazardous waste.

Veolia Propreté also offers related services to its service sector and industrial customers, such as preliminary studies of future waste collection needs and waste tracking after collection.

Transfer and Regrouping of Materials

Waste of the same type is transported either to transfer stations in order to be carried in large capacity trucks, or to grouping centers where it is separated by type and then sorted before being sent to the appropriate processing center.

Hazardous waste is usually transported to specialized physical-chemical treatment centers, recycling units, special industrial waste incineration units or landfill sites designed to receive inert hazardous waste.

Sorting and Recycling of Materials

Veolia Propreté processes waste with a view to reintroducing such waste into the industrial production cycle.

Veolia Propreté's recycling activities generally involve the selective collection of paper, cardboard, glass, plastic, wood and metal that customers either separate into different containers or mix with other recyclable materials.

Veolia Propreté recovers solid waste received at its 286 sorting and recycling centers. These specialized centers separate the different components of complex waste, such as electric and electronic products and fluorescent lamps. Veolia Propreté works upstream in partnership with industrial customers and with the Group's research center to develop new recycling activities. Recycled material is sold or distributed to intermediaries or directly to industrial customers.

Waste Recovery and Treatment through Composting, Incineration and Landfilling

Veolia Propreté has a wide range of treatment centers, comprising sorting and recycling centers, composting units, hazardous waste treatment centers, incineration units and landfill sites.

Composting and Recovery of Organic Material from Fermentable Waste

Veolia Propreté and Veolia Eau work together to recover sludge from wastewater treatment plants. At its 126 composting units, Veolia Propreté processes urban and industrial sludge, part of which is then reintroduced into the agricultural cycle through land spreading, with a related tracking service.

Incineration and Waste-to-Energy Recovery

Veolia Propreté operates 63 waste-to-energy recovery and incineration plants, which process non-hazardous solid waste (mainly urban waste).

Energy is generated from the heat created by incinerating waste at these plants. Veolia Propreté uses this energy to supply urban heating networks or sells it to electricity providers.

Landfilling and Waste-to-Energy Recovery

In 2011, Veolia Propreté had 121 non-hazardous waste landfill sites (excluding landfill sites for inert waste). Veolia Propreté has developed expertise in processing waste through methods that reduce emissions of liquid and gas pollutants. In addition, 96 landfill sites have recovery systems to transform biogas emissions into alternative energies (including landfill sites in the post-closure phase).

Processing of Hazardous Waste

In 2011, Veolia Propreté had 23 incineration units for hazardous industrial waste, 62 processing units using physical-chemical and stabilization methods, 15 class 1 landfill sites and 34 specialized recycling centers.

The principal methods used for processing industrial hazardous waste are incineration (for organic liquid waste, salt-water and sludge), solvent recycling, waste stabilization followed by processing at specially-designed landfill sites, and physical-chemical processing of inorganic liquid waste.

Through its specialized subsidiaries, SARP Industries and VES Technical Solutions (in the United States), Veolia Propreté has a worldwide network of experts, which has helped it become a world leader in the processing, recycling and recovery of hazardous waste.

Description of activities in 2011

The 4.9% organic revenue growth reflects higher recycled raw material prices in the amount of €174 million (primarily in France and Germany) and improved activity levels for non-hazardous and hazardous industrial waste in particular, despite a slowdown in growth in the second half.

Revenue rose 3.9% in France (5.2% at constant consolidation scope), under the combined impact of the continued high level of recycled raw material prices (paper/cardboard and metals), net contract wins and an increase in hazardous waste treatment and landfill activities in particular.

Outside France, revenue grew 4.5% (4.9% at constant consolidation scope and exchange rates).

Germany reported growth of 9.5% (6.4% at constant consolidation scope), benefiting from an increase in the price of paper and cardboard and the good contribution of commercial and industrial activities.

In the United Kingdom, revenue increased 5.4% (6.7% at constant consolidation scope and exchange rates), reflecting the ramp-up of integrated contracts and a better asset utilization rate and despite an economic environment which remained difficult and weighed on other activities.

In North America (down 4.6% on a current basis and stable at constant consolidation scope and exchange rates), the increase in hazardous waste treatment activities and the resistance of solid waste activities was penalized by the fall in the fleet utilization rate in the Gulf of Mexico in the Marine Services business.

In the Asia-Pacific region, the revenue growth of 9.2% (3.7% at constant consolidation scope and exchange rates) benefited from an increase in industrial services activities, driven by the mining industry and commercial waste collection in Australia.

In Italy, following the failure of negotiations with the Commissioner and the region of Calabria and non-payment of amounts due, the Group terminated the concession agreement with retroactive effect for breach of contract by the concession authority. The Group also decided to launch a restructuring plan and filed a "concordato preventivo" voluntary liquidation procedure for its Calabraise subsidary, TEC. (for further information please refer to Section 20.4, Litigation).

In the Middle East, the activities of Veolia Propreté were affected by notification of the early termination of the Alexandria contract in Egypt.

Major Contracts in 2011

The following table shows the major contracts signed in 2011 with either public authorities or industrial or service sector-companies[1]:

Public authority or company and location thereof	Month of signature of contract	New contract or renewal	Contract term	Estimated cumulative revenue *(in euros)*	Services provided
France					
SYCTOM Nanterre	May	Renewal	6	36 million	Sorting of household waste produced by a system of selective collection
Gironde Right Bank inter-communal authority	November	Renewal	5	30 million	Collection and processing of household waste and equivalent
City of Hyères les Palmiers	April	Renewal	6	25 million	Collection of household and municipal waste + selective collection of recyclable materials
Bourget Airport	June	Renewal	5	18 million	Collection of household waste and equivalent
Pays de Lorient	June	Renewal	7	14 million	Operation of a biological treatment plant for bio waste and residual household waste
SMITOM LOMBRIC Center West Seine and Marnais	August	Renewal	8	11 million (EIG total €19 million)	Collection and transportation of household waste and equivalent
CDA La Rochelle	November	Renewal	3	11 million	Operation of the La Rochelle waste-to-energy plant
City of Paris – Clichy Batignolles	October	New	12	4.6 million (EIG total €18 million)	Vacuum waste collection
Europe (excl. France)					
Hertfordshire County Council (United Kingdom)	July	New	25	1.6 billion	Integrated contract for the processing and elimination of residual waste
London Borough of Haringey (United Kingdom)	April	New	14	282 million	Waste collection and recycling and town cleaning services
Chesterfield District Council (United Kingdom)	December	Renewal	7	14 million	Waste collection and recycling and related services
North America					
UPS	June	New	5	38 million	Processing of hazardous waste
Columbia County, Florida	September	New	5	14 million	Collection of household waste and equivalent
Aberdeen Proving Ground	May	Renewal	4	10 million	Collection and processing of hazardous waste
Singapore					
National Environmental Agency	January	Renewal	7	53 million	Collection of household waste and equivalent

(1) *Revenues expected under the contracts won in 2011 have been converted into euros at the closing exchange rate as of December 31, 2011 and represent the portion due to Veolia Propreté under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier Group press releases.*

Main acquisitions and divestitures in 2011

On March 25, 2011, the Group sold its sorting-recycling activities in Norway.

On August 10, 2011, solid waste activities in Belgium were also sold.

Following the creation, acquisition or consolidation of 32 companies in 2011 and the liquidation, divestiture or merger of 48 companies, the Environmental Services division (excluding Proactiva) comprised 631 companies as of December 31, 2011, compared to 647 in 2010.

6.1.3.3 Energy Services

Veolia Environnement conducts its energy service activities through Dalkia, a global provider of energy services to companies and public authorities. Primarily in its role as a decentralized producer of thermal and electrical energy, Dalkia develops offerings for heating and cooling networks, industrial utilities and energy services. The Group seizes opportunities offered by the development of the energy market and the need to contain energy consumption. Dalkia is present at all stages of the energy chain from decentralized production to optimizing distribution and containing demand, to improve the performance of energy systems. Dalkia joins forces with its customers, helping them optimize their energy purchases and improve the efficiency of their installations both in terms of cost and atmospheric emissions.

As of December 31, 2011, Dalkia had 52,698 employees in 40 countries around the world, particularly in Europe.

The following table shows the consolidated revenue (revenue from ordinary activities under IFRS) and operating income of the Energy Services division, after elimination of inter-company transactions.

Dalkia is owned 66.0% by Veolia Environnement and 34.0% by EDF. In France, Dalkia conducts its business through Dalkia France, a 99.9% subsidiary of Dalkia, while abroad Dalkia conducts its business through Dalkia International, owned 75.8% by Dalkia and 24.2% by EDF. Dalkia's results are proportionately consolidated in the consolidated financial statements.

Energy Services*

(in € million)	**Year ended December 31, 2011**	**Year ended December 31, 2010****	**Change 2011/2010**
Revenue	7,290.0	7,176.1	+1.6%
Operating income	-37.2	529.3	-107.0%

* *Including the share in the results of industrial multi-service entities, of the activities of Artelia and of renewable energy activities.*

** *In accordance with IFRS 5, Non-current assets held for sale and discontinued operations, the Income Statement of Proxiserve in the Energy Services division (sold at the end of 2011) and Citelum urban lighting activities in the course of divestiture are grouped together in a separate line, Net income from discontinued operations.*

Overview of Energy Services

Dalkia's business is currently facing three major challenges: global warming and the need to reduce carbon dioxide emissions, the increase in the price of fossil fuels and their eventual scarcity, and growing urban expansion and related industrial development.

Dalkia's core business focuses on optimizing the use of all sources of energy at customer sites, industrial production sites, service-sector sites and in all types of buildings. Dalkia has progressively developed a range of activities based on energy and environmental efficiency: heating and cooling networks, industrial utilities and energy services.

Dalkia provides energy management services to public and private customers with which it forms long-term partnerships. Management contracts for the operation of urban heating or cooling networks are typically long-term, lasting up to thirty years, while contracts for the operation of thermal and multi-technical installations for public or private customers may have terms of up to sixteen years. Contracts to provide industrial utilities generally have shorter terms (six to seven years on average).

Dalkia proposes energy solutions encompassing the entire conversion cycle from the purchase of energies entering the site (fuel, gas, biomass) to the sale on the market of the electricity produced.

Dalkia has in this way developed expertise in the purchase and sale of energy in deregulated markets and is also active in the CO_2 allowance markets.

Whenever possible, Dalkia offers solutions to its customers using renewable or alternative energy sources such as geothermal energy, biomass (organic material), heat recovered from household waste incineration, "process" heat (heat produced by industrial processes) and thermal energy produced by co-generation projects. Energy sources are combined, wherever possible, to take advantage of the complementary nature of each source. In the biomass sector, Dalkia has considerably stepped-up its development by offering innovative services to customers.

Heating and Cooling Networks

The development of urban networks has been a key growth driver for Dalkia in recent years and will continue to be the main driving force over the next five years.

Dalkia is Europe's leading operator of large urban heating and cooling networks. Dalkia currently manages 837 urban heating and cooling networks worldwide, particularly in France, the United Kingdom, Eastern and Central Europe and the Baltic states. It also operates networks in the United States where it has a strong market position. The networks operated by Dalkia provide heating, domestic hot water and air conditioning to a wide range of public and private facilities, including schools, health centers, office buildings and residences. In addition, the production plants often generate electricity sold to operators or on the market.

Industrial utilities

The industrial market offers Dalkia substantial growth perspectives worldwide, in synergy with Veolia Environnement's other divisions.

Dalkia is a leading provider of industrial utilities in Europe. Its strategy is based on its ability to roll-out an extensive and comprehensive range of services encompassing:

- optimizing industrial utilities: steam, electricity and compressed air;
- optimizing the use of process energy (aligning use with needs and identifying fatal energy sources and recoverable co-products);
- optimizing building energy consumption (energy services, see below).

Dalkia provides services at 4,640 industrial sites.

Energy Services

Energy services consist of operating heating, domestic hot water and air conditioning systems to provide comfortable living and working environments, as well as improving the operation of existing systems to optimize their efficiency. Dalkia provides public, industrial and service sector customers with integrated energy services including plant design, construction and improvement, energy supply, and plant management and maintenance.

Dalkia provides customers with a wide range of technical services and is introducing an extensive range of services to satisfy customer expectations for reduced energy consumption and CO_2 emissions. This will profoundly change the energy services market over the coming years, through the development of offerings encompassing performance commitments.

Dalkia manages 123,500 energy installations worldwide.

The activities of the Energy Services division may be influenced by the following key factors, which are primarily of a technical, contractual or economic nature:

- contract management, enabling the identification of risks borne by the Group and those borne by our customers. Contract management takes account of necessary regulatory developments, which are monitored by the division, and the implementation of a Research and Development program, enabling further improvements to our performance and competitive advantage;
- procurement management: primarily purchases of raw materials, to optimize costs and secure fuel supplies for the installations we manage;
- environmental protection: optimization of energy efficiency, control of atmospheric emissions and a renewable energies-based offering.

Description of activities in 2011

Activity levels remained stable in 2011 in the Energy Services division, as the positive price effect was offset by unfavorable weather conditions compared to 2010 in the majority of countries where Dalia operates. In addition, economic difficulties in Southern Europe were reflected by a decline in installation activities, particularly in Spain and Italy.

The launch by the division of its business refocusing strategy in 2011 impacted Dalkia's regional presence.

In France, new business and the development of contracts in portfolio, at a rate over one and half times that of erosion, enabled the division to report substantial revenue growth of €97 million on an annualized basis. Industrial utilities contributed the majority of this growth (€51 million), with the Areva – La Hague contract alone representing additional annual revenue of nearly €25 million.

Dalkia France renewed 70% of its contracts expiring during the year, compared to 80% in 2010, in the face of increased competition between players and due to the economic slowdown.

Contracts not renewed in 2011 represented nearly 2.5% of Dalkia's revenue in France, following the loss of heating networks and the stoppage of cogeneration activities across all segments and the non-renewal of a number of major facilities management contracts (Tour Granite in La Défense, Arcelor Mittal in Dunkirk).

Outside France, commercial results (excluding acquisitions) were mixed, although a number of major contracts were signed in 2011.

The San't Orsola Bologna Hospital PPP will generate average annual revenue in excess of €6 million over 21 years. At the end of 2011, Dalkia was also the successful bidder in Italy for the Trévise and Belluno Aree Vaste contracts, representing annual revenue of €4.9 million over 9 years.

In Southern Europe (Italy and Spain), the new management appointed at the beginning of 2011 launched a comprehensive restructuring of the activity (involving, in particular, employee redundancy plans, the regrouping of sites and the discontinuation of activities) in both Italy and Spain. In particular, photovoltaic field installation activities were discontinued in Spain and Italy. In Italy the division is faced with problems relating to the integration of acquisitions, increased competition in a context of economic crisis, a slump in the building industry and legislative changes. The restructuring plans aim to accelerate the integration of companies acquired, reduce costs and refocus activities on the healthcare/service, industry and telecommunications sectors.

In Canada, the CHUM Collectif consortium in which Dalkia Canada has a 20% stake won the call for tenders to design, build and operate the Montreal University Hospital (CHUM), which will be the largest in North America. On completion of the 5-year construction phase, Dalkia Canada has a 34-year contract for the operation and maintenance of installations, generating average annual revenue of over €40 million.

The development of our platform in the United states has fallen behind schedule due to the economic slowdown observed in this country over the last three years. Due note has been taken of the financial consequences.

Citelum urban lighting activities are in the course of divestiture.

Major Contracts in 2011

The following table shows the major contracts signed in 2011 with either public authorities or industrial or service-sector companies*:

Public authority or company and location thereof	Month of signature of contract	New contract or renewal	Contract term	Estimated cumulative revenue *(in euros)*	Services provided
France					
Argenteuil (95)	July	New	30 years	109 million	Heating network
Courbevoie (92)	January	Renewal	7 years	60 million	Urban heating and cooling network
Ministry of Defense – Balard (75)	May	New	3 + 27 years	205 million [(1)]	Contract to finance, design, build, restructure, renovate, operate and maintain buildings to house the regrouped headquarters and central departments of the armed forces at the Balard site Contract to build a shallow geothermal power plant
Greater Dijon (21)	December	New	25 years	200 million	Heating network Biomass-fired heating plant
Métropole Habitat Saint-Etienne (42)	May - June	Renewal	12 years	41 million	Comprehensive management of 3,000 housing units / 38 heating plants
Aquitaine high schools (40)	May	Renewal (and extension)	8 years	64 million	Energy management contract for 67 high schools
Areva La Hague (50)	January	New	20 years	499 million	Renovation of installations (new domestic fuel-fired heating plant and biomass-fired heating plant) Operation of the biomass-fired heating plant Maintenance of on-site utilities
Canteleu (76)	June	Renewal	Cogeneration: 11 years Urban heating: 24 years	88 million	Cogeneration Urban heating network Biomass-fired heating plant
Europe (excl. France)					
San't Orsola Hospital (Bologna – Italy)	November	New	3 + 21 years	139 million	Hospital PPP
European Investment Bank (Belgium + Luxembourg)	October	New	4 + 3 years	56.5 million	Multi-technical management of EIB real estate assets in Luxembourg
Energofuture Frydek (Czech Republic)	October	New	3 + 7 years	40 million	Operation of a biomass-fired cogeneration plant producing electricity and heat
Hale Village Properties (London – United Kingdom)	April	New	25 years	19 million	Biomass-fired heating network (supplying housing units in the new Hale Village neighborhood in London)
North America					
CHUM (Montreal University Hospital) (Montreal – Canada)	June	New	5 + 34 years	1.2 billion	Hospital PPP
Asia					
Hong-Kong government	February	New	6.5 years	26 million	Operation and maintenance of a cooling network for the new neighborhood built on the former airport site (Kai Tak)

* *Revenues expected under the contracts won in 2011 have been converted into euros at the closing exchange rate as of December 31, 2011 and represent the portion due to Dalkia, including Veolia Energy North America Holding, under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier Group press releases.*

(1) Dalkia share in the Opale Défense consortium.

Main acquisitions and divestitures in 2011

The main acquisitions and divestitures in 2011 took place in Central Europe, France and the Baltic States.

In October 2011 in Poland, Dalkia acquired an 85% stake in SPEC SA (Stołeczne Przedsiębiorstwo Energetyki Cieplnej) which operates the Warsaw urban heating network. This network is the largest in the European Union covering over 1,700 kilometers and the third largest in the world after Moscow and Saint Petersburg. It supplies 80% of the city's buildings, primarily apartments, and has more than 10,000 customers. This acquisition strengthened Dalkia's strategic position in Central Europe and confirmed its leadership in the heating market in Poland.

The decision to refocus on its core businesses led Dalkia to sell all its activities in Germany in 2011, with the exception of its activities in the Hamburg region.

In December in Estonia, Dalkia sold 85% of Tallinna Elektrijaam OÜ, the owner of one of the largest biomass-fired heat and electricity cogeneration plants in the country. Dalkia will continue to operate this plant through its subsidiary, Tallinna Küte AS.

At the end of 2011 in France, Dalkia and Veolia Eau sold their joint subsidiary, Proxiserve, as the activities of this company were not considered strategic (maintenance of individual boilers, valves and fittings and multi-maintenance services, as well as home assistance for private individuals through its 51% subsidiary, Domeo). Three Dalkia subsidiaries in the Greater Paris region were also sold as part of this transaction.

In total, over the course of 2011, the Energy Services division consolidated or purchased 71 companies, and sold, liquidated or merged 60 companies. As a result, it held 569 consolidated companies, including 320 foreign companies, as of December 31, 2011, compared to a total of 558 consolidated companies as of December 31, 2010.

6.1.3.4 Transportation

Transportation division activities continued as in previous years up until March 3, 2011, when Veolia Environnement and Caisse des Dépôts combined their respective transportation subsidiaries creating the global benchmark in sustainable mobility. The resulting entity, Veolia Transdev, is held 50/50 by Veolia Environnement and Caisse des Dépôts et Consignations. Operational activities were merged in August and September 2011 and the new organizational structure was introduced in December 2011. On December 6, 2011, Veolia Environnement announced its decision to progressively withdraw from the Transportation business.

The core business of Veolia Transdev is passenger transportation services on behalf of national, regional and local authorities.

Veolia Transdev has been managing and operating urban, regional and inter-regional road and rail networks and maritime transport for more than a century, having won its first tramway concessions at the end of the 19th century.

Veolia Transdev estimates that the worldwide transportation market currently represents revenue of €470 billion, of which only 30%, or approximately €140 billion, is currently open to competition. Global growth in the market open to competition is approximately 5% per annum. This growth will primarily be concentrated in the passenger rail transport sector, where annual growth of 8.5% is forecast. The main drivers are the liberalization of markets in Europe (pursuant to the 3rd rail package) and the multiplication of PPP (public-private partnership) projects, particularly in North America and Asia.

Moreover, the global trend towards greater urbanization automatically increases the need for mass transportation services and the complexity of networks, thus strengthening the market potential in areas that Veolia Transdev seeks to service.

As of December 31, 2011, Veolia Transdev had 101,798 employees around the world (100% basis). It conducts its business mainly in Europe, North America and Asia. Veolia Transdev also has a strong presence internationally, where it generates more than 60% of its revenue. In 2011, Veolia Transdev continued its growth in North America, Asia and Europe.

The following table shows the consolidated revenue (revenue from ordinary activities under IFRS) and operating income of Veolia Transport (2010) and Veolia Transdev (2011), after elimination of inter-company transactions.

Transportation

(in € million)	Year ended December 31, 2011	Year ended December 31, 2010 re-presented	Change 2011/2010
Revenue [(1)]	7,863.8	8,048.6	-2.3%
Operating income[(1)]	47.2	199.4	-76.3%

(1) Figures presented have been taken from the management accounts and represent 100% of the contribution of the former Transdev and Veolia Transport activities for a 12-month period in 2011 and 2010, excluding the contribution of discontinued operations in the United Kingdom and Norway.

Overview of the Transportation Business

Veolia Transdev mainly operates passenger transportation networks and regular services in accordance with public service specifications (covering schedules, routes and fare structures) set by the relevant public authorities (which generally retains ownership of the infrastructures, particularly in urban areas). Contracts are awarded following public tenders.

Veolia Transdev primarily conducts its business through the outsourced management of transportation activities, under conditions and structures that differ from one country to another due to varying legal and regulatory requirements. The relationship between the public authority and the transportation company is governed by fixed-term contracts that determine the risks to be borne by each party and the remuneration of the transportation company. As the fares charged by Veolia Transport to passengers of its transportation networks are usually insufficient to cover costs, the public authority typically provides Veolia Transport with a payment or other compensation for services rendered. Moreover, in the case of certain contracts, and particularly for specialized school transportation services, Veolia Transdev is paid a flat fee for its transportation services and consequently does not bear the risks associated with lower receipts or decreased passenger use (such contracts are referred to as “Public Market” contracts in France).

Management contracts generally have a term of two to twelve years, with the exception of “operating concessions,” which have an average term of thirty years.

Veolia Transdev’s activities fall into four main categories:

- mass road transportation (urban transport, urban beltway, inter-city and regional and other specific transportation services);
- mass rail transportation;
- individual shared transportation: taxis, limousines, airport shuttle services and regional and international tourist transportation;
- transportation management (passenger information services, clearing-houses, call centers).

The activities of the Veolia Transdev are influenced by key factors of a technical, contractual and economic nature and primarily by:

- managing contract risks: the Group carries on its activity under long-term contracts which, while offering growth opportunities and offering protection, may hinder its ability to react rapidly and appropriately to new financially negative situations (see Section 4.1.2 above);
- managing the various sustainable development aspects, which are increasingly included in transportation authority requirements (see Sections 4.2.2.1 and 4.2.2.3, above);
- the ability to control contractual changes (see Section 4.1.2 above);
- the ability to carry out activities in dense, vast and increasingly complex areas: increasing operating complexity and greater inter-modality in particular, where Veolia Transdev possesses all the necessary expertise to respond to these complex issues.

Mass Road Transportation

Veolia Transdev operates a number of bus networks, suburban trains, tramways and one metro, and provides customized transportation-on-demand services (particularly for individuals with special needs or disabilities). Veolia Transdev covers the entire mobility chain from design to operating services (including personnel management, providing drivers and ticket inspectors and marketing efforts), as well as maintenance.

Through its subsidiary, Transamo, Veolia Transdev assists local authorities with the planning and steering of their public transportation projects, as well as the audit and optimization of transportation network operation and maintenance.

Veolia Transdev operates ferry and river shuttle services in tandem with its bus services in various urban areas. This is particularly the case for services provided in Toulon harbor, Thonon-les Bains and services to the Morbihan islands in France, and services provided in the Netherlands, Australia and Sweden.

Urban and Beltway Road Transportation

In France, Veolia Transdev operates the tramway, bus and light rail networks in Rouen, Saint-Etienne, Nancy, Nice, Montpellier, Rheims, Besancon and Mulhouse.

Veolia Transdev also operates urban networks in Strasbourg, Nantes and Grenoble through semi-public undertakings. The majority of the share capital of such undertakings is held by territorial authorities and their bodies, while private entities share the residual minority interest. In the majority of cases, Veolia Transdev has only a minority stake in these companies.

Veolia Transdev manages bus networks directly for nearly 90 urban areas in France and through semi-public undertakings for 15 other urban areas.

Veolia Transdev has a strong presence in the Greater Paris region, where it operates numerous bus lines in the intermediate suburbs of Paris and the greater metropolitan area. It is the main private operator in the region, operating the bus networks of its six component *départments* (Seine-Saint-Denis, Seine et Marne, Essonne, Yvelines, Hauts de Seine and Val de Marne) as well as the networks of the main towns in these *départments* (Melun, Rambouillet, Argenteuil, St. Germain-en-Laye, etc.). In addition, Veolia Transdev operates several express routes.

Through its subsidiary, Connexxion, Veolia Transdev leads the public transportation market in the Netherlands. In particular, Connexxion operates the Nijmegen network and the Ede-Wageningen and Amersfoort suburban network as well as the integrated (intermodal) public transport network in Limburg province (bus, transportation-on-demand, suburban rail transportation).

In Southern Europe and Morocco, through its subsidiary FCC-CONNEX, a joint venture with the Spanish group FCC, Veolia Transdev operates urban transportation services in several cities, including the Barcelona tramway. Veolia Transdev is a private operator in the urban and inter-city transportation market in Portugal, where it has a strong presence. In Morocco, despite deciding to terminate its bus service in Rabat due to operating difficulties under the initial contract, Veolia Transdev continues to operate the Rabat Salé tramway.

In North America, Veolia Transdev provides bus transportation services in 33 States and two Canadian provinces, and particularly in Las Vegas, New Orleans, Los Angeles, Phoenix Savannah and Washington DC.

In Australia, Veolia Transdev operates the Sydney monorail and tramway and bus services in Perth, Brisbane and Sydney.

In Asia, Veolia Transdev operates the bus networks of five cities in the Jiangsu and Anhui Chinese provinces and in Macao, as well as the Hong Kong tramway. In India, Veolia Transdev launched the pre-operation phase of the Mumbai metro.

In the rest of the world, Veolia Transdev operates, through partnerships with other operators, a high-frequency right-of-way bus system (BRT: Bus Rapid Transit) in Bogota (Colombia) and a network of bus lines in Santiago, Chile.

In addition to urban transportation networks, Veolia Transdev is active in the development of new means of travel. Accordingly, Veolia Transdev operates several self-service bike rental systems through its specialized subsidiary, Veloway, as well as car-sharing systems.

Intercity and Regional Road Transportation

Veolia Transdev provides regional transportation services through the operation of road networks. As with urban transportation services, Veolia Transdev is responsible for designing, planning, operating and maintaining the network and stations and ensuring their security, as well as selling tickets and providing customer service.

In France, Veolia Transdev has a strong presence in the intercity and school transportation markets. Veolia Transdev is present in all regions and particularly Normandy (Eure), the South West (Gironde) and the South East (Alpes Maritimes).

Other Transport Services (transportation-on-demand, para-transit, taxis, etc.)

In the Netherlands, Veolia Transdev is a major player in transportation services for individuals with special needs or disabilities through its subsidiary, Connexxion. Connexxion is also present in the ambulance market, primarily through its subsidiary, Connexxion Ambulance services.

Veolia Transdev also provides transportation services to individuals with special needs or disabilities (para-transit services) in Rouen, Le Mans, Le Havre and Tours as well as several other regions of France.

In the United States, para-transit services is a growth sector, particularly in California, Washington State (Seattle), Arizona (Pheonix), Nevada (Las Vegas), New Orleans and Nassau in the New York suburbs. Finally, Veolia Transdev provides student transportation services at a number of universities in the United States (particularly Stanford University and the University of Northern Illinois).

Passenger Rail Transportation

Veolia Transdev has been a rail operator for many years. It is currently present in seven countries and enjoys solid references in Europe and worldwide.

In Germany, Veolia Transdev is the leading private operator of regional rail services and operates lines in nine regions (including North-Ostsee- Bahn, Dieselnetz and Mittelrhein Bahn, etc.). Veolia Transdev also operates open access long distance lines (InterConnex: Leipzig – Berlin – Rostock).

In Sweden, the rail link between Stockholm and Malmö is the first long distance line operated by the private sector, with high added value services.

In the Netherlands, transportation services provided in Limbourg Province encompass bus and rail networks, with joint design and management.

In France, Veolia Transdev manages several regional rail networks through contracts with regional public authorities (PACA, Rhône, Mulhouse, etc.). Through a joint venture with Trenitalia, Veolia Transdev also operates the overnight service between Paris and Venice.

Across the Atlantic, Veolia Transdev operates in particular the Boston and Miami suburban networks.

In Asia, Veolia Transdev operates the Seoul metro line 9 since July 2009.

In Auckland, Veolia Transdev operates the suburban network of New Zealand's largest city.

Commercial transportation (B to C)

Transportation-on-demand

Under the SuperShuttle trade name, Veolia Transdev provides shared transportation services at 36 airports in the United States. In Europe, Veolia Transdev provides shuttle services at 5 airports (Roissy Charles de Gaulle, Orly, Beauvais, Arlanda and Schiphol), again primarily under its Supershuttle trade name. Veolia Transdev provides taxi services in the United States, in particular in Baltimore, Denver, Kansas City and Pittsburgh, as well as in London (United Kingdom) through its subsidiary, Greentomato,

Taxis services are also provided in the Netherlands through Connexxion Taxi services.

Tourism

Through its subsidiaries, Eurolines and Internorte, Veolia Transdev transports passengers by coach on scheduled international routes serving over 600 cities throughout Europe.

Veolia Transdev also has a strong presence in the tourism sector and particularly in Greater Paris though its subsidiary, Visual.

Digital Transportation Management

Over recent years, digital media for communicating with passengers has become essential to the customer relationship policy and a means of developing service use.

Veolia Transdev has developed and rolled-out internet and cell phone solutions (public transportation websites and cell phone applications), primarily through its group subsidiaries Cityway and Dryade, but also in the Netherlands, Germany and the United States.

Veolia Transdev has also invested in innovative ticketing solutions, including "Pass-Trams" and "VTD Pass" multi-canal remote selling solutions, the "ticketing service" developed with Accenture and the Near Field Communication cell phone technology in the BPass project rolled-out in Nice.

Veolia Transdev's activities are not limited to the customer relationship policies of transportation networks managed by the Group, but include new business models relating directly to managing travel information.

Veolia Transdev continues to invest in innovation and improving the performance of these solutions. With the Smart Mobility project, it is targeting the digital cities market for all transportation issues.

Description of activities in 2011

In 2011, the Transportation business reported revenue of €7,863.8 million (100%), encompassing all activities resulting from the Veolia Transport/Transdev combination. Veolia Transdev continued the combination of its two subsidiaries and its ambitious industrial project in 2011. The Group has decided to progressively withdraw from Veolia Transdev, which should result in the reorganization of its shareholding structure.

In France, in the urban transportation sector, Veolia Transdev won contracts for the operation of the Mont de Marsan and Longwy bus networks and renewed contracts for the Avignon, Greater Nancy and Le Havre networks in 2011.

In the intercity transportation sector, Veolia Transdev also renewed contracts for scheduled intercity bus services in Finistère, Maine et Loire and Seine Maritime and won new contracts to manage the Carcassonne and Perpignan airport hubs.

In 2011, Veolia Transdev was awarded the largest transit and para transit contract in the United States for Nassau County, Long Island (Greater New York). This contract represents Veolia's largest public service delegation contract in the United States. In addition, new urban passenger transportation contracts were signed in Charleston, Antelope Valley, Jefferson Parish and Cobb County, while the Seattle para-transit contract was renewed. Similarly, the Orange County, Las Vegas and Dallas urban passenger transportation contracts were extended.

In Chile, Veolia Transdev was awarded the contract to operate the bus network serving the north-east suburbs (zones B and C) of Santiago.

In the Netherlands, the Arnhem-Nijmegen concession operated by Connexxion was renewed for 10 years, together with the contracts for the regional bus lines serving the area surrounding Utrecht and Ijsselmond, Zaanstreek and Gooi-Vechstreek. The term of Connexxion's taxi business contract (Valys) was also extended.

Veolia Transdev strengthened its presence in the rail passenger transportation market in Germany, with in particular the win by Nordwestbahn of the contract for the Wesertal and Lammetalbahn regional network. In the west of Germany, Nordwestbahn also successfully renewed a large part of the regional network operated until now around the city of Bielefeld, by winning the southern contract following the OWL Dieselnetz call for tenders. Nordwestbahn also successfully renewed its S28 Kaarster See-Mettmann regional line. In the south-west of the country, Veolia Transdev renewed the contract for the Strohgäubahn regional rail line, north of Stuttgart. In the bus sector, part of the operating contract for the Frankfurt urban network (Bündel A) was renewed during the year. Veolia Transdev was also awarded an 8-year operating contract for the regional transportation network comprising 55 lines in the Hilburghausen district in Southern Thuringe and an 8-year contract for the regional transportation network comprising 13 lines in the Gütersloh district.

In Sweden, Veolia Transdev won the operating contract for the Swedish portion of the rail line linking the South of Sweden and Denmark (Öresundstrain).

Major Contracts in 2011

The following table shows the major contracts signed in 2011 with either public authorities or industrial or service sector companies (1):

Public authority or company and location thereof	Month of signature of contract	New contract or renewal	Contract term	Estimated cumulative revenue *(in euros)*	Services provided
France					
Greater Nancy	December	Renewal	7 years	374.6 million	Operation and management of the Nancy tramway and bus network
Le Havre conurbation	December	Renewal	6 years	309.5 million	Public service delegation contract for urban transportation in the Le Havre conurbation
Greater Avignon	December	Renewal	8 years	253.3 million	Management and operation of the urban public transportation network of the Avignon conurbation
Europe (excl. France)					
Germany					
OWL Dieselnetz (Southern contract)	June (award letter)	Partial renewal	12 years	288 million	Operation of four regional rail lines around the city of Bielefeld
Netherlands					
Arnheim – Nijmegen	December	Renewal	10 years	980 million	Concession for the operation of train and bus networks in the Arnheim-Nijmegen region
Sweden					
Öresundstrain	December	New	2 years (+2 years at the customer's option)	105 million	Operation of the cross-border rail line linking the south of Sweden and Denmark
North America					
Seattle	August	Extension	7 years	163.8 million	Operation of scheduled bus lines and maintenance of para-transit services in Seattle
Nassau	December	New	5 years (with a potential 5-year extension at the customer's option)	410 million	Operation of the Long Island bus network (New-York suburbs)
South America					
Santiago	December	New	3 years	300 million	Operation of the bus networks for the north and north-east suburbs of Santiago (Zones B and C)

(1) *Revenues expected under the contracts won in 2011 have been converted into euros at the closing exchange rate as of December 31, 2011 and represent the portion due to Veolia Transdev under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier Group press releases*

Main acquisitions and divestitures in 2011

Following the combination with Transdev described above, the new entity, Veolia Transdev, comprised 763 companies as of December 31, 2011 compared to 528 companies as of December 31, 2011 for Veolia Transport. In addition, during the year, 277 companies were consolidated for the first time, 6 were merged and 36 companies were liquidated or sold.

The combination led to the substantial rationalization of structures, which will continue in 2012 and subsequent years.

Veolia Transport activities in Norway and the United Kingdom were sold in 2011, although Veolia Transdev group continues to operate in the United Kingdom, particularly in London and Yorkshire.

6.1.3.5 Development of synergies: Multi-service contracts with industrial and service sector customers

Outsourcing and multi-service market

The position forged over several years by Veolia Environnement in the industrial services market and, more recently, the public and private service sector market, reflects the synergies that exist between the four divisions, which enable it to provide management services covering a wide range of services. Growth in this market is primarily driven by the expansion of outsourcing, as industrial companies seek to confer the management of certain activities ancillary to their core businesses to third party service providers.

This outsourcing trend applies to several Veolia Environnement businesses, including energy services, management of the water cycle, waste processing and recovery and on-site logistics management. Veolia Environnement offers a “multi-service” alternative to its customers, which involves the provision of services by several of its divisions under a single contract. This option enables Veolia Environnement to better satisfy the expectations of customers who wish to outsource a range of services to a single service provider.

From an operational standpoint, the customer relationship changes: the service provider becomes the customer’s sole contact and a dialogue develops to seek solutions which satisfy the interests of both parties. This approach also allows for greater technical synergies, economies of scale and mutual commercial benefits.

Veolia Environnement’s multi-service contract signed in 2003 with PSA Peugeot Citroën is a good example of these synergies. The subsidiary that was created to service this contract, Société d’Environnement et de Services de l’Est, manages all environmental services at Peugeot’s sites in eastern France, which involves more than twenty different activities. By entrusting Veolia Environnement with such a broad range of activities, PSA Peugeot Citroën is able to ensure that its sites comply with regulations while achieving significant cost savings. These savings are mainly the result of an overhaul of the previous organization and work plan, the implementation of skills training programs, the assumption of management activities that were previously subcontracted, and the implementation of a new energy policy. The economic and operational success of this partnership led the PSA group to seek the same scope of services from Veolia Environnement at its new facility in Trnava (Slovakia) in 2005 and to extend the term of the contract for its sites in Eastern France to 2018 (see below).

Veolia Environnement Organizational Structure for the Provision of Multi-services

In order to develop this multi-service activity, the Group set up a special purpose entity to coordinate these activities without replacing the divisions, each of which remains responsible for the ultimate performance of services falling within its area of expertise.

The Veolia Environnement Industries ("VEI") project structure manages Veolia Environnement's bids for multiservice contracts, and a project manager from VEI is appointed for each multi-service contract. Commercial projects and bids are prepared in conjunction with Veolia Environnement's divisions, and are then reviewed by a Commitments Committee before being submitted to the customer.

The contract may then performed by a special purpose entity managed in part by the divisions involved in the project, especially when personnel is outsourced to the customer.

Multi-services Business Activity

The Group's activities in the multi-service market primarily consist of approximately fifteen major contracts, which together generate average annual revenue of more than €520 million and which are expected to generate cumulative revenue over their remaining term of around €2.9 billion. The weighted average term of these contracts is approximately 13 years.

Multi-business activities also have a strong international dimension, particularly when industrial customers invest in the construction of new factories abroad (so called "Greenfield" sites). This is particularly the case for Arcelor in Brazil, PSA Peugeot Citroën in Trnava (Slovakia), Artlant in Sines (Portugal) and Renault in Tangier (Morocco).

Défense Environnement Services (DES) – a joint venture between Veolia Environnement Industries and DCNS, created in March 2009, in which Veolia holds a 51% stake – manages support and other services for the Defense sector (utilities management, water cycle management, maintenance of industrial and service buildings, maintenance of small tooling in workshops and hoisting equipment, transportation of individuals, logistics, cleaning services and waste management). In 2011, DES – in partnership with Avenance – was awarded the first comprehensive service outsourcing contract for a military base, covering Creil (60) and its four satellites (Amiens, Senlis, Beauvais and Chambery). This contract, worth €20 million over 3 years, represents €5 million in revenue for DES over this period (51%). From this flagship reference, the challenge will be to corner a significant share of the future market represented by the 60 defense bases in France and worth €500 million based on Group estimates. In June 2011, DES signed a multi-service and multi-technical contract with the French Defense Procurement Agency (DGA) for missile trial military bases. This 4-year contract will generate total cumulative revenue over this period of €1.9 million (51%). In November, DES signed an 8-year contract with DCNS for the provision of multi-services at the Cherbourg site. This 8-year contract will generate total cumulative revenue over this period of €12.4 million (51%).

PSA Peugeot Citroën awarded Veolia Environnement a multi-technical and multi-services contract covering the historical headquarters of the two companies and the Vélizy, Garenne-Colombes, Carrières-sous-Poissy and Poissy Pôle Tertiaire technical centers. Services will be provided for some 20,000 individuals working daily at these sites. The employment contracts of nearly 300 employees of the former service provider were transferred to Veolia under the new contract. This 5-year contract will generate total cumulative revenue of over €160 million. The PSA Peugeot Citroën contract covering production sites in the east of France (Sochaux, Vesoul and Mulhouse) was also extended in 2011 for a further five years to 2018, representing additional cumulative revenue of €500 million. The quality of the customer relationship developed since 2003 was recognized in 2011 when Veolia Environnement received an award for technical savings during the PSA Suppliers Trophies awards. These events in 2011 reflect the confidence placed by PSA Peugeot Citroën Group in Veolia Environnement, based primarily on its experience in the automobile sector.

Similarly, Renault extended for an indefinite period its multi-business management contract with Veolia Environnement for its Paris region sites. This contract represents annual revenue of over €80 million and primarily concerns the multi-technical management of the Guyancourt Technocenter.

Multi-service contracts signed in 2011 [(1)] *Veolia Environment Group share*

Company	Location	Month of signature of contract	New contract or renewal	Contract term	Estimated cumulative revenue *(in euros)*	Services provided
DES	DGA	June	New	4 years	1.9 million	Multi–services – military base support services
	Creil	October	New	3 years	5.0 million	
	DCNS (Cherbourg)	November	New	8 years	12.4 million	
PSA	Greater Paris	December	New	5 years	160 million	Multi-services/ Multi-Technical services
PSA	Eastern France	May	Extension	5 years	500 million	Multi-services/ Multi-Technical services

(1) Revenues expected under the contracts won in 2011 have been converted into euros at the closing exchange rate as of December 31, 2011. Accordingly, these amounts may differ from the amounts announced in earlier Group press releases.

6.2 Market overview

6.2.1 The market for environmental management services

Environmental management services include drinking-water treatment and distribution, wastewater treatment, passenger transportation and waste management as well as energy services. This market also includes designing and building the necessary installations to supply such services. These services are provided to public authorities, industrial and service-sector companies and private individuals. The contractual terms governing their implementation vary depending on the nature of the project, the customer and local regulations. The set-up of public-private and private-private partnerships for the construction of installations based on comprehensive solutions and key environmental objectives such as waste recovery and co-products, energy savings, the re-use of water and reducing emissions of pollutants, enables the Group to demonstrate its expertise and market its technologies in synergy with its main businesses. Prime examples include the public finance initiative (PFI) contract for the processing and elimination of residual waste with Hertfordshire County in the United Kingdom, which combines the recycling of waste and the recovery of energy and the concession arrangement awarded to Dalkia by Abu Dhabi (United Arab Emirates) to design, build and operate three cooling plants. Certain financing arrangements (European funds, IBRD, etc.) enable such projects or missions at the cutting edge of environmental performance technology to be performed in emerging countries.

In particular, the Group accompanies industrial companies abroad in the implementation of their projects, helping them to design and build their own plants or adapt existing sites, by including technology enabling the environmental impact of activities to be reduced while improving competitivity. These actions and services contribute to the preservation of the environment and respond to the growing concerns of customers to take concrete measures in this direction. Their implementation requires local expertise, with the cross-fertilization of techniques and practices. In this way, Veolia Environnement's expertise in energy efficiency, energy recovery, water treatment and increasingly, the beneficial re-use of by-products, including wastewater, is effectively harnessed, whether the client is a public authority or industrial company and irrespective of the primary service supplied.

It is now obvious to all, public and private decision-makers alike, that new cost-efficient innovative solutions must be identified, perfected and implemented in order to limit the environmental footprint. Accordingly, as part of a consortium, Veolia Propreté won several of the first contracts for vacuum waste collection in France (Romainville, Lilas, Issy-les-Moulineaux and the Clichy Batignolles eco-neighborhood in Paris).

While all the Group's customers and the beneficiaries of its services are now aware of the environmental challenges facing us, our response must be tailored to the different requirements of each customer group and each specific context.

Citizens and public contractors are setting increasingly strict environmental performance requirements for the management of public services and utilities. As a result, this increases public sector customer awareness of environmental requirements and of their responsibilities in this area, leading them to implement measures to improve respect for the environment, particularly in towns, groupings and increasingly major conurbations. The Group actively participates in certain of the increasing number of studies and reviews focusing on this subject. Nonetheless, public sector management contracts remain largely awarded on an individual service basis, in response to competition requirements as well as those of administrative and budgetary bodies. Furthermore, the economic climate encourages public customers to seek budget savings, with as a result strong pressure on prices and supplier margins.

Private sector customers seek to adopt a unified management policy for all these services and to call on a service provider grouping together all useful expertise and, where appropriate, able to assume the integrated management of outsourced environmental services. They seek innovative technical proposals producing resource savings, enabling the recovery of by-products and limiting the environmental footprint of their activities. Service offers must reflect their specific requirements, be adaptable, and tailored to closely match their expectations. They expect the organizational structure to generate productivity gains, to be shared by both parties. A transversal approach, encompassing several environmental management service families, could help satisfy this requirement by releasing synergies between services. These measures, now largely shared, have led to an increased demand for a range of environmental management services. This trend has accentuated with the international development of companies and the need for centralized management of these services, generating increased demand for specialist service providers offering a global presence able to satisfy the international requirements of their customers.

As set out in the "Low Carbon and Environmental Goods and Services (LCEGS)" report published in July 2011 by the UK Department for Business Innovation and Skills, the market in which the Group operates represents annual equipment sales and services of €1.5 billion globally. According to this report, the annual growth outlook for all market sectors exceeds 3%. Demand for outsourced and increasingly integrated environmental management services should expand and grow for the following reasons:

- a global environmental services market enjoying sustained growth (3.8% per annum to 2015 according to the above report);
- customer need for increased competitivity or savings;
- as innovative technical solutions favorable to the environment are developed, the Group's expertise is sought to identify, design, control, build and operate them;
- faced with increasingly strict environmental standards and requirements, public and private players do not always have the necessary technical or operational resources that specialist professionals can mobilize to deal with environmental problems effectively and at minimum cost; they also seek the legal security offered by an operator that accepts responsibility for the management of these activities. Expertise in environmental regulations is a determining factor in the choice of operators and an asset that sets Veolia Environnement apart from the competition;
- the need for the coordinated management of services entrusted by companies to service providers for a range of sites spread across one or several continents;
- in addition, public demand, which now widely reflects a concern for sustainable development, must keep commitments made at international level and set exemplary standards. In a world that combines accelerated urbanization with demographic growth, major investment in environmental projects and services, as well as sustainable management, are needed in order to provide growing urban populations with adapted environmental services and replace existing environmental infrastructures.

Nonetheless, the financial difficulties that plague all economic players, whether they are public authorities or private companies, could lead to certain decisions being postponed, especially when they involve new investments.

These financial restrictions could also encourage public authorities and companies to seek the most cost efficient solutions and lead them to consider outsourcing a portion of their activities under complex, comprehensive long-term contracts. They often seek to simplify the contractual process by entrusting the performance of highly varied services to a single partner, who is able to commit to performance levels and, where appropriate, finance all or part of the investments necessary. This presents numerous opportunities for companies that are able to propose a wide range of integrated environmental management services. Accordingly, when the European Commission published the communication "Towards a Single Market Act" on October 27, 2010, it confirmed its desire to encourage public-private partnerships, and particularly service concession arrangements, which it considers effective levers for mobilizing long-term investment in energy services, waste management and transportation infrastructures.

Veolia Environnement believes that market developments offer significant opportunities for the Group which is able to provide high quality, innovative, and, depending on customer needs, integrated environmental management services in markets around the world. In order to seize these opportunities, the Group must, more than ever, strive to offer high-quality services, equipment and installations at competitive prices.

6.2.2 Customers

Veolia Environnement provides environmental management services to a wide range of public authorities, industrial and service sector customers in many countries.

Public authorities

Demand from public authorities (primarily small local authorities, that increasingly pool their resources) is focused more and more on the search for quality and innovative solutions and, with increasing urgency, on a desire for efficiency, resource savings (water), energy savings (across all services), the recovery of by-products and the best total cost (by integrating operating concerns from the design phase). During this search, public authorities increasing favor the concept of value-added services. They are convinced of their environmental responsibilities and duties and of the need to update their operating methods, particularly with respect to the management of water resources, air pollution, transportation management and energy consumption. These trends, combined with a movement towards greater urbanization, are increasing the need for essential services.

Veolia Environnement has the know-how to adapt to customer expectations and needs. It increasingly participates in upstream studies, helping public decision-makers to define policies for their cities or regions and make decisions based on their short- and long-term environmental impacts and their carbon footprint. It can propose a wide range of contract types, from a simple study or expertise contract to a tailored partnership enabling customers to benefit from the latest technology, and including design and build contracts for installations and contracts focused on measureable performances or objectives, such as energy efficiency contracts. In the current economic context, financial difficulties weigh heavily on public authorities and influence contract negotiations and required services levels. Veolia Environnement is also able to adapt to these changes in customer needs.

The Group believes in the relevance of its comprehensive contract model, which gives the Group the ability to provide services tied to performance obligations and to design, build, and even finance necessary investments, depending on customer needs. This contributes to innovation and efficiency through mutual research efforts, stimulated by the periodic competitive tendering of contracts. This model takes on different legal forms depending on the traditions in each country. Certain countries, including those governed by European Union law, distinguish public markets from concessions (or other forms of Public Private Partnership, or PPP) based on whether operating rights are transferred and the extent of operating risks assumed by the Group and depending on whether the contract focuses on the service to be provided or the construction of infrastructure.

Since the mid-19th century, French public authorities have generally chosen to entrust the management of public services (water, sanitation, transportation, waste collection and processing, urban heating) to companies under contracts that were traditionally considered to be concessions (or operating contracts in the absence of an investment component) and which are now classified by law as public service delegation contracts, but which retain the label concessions under the European Union definition. They have frequently preferred, at least for certain public services, to retain control over the construction of installations, as well as their financing, while making them available to the service provider for the term of the contract.

In the last few years, a new trend has emerged whereby public authorities in all countries, including France, have asked companies to manage not only the design and construction of the necessary public infrastructures, installations and equipment (as varied as administrative and educational buildings, hospitals, transportation infrastructure, prisons, wastewater treatment facilities or household waste processing plants), but also their financing and long-term maintenance before recovering them at the end of the contract. Two main categories of contract have emerged, which, together, are often qualified as PPPs (public-private partnerships). The first case includes contracts belonging to the market category, where the resources intended to cover the cost and financing of infrastructure are similar to a price paid or guaranteed by the public authority and the service is provided to the public authority using the completed infrastructures. The second case includes contracts that are the equivalent of concessions as defined by the European Union and the resources are obtained through the commercial operation of the public service that is the main object of the contract (i.e. the public or general-interest service whose operation has been delegated), whereas the construction of infrastructure provides only the necessary means. Different IFRS accounting treatments apply in each case (recognition or not of a financial asset corresponding to a receivable from the public authority). We can also distinguish these PPPs based on the nature of the services entrusted, such as Build Operate Transfer (BOT) contract with financing, or Design, Build, Operate (DBO) contract, with design but excluding financing.

At EU level, after defining a number of directions in its communication “Towards a Single Market Act” published on October 27, 2010, the European Commission published on December 20, 2011 a proposed directive on the award of concession contracts. This proposal requires the publication of a notice prior to awarding concessions with an estimated value, net of VAT, in excess of €5,000,000. There is, nonetheless, a risk that the extensive regulation of “public-public partnerships” will hinder realization of the objective of opening-up and developing the internal concessions market. We are closely monitoring current negotiations within the European Parliament and the Council concerning the proposed directive. The Group’s objective is to secure and promote the use of concessions for services and construction work in other European Union countries, without assimilation of the public markets concession regime or substantially calling into question French public service delegation legislation.

On December 20, 2011, the European Commission also published two proposed amendments to directives concerning public procurement markets.

In 2011, the Decree of August 25, 2011 created “comprehensive performance-based public procurement contracts” pursuant to the *Grenelle I* and *Grenelle II* laws, to enable the creation of public procurement contracts encompassing design, build, operation and maintenance services. These provisions will enable public bodies to enter into energy performance contracts as defined in the Energy Efficiency Directive of April 5, 2006 (currently under review), in order to implement the objectives of the “energy-climate” package adopted by the European Union at the end of 2008.

We are closely monitoring the drafting of the proposed text. The objective of the Group is to secure and promote the use of concessions for services and construction work in other European Union countries, without assimilation of the public markets concession regime or calling into question French public service delegation legislation.

Industrial and Service Sector Companies

Veolia Environnement offers its industrial and service-sector customers a wide range of construction and/or operating services, to help them improve their competitivity and environmental footprint: improvements to installations, production of the utilities necessary for their industrial processes (steam, industrial heating and cooling, process water, demineralized water, compressed air, etc.), optimizing consumption, re-using process water and limiting and recovering by-products (treating effluents, recycling and recovering waste, and maintaining durable and efficient waste elimination channels).

Veolia Environnement offers customers innovative solutions tailored to the needs of each industrial site. It adopts a long-term partnership approach, entering into long-term contracts, which can require services to take account of changes in customer requirements or their business.

Veolia Environnement considers the development of its industrial customer base as a major growth driver and aims to increase the share of revenue realized with industrial customers from 30% to 40% by 2015. This will primarily be achieved through the Environmental Services division where over 60% of revenue is generated with industrial customers and through “engineering” activities in the Technologies and Network business in the Water division.

6.2.3 Competition

Most markets for environmental services are very competitive and are characterized by increasing technological challenges due to changes in regulation, as well as the presence of experienced competitors.

Competition in each of the markets in which Veolia Environnement participates is based primarily on the quality of the products and services provided, as well as the suppliers' reliability, customer service, financial position, technology, price, the financial structure of the contract, reputation and experience in providing services. Additional considerations include the ability to adapt to changing legal and regulatory environments, as well as the ability to manage employees accustomed to working for public authorities or non-outsourced departments of industrial or service sector companies. In each of the markets in which Veolia Environnement operates, its competitive advantages are its technological and technical expertise, its financial position, its geographical reach, its experience in providing and performing all environmental management services, its management of outsourced employees, and its ability to comply with regulatory requirements.

In the environmental services sector, Suez Environnement provides a range of services encompassing water and waste management. In the energy sector, the GDF-Suez merger does not significantly change Veolia Environnement's competitive position, despite the merger of Cofathech (GDF) and Elyo (Suez) to form Cofely. Certain players are originally from neighboring industrial sectors and are seeking to extend the scope of their business. This is the case for the subsidiaries of certain energy providers, notably in the heating network sector (Vattenfall, RWE). Companies specialized in electrical installations, such as Cegelec, have also expanded their environmental services offering. However, the vast majority of competitors do not offer the same range of technical expertise in environmental services as Veolia Environnement. Therefore, in certain cases, Veolia Environnement's competitors are required to set up special purpose entities to cover the service scope required by customers.

Veolia Environnement expects that competitors, currently operating in a single or national market, will seek to expand their activities to become integrated environmental management service providers, in the coming years. This change has been prompted by the desire of potential customers to outsource a larger portion of their business. The development of companies with worldwide capabilities focusing on multi-site and international calls for tenders has therefore been observed, such as Sodexo Johnson Controls or Jones Lang Lasalle in facilities management. Industrial service providers are also moving towards greater consolidation by creating multi-service subsidiaries. This is the case of Voith in Germany.

A new form of competition has developed over recent years due to the growing role of financial groups such as infrastructure funds (Macquarie Bank, etc.) and private equity funds. Although they are not global or strategic competitors, these players are often present in privatization tenders and asset sales and can occasionally compete with the Group for growth opportunities. The development of PPPs has also resulted in the emergence of new players from the construction sector that are able to manage the major construction and financing challenges required by these operations. Service providers such as Veolia Environnement may join forces with these companies as part of alliances formed to respond to tender offers. Such companies mainly include Bouygues, Vinci and Eiffage.

Finally, it is important to note that Veolia Environnement's main competitor is often the customer itself. Customers systematically compare the financial, technical and employee-related benefits and advantages of outsourcing with maintaining the status quo.

There has been a trend in France in recent years towards a return to local government control over the provision of environmental services to public authorities, which has reduced the number of delegated management contracts available on the market. In Germany, public entities (Stadtwerke) play a leading role in the environmental services market (in the areas of water, waste management and energy services). In a number of countries in Eastern Europe, markets are slowly opening to competition, albeit partially. This trend nonetheless remains limited. Finally, new players from the construction and public works sectors could look to expand into the service market involving major and/or complex new investment, which subsequently require the provision of services (e.g. construction of a hospital which then requires operation and maintenance of common and technical services). These new players may provide services as part of a BOT or concession contract or, in France, as part of a “partnership contract” authorized by the regulation of June 2004. The emergence of such new players is a natural outgrowth of the development of a comprehensive service market integrating the construction and financing of the infrastructures necessary to the performance of services, which then revert to the customer at the end of a contract.

Water

Veolia Eau confirmed its role as leader in the water and wastewater treatment sectors(1), where its main competitor across all markets is Suez Environnement. In national, regional and international markets, the Group remains exposed to strong local competition from private, public and mixed private-public operators.

Its main competitors in France are Lyonnaise des Eaux (Suez Environnement), Saur and local public authorities.

In Spain, the Group’s main competitors are Suez Environnement (through Aguas de Barcelona, Agbar and Aguas de Valencia) and construction and public works companies such as Aqualia-FCC, ACS, Sacyr and Acciona which are also focusing on an international development strategy to offset the slack national market.

In the rest of Europe, aside from Suez Environnement, other players include the German companies Gelsenwasser and Remondis, which expanded its Water business in Germany by acquiring Eurawasser from Suez Environnement (which thus withdrew from the water business in this country) and certain RWE assets, as well as Aqualia, which has confirmed its interest in Central and Eastern Europe and even Russia.

The British market experienced several changes: restructuring of Biwater, acquisition of Northumbrian Water by the Hong Kong company Cheung Kong Infrastructure (which then sold Cambridge Water), acquisition of a stake in Thames Water by the Abu Dhabi sovereign fund, sale of Bristol Water by Agbar which thus withdrew from the United Kingdom market as well as the Chinese and South Korean markets in order to enter the US market.

In the United States, the purely American companies, American Water and Aqua America, consolidated their geographic positions through asset swaps.

In the North Africa and Middle East markets, as well as in Latin America (Chile, Peru and Brazil), Veolia Eau is in competition with Spanish companies (Acciona, Aqualia, ACS) and is facing the expansion of Japanese (Mitsui, Marubeni, Mitsubishi, Sumitomo, etc.) and even Korean trading companies (Samsung in Bahrain), which are seeking to establish a position in stable, long-term activities.

China is also a strategic development region for Suez Environnement and Asian companies, with competition from local companies, as well as Japanese and Singaporean companies, such as Hyflux, SembCorp and Moya Dayen, which are also present in the Middle East and North Africa (MENA) region.

Australia is also a strategic development area, with competition from Spanish (Acciona, ACS, Cadagua, Sacyr) and Asian (Hyflux, Mitsubishi, Marubeni) companies as well as Suez Environnement.

The global water market is also of interest to technology providers such as the conglomerates General Electric and Siemens, which are targeting India in particular with a specific focus on the desalination and wastewater recycling sectors, as well as Asian players such as Doosan (South Korea), Kepel and Hyflux (Singapore) and new entrants such as LG, GS (which acquired Inima) and Hitachi.

---

(1) Pinsent Masons Water Yearbook 2011-12.

Environmental Services

Veolia Environnement's main competitors in this sector are either regional players, or cover only part of the services offered by Veolia Propreté.

In Europe (including Central and Eastern Europe), where Veolia Propreté conducts the majority of its business, its principal competitors are Suez Environnement (acting through its subsidiary SITA), also present throughout the entire waste recovery chain, Remondis, a major player in Germany and Biffa, which developed its activities in the recycling sector in the United Kingdom through the acquisition of Greenstar UK.

The North American market is highly concentrated. In the solid waste sector, the two major competitors are Waste Management Inc. and Republic Services Inc. (the new entity formed by the merger of Allied Waste Industries and Republic Services at the end of 2008), while Clean Harbors is the main competitor in the hazardous waste and industrial services sectors.

Finally, in the Asia-Pacific region, the Group's main competitors are Suez Environnement and various local companies. In Australia, Transpacific is the main national competitor in a concentrated market. The Chinese market remains fragmented and primarily comprises local and regional players.

Energy Services

The energy services market combines a diversified range of services and has many different types of market players. Veolia Environnement, through its Energy Services division, therefore faces strong competition from primarily sector-specific players.

Only the group formed by the GDF-Suez merger, primarily with Cofely, has the ability to offer a diversified and comprehensive range of services with a strong international presence that is comparable to Dalkia's own presence and services. Cofely represents a major competitor, mastering a range of expertise similar to that of Dalkia. This competition increased in 2011, particularly in France, with an aggressive policy to win market share.

Among sector-specific players, Dalkia faces the active presence of large local competitors such as ENEL, Vattenfall, Fortum, Alpiq and EON, particularly in the energy infrastructure sector.

In the service sector, competition takes many forms, and comes from specialized companies (in the areas of cleaning, food services, etc.) seeking to expand their offering to include energy services. Technical maintenance companies focusing on areas such as electrical installations are also increasingly forming partnerships with major construction and public works groups (Vinci, Bouygues) or groups specializing in facility management (SERCO, JLL, etc.).

In the intelligent building sector, equipment manufacturers are playing an increasing role (Schneider Electric, Siemens, etc.).

Finally, the Group faces historical competition from municipally- or publicly-run companies, principally in Central Europe.

Transportation

In the transportation sector, Veolia Environnement's principal competitors are large private operators, who are primarily French, American and British but also Asian, as well as public companies (national or local) that operate public monopolies.

2011 saw considerable market consolidation and the international expansion of historical competitors from the national railway sector (Deutsche Bahn, SNCF, Trenitalia).

The main competitors on the global stage are the British groups FirstGroup, National Express and Stagecoach, the French group SNCF and its subsidiaries Keolis and RATP Dévelopmment, Deutsche Bahn and its subsidiary Arriva, and the Hong Kong company, MTR Corporation.

With regard to French groups, the Veolia Transport-Transdev combination was completed on March 3, 2011. The new entity is a major player in the sector with an international presence in 26 countries. Following the combination, several French and international assets of Veolia Transport and Transdev were transferred to RATP Développement. In 2009, the merger of Keolis, a 45.4% subsidiary of SNCF and the car parking lot management company, Effia, a wholly-owned subsidiary, provided SNCF with a 56.7% shareholding in the combined entity. In addition, SNCF Proximités, a specialist in local and regional mobility, is positioning itself in several business segments in France and abroad to export its know-how.

With the current trend towards consolidation in the mass transportation market, Deutsche Bahn (the national rail operator in Germany) acquired the Arriva group, which is present in 12 European countries. Following this acquisition, the new group became the main European competitor of Veolia Transdev.

Finally, another public rail operator, Trenitalia (a wholly-owned subsidiary of the Italian state-owned group, Ferrovie dello Stato), acting jointly with the Luxembourg investment fund, Cube, purchased the German assets of Arriva. Accordingly Trenitalia, which had already expressed interest in circulating its trains between France and Italy, is now a competitor in the German market, under the name Netinera.

In the United States, Amtrak's persistent budget difficulties have opened the rail market to other operators under delegated management contracts or public-private partnerships. The competitive environment in the United States has changed with the arrival of new competitors such as Keolis and ACI and potentially European and Asian consortiums.

Thus, several international groups are submitting bids to high-speed rail calls for tenders, in particular.

In conclusion, Veolia Transdev is operating in an environment marked by increasingly intense competition between the major international groups and a move towards consolidation, leading to the formation of a few extremely large local passenger transportation groups.

6.2.4 Contracts

Contractual relationships with public authorities for the provision of general-interest services to the public or public services, for which the local authority is responsible, take a variety of forms depending on the level of involvement of the public authority. The public authority may decide merely to regulate the services, to delegate operating activities to a company acting on its behalf but under its supervision, or to provide these services itself with, or without, the assistance of a company.

Even when, as in certain countries and for certain services, public authorities choose to be involved as little as possible in the provision of public services to residents or be satisfied with more or less restrictive regulation of the relevant activities and customers must be sought directly among the local population, the Group is able to find its place, most often through acquisition of a private operator already serving a given area.

Generally, however, these so-called "general economic interest" services or public services are considered to be the responsibility of the competent public authority, which does not merely implement regulations and controls but also play an active role in their management, through one of the following approaches:

- the public authority can decide to directly operate public services ("direct" or "internal" management) with its own resources or resources transferred to an in-house company over which it exercises control similar to that exercised over its own departments;
- the public authority can decide to provide the service itself, but use private operators as subcontractors to manage the service on its behalf, or to provide limited services;

- the public authority may prefer to transfer responsibility for providing the public services to a company, to which it delegates or transfers (under the terms of a contract comprising technical performance commitments) the right and the obligation to operate the service, provide the human resources, equipment and financing necessary and, where appropriate, finance and build the infrastructure. Third parties selected by the public authority may be either private operators, mixed public-private companies or other public entities.

The different ways in which public authorities choose to manage the provision of public services lead to different contractual mechanisms between the public authority and the company, to which Veolia Environnement easily adapts. The contracts Veolia Environnement uses generally fall into one of three categories, depending on whether Veolia Environnement is entrusted with full responsibility for providing the public service and whether Veolia Environnement has a financial and commercial relationship with end users:

- the public authority chooses to manage and provide public services on its own (direct management), but has only limited means and therefore calls upon a private operator to provide certain limited services or work for which it pays a contractually-agreed price. It therefore enters into a variety of contracts for the supply of construction work and services;
- where new infrastructure is necessary for the provision of the services, the public authority may prefer a more comprehensive build/operate contract, which may include the financing of required infrastructure. These are known as public market contracts under EU law and also referred to as Build, Operate, Transfer (BOT) contracts, or since 2004 in France, as partnership contracts;
- the public authority entrusts a company with responsibility for the full provision of a public service, with the company assuming all or part of the operational risks. Generally, the provision of the service is then financed by the fees and charges paid by the end user of the service. The contractor thus has financial and operating responsibility for providing the service, but must do so in accordance with the terms set by the public authority encompassing needs to be satisfied, expected performance and prices charged to end users. This is the logic of “delegated management” contracts or “concession arrangements” under EU law (also known as a Public Private Partnerships – PPP), which transfer to the concession holder the “risks and perils” or “risks and benefits” of the activity, to the extent compensation is linked to operating results.

The historical traditions of the various countries in which Veolia Environnement operates tend to favor one of the above-mentioned contract types over the others. Current practices in various countries are, however converging. Public authorities alternatively adopt one or other contract type depending on the situation. All contracts have, in most cases, the common feature of being long-term agreements, even if contract terms are shortening. In France, the so-called “Olivet commune” case-law decision (Council of State Order of April 8, 2009) may result in the residual term of certain old contracts still in effect being limited from 2015. This Order particularly concerns contracts in the water, wastewater and household waste sectors. Contracts increasingly comprise the building of infrastructure, or at least the upgrade of existing equipment and in all events its maintenance and may also comprise the financing thereof.

Veolia Environnement also enters into outsourcing contracts for the management of complex services with its industrial and service sector customers, which are similar to the above contracts. Such contracts take a variety of forms but are always tailored to customer expectations. Despite differences relating to the nature of customers, the services contracted and the nature of the legal systems in which Veolia Environnement operates, the expectations of Veolia Environnement’s customers tend towards a demand for transparency during the bid process and during contract performance, formation of a real partnership in search of ways to improve productivity and performance and a desire for clear performance targets involving penalties or variable compensation depending on achievement.

Veolia Environnement is also very attentive to contractual provisions, in particular when Veolia Environnement must finance the investments required under a contract. Given the complexity of management agreements and their long-term nature, Veolia Environnement possesses skills in contract analysis and control and the content of its major bids is decided by Commitment Committees meeting at several levels. The legal and financial departments of Veolia Environnement's divisions, and potentially the Group, are involved in the negotiation and preparation of tender bids and then contracts, and the implementation of Veolia Environnement's main contracts is verified. Each year, Veolia Environnement's Internal Audit Department includes a review of the contractual and financial risks inherent in Veolia Environnement's most significant contracts in its annual program. Contracts often specify that the financial conditions will be reviewed periodically during the contract term. Certain customers have recently used this review process to prepare the future renegotiation of the contracts.

6.2.5 Intellectual property – Company Dependence

Veolia Environnement owns a number of brands, including the "Veolia" brand. Since November 2005, the Group has adopted a new brand strategy aimed at uniting the Water, Environmental Services and Transportation divisions under the Veolia banner. The three divisions remain identifiable according to their business descriptions: "Water", "Environmental Services" or "Transportation", while the Veolia Energy Services division is mainly known under the name "Dalkia". As a result, the companies at the head of the Water, Environmental Services and Transportation divisions, as well as most companies in the countries and regions where the Group is based, have modified their corporate names to include "Veolia". This strategy, implemented by Company Executive Management, illustrates Veolia Environment's desire to increase the global consistency of its divisions and the visibility of the Company, by strengthening the identity and global culture of Veolia Environnement based on its service values. Accordingly, the "Veolia" brand has become an international reference for trust, reliability and expertise in the environmental services sector.

Innovation is essential to the growth and profitability of Veolia Environnement and flows from the expertise and know-how of its businesses. The patent portfolio and developed expertise sets Veolia Environnement apart from the competition and participates in its reputation as a reference for environmental services. It capitalizes on this expertise primarily through the creation of technical, digital and IT tools that the Company seeks to protect using tailored methods.

In Veolia Environnement's opinion, its business is not dependent on the existence or validity of any one or several of these patents nor on any contract covering one or more intellectual property right(s). Furthermore, the Company is not dependent on any customer, major license or industrial, commercial or financial supply contract.

6.2.6 Seasonality

Certain of the Company's businesses are subject to seasonal variations. Dalkia generates the bulk of its operating results in the first and fourth quarters of the year, corresponding to periods in which heating is used in Europe. In the water sector, household water consumption and the related wastewater treatment services tend to be higher between May and September in the northern hemisphere, where Veolia Eau conducts most of its activities. Finally, in transportation, SNCM's activity is strongest in the summer season. Thanks to the diverse nature of Veolia Environnement's operations and its worldwide presence, Group results are, in general, not significantly affected by seasonal variations.

6.2.7 Raw materials

Given Veolia Environnement's business activities (Water, Environmental Services, Energy and Transportation), changes in the price of raw materials (mainly fuel and natural gas prices) and recycled materials (paper, cardboard, iron and non-ferrous metals) can have an effect on its different divisions.

Fuel prices (mainly gas and coal) can be subject to significant fluctuations. Energy prices have fluctuated widely in the past few years. In 2011, the price of a barrel of Brent crude continued the upward trend commenced at the beginning of 2009. The average price of a barrel of Brent crude was US$111.4 in 2011, up US$31.8 on the average price in 2010. In the first half of the year, this increase was primarily due to political tension in the Arab world, which led to an annual high of US$126.6 per barrel in April. The price of a barrel of Brent crude then fell steadily amid fears regarding the economy, to close at US$108.6 per barrel at the end of December 2011. This increase in the price of Brent crude oil not only had an impact on fuel prices, but also on gas prices (particularly in France, where changes in STS gas prices track petroleum prices with a three month lag). Thus, average 2011 French gas prices increased approximately €6/MWh compared to 2010 (increase of 20%).

The general consensus among energy product analysts is, however, that energy prices will continue increasing in the long-term, due to the increasing rarity of known oil reserves, a marked increase in extraction costs and the need to adopt new energy sources in response to growing environmental requirements. However, the timeline of this underlying trend is difficult to forecast, due to the limited visibility of market participants regarding economic growth. Therefore, the possibility of a drop in commodity prices cannot be excluded. In any event, as in recent years, energy prices should remain volatile in 2012.

The contracts entered into by Veolia Environnement generally include price review and/or indexation clauses, which enable it to pass on part of any increases in commodity or fuel prices to the price of services sold to customers, even if this may be performed with a time delay.

In the Transportation division, numerous contracts contain indexing clauses that take fluctuations in fuel costs into account, significantly reducing the impact of a rise or fall in fuel prices. In certain contracts, especially contracts entered into in the United States, Veolia Environnement is entitled to full compensation in the event of a rise in fuel prices. Approximately 70% of costs are covered by contractual indexing clauses. For those contracts not containing indexing clauses, a fuel hedging policy was implemented in 2008 to manage fluctuations in fuel costs. The Group uses derivative instruments for this purpose, whose characteristics (notional amounts and maturity) are defined in accordance with forecast fuel requirements (based on firm orders or highly probable forecast flows). The majority of derivatives used are swaps.

In the Environmental Services division, collection services involving non-hazardous solid and liquid waste are the most sensitive to fluctuations in fuel prices. However, for customers that have contracts with Veolia Environnement, indexing clauses in their contracts generally allow the Group to pass on a significant portion of increases in such costs through the prices charged. Approximately two-thirds of activities are covered contractually. For customers not bound by contract, increases in fuel costs are either fully or partially passed on through an increase in fees or negotiation.

In the Transportation and Environmental Services divisions, the increase in fuel prices in 2011 compared to 2010 had a negative impact on fuel expenses of approximately €67 million in 2011, including the cost of swap hedging arrangements.

In the Energy Services division, given the long-term nature of contractual terms and conditions and the terms of supply agreements, changes in energy prices may have different impacts depending on the areas in which Dalkia intervenes. At Energy Services division level, the overall impact on revenue was +€265 million.

A portion of Environmental Services division revenue is generated by its sorting-recycling and trading businesses, which are particularly sensitive to fluctuations in the price of recycled materials (paper, cardboard, ferrous and non-ferrous metal). In 2011, annual averages for two representative price benchmarks ("Revipap 1.05" for recycled paper and "E40" for scrap metal) reported increases of 23% for recycled paper and 17% for scrap metal, compared to 2010 averages. The results of the Environmental Services division were therefore impacted positively in 2011 by the increase in the price of recycled materials compared to 2010. This increase in the annual average hides substantial price volatility in 2011 and particularly in the recycled paper market where a price surge at the beginning of the year was followed by a substantial drop in the second half. Accordingly, at the end of 2011 recycled paper and scrap metal prices were 37% and 5% below their 2011 averages, respectively.

In the other divisions, as part of supply management and cost optimization measures, certain Group subsidiaries may be required, depending on their businesses, to contract forward purchases or sales of commodities (gas, electricity).

The Group also entered into long-term contracts for the purchase of gas, coal, electricity and biomass in order to secure its supply chain. The majority of these commitments are reciprocal, with the third parties concerned required to deliver the quantities indicated in these contracts and the Group obliged to take them.

Finally, with respect to its building activities, particularly in the Water division, the Group may also purchase financial instruments to hedge against increases in the price of nickel and copper primarily.

For further information, please refer to Chapter 20 and particularly Notes 20.1, 29.1.3 and 37 to the consolidated financial statements.

6.3 Environmental and employee regulation, policies and compliance

6.3.1 Environmental regulation

Veolia Environnement's businesses are subject to extensive, evolving and increasingly stringent environmental regulations, in particular in the European Union and also in North America and emerging countries.

Transversal regulations

Environmental regulation in European Union countries is primarily tied to European directives and regulations.

The majority of the Group's activities require operating permits or authorizations defining rules governing the operation of the installations. These operating permits are delivered by public authorities pursuant to authorization procedures encompassing the performance of specific studies presenting, in particular, the environmental footprint of the installations.

In France, the majority of installations operated by the Group fall under the control of the ICPE regime (Facilities Classified for Environmental Protection).

The Group's activities are subject to a wide range of regulations, the most important of which are presented below.

With regard to reducing pollution, the Directive on Industrial Emissions of November 24, 2010, sought to overhaul the 1996 Integrated Pollution Prevention and Control Directive and six sector-based directives. Henceforth, the application scope encompasses new activities, administrative permits must be issued based on the use of "Best Available Techniques" (BAT) and new limits apply to air, water and soil emissions. Obligations to monitor emissions likely to contaminate soil and groundwater have been introduced. The directive also provides for the preparation of a "baseline report" on the state of the site before starting operation of the installation or before a permit for an installation is updated for the first time, and redefines site restoration obligations on the cessation of activities. Member States have two years to enact this directive into national legislation.

In addition, the REACH regulation on chemicals, which came into effect on June 1, 2007, establishes a new European methodology for the management of chemicals that is aimed at enhancing the knowledge of substances currently circulating within the European market. This regulation seeks to reduce the health and environmental risks associated with the manufacture and use of chemical substances. It introduces, across Europe, a range of procedures aimed at improving knowledge of the health and environmental risks associated with chemicals marketed, together with the management of these risks throughout the lifecycle of the chemicals, in order to ensure better health, safety and environmental protection. It implies in particular for the Group as a user of such substances, the strengthening of cooperation and exchange of information with suppliers and customers. It also involves improving risk management at all stages of the life cycle of chemicals and strengthening the prevention of chemical risks concerning Group employees.

The relevant legal entities are in compliance with the schedule set by the Reach Directive for chemicals requiring registration within the Group. After the systematic pre-registration of all substances potentially concerned and compliance with the first registration deadline of November 30, 2010, the next deadlines are being monitored. Other chemicals produced by the Group may be governed by other regulations, such as biocides which fall within the scope of the Directive of February 16, 1998.

The Classification, Labeling, Packaging (CLP) regulation of December 16, 2008, which has the same end purpose as the REACH regulation, came into effect on January 20, 2009. This regulation makes certain amendments to existing provisions concerning the classification, labeling and packaging of dangerous substances and defines new standards regarding labeling classifications and the packaging of chemical substances and mixtures.

This text seeks to provide a high level of protection for human health and the environment, while guaranteeing the free movement of chemicals. Henceforth, dangerous chemicals are identified and information on the dangers they represent provided based on new criteria defined by the General Harmonized System of classification and labeling of chemicals, enabling harmonization at global level.

In addition, the increase in greenhouse gases in the atmosphere has led certain countries, as well as the international community, to implement regulatory measures in order to limit this trend. At international level, the Kyoto Protocol came into force in February 2005 and gave the European Union the objective of reducing greenhouse gas emissions in the European Union by 8% over the period 2008-2012, compared with 1990 emission levels. Directive 2003/87/EC of October 13, 2003, created an emission allowance trading system within the European Union, known as ETS (Emission Trading Scheme). The resulting system operates in parallel with the Kyoto Protocol system, which came into operation in 2005 and led to the creation of National Allowance Allocation Plans (NAAP) for an initial period (2005-2007) followed by a second period (2008-2012), corresponding to the Kyoto Protocol commitment period. European Directive 2009/29/EC of April 26, 2009 amended the ETS Directive and extended the allowance trading system to cover a third period (2013-2020), which provides for a progressive reduction in allowances granted and new grant procedures. The European Regulation of November 12, 2010 established a scheme for auctioning greenhouse gas emission allowances for the period 2013-2020. The EC decision of December 15, 2010 defined rules for the free grant of allowances for the period 2013-2020. Allocation calculation guidance was published in the first and second quarters of 2011. Operators filed the necessary data with the national authorities and performed preliminary calculations. The definitive amount of allowances to be granted will be known at the end of 2012.

In May 2006, pursuant to the decisions made in light of the conclusions of the Convention on Biological Diversity, the European Commission implemented an action plan comprised of objectives aimed at halting the decline in biodiversity and measures enabling the achievement of objectives by the end of 2010. This action plan is based on an assessment of lost biodiversity in Europe and elsewhere in the world and measures already taken by the European Union to resolve this problem. In October 2009, the Conference of the Parties (COP) revised the strategic action plan of the Convention, setting new objectives for the period 2010-2020 which include primarily analyzing the services rendered by ecosystems to human well-being. At global level, the United Nations Convention on Biodiversity held in October 2010 in Nagoya (COP10), adopted the Nagoya protocol. This protocol provides, in particular, for the adoption of a strategic plan covering the period 2011-2020, an agreement to create the IPBES (Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services) and the mobilization of the necessary financial resources to implement the related strategy.

In France, the planning law aimed at implementing the "*Grenelle de l'environnement*"(1) decisions, known as the "Grenelle 1 Law" of August 3, 2009 was supplemented by a law comprising national environmental commitments, known as the "Grenelle 2 Law" of July 12, 2010. These laws seek to implement six major projects, which have significant implications for each of the Group's divisions. The construction, transportation, health and waste, water and biodiversity and energy sectors are all concerned, as is environmental governance and information transparency. A significant number of Grenelle 2 law application decrees are scheduled to complete the implementation of these measures. Accordingly, the decree of July 11, 2011 concerning greenhouse gas emissions reports and the territorial climate-energy plan, requires companies with more than 500 employees to prepare a greenhouse gas emissions report before December 31, 2012. This obligation also applies to the State and territorial authorities with a population of over 50,000.

---

(1) Grenelle de l'Environnement (France): talks between the French government and a wide variety of organizations in October 2007 to establish a roadmap for sustainable ecology, development and construction.

With regard to Facilities Classified in France for the Protection of the Environment (ICPE), the Order of June 11, 2009 created a new ICPE category: the “registration” regime, an intermediary regime between the authorization and reporting regimes. This Order was supplemented by two application decrees on April 13, 2010 and by several ministerial orders setting general rules.

The main objective of this new regime is to simplify administrative procedures for facilities presenting risks and justifying an upstream project review by the Classified Facilities inspectorate, as the risks concerned may be limited by “standard” recommendations.

The Directive of November 24, 2010 on industrial emissions was enacted into French law by the Order of January 5, 2012 creating a specific section in the Environmental Code for the relevant installations. The conditions governing the installation and operations of these installations are set to ensure they are operated using Best Available Techniques (BAT) and with reference to the conclusions of these BATs. Account must also be taken of changes therein. In addition, the Order clarifies the circumstances under which information provided by the operator for the review of the installation’s authorization conditions, will be presented to a public enquiry.

Water

Water and wastewater treatment activities are highly sensitive to regulation. In Europe and the United States, governments have enacted significant environmental laws at European, national, and local level in response to public expectations regarding environmental protection and safeguarding water resources. The quality of drinking water and the treatment of wastewater are increasingly subject to regulation in emerging countries, which are progressively adopting WHO standards in their internal regulations.

At international level, the WHO directives on health and water are issued for the attention of States, to help them draft internal regulations governing the quality of water. These directives set guidelines for the quality of drinking water and emphasize the importance of the preventive management of health risks. Compliance with these recommendations guarantees the production of water which is safe for human consumption. The right of access to water is recognized by the majority of States and access to clean water and sanitation was recognized by the United Nations as a human right on July 28, 2010.

At European level, the quality of drinking water is strictly regulated by Directive 98/83/EC of November 3, 1998, on the quality of water intended for human consumption, which was enacted by EU member states and into French law by various provisions incorporated into the French Public Health Code. In addition to quality control measures, this directive introduces the concept of evaluating risks on an on-going basis. The collection, treatment and discharge of urban, industrial and commercial wastewater is governed by Directive 91/271 of May 21, 1991, the objectives of which were confirmed and extended by the water framework Directive 2000/60/EC of October 23, 2000, which concerns more generally the quality of water, whether above or below ground. The aim of Directive 2006/118/EC of December 12, 2006 (daughter directive of the framework directive) on the protection of groundwater is to ensure the good chemical and ecological quality of such water by 2015, through oversight and restrictions on chemical substances in water by this same date. Directive 2008/105/EC of December 16, 2008 (another daughter directive of the framework directive) lays down environmental quality standards for 33 priority substances and 13 priority dangerous substances presenting a major risk for the environment or public health in the water sector.

The treatment of wastewater is also directly impacted by Directive 2008/56/EC of June 17, 2008, known as the “Marine Strategy Framework Directive”, which seeks to protect and conserve the marine environment and thereby conserve the ecosystem. It also seeks to establish marine protected areas in order to contribute to achieving the healthy ecological condition of the European Union marine environment by 2020. European Directive 2006/7/EC of February 15, 2006 concerning “bathing water”, imposes new restrictions on the oversight and management of bathing water and information provided to the general public.

Public authorities also impose strict regulations concerning industrial wastewater likely to be discharged into collection systems, as well as processed wastewater and sludge originating from urban water treatment installations. In this respect, the waste framework directive of November 19, 2008 classifies land treatment using sludge produced by wastewater treatment plants as a recovery operation.

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 ground water sources require authorization or notification. For instance, public authorities must be notified of any facility that pumps groundwater in amounts that exceed specified volumes and French law prohibits or restricts release of certain substances in water. The law of December 30, 2006 on water and aquatic environments addresses EU requirements for high quality water and significantly modified French legislation on water as well as addressing EU water quality objectives for 2015. Water development and management plans (SDAGE) take specific account of this water quality objective and the Order of January 25, 2010 sets out a water quality oversight program.

In addition to measures to preserve the quality and quantity of resources, the Planning Law no. 2009-967 of August 3, 2009 aimed at implementing the "*Grenelle de l'environnement*" decisions, known as the "Grenelle 1 Law", enabled the implementation of a blue infrastructure to preserve the ecological continuity of surface water masses. These objectives are taken into account in territorial planning, via "urbanism" and "water" planning documents. With regard to health aspects, measures must be taken to protect drinking water catchment areas of strategic supply importance and water emissions of certain toxic substances must be reduced by 2013. In the wastewater treatment sector, treatment plants must be brought up to standard by 2012 at the latest and autonomous wastewater treatment is subject to strict regulation to protect the quality of the receiving environment, sanitary conditions and public health.

The Grenelle 2 Law application texts implement the objectives set out in the green and blue infrastructures and provide for the acquisition and restoration of 20,000 hectares of wetland by the water bodies. In addition, this law confirms the responsibilities of municipalities with regard to the distribution of drinking water and seeks to improve knowledge of networks and reduce network losses. A financial incentive system was introduced to underwrite these obligations.

With regard to wastewater treatment, the law clarifies and strengthens the content of the supervisory role of territorial bodies for non-collective wastewater treatment and requires municipalities to draw up to a collective wastewater treatment policy before the end of 2013.

Priority is given to biological farming in order to protect certain drinking water catchment areas of particular importance to current or future supply. In addition, the Decree of October 10, 2011 implements actions plans to protect water against nitrate pollution from agricultural activity and the Order of December 19, 2011 sets key measures for the national action plan.

As a further measure to protect water resources, the Order of May 31, 2011 introduces an express authorization procedure for the aerial spraying of pesticide.

Violation of these laws is punishable by both civil and criminal law and a company may even be found criminally liable.

In the United States, the main federal laws concerning the provision of water and wastewater 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 set up by the EPA and a number of states have done so.

Environmental Services

In numerous countries, waste processing facilities are subject to laws and regulations that require service providers to obtain permits from public authorities to operate most of their facilities. The permit process requires Veolia Environnement to complete environmental and health impact studies and risk assessments with respect to the relevant facility. Operators of landfill sites must provide specific financial guarantees (which typically take the form of bank guarantees) that cover in particular the monitoring and rehabilitation of sites for a period of 30 years after cessation of operating activities.

In addition, landfill sites must comply with a number of specific standards and incineration plants are usually subject to rules that limit the emission of pollutants. Waste may also be subject to various regulations depending on the type of waste. For example, for sludge produced at wastewater treatment stations to be used in agriculture it must comply with strict regulations relating to its content of organic materials and trace metals (heavy metals such as cadmium, mercury or lead). Moreover, the NFU 44-095 standard, implemented in 2002 and applicable in France since March 18, 2004, strictly regulates the composting of material produced by the treatment of wastewater.

At European Union level, a new Waste Directive was adopted on November 19, 2008, setting up a hierarchy of different waste management measures and favoring (i) the prevention of production, primarily by requiring Member States to draft national programs, (ii) re-use, (iii) recycling, by defining new objectives to be attained by Member States by 2020, (iv) other forms of recovery and (v) safe disposal. It clarifies the concepts of recovery, elimination, end-of-waste status and by-products. The aim of this directive is to promote recycling, composting and waste-to-energy recovery of household waste.

With respect to the cross-border transportation of waste, the regulation of June 14, 2006 on the transportation of waste entered into force in July 2007. This text defines the conditions for the supervision and audit of waste transfers and simplifies and defines current procedures for the supervision of waste transfers for non-hazardous, recyclable waste.

Furthermore, through Directive 2003/87/EC of October 13, 2003, the European Union implemented an allowance system for greenhouse gas emissions, targeting carbon dioxide only. Veolia Environnement's environmental services business falls outside the scope of the first and second phases (2005-2007 and 2008-2012).

In France, pursuant to the provisions of Articles L. 511-1 *et seq*. of the Environmental Code (*Code de l'environnement*) relating to facilities classified for the protection of the environment, several decrees and ministerial and administrative orders establish rules applicable to landfill sites for hazardous and non-hazardous waste. These orders govern the design and construction of waste processing centers, among other things. Hazardous waste is subject to strict monitoring at all stages of the processing cycle. It is tracked using a waste monitoring slip (*bordereau de suivi des déchets* - BSD). Waste-to-energy centers are subject to numerous restrictions, including in particular limits on pollutant emission levels: for example, Directive 2000/76/EC of December 4, 2000, on the incineration of waste sets emission thresholds for dioxins and NO_X in particular.

The Grenelle 2 Law provides, in particular, for a 7% reduction in household waste in 5 years, by encouraging actual waste tonnage to be taken into account in amounts charged to users. In addition, it is planned to reduce the use of landfill sites and incineration by limiting waste tonnage that may be received at such sites, while developing recovery sectors through sorting-at-source and the selective collection of organic waste. That law strengthens and widens the Extended Producer Responsibility (EPR) scheme and specific recovery and associated processing sectors. Finally, the Grenelle 2 Law provides for the planning of construction and public works waste management and the performance of a pre-demolition appraisal. The full implementation of this law requires 199 decrees (including 50 priority decrees) covering the 6 major projects targeted by the Grenelle Law (buildings and urbanism; transportation; energy and climate; biodiversity; health risks and waste, governance).

The Waste framework directive of November 19, 2008 was enacted into French law by the Order of December 17, 2010, which clarified certain definitions, introduced a hierarchy of waste processing methods and clarified the responsibilities of producers and holders of waste.

Decree no. 2011.828 of July 11, 2011 brings into effect several measures adopted pursuant to the Grenelle 2 Law to improve prevention and waste management. It also completes the enactment of the framework directive and clarifies certain application conditions of the European regulation on the cross-border transportation of waste.

The major statutes governing Veolia Environnement'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 Veolia Environnement operates also has its own laws and regulations governing the production, collection and processing of waste, including, in most cases, the design, operation, maintenance, closure and post-closure maintenance of landfill sites and other hazardous and non-hazardous waste management facilities.

Energy Services

Veolia Environnement's energy-related activities in Europe (primarily the supply of energy services involving thermal and independent energy) are subject to directives and regulations that seek to control environmental impact and risks.

Directive 2001/80/EC of October 23, 2001 sets emission limits for sulfur dioxide, nitrogen oxides and dust and regulates the construction of large combustion plants. It requires the implementation of national emission ceilings for certain atmospheric pollutants such as sulfur dioxide, nitrogen oxide and volatile organic compounds.

This directive will be superseded by Directive 2010/75/EU of November 24, 2010 (IED Directive) on industrial emissions by January 1, 2016 at the latest.

Following the repeal of Regulation (EC) no. 2037/2000, a new European regulation no. 1005/2009 of September 16, 2009 sets a timetable for the elimination of substances that destroy the ozone layer and, in particular, refrigerating fluids such as chlorofluorocarbon and hydro-chlorofluorocarbon that are used in cooling plants.

As a result of the Kyoto Protocol, Regulation (EC) no. 842/2006 of May 17, 2006 requires stringent confinement and traceability measures for greenhouse gases, whether HFC refrigerating liquids or SF6 electrical insulators. Two European regulations clarify leakage control measures for refrigeration equipment containing hydro-fluorocarbons (Regulation (EC) no. 1516/2007 of December 19, 2007) and fire protection systems (Regulation (EC) no. 1497/2007 of December 18, 2007).

Pursuant to European Directive 2003/87/EC of October 13, 2003 which establishes an allowance trading scheme for greenhouse gas emissions in the European Union, as amended by Directive 2009/29/EC of April 26, 2009, combustion installations with thermal output greater than 20 MW falling within the scope of the directive are recorded in the national plans for the allocation of allowances introduced in 2005 in all EU members States.

European Directive 97/23/EC of May 29, 1997, aimed at harmonizing Member State legislation in the area of pressure equipment built after 2002, imposes various security requirements for the design and manufacture of such equipment, and requires an inspection of the compliance of the units housing such equipment.

All of the directives and regulations mentioned are enacted by each Member State of the European Union.

In France, this primarily means compliance with the Law of July 19, 1976 on facilities classified for the protection of the environment, now included in the Environmental Code.

Under this law, Dalkia must obtain operating authorizations, file returns and register information with the competent authorities and scrupulously comply with operating requirements. For large combustion installations (thermal output greater than 20 MW), new regulations were imposed in 2002 (for new installations) and in 2003 (for existing installations) with respect to emission ceilings. These were later extended by the Order of July 25, 2010 which proposes, pursuant to European Directive 2001/80/EC of October 23, 2001, the systematic application of "Best Available Techniques" (BAT).

In addition, the national environmental commitment law of July 12, 2010 (Grenelle 2) will give added impetus to the development of energy efficiency and renewable energies. Numerous application texts are being closely monitored by the Group.

Finally, with respect to its production of domestic hot water, the Company is primarily affected by European Directive 98/83/EC of November 3, 1998, as enacted in numerous national texts, which addresses the quality of water intended for human consumption. Eighteen Member States, including France, have taken the position that this directive applies to cold and hot water and to all types of management systems for the production and distribution of hot and cold water.

Articles R.512-55 to R.512-66 of the Environmental Code also require periodic inspection of certain installations classified as subject to reporting requirements. The conditions governing these periodic inspections are set out in application orders for the relevant installations. MASE certified installations are no longer required to perform these inspections.

Decree no. 2007/737 of May 7, 2007, which is also integrated into the Environmental Code, supplements Regulation (EC) no. 842/2006 of May 17, 2006 and regulates the conditions of the market release, use, recovery and destruction of substances used or intended for use as refrigerating fluid in refrigeration or air-conditioning equipment. It was completed by several other orders clarifying how to quantify fluid handling and covering the set-up of training and recovery sectors.

Pursuant to European Directive 97/23/EC of May 29, 1997, requirements governing pressure equipment were set-out in the Order of March 15, 2000, recently amended by the Order of January 31, 2011.

In relation to managing the risk of Legionnaires' disease, the European Working Group for Legionella Infections (EWGLI), with the support and approval of the European Commission and based on the European Surveillance Scheme for Travel Associated Legionnaires' Disease (EWGLINET), has published European guidelines for the control and prevention of travel-associated legionnaires' disease (EWGLI 2005). In general, texts of varying reach are issued in Europe and around the world by public health authorities and associations for the protection of workers. Very often, these texts are presented in the form of preventive recommendations, which take into account the physical-chemical and biological nature of water and prescribe corrective actions when certain indicators are present. Various professional associations have also issued their own guidelines for prevention.

In France, the Order of February 1, 2010 and its application circular on monitoring Legionnaires' disease in domestic hot water production facilities defines the management rules for such facilities.

In Spain, decree (*real decreto*) 865/2003 of July 4, 2003 establishes criteria for the quality of water and the frequency of inspection procedures, as well as for when action must be taken once certain limits are exceeded. A range of descriptive procedures set the action and liability framework. A Spanish standard-setting association has issued guidelines on the subject (100030IN). In the United Kingdom, an Approved Code of Practice (ACOP L8) issued by the Health and Safety Executive is applicable in full and largely inspired similar procedures applicable in Flanders (Belgium), the Netherlands, Ireland and at EWGLI.

Italy and Portugal have partially adopted the ASHRAE guidelines, focusing preventive measures on the protection of tourists.

Similarly, regulations exist in Asia and the Pacific region and were inspired by texts in New Zealand and Australia.

In the United States, the Occupational Safety and Health Administration (OSHA) issues its own guidelines and action plans. The American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE) and the Cooling Technology Institute (CTI) have also issued recommendations.

Transportation

Veolia Environnement's transportation business is subject to a number of national and European regulations that seek, amongst other things, to limit the pollution caused by road vehicles.

The objectives set by the European Union for reducing greenhouse gas emissions and fighting climate change have led to research programs to improve the environmental impact of heat engines and integrate hybrid and electrical technologies in the bus market. A series of European regulations, replaced by Regulation (EC) no. 595/2009 of June 18, 2009, have also been drafted setting EURO standards. These impose maximum atmospheric pollutant emission levels for heat engines. All new vehicles currently manufactured in the European Union comply with "EURO 5" standards since September 1, 2009 and these standards apply to all new vehicles since January 1, 2011.

Regulation (EC) no. 595/2009 of June 18, 2009, as amended by Regulation (EC) no. 582/2011 of May 25, 2011, also introduces requirements concerning emissions by spare parts used only in motorized vehicles. It also introduces measures to improve access to information on vehicle repairs and promote the rapid production of compliant vehicles.

This regulation was adopted in addition to Directive 2009/33/EC of April 23, 2009, generally known as the "Clean Vehicles Directive", which requires operators to take account in their procurement procedure for road transport vehicles used in the management or operation of a passenger transport public service, of the energy and environmental impacts of these vehicles over their lifetime.

This directive was enacted in French law by Law no. 2011-12 of January 5, 2011 and this new system was also inserted in Order no. 2005-649 of June 6, 2005, as amended, on contracts entered into by certain public or private persons not governed by the Public Procurement Code (*Code des marchés publics*). Decree no. 2011-493 adopted on May 5, 2011 implements this system and clarifies the application conditions and the energy and environmental impacts to be taken into account, respectively, and also determines the methodology to be applied.

In 2011, the European Union also introduced environmental specifications applicable to fuels to reduce pollution from motor vehicle emissions. Standards governing the quality of fuels used in transportation have since been significantly tightened, particularly with regard to their sulfur content. The use of biofuels has also become a necessity in order to reduce greenhouse gas emissions. European Directives no. 2009/28/EC and no. 2009/30/EC set additional environmental specifications applicable to fuels, and primarily concerning road vehicles, which were enacted into French law by Order no. 2011-1105 of September 14, 2011.

Since 2007, Veolia Transport monitors closely in France, through different professional federations (UTP, MEDEF), the so-called "*Grenelle de l'environnement*" laws. One of the objectives of the Grenelle 2 Law of July 12, 2010 is to improve coordination between transportation bodies and thereby facilitate the performance of the preparation work necessary to the development of transportation networks and the management of transportation services seeking greater inter-connection and inter-modality.

With respect to sustainable mobility, this law offers municipalities the opportunity to include self-service bike rental systems in their transportation offering. The law defines the car-sharing concept and creates a label, for which the conditions of grant and use will be defined by decree.

As provided for in the Grenelle 2 Law, a High Council for Land Transportation and Inter-modality (*Conseil supérieur des transports terrestres et de l'intermodalité*) was created. This Council may be consulted by governmental authorities on questions relating to land transportation and inter-modality policies. It comprises five colleges, including one consisting of land transportation companies and institutions.

Finally, to favor the modal transfer of passengers, companies will be required to indicate on transport tickets the CO_2 emissions of transportation services. The date of effect of this measure will be set by ministerial decree and is expected to be between July 1 and December 31, 2013. In application of the Grenelle 2 Law, decree no. 2011-1336 of October 24, 2011 sets out a common calculation method applicable to all means of transport.

A Transportation Code (*Code des transports*) was adopted by Order no. 2010-1307 of October 28, 2010, for the legislative section. This code satisfies the objectives of grouping together, planning and clarifying a wide range of disparate legal texts and reorganizing them within a framework that gives the necessary weight to the founding principles defined in the Internal Transportation Framework Act (*Loi d'Orientation des Transports Intérieurs*, LOTI) of December 30, 1982. Certain texts are, however, retained in their original format and in particular environmental protection provisions. The codification of the regulatory segment is expected in 2012.

The majority of sites in France are subject to the regulations governing facilities classified for the protection of the environment (ICPE) resulting from Articles L. 511-1 *et seq*. of the Environmental Code, although generally only the simplified reporting system. Decrees and ministerial and administrative orders clarify the rules applicable to repair workshops, gas filling stations and gas and petroleum product storage and distribution installations, where activities may present environmental impacts or risks.

6.3.2 Environmental policy and information (Article 116 of the NRE Law)

As a specialist in environmental management services, Veolia Environnement is naturally concerned about the environmental consequences of each of its businesses, both in France and worldwide. In this respect, Veolia Environnement consistently endeavors to comply with applicable regulations, to meet the needs and demands of its customers and to optimize the techniques it implements.

Pursuant to the provisions of the NRE Law (Law no. 2001-420 of May 15, 2001), now incorporated in the French Commercial Code, and in addition to the description of the Group's businesses (see Section 6.1 above) and the financial statements (see Chapter 9 below), Veolia Environnement therefore considered it appropriate to highlight below some of the more significant environmental actions that it has undertaken. The information below should be read together with Veolia Environnement's 2011 Sustainable Development Report and 2011 Corporate Social Responsibility Performance Report for further information on the Group's sustainable development policy and actions.

General environmental policy

Internal environmental management services, training and information for employees on the environment, methods for reducing environmental risks and the structure implemented to handle accidents with an impact beyond the confines of the Company

Since 2002, the Group manages its environmental impacts using an Environmental Management System (EMS). This system is largely based on ISO 14001 and is used by all Group divisions. It comprises four levels of responsibility: Group, division, business unit and site. At each relevant level, it enables environmental impacts and compliance with regulations and in-house company requirements to be assessed. Objectives are set and resources and actions plans implemented to attain them. The system also covers the prevention of accidental pollution and defines the resources to be implemented in the event an accident nonetheless arises and ensures such resources are operational.

Employee training and information is an integral part of the resources managed by the EMS, including the preparation of environmental training plans. The Campus Veolia Environnement network provides business units with access to an environmental training offering, prepared at the request of the Group business committees (see Chapter 17, Section 17.1.3 below). This is supplemented by training sessions organized locally based on identified needs.

The role of the Sustainable Development department includes the roll-out and management of the Environmental Management System. It encourages consistent objectives and actions among the divisions, as well as the sharing of information and best practices. It heads an Environmental Management Committee comprised of environmental officers from the divisions, responsible for communicating information and coordinating action plans in the divisions. An environmental steering committee, chaired by the Secretary General of the Group and led by the Sustainable Development Department, comprising an Executive Committee member from each division and representatives from various departments (particularly the legal, risks and R&D departments), was formed to approve the strategic cap adopted for environmental management and report annually to the Veolia Environnement Executive Committee.

Since 2007, a special team of internal environmental auditors supervises the roll-out of the EMS.

In addition, Veolia Environnement's risk department is responsible for coordinating, identifying and assessing Group risks and particularly environmental risks and ensuring they are under control. It relies in particular on the work of the Group Risk Committee (see Chapter 4, Section 4.2.1 above).

Veolia Environnement has also implemented a warning procedure and a crisis management procedure, including for environmental issues. In particular, this encompasses Group division on-call and alert systems at national and international levels, enabling any necessary measures to be taken on a timely basis and at an appropriate level (see Chapter 4, Section 4.2.1 above).

Compliance of Company businesses with applicable legislation and regulations

Veolia Environnement's Environmental Management system includes, among other things, an environmental audit program that allows it to monitor the regulatory compliance of sites, as well as their compliance with contractual obligations and Group standards. Veolia Environnement has defined a general framework to ensure the consistency of the audit systems developed by its divisions, each of which remains responsible for the definition and implementation of its own system. Based on this definition, the Company set an objective of attaining by the end of 2011, an environmental assessment rate for "priority installations" in the preceding five years of 95%. In 2011, the number of priority installations increased by 1% and the assessment rate was 92%.

Priority sites are drinking water production sites with a capacity of over 10,000 m^3/day and urban wastewater treatment plants with a capacity of over 50,000 eH, waste landfill sites (excluding inert waste), waste incinerators, physical-chemical waste processing plants for hazardous waste, hazardous waste recycling plants, Dalkia combustion installations with a thermal output greater than 20 MW and certain Veolia Transdev transportation centers (sites with a fixed fuel installation of over 80,000 liters or managing or receiving over 120 vehicles at least once a year or with a compression station of over 200kW). These facilities have the greatest environmental impact within the Company.

Environmental evaluation or certification

The roll-out of the Management System is accompanied by the environmental appraisal, both external (ISO) and internal, of the Group's activities. In 2008, based on a wider application scope encompassing Veolia Propreté's waste collection and cleaning businesses, Veolia Environnement undertook to implement an Environmental Management system in 85% of relevant activities by the end of 2011. The Group further strengthened its internal environmental management requirements in 2009. The level of roll-out is verified by the statutory auditors adopting a level of reasonable assurance.

This appraisal approach may be complemented locally by voluntary external certification, depending on the managerial stakes. Accordingly, 25,322 Veolia Environnement sites were ISO 14001 certified in 2011.

Investment incurred to preserve the environment from the impact of the Company's businesses

Given the nature of its services, a large majority of Veolia Environnement's expenditures and investments have a direct impact on the environment. Veolia Environnement industrial investment amounted to €2,301 million in 2011 (see Chapter 9, Section 9.3.2, below) and includes growth and compliance investments. The Group invested in employee training, certification programs and the implementation of the environmental management system. Its Research and Innovation budget was also renewed (see Section 20.1, note 20, below).

The Group is implementing a selective investment policy while preserving industrial investments or investments required by contractual commitments.

Provisions and guarantees for environmental risks

As of December 31, 2011, provisions for site closure and post-closure costs (encompassing provisions for site restoration, the dismantling of installations and environmental risks) totaled €690.2 million.

Compensation paid in 2011 in execution of legal decisions concerning the environment and actions taken to repair environmental damage

Provisions for litigation used in 2011 totaled €116.0 million, encompassing all types of litigation (tax, employment and other litigation).

International environmental targets

All the Group's foreign subsidiaries are covered by the roll-out of the Environmental Management System described above and the objectives set for the Group as a whole are broken down for the subsidiaries.

Sustainable use of resources

Use of Water Resources

Veolia Environnement preserves water resources by working to prevent wasteful usage in its own installations and in those of its customers. In this respect, the progressive roll-out of Veolia Environnement's environmental management system provides, in particular, for the monitoring of water consumption in all of Veolia Environnement's activities. Action plans focus primarily on controlling leaks in the cold water distribution network (raw or treated). Veolia Environnement's industrial water consumption (water consumption for the requirements of its activities) totaled 419.5 million cubic meters in 2011.

Climate change in certain regions of the world heightens stress on water resources. To help preserve water resources, Veolia Eau offers a wide range of solutions from optimizing existing resources (resource monitoring, long-term management of abstraction, reasoned use of resources) and protecting resources (identification of chronic sources of damage to resources, prevention of accidental pollution, establishment and supervision of protected areas), to developing alternative resources (re-use of water, recharging groundwater, sea water desalination). These developments are conducted in close association with local authorities, regulatory bodies and the scientific community. In addition, Veolia Eau develops and proposes tools enabling customers and consumers to control their consumption (individual meters, awareness-raising measures, price incentives).

A number of measures have been implemented at Veolia Propreté installations to reduce water consumption, including the internal recycling of process water at incinerators, physical-chemical treatment facilities and landfill sites (leachate). Recycled water is also used to wash waste transport vehicles and installations. Finally, several installations have retention ponds to collect rainwater, which is then used, for example, to wash vehicles and ground areas.

Specially-adapted washing machines at its sites enable Veolia Transdev to substantially reduce its consumption while recycling water used (up 80% of water is reused). In addition, certain sites have developed rainwater collection equipment.

Raw material consumption

The main raw materials consumed by Veolia Environnement's activities are processing reagents. Their use is adjusted to reduce consumption. As part of tests on the assessment methodology for indirect greenhouse gas emissions tied to the corporate value chain (scope 3) of the GHG Protocol, Veolia Eau inventoried these reagents in order to optimize their use and reduce related greenhouse gas emissions, without reducing water treatment efficiency.

Firmly committed to the recovery chain, and particularly the recovery of materials, waste entrusted to it for treatment and by-products of its other activities, Veolia Environnement contributes to reducing third party consumption of raw materials by making recycled raw materials available.

Energy consumption - Energy efficiency and the use of renewable energies

Veolia Environnement contributes to the reduction of primarily energy consumption.

Dalkia optimizes energy management for more than 123,500 energy installations worldwide, from urban heating networks to housing, commercial and industrial building boilers. Optimizing the energy efficiency of such thermal installations focuses on operating and maintenance quality and their modernization. Heating networks that offer optimized energy performances by concentrating production on a single site and involving co–generation (the simultaneous production of thermal energy and electricity) represent strong growth areas for Dalkia.

Efforts in the renewable energy field affect all of the Group's businesses. Veolia Environnement is not only developing biomass, geothermal and solar energy offerings, but is also capturing energy from incineration plants and biogas from landfill sites.

Veolia Transdev continues to provide environmental performance training to its drivers, with as a result not only enhanced passenger comfort and reduced polluting emissions, but also significant fuel savings.

In a bid to reduce its energy consumption, Veolia Eau performs energy audits and has implemented an optimization program which seeks to encourage innovation, accelerate the perfection and adoption of clean water treatment technologies and offer customers sustainable solutions. An increasing number of wastewater treatment plants are excellent examples of energy efficiency, such as the Braunschweig plant (275,000 population equivalent) which produces more energy than it needs to operate. In addition, the replacement policy for electro-mechanical equipment constantly seeks to optimize energy consumption.

The development of waste-to-energy recovery at waste processing plants such as landfill sites and incinerators, enables the use of external energy sources for operations to be reduced and energy to be supplied to third parties. Accordingly, over 87% of energy consumed by Veolia Propreté in 2011 came from renewable energy or alternative energy sources. In addition, recycling activities and the preparation of refuse derived fuel helps reduce the primarily energy needs of our customers.

Overall, 165 million Mwh of energy was consumed in 2011 to deliver our services in the water, environmental services, energy services and transportation sectors.

Use of soils

The Group's landfill sites and water treatment and production sites cover the largest areas.

As part of its biodiversity policy (see the end of the Chapter below), the Group is increasingly concerned by the integrated management of land. Conditions governing the use of soils are included in site operating rules and include the Group's ecosystem management policy.

Preparing a landfill site for operation requires landfilling cells to be dug and prepared. Where the Group is responsible for this task, it complies with all obligations regarding surface sealing and the recovery of excavated materials. Once used, the cells are covered as quickly as possible and added-back to their environment favoring local eco-systems. They are monitored for environmental impacts before being returned to general use and this monitoring is continued after the redevelopment of the entire site to ensure the species planted repopulate the area (post-operation phase).

When it operates wellfields for the production of drinking water, the Group and the delegating authority implement a protective perimeter around the catchment area, where certain human activities are forbidden or tightly controlled to avoid ground water pollution. These areas can offer opportunities for implementing biodiversity-friendly actions in favor of biodiversity (differentiated management of public parks, inventory of animal and plant life, etc.) such as those taken at the Crépieux-Charmy wellfield in Lyon.

Pollution and waste management: air, water and ground emissions, noise and olfactory pollution and waste

Limiting Greenhouse Gas Emissions

The Group contributes to an overall reduction in greenhouse gas emissions by reducing the emissions of the installations it manages and by enabling third parties to reduce their emissions. Several levels of the organization are involved in the fight against climate change.

Certain Group activities are subject to regulatory provisions encouraging a reduction in greenhouse gas emissions.

Veolia Énergie – Dalkia's combustion installations with a thermal output of greater than 20 MW are in particular governed by the provisions of European Directive 2003/87/EC of October 13, 2003 creating an allowance trading scheme for greenhouse gas emissions in the European Union, as amended by European Directive 2009/29/EC of April 26, 2009. Veolia Energie–Dalkia manages over 80,000 combustion installations in Europe, including nearly 250 installations concerned by emission allowances. However, allowances awarded to Dalkia represent slightly less than 1% of total European allowances. Through its special-purpose entity, VEETRA, the division actively manages its carbon emissions and the allowances granted. VEETRA purchases, sells and prices different types of greenhouse gas credits on behalf of the installations concerned. These initiatives have enabled it to be an early participant in the allowance trading market, in order to minimize the cost of carbon restrictions and in some cases finance new investments that help reduce greenhouse gas emissions.

Veolia Eau is also concerned in Germany, following its takeover of the energy supply activities of certain public authority contracts (via BS Energy).

In Australia, the new Clean Energy Future regulation will come into force mid-2012, with an impact on the activities of both Veolia Propreté and Veolia Transdev. The Australian regulation includes a fuel tax amendment and the introduction of a tax on greenhouse gas emissions, including methane emissions at landfill sites. In the long-term, this tax will evolve into an allowance trading system similar to that in the European market.

Incentive measures are being introduced in the United States and China to help reduce greenhouse gas emissions. While Veolia Environnement's activities in these regions are not affected by these regulatory changes, the Group is closely monitoring the situation and will continue efforts to develop renewable and alternative energies.

At international level, the Group seeks to generate emission credits, by participating in projects in partnership with other European or developing countries that help to reduce greenhouse gas emissions. Veolia Propreté has registered six projects adopting Clean Development Mechanisms (CDM), one of the flexible mechanisms defined in the Kyoto protocol: two in Brazil and one each in Egypt, Mexico, Argentina and Colombia. The experience gathered during these projects is now used for new projects under development. The majority of these projects are now in the operational phase and have generated GHG Emission Reduction Certificates. Six projects are currently under development at sites operated by Proactiva in Latin America and at Veolia Propreté sites. Faced with the diversification of trading systems and platforms, Veolia Propreté also became active in other regions. Accordingly, where the regulatory context is not favorable, other mechanisms are used to incite and finance environmental investments such as the sale of credits or a voluntary market. For example, a Voluntary Carbon Standard (VCS) project has been launched in China and two Greenhouse Gas Friendly Program projects in Australia.

Veolia Energy has a Joint Implementation (JI) project currently in progress in Hungry. Dalkia focuses on the development of CDMs in China, South America, the Middle East, Israel and North Africa with respect to heating networks, renewable energies and energy efficiency.

Veolia Eau studies opportunities to obtain carbon credits for wastewater and sludge treatment projects, and in particular projects integrating biogas recovery. Veolia Eau has a JI project in Bulgaria and several others are under review or in the course of development, primarily in Africa and Asia.

In addition to the regulatory framework, the Group has a robust environmental reporting system which encompasses the GHG emissions (scope 1 and 2) of all relevant businesses. Methane production and emissions at landfill sites are measured using theoretical mathematical models. While this model is recognized internationally, it can generate uncertainty, sometimes significant, as to the correct quantification of landfill site methane emissions. By improving its knowledge of waste and the physical, bacteriological and chemical phenomena involved, Veolia Propreté aims to improve the relevance of its reporting and reduce the uncertainty surrounding these diffuse emissions.

Finally, this joint commitment of all Group businesses is applied daily in the operation of the installations.

Veolia Propreté continues to implement and optimize biogas collection systems at its landfill sites and waste-to-energy recovery systems. 96 waste landfill sites(1) (2)for which the Group controls investment are equipped with biogas collection and processing systems.

With renewable energy at the heart of Veolia Énergie–Dalkia's strategy, biomass and geothermal energy is increasingly used. Combined with cogeneration and energy efficiency services, these new energies contribute effectively to the fight against climate change.

Two years ago, Veolia Eau launched an ambitious project entitled, "Water2Energy", to promote a reduction in GHG emissions by encouraging self-sufficiency and the sale of renewable heat and electricity generated on-site at all its installations worldwide.

Veolia Transdev is also heavily involved in the fight against climate change. In order to reduce the greenhouse gas emissions generated by city transport, it is necessary to encourage modal transfer from private cars towards public transport and "soft" transportation methods. Veolia Transdev takes part in international negotiations on the climate to defend the sustainable mobility approach. In 2008, Veolia Transdev launched the initiative "Bridging the gap: pathways for transport in the post Kyoto process" (www.transport2012.org), to enable carbon financing mechanisms support low-carbon urban transportation projects. This initiative is the result of a partnership between Veolia Transdev, UITP (International Association of Public Transport), TRL (Transport Research Laboratory), GTZ (a German technical cooperation agency) and ITDP (Institute for Transportation and Development Policy). Veolia Transdev also became involved in the fight against climate change by proving the environmental performance of public transportation using the "Eco-Efficient Travel" calculator at a range of benchmark sites. The division is also looking to reduce its use of fossil fuels, for example by having a fleet of so-called clean vehicles and training drivers how to drive in a smooth and fuel-efficient manner.

With total direct and indirect emissions of 45.2 million tons of CO_2 (carbon dioxide)(1) equivalent in 2011, the Group is working actively to reduce its impact on the climate. The Group contributed to reducing greenhouse gas emissions, both through the daily management of sites that it operates and through the use of renewable and alternative energies in the amount of 26.5 million tons of CO_2 equivalent in 2011, compared to 27.5 million tons of CO_2 equivalent in 2010(3).

Other Emissions

The Group is committed to reducing its emissions below regulatory requirements by (i) improving the treatment of air emissions and developing better technologies (treatment of incineration smoke by Veolia Propreté, reduction in vehicle emissions by Veolia Transdev, low NO_X or SO_X emission combustion technologies in Dalkia) and (ii) reducing consumption and encouraging the use of cleaner fuels (low-sulfur fuel oil and coal, natural gas, LNG for combustion installations and vehicles and hybrid electric or bi-modal vehicles).

---

(1) Non-hazardous waste, excluding inert waste.

(2) Excluding Proactivia.

(3) Adjusted value in 2010.

Installations, and primarily incineration installations, operated by Veolia Environnement mainly emit sulfur and nitrogen oxides (SO_X and NO_X), carbon monoxide (CO), halogenated derivatives (HCI, HF), heavy metals (Hg, Cd, TI, Pb, etc.) and dust. SO_X emissions from waste incineration units (hazardous and non-hazardous waste) totaled 88 grams per ton of incinerated waste in 2011, comparable to 2010.

Veolia Transdev continues its efforts to reduce polluting emissions (CO, HC, particles) from its fleet of passenger vehicles. A benchmark was defined, corresponding to 80% of the 2008 bus and coach fleet. Emission reduction targets were set for the end of 2011: 5% for carbon monoxide unit emissions (CO), 24% for hydrocarbons (HC) and 27% for particles, after adjustment of the targets set as of March 31, 2010. To this end, the Veolia Transdev network vehicle pool is gradually being brought into compliance with the "EURO 5" standard as vehicles are replaced. This standard imposes even stricter requirements with respect to reducing polluting emissions than the "EURO 4" standard, applicable since 2006. Further, Veolia Transdev is committed, as part of its environmental management system, to lowering its polluting emissions on a like-for-like basis and is preparing for new standards by testing and experimenting emission reduction systems (polluting emissions and greenhouse gases) which will subsequently be marketed, thereby reaffirming its role as expert and advisor to customer public authorities. In France, Veolia Transdev is pursuing research, in partnership with ADEME, into identifying and assessing the market systems best able to reduce NO_X emissions by its bus and coach fleet.

Over the last few years, Dalkia has assessed available technologies for reducing NO_X emissions (low emissions fuel oil, recycling of fumes, air terracing, combustion modeling, etc.).

Water pollution

Veolia Eau has developed a comprehensive approach to assisting local authorities tailored to their size and technical and regulatory challenges, to ensure the efficient management of wastewater collection and treatment. The success of a wastewater treatment project is dependent on a number of clearly defined steps: needs assessment, definition of a local strategy, quality guarantee, service performance measures and, finally, reporting on the impact of services to inhabitants. Veolia Eau offers its expertise in each of these areas.

The wastewater treatment efficiency (DB05) of biological treatment stations operated by the Group with a capacity greater than 50,000 population-equivalent, was 93.5% in 2011.

Furthermore, flow monitoring systems covering a number of micro pollutants considered dangerous to the environment were implemented pursuant to the Water framework directive, particularly in France, to assess the impact of wastewater treatment plant emissions on the ecological state of bodies of water. Veolia Environnement's center of environmental analysis has developed regulatory analysis techniques and offers customers a comprehensive range of monitoring services (sampling and analysis). Veolia Eau has also developed biological tools measuring the impact of these emissions on target organisms. Where necessary, Veolia Eau proposes the implementation of additional treatment solutions reducing or eliminating emissions of dangerous substances into the natural environment.

Ground pollution

The Group ensures the correct storage and use of materials employed in its activities, in order to avoid infiltrations or accidental spillage leading to pollution.

Veolia Environnement is also active in the ground restoration and maintenance sector through the restoration of contaminated soils and agricultural recycling of waste and wastewater treatment sludge.

In 2003, Veolia Environnement integrated all activities relating to the treatment and recovery of sludge within a single entity, SEDE Environment. As a result, Veolia Environnement has a precise, global and integrated overview of sludge management options, allowing it to optimize its agricultural recycling in particular.

The Group proposes the implementation of monitoring systems covering emissions into the wastewater network (Actipol method developed by the Group), to enable action to be taken upstream to improve the quality of sludge produced. Veolia Eau has finalized certification guidelines defining requirements applicable to wastewater treatment systems for the production of quality sludge to be used in agriculture. Downstream, Veolia Environnement promotes the agricultural recycling of sludge through composting and engages an independent certifying body to audit its composting and agricultural recycling networks.

This recycling is conducted in conjunction with the agricultural recycling of the fermentable fraction of household waste. The Group produced 1,107.1 thousand tons of compost in 2011 and 48% of sludge produced was used as fertilizer in agricultural activities. The Group has initiated a quality enhancement program for organic material produced from organic waste and a program to assess its agricultural impact (the Quali- Agro program led by CRPE – Veolia Environnement’s center for research for environmental and energy services - in coordination with INRA).

The Group is also active in the rehabilitation of polluted soils. Using several processes, including thermal desorption, Veolia Propreté processes almost all the pollutants present in the soil at industrial sites.

Noise and olfactory pollution

Veolia Environnement has also developed new processing and storage techniques for odors, particularly in wastewater treatment plants and waste landfill sites. Veolia Environnement also uses new and more silent technologies in some of its installations, including special wall coatings, sound traps and exhaust gas exit silencers for cogeneration installations and transport vehicles.

Waste

Through its Environmental Services division, Veolia Environnement is fully committed to developing sectors for the material and agricultural recycling of waste, as well as the waste-to-energy sector. The Group is naturally attentive to the generation of waste by its own installations and those it operates. It seeks to reduce production and looks for possible recycling outlets and, where none exist, it treats any waste produced.

Veolia Propreté uses the most innovative technologies in its waste recycling activities, to widen the range of recyclable sources and increase the recovery rate, which is heavily dependent on the quality of sorting. The Group has therefore multiplied its efforts to improve its recycled raw material identification, separation and preparation processes. It has created new waste standards for household and industrial waste, obtaining a recovery rate of around 70% in its high-performance sorting centers.

Bottom ash is the non-combustible residue produced by incineration. Its recovery is subject to strict regulation. Depending on its composition and potentially after a period of maturation, it can be recycled as road construction material (France, United Kingdom).

Wastewater treatment produces sludge, which is a concentrate of the organic and mineral material previously contained in the water. Veolia Environnement has developed an analysis tool covering health and environmental impacts, enabling the most appropriate recycling outlet or treatment approach to be chosen locally for the sludge. When sludge quality and the availability of recipient soil allow, agricultural recovery offers a possible outlet, as does methane production, incineration and storage with waste-to-energy recovery and wet air oxidation.

The majority of waste produced by Dalkia (soot and bottom ash) is due to the combustion of wood and coal at its installations. Improvements to combustion techniques seek to limit production. Waste is treated or recycled in accordance with local regulations.

Protection of biodiversity

Preserving biological balance, natural environments and protected animal and plant species

Veolia Environment integrated the protection of biodiversity into the first undertaking of its Sustainable Development Charter and since 2004 has developed an approach based on the nature of business impacts and the implementation of integrated management into the Environmental Management System.

The Group identifies these impacts using internal expertise, which primarily focuses on analyzing biological tools used to evaluate the ecological state of marine and land life. Moreover, the Group works with a number of universities and institutions in order to further its knowledge through innovative research programs covering the interaction of its activities and the functioning of ecosystems.

To improve the structure of its policies, the Group uses a methodology enabling sites to carry out their own biodiversity appraisals and to implement appropriate action plans.

The Group's Biodiversity policy focuses on the management of impacts on ecosystems, preserving biodiversity, foreseeing needs and conserving remarkable biodiversity. It is to be rolled-out across all Group businesses, to preserve ecosystems, restore and foster urban biodiversity, protect remarkable ecological areas near our sites and improve understanding of the dynamics of ecosystems.

In several countries, the Group's main activities are subject to environmental protection regulations (Facilities Classified for Environmental Protection (ICPE) in France or their equivalent). Therefore, all business development is conducted in tandem with the preparation of environmental impact studies comprising a highly detailed section on animal and plant life. The management of these impacts is, accordingly, a constant concern for the operating staff of Veolia Environnement's different businesses (waste processing, decontamination stations, combustion facilities, rolling stock depots, etc.).

Beyond the strict regulatory framework, the biodiversity policy is implemented at each of the Group's sites as part of the roll-out of the Environmental Management System (EMS). In parallel, specific measures are performed and monitored: the sustainable management of green (Veolia Eau: Braunschweig, Germany) and maritime areas, the roll-out of diagnostic guidelines in a local partnership with the Malaysia Terengganu University at the Dungun site (Malaysia) and the preservation of ecosystems in the development of sites and their surrounding areas - Graulhet and Saint-Cyr-des-Gats hazardous waste landfill sites in France, which received the Noé Conservation label, the Marchwood incinerator in the UK and the Pitsea (Essex, United Kingdom) and Croft Farm (Doncaster, United Kingdom) landfill sites which were certified by the Wildlife Trust in the United Kingdom.

In order to improve the awareness of all internal players and provide them with recognized tools, the Group introduced an Atlas of sustainable development responsibilities and opportunities, integrating in particular areas of biodiversity interest identified by Conservation International, classified using the International Union for Conservation of Nature (IUCN) international classification.

In 2008, the Company entered into a partnership with the French Committee of the IUCN. The primary aim of this partnership is to assist the Group integrate biodiversity into its corporate strategy, strengthen its R&D strategic cap thanks to a network of recognized experts and participate in raising awareness among Company employees through training measures. IUCN France comprises 55 members (government ministries, public institutions and NGOs) and a network of approximately 250 experts. At international level, IUCN has been a United Nations observer since 1999.

In France, in line with international biodiversity challenges, Veolia Environnement signed up to the French National Biodiversity Strategy launched on May 19, 2011, to enhance the country's commitments and break them down within its activities.

The Group has also participated in international studies, primarily through the work of the WBCSD (Ecoystem Services Review (ESR), Corporate Ecosystem Valuation, with a case study focusing on the Berlin site). The integration into its activities of the principles of the Convention on Biological Diversity (CBD) is highlighted in "Responding to the Biodiversity Challenge – Business contribution to the CBD", and a communication thereon was issued during the COP 10 convention in Nagoya.

Finally, with the research work of Veolia Recherche et Innovation, enhancing the value of ecosystem services rendered is at the heart of Company concerns. Improving our understanding of ecological balance and sharing this knowledge by increasing awareness and communicating on biodiversity, are supplemented by the activities of the Veolia Environnement Foundation (see below).

6.3.3 Corporate sustainable development commitments

Veolia Environnement strives to help enhance the quality of life and the environment wherever it operates, and has placed the challenges of sustainable development at the heart of its strategy. For this purpose, Veolia Environnement focuses not only on the preservation of the environment and the protection of natural resources and biodiversity, but also assumes its economic and social responsibilities, particularly at a local level where Veolia Environnement is committed to stimulating progress. Further information concerning Veolia Environnement's commitment to sustainable development may be found in its Annual Report and Sustainable Development Report.

6.3.3.1. The Veolia Environnement Institute: a scientific approach dedicated to prospective tools for the environment and sustainable development

In a constantly evolving world, interaction between man and the environment represents a major challenge that requires the mobilization of a large number of resources and the commitment of all stakeholders at local, national and international level. This strong conviction led Veolia Environnement to create the Veolia Environnement Institute (VEI) in 2001, an independent association under the law of 1901, to encourage forward-looking analysis of issues concerning the society-environment interface. As a collective discussion tool, VEI aims to extract in-depth environmental change from the ambient "general noise". Since 2010, VEI has focused particularly on the comprehensive management of the environmental and its ecosystems, the expectations of society and citizens, sustainable development "users" and sustainable development performance measurement, both for cities and companies. Through its Foresight Committee, comprised entirely of individuals of international reputation and standing, VEI benefits from the contribution of leading outside expertise on different key subjects (including climate science, public health, the economy and human sciences) to guide discussions, while remaining firmly anchored in the daily realities of Veolia Environnement's different businesses. This dual capacity represents both the originality and force of the Institute.

Supported by a network of multi-disciplinary academic experts and sustainable development practitioners, VEI offers a unique platform. It captures and develops reliable scientific knowledge and tried-and-tested expertise in the field, communicating it to all public and private players involved in sustainable development discussions. Through its forward-looking study program, scientific publications and conferences, VEI sheds light on the challenges that will mark the provision of environmental services over the coming decades. This autonomous expertise supports Veolia Environnement's long-term vision and increases its ability to forward-plan.

In partnership with the French Development Agency, VEI organized the 6th Conference on Future Environmental Trends on June 27 and 28, 2011 in Paris, around the theme: "Reconciling poverty eradication and quality of the environment: what are the innovative solutions?" Sponsored by the French Ministry for the Economy, Finance and Industry and attended by two Nobel prize winners, Wangari Maathai, the founder of the *Green Belt Movement* and Amartya Sen, a Harvard University economist, as well as Antoine Frérot, Chairman and CEO of Veolia Environnement and Dov Zerah, Director General of the French Development Agency, this high-level international forum brought together 600 decision-makers, leading international institutions, development players in the field such as NGOs, scientists, companies and students. The 70 speakers from 15 countries included Joan Clos, Director General of UN Habitat, Julia Marton-Lefèvre, Director General of IUCN, Maria Nowak, founder of AIDE, Sheela Patel, Chair of *Shack/Slum Dwellers*, an international federation of shantytown dwellers and Pavan Sukhdev, the former head of the UNEP Green

Economy Initiative. The Conference focused on four topics - poverty and climate change, poverty and biodiversity, poverty and the environment in an urban setting and the role of the private sector – and discussed current understanding of this multiple approach and local solutions and innovative practices already adopted in the field. The presentation by Antoine Frérot during the opening ceremony and contributions by other Group employees during 3 sessions, also offered an opportunity to discuss more widely the role and initiatives of a company like Veolia Environnement and the solutions proposed for the supply of adapted essential services, necessary to improving the living conditions of the poorest populations. The timing of the Conference in the international agenda was ideal, between the New York Summit on Millennium Development Goals in September 2010 and the Rio+20 Earth Summit on Sustainable Development in June 2012. Brice Lalonde, UN Executive Coordinator for the Rio+20 Summit spoke at the closing session, placing the message of the Poverty-Environment Conference in the perspective of the Rio+20 Summit. In November 2011, the VEI Conference framework articles were included in the UN Secretariat preparatory document, which will serve as a basis for official negotiations in Rio. It is also VEI's aim to present the results of its joint work with its partners to leading international bodies, such as the United Nations, and thereby contribute to discussions on the future direction of our constantly evolving world.

At the same time, VEI continued its innovative scientific publication policy with its two e-journals: FACTS Reports, a journal dedicated to field work, which seeks to collect, circulate and capitalize on the knowledge and good practices of people in the field (NGOs, international organizations, etc.) and S.A.P.I.E.N.S. (Surveys And Perspectives Integrating the ENvironment and Society), a multidisciplinary review publishing articles from top specialists in order to set forth recent advances in the field of sustainable development. In this way, the Institute capitalizes on a unique source of information from real-life experience at the "foundation" of the global population, where future society and citizen trends are in their infancy. In order to focus on specific issues and attract both new contributors and new readers, FACTS Reports published a number of special issues covering specific topics or geographical areas in 2011. These include in particular, an edition on social innovation and the people creating change in partnership with Ashoka, the leading international network of social entrepreneurs and a special Brazil edition to create an active FACTS-based community prior to Rio+20. S.A.P.I.EN.S also forms editorial partnerships around scientific seminars, to cover more disciplines and touch new communities. Thanks to this approach the review continues to attract new insight and innovative ideas from sustainable development scientific experts, encouraging forward-looking discussions which benefit Veolia Environnement. During the second half of 2011, S.A.P.I.EN.S published the key papers presented at the Wuppertal Institute 3rd International Conference on the Climate, Energy and the Environment (Germany) entitled "S*ustainable Growth and Resource Productivity".* These papers covered eco-innovation policies, resource productivity in 21st century Japan and links between the economy and the environment and transition towards a green economy.

These Conferences and reviews help strengthen VEI's international network of academic partners and field practitioners, with which it also develops a program of forward-looking and other studies focusing on urban issues. As we move towards a sustainable world, cities already are and will be increasingly in the future, directly involved in creating change. VEI aims to capitalize on its cutting-edge analysis work to mobilize the best expertise and produce tools useful for transforming cities into sustainable cities. Continuing the work performed with the College of Europe on carbon footprint calculation methods, VEI undertook work on measuring urban environmental performance in 2011 at the request of the United Nations Environment Program (UNEP). This study sought to define, at the scale of a city, global and local environmental impacts to be taken into account and the indicators which exist and those which need to be defined to enable a rigorous assessment. Initial results were presented to the Gwangju Summit (South Korea) organized by UNEP and the cities of Gwangju and San Francisco (USA) on October 11 and 13, 2011 entitled "*Green City, Better City".*

In developing cities more specifically, the research project involving TERI (India), IDDRI (France) and Veolia Transdev entitled "*The future of carbon financing schemes for sustainable transport: Mumbai paves the way*" was extended in 2011 with the arrival of a new partner, the Institute for Transportation and Development Policy (ITDP). ITDP has worked for over 25 years with cities and local players around the world to reduce poverty, pollution and petrol dependency and contributes its technical expertise to promote transport that is both sustainable and socially equitable.

Bolstered by this work, VEI offers a discussion platform for exchanges on major environmental, economic and social issues to be called on to satisfy the demands of civil society. VEI's existence and influence in the scientific and associative community bears witness to the originality of this initiative by a private operator, Veolia Environnement, attentive to changes in constantly evolving societies.

At the date of filing of this registration document, the VEI Foresight Committee had seven members: Hélène Ahrweiler, historian, President of the University of Europe, Harvey Fineberg, President of the United States Institute of Medicine, Pierre Marc Johnson, lawyer and physician and former prime minister of Quebec, a specialist in major environment challenges, Philippe Kourilsky, biologist, member of the Academy of Sciences and professor at the Collège de France, Mamphela Ramphele, physician and anthropologist, former Director-General of the World Bank and former vice-rector of the University of Cape Town, Rajendra K. Pachauri, President of GIEC, 2007 Nobel Peace prize laureate and Director-General of TERI and Amartya Sen, economist, 1998 Nobel prize laureate and professor of economics and philosophy at Harvard University.

6.3.3.2. Regional development partnerships

Veolia Environnement takes account of the economic and social factors underlying the development of the countries in which it operates and works to develop solutions that are adapted to local restrictions and to transfer know-how to the geographical areas where the Group divisions have operational responsibilities. Veolia Environnement favors a partnership approach with non-governmental organizations (NGOs), local authorities and associations in the implementation of action plans for the populations of emerging countries, which permits the development of model plans that can be reproduced. In each of its projects, Veolia Environnement seeks to include a beneficial and educational dimension for the improvement of public health and the protection of the environment. The Group also tries to assist in the development of regions where it provides services by focusing on access by the poorest populations to essential services (water, wastewater treatment, energy, etc.).

In 2011, Veolia Environnement continued to develop its strategy of forming partnerships with international institutions and its active participation in the United Nation's Global Compact. The case studies highlighted on the dedicated internet site ("Communication on progress" page) show how Veolia Environnement's operating activities, both delegated management and industrial contracts, contribute to the implementation of the ten United Nations Global Compact principles.

In addition, Veolia Environnement backed the French Partnership for the City and Regions initiative (*Partenariat français pour la Ville et les Territoires,* PFVT), formed under the auspices of two government ministries and with the support of the French Development Agency: this platform brings together French expertise in cities and regions and offers Veolia Environnement the opportunity to play a role in international urban cooperation. To this end, Veolia Environnement joined the Institute for Local Authority International Cooperation (*Institut pour la Coopération internationale des Collectivités*) created by the association, France United Cities (*Cités Unies France*, CUF).

Protecting the environmental and reducing inequality dominated the forward-looking studies and research carried out by Veolia Environnement Institute, particularly for the international conference held in Paris in June 2011 with the active participation of UN-Habitat, which brought together numerous international experts (see Section 6.3.3.1 above).

In partnership with the Prince Albert II of Monaco Foundation, Veolia Environnement participated in work on water use conflicts in countries surrounding the Mediterranean basin, which led to a symposium organized in Monaco in November 2011 attended by numerous experts. The conclusions of this symposium will be discussed further at future international conferences on this subject. Attention was focused successively on understanding the origin and nature of use conflicts, the social-economic challenges and the technical and financial means necessary to their resolution.

Elsewhere, Veolia Environnement continued to participate in the UNITAR program for strengthening local governance, focusing on the management of urban services: in 2011, it met with over 500 public authority managers in Asia, Africa, South America and Central Europe during 12 work sessions. This program was launched in 2002 following the Johannesburg Summit on Sustainable Development and represents a long-term cooperation approach based on expertise that can be harnessed and which, for the first time in 2011, was used in an e-learning program led by UNITAR.

In the climate change sector, Veolia Environnement confirmed its commitment to the "Territorial Climate Plan" approach launched by the R20 (meeting of the twenty largest regions worldwide: North American federal states such as California and Quebec, Spanish and Italian provinces, German landers and French regions). Veolia Environnement's expertise in clean development mechanisms and energy efficiency was recognized by this group of regions and solicited for an initial experimental action in Morocco (Eastern region).

Veolia Environnement partnership initiatives also lead to joint actions in France with associations and bodies committed to the development of regions and enhancing their value (for example, the Coastal Areas Conservatory (*Conservatoire du Littoral*) and Marine clusters (*pôles Mer*), etc.).

Veolia Environnement also plays a major role in discussions on the future Greater Paris Metropolis, taking the initiative to create its own think tank to support the public debate through publications or by participating in the organization of conferences (e.g. at the Paris City of Architecture in September 2011).

6.3.3.3 The Veolia Environnement Foundation

Since May 2004, Veolia Environnement has pursued a charity program through a corporate foundation, the *Fondation d'Entreprise Veolia Environnement*. This initiative is part of a long-standing tradition of corporate charity work, while enabling improved coordination of actions and a greater involvement of employees in the areas of solidarity, occupational integration, and environmental protection. The Foundation was initially created for a period of five years and was extended in 2009 for a further five years. Since its creation, the Veolia Environnement Foundation has supported over 1,000 projects, each sponsored by a Group employee, in the areas of solidarity, occupational integration and the environment.

In 2008, the Foundation integrated the Group's humanitarian assistance and international cooperation departments, Veolia Waterforce and Veolia Waterdev, within a single structure, Veoliaforce. The Foundation calls on the expertise of the Group's four divisions for the purpose of its charity work and benefits from the support of all Group employees.

Among the projects selected in 2011, the Foundation launched 130 new projects while continuing those initiated in previous years. Certain projects of major importance are presented below.

In the environmental sector, the Foundation will support a joint scientific cooperation program in the United States between the Group and the University of Arizona focusing on "water and climate" and "energy and sustainable development" issues at the Biosphere 2 (B2) research site, the largest artificial closed ecological system in the world. Different ecosystems have been created at this site (a rainforest, an ocean and coral reef, a mangrove, a savannah, a desert, etc.) providing scientists with access to a unique work tool.

In Senegal, the Foundation supports an ecological restoration program led by the CNRS Man and the Environment Observatory based in Tessékéré. The Senegalese Water and Forests Department, with the support of the Dakar Cheikh Anta Diop University, launched a program to plant a range of ligneous species in an area covering 80,000 hectares. The program also includes a socio-economic section encompassing the 30 rural communities living in the area.

In Madagascar, the Foundation helped the "Man and the Environment" association which launched a plan to harness renewable energy at the Vohibola natural site, by building a solar energy-powered boat for transporting passengers and monitoring the site.

The Foundation continued to support the Tara Océans expedition which navigates on all oceans of the world, from the Mediterranean Sea to the Atlantic Ocean, as well as the Indian, Antarctic and Pacific Oceans. The main objectives of the expedition are to understand marine life diversity and how it operates and also to predict the reaction of marine ecosystems to climate change. During the course of its voyage, the scientific expedition, supported by the CNRS, will have covered 115,000 kilometers around the world and installed 130 sampling sites using cutting-edge technology financed to a large extent by the Foundation. Initial laboratory analyses of samples taken have show that 60% to 80% of plankton genes were previously unknown.

In 2011, the Foundation was awarded the Special Jury Prize at the Corporate Patronage Awards for the environment and sustainable development by the Minister for the Ecology, Sustainable Development, Transportation and Housing, for its activities as a whole and for six projects in particular that it has supported since its creation: its partnerships with the Camargue Regional Nature Park, the French Southern and Antarctic Lands, the Tara Océans scientific expedition, the Arema association (for the restoration and maintenance of aquatic areas), the Médiaterre program and the French network of major sites.

In the areas of solidarity and occupational integration, the Foundation also supports major projects such as assistance with the creation and management of micro-companies provided by ADIE (Association for the right to economic initiative) in France. The continuation of this partnership, which has functioned successfully for the last four years, will primarily enable the opening of new Advice Centers in cities outside Paris and the development of online services for micro-entrepreneurs.

The Foundation is involved in many solidarity projects in France and abroad, such as a project in India with the association, International Development Enterprises India, which increases the revenues of one thousand small farmers in the State of Maharastra by helping them implement small irrigation systems and sustainable agricultural practices and a project in Togo, as part of a decentralized cooperation agreement with the Mantes en Yvelines conurbation (Camy), to improve access to drinking water and wastewater treatment services for the 15,000 inhabitants of the Liligodo region.

In France, the Foundation also enabled the development in 2011 of around forty centers for occupational training and integration through economic activity and the return to employment of individuals in difficulty.

The Foundation is also a founder member of the French Sports Foundation (*Fondation du sport français*) launched in December 2011, alongside the French National Olympic and Sports Committee (*Comité National Olympique et Sportif Français*, CNOSF), the French Games Foundation (*Fondation Française des jeux*) and the Sportsman Mutual Insurance Company (*Mutuelle des sportifs*). This "umbrella" public-interest foundation promotes, in the general interest, social innovation through and in sport and the value of human interaction.

Since its formation, the Foundation has created two prizes. The Environmental Book Prize (*Prix du livre Environnement*) was created in 2006 and is awarded to writers and publishing houses that help raise public awareness of the environmental challenges facing the planet. The Student Solidarity Award (*Prix de la Solidarité étudiante*) created with Campus Veolia in 2009, seeks to support not-for-profit projects undertaken by associations of students pursuing their studies at master level at leading French and European schools and universities.

The Environmental Book Prize was awarded this year to Martine Chalvet for "History of the Forest", while Carl Hiaasen received the Youth prize for "Panther". The 2011 Student Solidarity Award was won by four associations: *Ingénieurs du monde*, a student association from the *Lausanne Ecole Polytechnique Fédérale*, for a project developing renewable energy in Nepalese schools, *Istom Student Environnemental Expertise*, a student association from ISTPOM (*Ecole d'Ingénieur d'Agro-Développement International*) in Cergy Pontoise, for a project building a plant nursery to decrease the over-exploitation of forest resources and to protect the biodiversity of the National Limpopo Park in Mozambique, equal with *Captive 2000*, a student association from ESIGELEC (*Ecole Supérieure d'Ingénieur en Génie Electrique*) in Rouen for the creation of a pocket electronic dictionary in Braille for individuals with visual impairment and POEMES (*Paris Ouest Etudiants en Médecine et Solidarité*), a student association from Versailles Saint-Quentin University, for the renovation of a maternity in a village of Burkina Faso, while raising awareness of HIV and hygiene issues.

In 2011, the network of Veoliaforce volunteer employees, which joined the Foundation in 2008, took part in several emergency humanitarian operations involving French and foreign volunteers.

Five volunteers were decorated last January by Professor Jean-François Mattéi, President of the French Red Cross. On behalf of the French Defense Minister, he presented them with the Haiti Commemorative Medal awarded by the French Ministry of Defense, alongside several members of the energy response teams for their actions in Haiti following the earthquake in January 2010.

In response to a request for help from the city of Minamisanriku in Japan, the Foundation sent two mobile drinking water treatment units (e.g. Aquaforce 5 000) and installed them onsite with the held of Japanese volunteers from Veolia Water Asia. This commune with a population of 18,000, is located on the east coast of the country and was severely affected by the earthquake and tsunami. Its 7,000 survivors have since been joined by numerous refugees from surrounding communes. The mobile units enable the distribution of water to neighboring regions by tank truck.

In Chad, following the outbreak of a cholera epidemic in August in Guera province, Veoliaforce volunteers joined forces with the specialized Red Cross Water and Wastewater treatment teams and assisted the Canadian Red Cross medical teams. Their mission was to set-up a cholera treatment center in Mongo, the capital of Guera and to support six secondary cholera treatment centers throughout the province, while raising awareness of hygiene issues.

A new cooperation agreement was signed by the Veolia Environnement Foundation and UNHCR, the United Nations agency responsible for helping refugees and displaced people. Under this agreement the Foundation becomes a UNHCR “standby partner”, as it already is with Unicef and the French Red Cross. The Foundation will help strengthen the response capacity of its new partner in emergency actions in favor of refugees by contributing its expertise and know-how.

The first practical application of this partnership signed in October 2011 took place in Ethiopia, where the Foundation ensured the proper operation of the wastewater treatment plant and distribution network supplying a Somali refugee camp and the local communities of Kebri Beyah.

In addition, several technical expertise and support missions were performed in Africa (in Djibouti, Zimbabwe, Togo, Cameroon, Senegal, Benin, Burkina Faso, the Democratic Republic of Congo and in the French Southern and Antarctic Lands) as well as in Moldavia.

In Cameroon, as part of a cooperation program between the International Association of French–speaking Mayors (AIMF) and the commune of Bangangté in the west of the country, volunteers took part in a water and wastewater treatment access program (performance of technical and water conveyance studies in ten villages and launch of fifteen latrine construction worksites in the commune’s schools and markets), benefiting over 150,000 people.

In Djibouti, at the request of UNICEF, Veoliaforce volunteers assessed bore-holes financed by the European Union and Saudi Arabia, in order to draw up general design, construction and operation recommendations to increase water production flow.

In Benin, volunteers took part in a decentralized cooperation program between the Seine Eure conurbation (CASE) and the commune of Bohicon, which the Foundation has assisted technically and financially for the last two years. Their mission involved optimizing the conveyance of drinking water, installing chlorination equipment and training equipment maintenance teams.

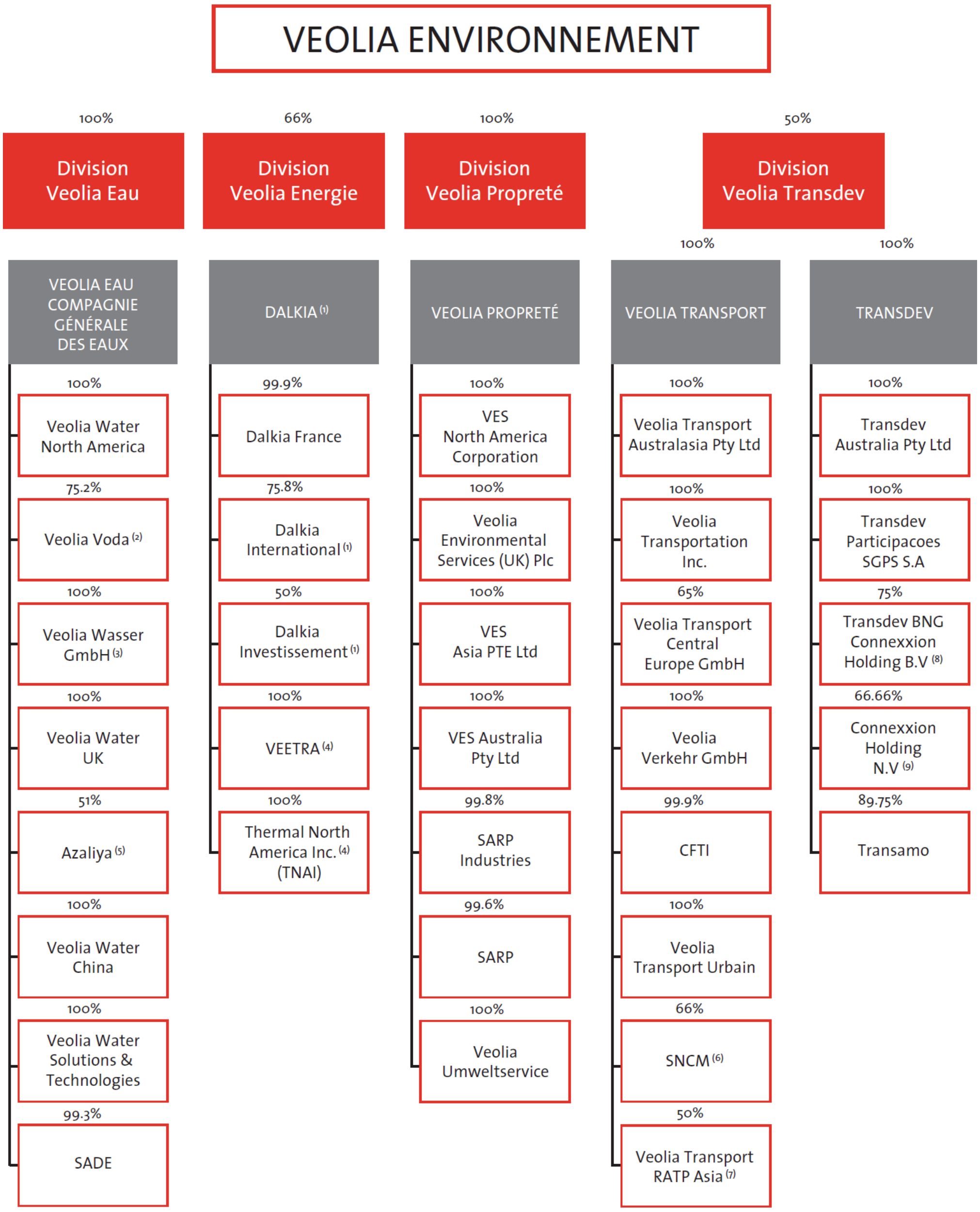
At the same time, the Foundation continues to train volunteers. Around fifty employees from all Group divisions learned to use emergency equipment and particularly Aquaforce 5000, and are now able to intervene rapidly in the event of a humanitarian disaster.

During 2011, Veoliaforce mobilized in this way the expertise of Group employee volunteers, who spent over 1,200 days in the field.

7 Organizational chart

The following simplified organizational chart sets forth the principal operating companies by Division held directly or indirectly by Veolia Environnement as of December 31, 2011. Unless otherwise indicated, the ownership percentages below reflect both the percentage of voting rights and of share capital held by Veolia Environnement or by the Divisions.

The list of the principal companies integrated into the consolidated financial statements in 2011 appears in Chapter 20, paragraph 20.1, note 44 to the consolidated financial statements.



(1) The remaining capital of these companies is held by EDF.
(2) As of January 20, 2012, Veolia Eau – Compagnie Générale des Eaux buy 78 315 shares of the BERD and consequently hold 82.12% of this company's capital as of the filing date of this registration document.
(3) The Group's stake in Berlin Water (Berlinwasser) is held through this entity.
(4) Companies wholly owned by Veolia Environnement (directly or indirectly).
(5) Joint venture held by Veolia Eau-Compagnie Générale des Eaux (51%) and Mubadala Development Company (49%).
(6) The remaining capital of this company is held by the French State (25%) and the employees of the company (9%).
(7) Joint venture held by Veolia Transport (50%) and RATP Développement (50%).
(8) The remaining capital of this company is held by BNG bank.
(9) The capital of this company is directly held byTransdev BNG Connexxion Holding N.V (66.66 %) and by Nederland State (33.33%).

Main financial flows between Veolia Environnement and its Divisions

The main financial flows between Veolia Environnement and its Divisions are described in the notes to the statutory financial statements set forth in Chapter 20, paragraph 20.2.

Veolia Environnement primarily finances its Divisions through loans and current accounts (net position of €7 billion as of December 31, 2011) and through equity; as a result it received €215.6 million in interest and €743.7 million in dividends in 2011. The Company has set up a system to centralize cash management in the main countries in which it operates and uses hedging, mainly at the Group level, in accordance with its risk management policy (see Chapter 20, paragraph 20.1, note 29 of the consolidated financial statements).

For the main financial flows between Veolia Environnement and the Divisions concerning operations, Veolia Environnement charged the Divisions a total of €243.9 million, mainly corresponding to the provision of services and trademark royalties and temporary out-placement of personnel. In addition, in connection with contractual commitments relating to the management of expenses for the renovation of facilities made available by delegating authorities, the Company received from its Water and Energy subsidiaries €228.1 million in renewal indemnities and paid to the Water and Energy subsidiaries €242.3 million in 2011.

In connection with operating activities, Veolia Environnement granted financial and operational guarantees worth €2,677.9 million as of December 31, 2011.

As of December 31, 2011, EDF group directly holds 34% of Dalkia's capital and 24.2% of Dalkia International. Veolia Environnement has exclusive control over Dalkia and joint control with EDF over Dalkia International.

The table below details the consolidated amounts of certain line items from the balance sheet (non-current assets, financial debt, cash and cash equivalents), of net cash flows from operating activities and of the amount of dividends paid in 2011 and recovered by the Company, as of December 31, 2011, broken down between Veolia Environnement and its four Divisions.

Informations as of December 31, 2011

(in € million)	**Veolia Eau**	**Veolia Propreté**	**Dalkia(1)**	**Veolia Transdev**	**Other subsidiaires(4)**	**Veolia Environnement**	**Total consolidated amount**
Non-current assets	5,733.5	6,246.2	3,917.4	-	685.3	11,874.7	28,457.1
Non-group financial debt(2)	(3,662.0)	(916.6)	(804.2)	-	(126.9)	(14,503.7)	(20,013.4)
Cash and cash equivalents less bank overdrafts(3)	534.8	187.0	181.8	-	152.9	4,227.2	5,283.7
Net cash flow from operating activities	1,085.1	1,051.6	562.9	163.0	57.9	23.5	2,944.0
Dividends paid during the period and attributable to Veolia Environnement	414.8	123.0	114.6	-	91.3	-	-

(1) Including TNAI.

(2) Corresponds to long-term borrowings + short-term borrowings +/- readjustment of cash instruments.

(3) Corresponds to cash and cash equivalents less bank overdrafts and other cash position items.

(4) Including Proactiva and Artelia

8 Property, plant and equipment

Veolia Environnement uses various assets and equipment for the conduct of its activities, over which it exercises extremely diverse rights.

The total gross value of Veolia Environnement non-current assets (excluding other intangible assets) as of December 31, 2011 was €30,971 million (net value of €18,563 million as of December 31, 2011, representing 37% of total consolidated assets), compared to €32,658 million as of December 31, 2010 (re-presented net value of €19,497 million).

Under concession arrangements, Veolia Environnement provides public interest services (distribution of drinking water and heat, public transportation networks, household waste collection, etc.) to communities, in return for the payment of services rendered. These collective services (also referred to as general interest services, general economic interest services and public services) are usually managed by Veolia Environnement pursuant to contracts entered into at the request of public entities that maintain the control of the assets used to perform such collective services. Concession arrangements are characterized by the transfer of operating rights for a fixed term, under the supervision of a public authority and are performed using special-purpose installations built by Veolia Environment or that are placed at its disposal either free of charge or for consideration. Installations normally consist of pipelines, water treatment and purification plants, pumps etc. in the Water Division, incineration plants in the Environmental Services Division, and urban heating networks and heating and co-generation plants in the Energy Services Division.

Veolia Environment is usually contractually bound to maintain and repair installation assets managed under public service contracts. When necessary, related repair and maintenance costs are provided for in contractual commitments in the event of delays in the performance of work. The nature and extent of the Group's rights and obligations under these different contracts vary by the type of public service rendered by the different Group businesses.

Under outsourcing contracts with industrial clients, BOT (Build, Operate, Transfer) contracts, or incineration or cogeneration contracts, the Group may grant customers the right to use a group of assets in return for rent included in the total contract remuneration. Pursuant to IFRIC 4, the Group thus becomes a lessor with respect to these customers. The corresponding assets are therefore recorded in the consolidated balance sheet as operating financial assets.

The Group is also the outright owner of industrial installations, in particular for activities undertaken outside comprehensive contracts in the Environmental Services Division (landfill sites and special waste processing plants), the Energy Services Division (co-generation plants) and the Transportation Division (buses, boats and trains). These assets are classified in the consolidated balance sheet as property, plant and equipment. Veolia Environnement property, plant and equipment are subject to certain charges, such as maintenance and repair costs and closure or post-closure costs.

There are relatively few real estate assets legally owned by the Group without any retrocession obligations. When possible, the Group does not own its office buildings.

Finally, assets purchased under finance leases fall into all three asset categories detailed above and represented a net amount of €593 million as of December 31, 2011.

The main insurance policies subscribed by the Company are described in Chapter 4, Section 4.2.3 of this registration document.

Environmental issues may also influence the Company's use of property, plant and equipment, as detailed in Chapter 6, Section 6.3 of this registration document.

9 Operating and Financial Review

9.1 Results of operations in 2010

9.1.1 General context

Company results were marked by the following events in 2011:

- the creation of the Veolia Transdev joint venture with Caisse des dépôts et consignations on March 3, 2011, followed by the Company's decision to progressively withdraw from the Transportation business as of December 31, 2011. As a consequence, the company recognized a disposal gain on March 3, 2011 amounted €429.8 million and an impairment as of December 31, 2011 of €440 million (see Section 9.1.4. below: "Acquisitions, divestitures and partnerships");
- localized operational difficulties, particularly in Southern Europe and North Africa;
- and in the Water Division, the erosion of margins in France and the negative impact of increased asset maintenance costs in the United Kingdom.

Faced with these difficulties, the Company accelerated the implementation of its strategy through a vast transformation program.

Appointments to the Veolia Environnement Executive Committee

On August 4, 2011, the following appointments were made to the Executive Committee:

- Denis Gasquet, Senior Executive Vice-President of Veolia Environnement and Chief Operating Officer, was appointed head of a team tasked with implementing action plans to transform the Company and reduce costs;
- Jérôme Le Conte was appointed Senior Executive Vice-President in charge of the Environmental Services Division, replacing Denis Gasquet;
- Franck Lacroix was appointed Senior Executive Vice-President in charge of the Energy Services Division;
- Jean-Marie Lambert was appointed Senior Executive Vice-President in charge of Human Resources.

Restructuring the portfolio of businesses and activities, with in particular

Discontinuation of certain activities:

- The Company withdrew early from the Alexandria waste collection contract in Egypt in the Environmental Services Division, with a negative impact on adjusted operating income of €29 million;
- In the Environmental Services Division, following the failure of contractual negotiations with the Calabria Region and the non-payment of amounts due, the Company requested the termination of the TEC incinerator concession arrangement due to breach of contract by the local authority. The Company also decided to launch a restructuring plan and place its subsidiary in Calabria in voluntary liquidation. As this company is no longer a going concern, the Company recognized asset impairments and reorganization costs of €196.8 million (including €48.1 million in adjusted operating income, see Section 9.2.3.1 below);

- In the Water Division, the Group recognized non-current asset impairments of €75.5 million in Italy. This impairment takes into consideration the request for the termination of the contract in Calabria (Italy), due to operating difficulties, regulatory changes and the difficult financial context from the first half of the year;
- In the Energy Services Division, photovoltaic field installation activities were discontinued in Spain and Italy. On January 12, 2012 the Company signed a master settlement agreement with its client, GSF, bringing an end to solar activities in Southern Europe;
- The Company implemented restructuring measures in the Water Division, primarily involving employee reductions and the exit of certain business activities, particularly in Asia;
- Finally, in an agreement dated October 20, 2010, the city of Indianapolis, Citizens Energy Group (CEG) and Veolia agreed to the terms of the early termination of the management contract between the city and Veolia and the transfer of management activities from Veolia to CEG, to which the city sold its water treatment assets. This agreement, subject to the approval of the Indiana Utility Regulatory Commission (IURC), received approval on July 13, 2011. Withdrawal from the contract became effective August 26, 2011 and the termination compensation of €20.5 million was received in full.

Restructuring of activities:

- In the Energy Services Division, the new management appointed at the beginning of 2011 in Southern Europe implemented a comprehensive restructuring of the activity (involving, in particular, employee redundancy plans, the regrouping of sites and the discontinuation of certain activities) in both Italy and Spain. Related asset impairments and reorganization costs totaled €268.1 million.

Divestitures:

- In 2011, the Company sold approximately €1.5 billion in assets and announced divestitures in excess of €5 billion over the next two years. Moves to refocus activities on the Company's three core businesses (Water, Environmental Services and Energy Services) are now underway. The divestment process of regulated activities in the Water Division in the United Kingdom and of solid waste activities in the Environmental Services Division in the United States has commenced;
- In addition, Marine Services assets in the Environmental Services Division, a non-core business, and Citelum urban lighting activities in the Energy Services Division, are in the process of being divested.

Transformation of the organization and increase in cost reduction measures through the Convergence Plan

- The Company undertook significant restructuring measures and negotiated voluntary employee departures in several countries, for a total cost of approximately €90 million;
- In the face of commercial pressure and a decline in volumes sold in the Water Division in France, the Company launched a business plan covering this scope, named "Hellébore", in order to drive a major reorganization of operations;
- The Efficiency Plan generated €259 million in savings, broken down by Division as follows: €126 million in the Water Division, €61 million in the Environmental Services Division and €72 million in the Energy Services Division;
- An additional savings plan was launched (€120 million in 2013, €220 million in 2014 and €420 million in 2015, all net of costs).

The difficulties described above, combined with a review of asset values in Morocco in the Water Division and a less favorable than forecast growth outlook in a difficult economic environment in the Energy Services Division in the United States, led the Company to recognize in operating income for the year ended December 31, 2011:

- impairment losses on assets of approximately €818 million (excluding Veolia Transdev), including those detailed above and €59.0 million on Water assets in Morocco and €153.1 million in the Energy Services Division in the United States;
- personnel costs and costs associated with implementing cost reduction measures of €90 million.

Current operations generated free cash flow of €438 million for the year ended December 31, 2011. Action plans should lead to a marked reduction in net financial debt in the coming years (net financial debt of less than €12 billion at the end of 2013[(1)]) and a net financial debt leverage ratio (Net financial debt / (Operating cash flow before changes in working capital + principal payments on operating financial assets)) of 3x (+/- 5%).

This information was communicated by the Company during the Investor Day on December 6, 2011.

9.1.2 Review of operations

The growth in the Company's activities already evident in 2010 continued during the year, reflected by growth in consolidated revenue of 3.1% (2.0% at constant consolidation scope and exchange rates) to €29,647.3 million for the year ended December 31, 2011, compared to re-presented revenue of €28,764.2 million for the year ended December 31, 2010.

This increase was mainly due to:

- the increase in the price of recycled raw materials in the Environmental Services Division of €174 million (primarily in France and Germany) and the improvement in activity levels, particularly for the treatment of hazardous waste, with nonetheless a slow-down in growth in the second half of 2011,
- growth in Water Division revenue, mainly tied to the good contribution of operating activities in Europe (primarily Germany and Central and Eastern Europe) and in Asia, despite the negative impact of contractual erosion in France and unfavorable summer weather conditions;
- the increase in energy prices (impact of €265 million compared to 2010), a context of unfavorable weather conditions, particularly in the last quarter, in the Energy Services Division, and a downturn in Works activities and the cessation of new installations in the photovoltaic sector in Southern Europe.

Growth slowed during the second half of the year and particularly in the fourth quarter, due to an unfavorable base effect for the Technology and Network business in the Water Division, the downturn in the economic environment in the Environmental Services Division (primarily the price of raw materials) and particularly unfavorable weather conditions in the Energy Services Division.

In this context, adjusted operating cash flow declined 4.9% at current exchange rates (-4.7% at constant exchange rates) to €3,152.3 million for the year ended December 31, 2011, compared to re-presented €3,314.6 million for the year ended December 31, 2010.

Adjusted operating cash flow for the year ended December 31, 2011 fell 5.2% (-5.0% at constant exchange rates) compared to previously published figures for the year ended December 31, 2010 excluding Veolia Transport.

Adjusted operating income declined 10.1% at current exchange rates (-10.3% at constant exchange rates) to €1,700.5 million for the year ended December 31, 2011, compared to re-presented €1,891.4 million for the year ended December 31, 2010.

---

(1) Excluding foreign exchange rates impact.

Adjusted operating income for the year ended December 31, 2011 fell 11.0% (-11.1% at constant exchange rates) compared to previously published figures for the year ended December 31, 2010 excluding Veolia Transport, primarily due to.

- a lower amount of capital gains on divestitures in 2011 (-€32.5 million compared to re-presented 2010 figures);
- the non-current asset impairments referred to above, with a one-off impact on adjusted operating income of -€128.3 million;
- the downturn in Marine Services operations in the amount of -€29 million and operations in Southern Europe in the amount of -€58 million;
- notification of the early termination of the Alexandria contract in Egypt in the Environmental Services Division, impacting adjusted operating income in the amount of -€29 million;
- expenses relating to the implementation of cost reduction plans of €90 million.

During the second quarter of 2011, the Company discovered an accounting fraud in the United States in the Environmental Services Division Marine Services subsidiary (unrelated to the operational issues described above). This fraud impacted the income statements for 2007 through 2010, in amounts that were not material in any of those years. The income statements for 2010 and 2009 presented for comparison purposes were therefore corrected for these identified irregularities. These corrections did not impact the 2011 Income Statement (see Section 2.1).

9.1.3 Business activity

The Company continued its development and achieved a number of commercial successes related ton enhanced and refined offerings, including the following:

- the Haringey Council in London awarded the Environmental Services Division a 14-year contract for street urban cleaning, recycling and waste collection services, representing estimated cumulative revenue of GBP 235 million (approximately €282 million);
- Dalkia was awarded a 34-year contract for the operation and maintenance of the Montreal University Hospital, representing estimated cumulative revenue of CAD1.6 billion (approximately €1.2 billion);
- Veolia Environmental Services was awarded a 25-year residual waste treatment PFI (Private Finance Initiative) contract by Hertfordshire County Council in the United Kingdom for the treatment of up to 350,000 tons of annual residual waste, representing estimated cumulative revenue of GBP 1.3 billion (approximately €1.6 billion);
- Veolia Water was awarded a €79 million 5-year contract to design, build and operate a seawater desalination unit at the Az Zour South plant in Kuwait;
- Veolia Water signed a contract related to wastewater treatment in Winnipeg, Canada in partnership with the city;
- Veolia Water signed a contract to design and build for 12 years a mine wastewater treatment plant in Western Virginia (United States) and a treatment plant for wastewater produced by a petroleum field in California, and its operation for 10 years. These two contracts represent estimated cumulative revenue of approximately €88 million;
- Veolia Environmental Services was designated as preferred bidder for the 25-year PFI contract for treatment and disposal of waste for the city of Leeds in the United Kingdom.

9.1.4 Acquisitions, divestitures and partnerships

In 2011, the Company continued its asset optimization strategy through a number of divestitures and partnerships.

Acquisitions

On July 26, Dalkia Polska won the privatization bid for the Warsaw urban heating network. The European Commission issued a favorable opinion on the takeover by Dalkia Polska, a subsidiary of Dalkia International and the IMF of an 85% stake in SPEC. The deal was closed on October 11, 2011 for an enterprise value of €227 million (Group share).

Partnerships

On May 4, 2010, the Caisse des dépôts et consignations and Veolia Environnement concluded a combination agreement with the view of creating a 50/50 joint venture combining Transdev and Veolia Transport.

As part of this transaction, the companies Veolia Transport and Transdev were transferred respectively by their shareholders to the newly created joint venture, Veolia Transdev. Prior to completing the transaction, Caisse des Dépôts et consignations subscribed to a €200 million share capital increase by Transdev.

Following completion of the combination, Veolia Environnement became the industrial operator of the new entity and Caisse des dépôts et consignations a long-term strategic partner.

On March 3, 2011, the transaction was effectively completed:

- following authorization of the combination by the relevant anti-monopoly authorities and approval by the French Ministry of the Economy of the privatization of Transdev,
- following the final amendments to the shareholders' agreement in order to simplify measures regarding the governance of the new entity.

Following the changes in the shareholders' agreement, the new entity has a single Chief Executive, Mr. Jérôme Gallot, with full operational responsibilities. Veolia Environnement and the Caisse des dépôts et consignations exercise joint control over the new entity.

From this date and pursuant to the application of IAS/IFRS accounting rules, Veolia Environnement lost exclusive control of Veolia Transport in exchange for a 50% investment in the Veolia Transdev joint venture, which is proportionately consolidated.

On December 6, 2011, during the Investor Day, the Company presented its strategic plan encompassing the restructuring of its portfolio of activities and businesses and leading to the decision to progressively withdraw from the Transportation sector.

The communication of these decisions and progress with the withdrawal process as of December 31, 2011, led the Company to classify the Transportation business as a group of assets held for sale and consider the Transportation business as a discontinued operation as defined by IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The accounting impacts of these transactions in the Group financial statements are quantified below:

Impact on the main Income Statement accounts

The main accounting impacts of the combination break down as follows:

- The net income and expenses of Veolia Transport were recorded in a separate income statement line, “Net income from discontinued operations”. Amounts presented in net income from discontinued operations in fiscal years 2010 and 2009 were also restated retrospectively on the same line. Income and expenses reclassified in fiscal year 2011 consist of 100% of Veolia Transport income and expenses for the period January 1 to March 3, 2011 and 50% of Veolia Transdev income and expenses for the period March 3 to December 31 (including income and expenses incurred in transactions with other Company entities).
- The recognition of a gain on disposal of €429.8 million following the loss of control of Veolia Transport on March 3, 2011, comprising:
  - the Veolia Transport disposal gain of €391.5 million,
  - items recorded directly in other comprehensive income of €38.3 million (mainly a foreign exchange translation gain of €34.2 million).
- The recognition of an impairment of €440 million on Veolia Transdev goodwill as of December 31, 2011. This value adjustment is the result of a downturn in the performance of the subsidiary and a decrease in implicit market transaction valuation multiples in this sector. The value adjustment is based on non-binding offers received on January 27, 2012 and also incorporates the potential impact on the transaction price of current legal proceedings concerning one of the assets of this group, SNCM (see Note 38, Contingent liabilities to the consolidated financial statements).

Transaction-related costs expensed in the accounts of Veolia Transdev totaled €13.7 million and are recognized in Net income from discontinued operations.

Impact on the main Consolidated Statement of Financial Position accounts

The main accounting impacts break down as follows:

- the derecognition of all Veolia Transport assets and liabilities, fully consolidated in the accounts, following loss of control by the Company on March 3, 2011 and as a consequence, the Group recognized a capital gain on March 3, 2011 amounted €429.8 million;
- the fair value remeasurement of the assets and liabilities held in the Veolia Transdev joint venture, following the acquisition of 50% joint control by the Company. The fair value allocation primarily concerned contracts and contract portfolios, brands, real-estate sites and transportation systems;
- the recognition of an impairment loss of €440 million on Veolia Transdev goodwill;
- the reclassification of the entire assets and liabilities of the Veolia Transdev joint venture consolidated using the proportionate method in assets and liabilities held for sale following the progressive withdrawal decided by the Company.

Impact on Company debt and cash and cash equivalents

The Veolia Transdev combination reduced Group net financial debt by €550 million in the first quarter of 2011, primarily due to the refinancing of the new entity by both Veolia Environnement and the Caisse des dépôts et consignations. Indeed the authorized loans by Veolia Environnement and the Caisse des dépôts et consignations are attributed jointly to Veolia Transdev. The cash and cash equivalents of Veolia Transdev and its subsidiaries is pooled and managed by Veolia Environnement.

As of December 31, 2011, external financing and net cash and cash equivalents were reclassified in assets and liabilities held for sale in the amount of €205 million.

Divestitures

Overall, industrial and financial divestitures (including issues of share capital subscribed by non-controlling interests and transactions with non-controlling interests where there is no change in control) totaled €1,544 million in the year-ended December 31, 2011, including the impact of the Veolia Transdev combination for €550 million.

- On February 14, 2011, the Company signed an agreement for the sale of its sorting-recycling activities in Norway. The divestiture was completed on March 25, 2011.
- In May and August 2011, the activities of the Energy Services Division in Germany were sold for an enterprise value of €29 million (Group share).
- On May 5, 2011, the Company sold its transportation activities in Norway for an enterprise value of €36 million (Group share).
- On May 23, 2011, the Company sold 5% of Dalkia Ceska Republica to J&T Group for an enterprise value of €32 million.
- On June 29, 2011, the EBRD and IFC acquired a 5% interest each in the Baltic-Russian activities of the Energy Services Division in the amount of €38 million.
- On July 1, 2011, the Company sold its United Kingdom activities previously owned by Veolia Transport.
- On August 10, 2011, the Company sold its Belgian solid waste activities in the Environmental Services Division.
- On December 16, 2011, the Company sold its household assistance services business (“Veolia Habitat Services” or Proxiserve) for an enterprise value of €118 million.
- On December 20, 2011, the Company sold its Estonian cogeneration activities in the Energy Services Division for an enterprise value of €69 million (Group share).
- On December 22, 2011, the Company sold its remaining 15% stake in Dalkia Usti nad Labem to CEZ Group for an enterprise value of €26 million (Group share). Accordingly, in fiscal years 2010 and 2011, cumulative divestitures of Dalkia Usti nad Labem activities, comprising a cogeneration (heat and electricity) plant and the primary district heating system for the city of Usti nad Labem, represented a total enterprise value of €171 million (Group share).

The divestiture of Norwegian recycling activities in the Environmental Services Division, German activities in the Energy Services Division, United Kingdom and Norwegian activities in the Transportation Division and Proxiserve household assistance services is presented in discontinued operations.

9.1.5 Financing policy

Refinancing of the main loan facility

Veolia Environnement signed two syndicated credit facilities on April 7, 2011: a 5-year €2.5 billion multi-currency credit facility and a 3-year €500 million credit facility available for drawdown in Polish zloty, Czech crown and Hungarian forint. Both facilities include two one-year extension options. These facilities refinance in advance the €4 billion multi-currency syndicated credit facility held by Veolia Environnement as of December 31, 2010. This transaction extends the maturity of the Company’s main credit facility from April 2012 to April 2016 while providing a specific financing facility for the Company’s activities in Eastern Europe.

Dividend payment

In accordance with the decision of the Annual General Meeting of Shareholders of May 17, 2011, the Company offered its shareholders a share or cash option with respect to the dividend payment. The share payment option was widely chosen, resulting in the creation of 20,462,396 shares representing approximately 3.94% of share capital and 4.05% of voting rights. Accordingly, the dividend payment in cash totaled €203 million and was paid on June 17, 2011.

Partial buyback of bond issues

On December 22, 2011, the Company announced the partial buyback of U.S.$210 million of its U.S.$ 5.25% bond issue maturing in June 2013 and of €56 million of its Euro 4.875% bond issue maturing in May 2013.

9.1.6 Major events since January 1, 2012

On January 9, 2012, Veolia Environnement SA sent a notice of early redemption to all holders of the U.S. private placement performed in January 2003. Early redemption was effectively performed on February 9, for a euro-equivalent of €350.2 million.

On February 7, 2012, the financial ratings agency, Moody's, downgraded Veolia Environnement’s long-term credit rating from “A3” to “Baa1”, with a stable outlook. The short-term credit rating remains unchanged at P-2.

On February 10, 2012, the company Termo Energia Calabria (TEC), a subsidiary of the Environmental Services Division specializing in waste incineration in Calabria, filed a request for voluntary arrangement with its creditors (“concordato preventivo”) with the court of Spezia in Italy.

On February 28, 2012, the company entered into exclusive negotiation with an investor regarding the progressive withdrawal from Veolia Transdev.

9.2 Accounting and financial information

9.2.1 Definitions and accounting context

Pursuant to Regulation no.1606/2002 of July 19, 2002, as amended by European Regulation 297/2008 of March 11, 2008, the consolidated financial statements for the year ended December 31, 2011 are prepared 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_en.htm.

Comparative financial statements for fiscal years 2010 and 2009 are presented on the same basis.

The GAAP (Generally Accepted Accounting Principles) and non-GAAP indicators definitions presented in this document are unchanged on prior years and are defined in the Appendix to the Operating and Financial Review.

Accounting context

The accounting policies adopted for the preparation of the 2011 financial statements are unchanged from the 2010 financial statements, with the exception of the application of new texts effective January 1, 2011.

Pursuant to IFRS 5:

The 2010 Income Statement was re-presented to include in the line "Net income from discontinued operations" the impact of:

- the reclassification in discontinued operations of the household assistance services business ("Veolia Habitat Services" or Proxiserve) following its divestiture in December 2011 and Citelum activities in the course of divestiture in the Energy Services Division;
- the reclassification in discontinued operations of the entire Transportation Division, as a result of the Veolia Transdev transaction in progress;
- the reclassification in continuing operations of Water Division activities in Gabon, following the interruption of the divestiture process at the beginning of 2011;
- and the reclassification in continuing operations of "Pinellas" incineration activities in the United States in the Environmental Services Division following the interruption of the divestiture process at the end of 2011.

Internal transactions between the Company and discontinued operations of any nature, whether operating or financial, are recorded in expenses of discontinued operations in fiscal year 2011 and comparative periods, enabling the presentation of the economic results of entities sold on this line.

Impact from Marine Services accounting fraud (Environmental Services Division)

In the second quarter of 2011, the Company discovered an incidence of accounting fraud in the United States at the Marine Services unit, which is part of the Environmental Services Division. Marine Services is an industrial services business, and a subsidiary of Veolia Environmental Services North America. It operates a fleet of ships and provides services to offshore petroleum installations, primarily in the Gulf of Mexico.

Following an investigation that was completed in July 2011, the Company determined that certain expenditures had been recorded as inventory, property, plant and equipment or prepaid expenses, rather than charges in the income statement. As a result, operating income in the Company's consolidated financial statements for the years 2007 to 2010 was overstated by a total of approximately €52 million (excluding exchange rate impacts) for the four years combined. The amount involved was less than 1% of operating income for each of the affected years.

In light of these irregularities, the Company reviewed the profit forecasts for Marine Services that it used to record deferred tax assets with respect to the U.S. tax group during the affected years. The Company determined that its forecasts probably would have been different had the irregularities not existed. Deferred tax assets are determined on the basis of estimates of future taxable income. In the context of the identified irregularities, the Company estimates that the amount of deferred tax assets for the four affected years combined would have been approximately €33 million lower (excluding exchange rate impacts) if the operating income of Marine Services had been properly recorded.

The impact of these accounting irregularities was not material in the context of the Company's consolidated financial statements for the affected financial years, but would be material when taken on a cumulative basis and compared to 2011 figures. In accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the Company decided to correct comparative figures for each of the affected financial years in its 2011 financial statements.

The corrections to the income statement for each of the years affected by these irregularities are as follows, in millions of euro:

	Revenue	**Operating income**	**Tax impact**	**Foreign exchange impact**	**Total Correction**
2007	0	(6)	(19)	(1)	(26)
2008	0	(6)	(7)	(3)	(16)
2009	(3)	(18)	(7)	(1)	(26)
2010	1	(22)	0	0	(22)
TOTAL	**(2)**	**(52)**	**(33)**	**(5)**	**(90)**

The 2010 and 2009 Income Statements presented in comparison to fiscal year 2011 were therefore corrected for the irregularities identified. These corrections did not impact the 2011 Income Statement.

The impact of these retrospective corrections on earnings per share (-€0.05 for each 2010 and 2009) was not material.

Finally, the Consolidated Statements of Financial Position as of December 31, 2010, December 31, 2009 and January 1, 2009, presented in comparison to data as of December 31, 2011 were corrected as follows:

	Equity attributable to owners of the Company	**Property, plant and equipment**	**Deferred tax assets**	**Inventories and work-in-progress**	**Operating receivables**	**Operating payables**
As of December 31, 2010, re-presented	(90.3)	(3.3)	(35.9)	(30.2)	(14.6)	6.3
As of December 31, 2009, re-presented	(63.2)	(3.2)	(33.3)	(19.3)	(6.2)	1.2
As of January 1, 2009, re-presented	(39.9)	(3.7)	(27.3)	(8.9)	0	0

The Company has initiated the sale of the Marine Services business, reclassified in assets and liabilities held for sale as of December 31, 2011.

9.2.2 Revenue

9.2.2.1 Overview

Year ended December 31, 2011 *(€ million)*	Year ended December 31, 2010 re-presented (*) *(€ million)*	% Change 2011/2010	Internal growth	External growth	Foreign exchange impact
29,647.3	28,764.2	3.1%	2.0%	1.2%	-0.1%

(*) A reconciliation of previously published and re-presented consolidated revenue for the year ended December 31, 2010 may be found in the Appendix.

Activity levels were affected in 2011 by:

- the consequences of contractual erosion in the Water Division in France;
- the slowdown in industrial production growth over the year;
- recycled raw material prices, which remained high up to the end of the year;
- a context of high energy prices throughout 2011;
- unfavorable weather conditions in the Energy Services Division (primarily the first and fourth quarters) and in the Water Division in July and August 2011.

Veolia Environnement consolidated revenue was €29,647.3 million, an increase of 3.1% compared to re-presented revenue of €28,764.2 million for the year ended December 31, 2010.

The impact of changes in consolidation scope on 2011 revenue includes €358.7 million in respect of targeted acquisitions and divestitures performed in 2010 and 2011, including €239.1 million in the Water Division (primarily the impact of the acquisition of certain assets from United Utilities), -€39.3 million in the Environmental Services Division and €158.9 million in the Energy Services Division (related to the acquisition of certain activities in the Czech Republic from NWR Group in 2010 and the acquisition of the Warsaw district heating network in October 2011).

At constant consolidation scope and exchange rates, 2011 revenue increased 2.0% compared to re-presented 2010 revenue. This increase was mainly due to:

- the increase in the price of recycled raw materials in the Environmental Services Division of €174 million (primarily in France and Germany) and the improvement in activity levels, particularly for the treatment of hazardous waste, with nonetheless a slow-down in growth in the second half of 2011;
- growth in Water Division revenue, mainly tied to the good contribution of operating activities in Europe (primarily Germany and Central and Eastern Europe) and in Asia, despite the negative impact of contractual erosion in France and unfavorable summer weather conditions;
- the increase in energy prices (impact of €265 million compared to 2010), unfavorable weather conditions, particularly in the last quarter, in the Energy Services Division, and a downturn in Works activities and the cessation of new field installations in the photovoltaic sector in Southern Europe.

Fourth quarter 2011 revenue declined 1.2% compared to the fourth quarter of 2010. Organic growth (at constant consolidation scope and exchange rates) fell in the fourth quarter of 2011 to -2.1% due to a strong comparison base in the Water Division related to substantial contributions from construction contracts in the fourth quarter 2010, the slowdown in industrial production, a less favorable base effect in the Environmental Services Division (price of recycled raw materials), and less favorable weather conditions in the Energy Services Division.

The share of revenue generated outside France in 2011 was €18,187.9 million, or 61.3% of total revenue compared to re-presented 60.6% in 2010.

The €46.7 million negative foreign exchange impact primarily reflects the appreciation compared to the euro of the Australian dollar in the amount of €65.9 million, the Swiss franc in the amount of €29.0 million and Eastern European currencies (Czech Republic and Poland) in the amount of €18.5 million, offset by the depreciation of the U.S. dollar in the amount of -€111.7 million and the pound sterling in the amount of -€26.0 million.

9.2.2.2 Revenue by business

(€ million)	Year ended December 31, 2011	Year ended December 31, 2010 re-presented	% Change 2011/2010
Water	12,617.1	12,250.3	+3.0%
Environmental Services	9,740.2	9,337.8	+4.3%
Energy Services	7,290.0	7,176.1	+1.6%
Revenue	**29,647.3**	**28,764.2**	**+3.1%**
Revenue at 2010 exchange rates	**29,694.0**	**28,764.2**	**+3.2%**

Water

Year ended December 31, 2011 (€ million)	Year ended December 31, 2010 re-presented (€ million)	% Change 2011/2010	Internal growth	External growth	Foreign exchange impact
12,617.1	12,250.3	3.0%	1.2%	1.9%	-0.1%

The increase in Water Division revenue at constant consolidation scope and exchange rates is mainly due to the good level of activity in Europe, and particularly in Germany and Central and Eastern Europe, as well as good performance in Asia.

- External growth in revenue in the Water Division in 2011 is mainly attributable to the acquisition of certain assets from United Utilities in the United Kingdom and Central and Eastern Europe in November 2010.
- Revenue from Operations increased 3.6% (+1.4% at constant consolidation scope and exchange rates). In France, revenue declined 2.3%, mainly due to the impact of contractual negotiations (in particular the new contract with "Syndicat des Eaux d'Ile de France" (SEDIF)) and to a lesser extent the ongoing decline in volumes sold compared to 2010 (-1.0% in 2011 compared to 2010); these two impacts were partially offset by a favorable price effect tied to movements in indices. Outside France, revenue increased 7.2% (+3.7% at constant consolidation scope and exchange rates). In Europe, growth of 12.9% (+6.2% at constant consolidation scope and exchange rates) includes the favorable contribution of activities in Germany and the good performance recorded in Central and Eastern Europe (very favorable price impact in a context of lower volumes sold). Revenue in the Asia-Pacific region rose 2.9% (stable at constant consolidation scope and exchange rates). Revenue increased in China, due to growth in volumes and the continuation of the tariff increase process (particularly in Shenzhen) and despite the decline in construction revenue. In the rest of Asia, the surge in activity in Japan following the earthquake in March 2011 offset the downturn in Australia due to the completion of construction work on the desalination and recycled water production plant and the end of the Adelaide contact.
- Technology and Network revenue increased 1.5% (+0.6% at constant consolidation scope and exchange rates) despite the completion of Middle East desalination contracts in the Design and Build sector. This activity benefited from the launch of construction work on the Hong Kong sludge incinerator and the net recovery in industrial client activities reflected by an increase in bookings.

Environmental Services

Year ended December 31, 2011 (€ million)	Year ended December 31, 2010 re-presented (€ million)	% Change 2011/2010	Internal growth	External growth	Foreign exchange impact
9,740.2	9,337.8	4.3%	4.9%	-0.4%	-0.2%

The 4.9% internal growth in revenue reflects the increase in the price of recycled raw materials for €174 million (primarily in France and Germany) and the improvement in activity levels, particularly for the treatment of industrial non-hazardous and hazardous waste, but with a slower growth rate in the second half of the year. The fourth quarter of 2011 faced an unfavorable base effect given high paper and cardboard prices and activity levels that were already rising for these treatment and service businesses in the prior year quarter.

- In France, revenue increased 3.9% (+5.2% at constant consolidation scope) under the combined effect of recycled raw material prices that remained high (paper/cardboard and metals), net commercial gains and an increase, in hazardous waste and landfill activities.
- Outside France, revenue grew 4.5% (+4.9% at constant consolidation scope and exchange rates). Revenue in Germany increased 9.5% (+6.4% at constant consolidation scope) benefiting from higher paper and cardboard prices and the good contribution of activities in the commercial and industrial sector. Municipal waste collection activities continued to experience strong competitive pressure. Revenue in the United Kingdom increased 5.4% (+6.7% at constant consolidation scope and exchange rates), in line with progress on integrated contracts and a better asset utilization rate and despite the economic environment which remains difficult and is weighing on other Division activities. North America revenue declined 4.6% (but was stable at constant consolidation scope and exchange rates), as the increase in hazardous waste treatment activities and the resistance of solid waste activities was penalized by the fall in the fleet utilization rate in the Gulf of Mexico in the Marine Services business. In the Asia-Pacific region, revenue growth of 9.2% (+3.7% at constant consolidation scope and exchange rates) benefited from an increase in industrial services activities, driven by the mining industry and commercial waste collection in Australia.

Energy Services

Year ended December 31, 2011 (€ million)	Year ended December 31, 2010 re-presented (€ million)	% Change 2011/2010	Internal growth	External growth	Foreign exchange impact
7,290.0	7,176.1	1.6%	-0.5%	2.2%	-0.1%

Energy Services Division revenue grew 1.6% (down 0.5% at constant consolidation scope and exchange rates) due to the positive impact of energy prices (€265 million compared to 2010) which offset the negative impact of less favorable weather conditions across the whole of Europe in 2011 compared to 2010 (-€285 million compared to 2010).

- In France, revenue rose 3.0% (+2.4% at constant consolidation scope), driven by the increase in the average fuel basket prices in weather conditions considerably less favorable than in 2010.
- Outside France, revenue remained stable (down 3.2% at constant consolidation scope and exchange rates). Continental European countries reported growth of 4.3%, due in particular to the acquisition of the Warsaw district heating network in the last quarter of 2011. At constant consolidation scope and exchange rates, revenue fell 5.4%: the increase in the price of heat and electricity in 2011 compared to 2010 was offset by the impact of unfavorable weather conditions, and the lower electric capacity revenue and subsidies received on the sale of cogenerated energy which varied between countries (Czech Republic, Poland, Hungry, Estonia). In addition, activities in Southern Europe were penalized by commercial and operating difficulties and the discontinuation of photovoltaic field installation activities.

- External revenue growth in the Energy Services Division in 2011 is attributable to the reorganization of activities in the Czech Republic in 2010 and the acquisition of the Warsaw district heating network in October 2011.

9.2.2.3 Revenue by geographical area

Year ended December 31, 2011 *(€ million)*	**France**	**Germany**	**United Kingdom**	**Central and Eastern Europe**	**Other European countries**	**United States**	**Oceania**	**Asia**	**Middle East**	**Rest of the world**	**Total**
Water	4,560.1	1,519.3	811.6	1,066.1	775.7	743.0	238.6	1,573.3	281.0	1,048.4	12,617.1
Environmental Services	3,384.2	1,210.2	1,626.0	309.7	568.6	1,230.3	704.6	237.8	105.1	363.7	9,740.2
Energy Services	3,515.1	9.5	194.2	1,414.1	1,401.4	314.0	49.8	100.6	93.4	197.9	7,290.0
Revenue	**11,459.4**	**2,739.0**	**2,631.8**	**2,789.9**	**2,745.7**	**2,287.3**	**993.0**	**1,911.7**	**479.5**	**1,610.0**	**29,647.3**

As of December 31, 2010 re-presented *(€ million)*	**France**	**Germany**	**United Kingdom**	**Central and Eastern Europe**	**Other European countries**	**United States**	**Oceania**	**Asia**	**Middle East**	**Rest of the world**	**Total**
Water	4,651.3	1,434.6	625.5	951.5	758.5	686.2	262.3	1,330.6	491.9	1,057.9	12,250.3
Environmental Services	3,257.3	1,104.5	1,550.7	303.3	524.0	1,293.0	606.4	256.3	87.0	355.3	9,337.8
Energy Services	3,413.3	2.4	190.7	1,364.3	1,524.7	326.6	41.0	77.6	85.9	149.6	7,176.1
Revenue	**11,321.9**	**2,541.5**	**2,366.9**	**2,619.1**	**2,807.2**	**2,305.8**	**909.7**	**1,664.5**	**664.8**	**1,562.8**	**28,764.2**

Change *(€ million)*	**France**	**Germany**	**United Kingdom**	**Central and Eastern Europe**	**Other European countries**	**United States**	**Oceania**	**Asia**	**Middle East**	**Rest of the world**	**Total**
Water	(91.2)	84.7	186.1	114.6	17.2	56.8	(23.7)	242.7	(210.9)	(9.5)	366.8
Environmental Services	126.9	105.7	75.3	6.4	44.6	(62.7)	98.2	(18.5)	18.1	8.4	402.4
Energy Services	101.8	7.1	3.5	49.8	(123.3)	(12.6)	8.8	23.0	7.5	48.3	113.9
Revenue	**137.5**	**197.5**	**264.9**	**170.8**	**(61.5)**	**(18.5)**	**83.3**	**247.2**	**(185.3)**	**47.2**	**883.1**
Change (%)	**1.2%**	**7.8%**	**11.2%**	**6.5%**	**-2.2%**	**-0.8%**	**9.2%**	**14.9%**	**-27.9%**	**3.0%**	**3.1%**
Change at constant exchange rates (%)	**1.2%**	**7.8%**	**12.3%**	**6.1%**	**-3.6%**	**4.0%**	**1.8%**	**14.4%**	**-26.6%**	**4.7%**	**3.2%**

The impact of the economic climate on revenue can vary between geographical areas and depends in particular on the mix of different Company businesses.

France

Revenue increased 1.2% in 2011. Water Division activities in France suffered from the slowdown in the Construction business, contractual erosion (primarily on the new contract with "Syndicat des Eaux d'Ile de France" (SEDIF)) and a decline in volumes sold compared to 2010, and particularly in July 2011 due to weather conditions (-1.0% in 2011 compared to 2010), partially offset by a positive price effect tied to movements in indices.

The Environmental Services Division reported activity growth under the combined effect of recycled raw material prices that remained high (paper/cardboard and metals) and the development of certain activities, particularly hazardous waste and landfill.

The Energy Services business benefited from a favorable price effect in 2011, with weather conditions considerably less favorable than in 2010.

Germany

Revenue increased 7.8% in 2011.

Environmental Services Division revenue in Germany benefited from the increase in the price of paper and cardboard and the good contribution from the commercial and industrial sector, while the urban municipal collection business remained highly competitive. The Braunschweig contract also contributed to revenue growth, while the contribution of the Berlin contract remained stable overall.

United Kingdom

Revenue increased 12.3% in 2011 at constant exchange rates. It benefited from the ramp-up of new integrated contracts, partially offset by a drop in landfill volumes in the Environmental Services Division. Assets acquired from United Utilities account for the majority of the revenue increase in the Water Division in this country.

Central and Eastern Europe

Revenue increased 6.1% in 2011 at constant exchange rates.

Revenue growth in Central Europe was driven by the activities of the Water and Energy Services Divisions, which benefited from the consolidation of the activities of assets purchased from United Utilities in Sofia, and the purchase of SPEC in Poland, as well as reorganization measures implemented in the Czech Republic in 2010.

Other European countries

Revenue declined 3.6% at constant exchange rates.

Revenue benefited from an increase in Energy Services activities, particularly in Northern European countries.

The economic and financial crisis affecting public authorities and countries in Southern Europe had negative consequences for the Company's activities, primarily in Italy where the Company's exposure is the greatest. Accordingly, Water Division revenue in Italy declined 9.8%, reflecting these economic difficulties. Finally, following a change in management in Italy in the Energy Services Division and the discontinuation of solar activities, these businesses are undergoing substantial restructuring, explaining the 9.9% fall in revenue.

United States

Revenue increased 4.0% at constant exchange rates.

Activities in the United States were marked by contrasting developments across the businesses:

- the Environmental Services Division was penalized by the fall in the fleet utilization rate in the Gulf of Mexico in the first-half of the year in the Marine Services business, despite growth in hazardous waste treatment activities and the resistance of solid waste activities;
- the Water Division benefited from a net recovery in industrial client activities.

Oceania

The 1.8% increase at constant exchange rates was due to growth in industrial service activities in the Environmental Services Division in Australia (mostly present in services, industrial waste and landfill).

Asia

The increase of 14.4% at constant exchange rates was mainly achieved by the Water Division, as a result of recent developments in China, one-off activities in Japan and the good performance of contracts in Korea.

Rest of the world (including the Middle East)

The decline of 4.7% at constant exchange rates was mainly due to the completion of certain major construction contracts in the Water Division in the Middle East.

9.2.3 Other income statement items

9.2.3.1 Operating income and adjusted operating cash flow

The impact of localized operational difficulties and asset impairments recognized as of December 31, 2011 on the indicators adjusted operating income and adjusted operating cash flow can be summarized as follows:

(€ million)	**Impact on adjusted operating cash flow**	**Impact on adjusted operating income**
Southern Europe	(62)	(96)
North Africa	(27)	(51)
Marine Services	(28)	(55)
Total	**(117)**	**(202)**

Operating income

Operating income declined 48.7% to €1,017.2 million for the year ended December 31, 2011, compared to re-presented operating income of €1,982.1 million for the year ended December 31, 2010.

In addition to the change in adjusted operating cash flow described below, the change in operating income reflects:

- impairment losses on goodwill and non-current assets of €782.7 million, primarily on Company activities in Italy, Morocco and the United States (TNAI sub-group);
- the effect of changes in discount rates applied to site remediation provisions for -€7 million for the year ended December 31, 2011, compared to +€26 million for the year ended December 31, 2010 in the Environmental Services Division;
- capital gains on industrial and financial asset divestitures of €85.3 million in the year ended December 31, 2011 compared to re-presented €206.8 million in the year ended December 31, 2010 (including a capital gain of €89.0 million on the divestiture of Usti Nad Labem in the Energy Services Division in 2010).

At the Company level, net charges to operating provisions totaled €148.2 million for the year ended December 31, 2011, compared to re-presented €43.1 million for the year ended December 31, 2010.

Net charges to operating depreciation and amortization totaled €1,549.5 million for the year ended December 31, 2011 compared to re-presented €1,475.2 million for the year ended December 31, 2010; this increase includes the effect of changes in consolidation scope following the acquisition of certain United Utilities assets in the Water Division and the acquisition of the Warsaw district heating network in the Energy Services Division.

Selling, general and administrative expenses (SG&A) for the year ended December 31, 2011 totaled €3,771.1 million compared to re-presented €3,714.3 million for the year ended December 31, 2010. The ratio of SG&A costs to revenue was therefore 12.7% in 2011, compared to re-presented 12.9% in 2010.

The 1.5% increase in these costs was primarily due to expenses associated with implementing cost reduction plans in 2011.

Operating income for the year ended December 31, 2011 and for the year ended December 31, 2010 on a re-presented basis, breaks down as follows by Division:

	Operating income			
(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010 re-presented (*)**	**% change**	**% change at constant exchange rates**
Water	860.5	1,046.1	-17.7%	-18.0%
Environmental Services	359.6	585.8	-38.6%	-38.9%
Energy Services	(37.2)	529.3	-107.0%	-108.3%
Holding companies	(165.7)	(179.1)	+7.5%	+7.5%
Total	**1,017.2**	**1,982.1**	**-48.7%**	
Total at 2010 exchange rates	**1,006.0**	**1,982.1**		**-49.2%**
Operating income margin	**3.4%**	**6.9%**		

(*) A reconciliation of previously published and re-presented operating income for the year ended December 31, 2010 may be found in the Appendix.

Adjusted operating income

Adjusted operating income declined 10.1% (-10.3% at constant exchange rates) to €1,700.5 million for the year ended December 31, 2011, compared to re-presented €1,891.4 million for the year ended December 31, 2010.

Adjusted operating income declined 11.1% at constant exchange rates compared to previously published figures for the year ended December 31, 2010 excluding Veolia Transport.

In addition to the negative impact on adjusted operating cash flow of the downturn in operations and asset impairments, notably in North Africa, in Southern Europe and in Marine Services operations, non-current asset impairments impacted adjusted operating income by an additional €128.3 million.

Adjusted operating income also includes capital gains on industrial and financial asset divestitures of €85.3 million in 2011 compared to re-presented €117.8 million in capital gains for the same period in 2010.

The adjusted operating income margin fell from 6.6% for the year ended December 31, 2010 to 5.7% for the same period in 2011.

Changes in adjusted operating income break down as follows:

	Adjusted operating income			
(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010 re-presented**	**% change**	**% change at constant exchange rates**
Water	971.7	1,045.7	-7.1%	-7.3%
Environmental Services	508.3	584.5	-13.0%	-13.3%
Energy Services	386.2	440.3	-12.3%	-12.1%
Holding companies	(165.7)	(179.1)	+7.5%	+7.5%
Total	**1,700.5**	**1,891.4**	**-10.1%**	
Total at 2010 exchange rates	**1,697.1**	**1,891.4**		**-10.3%**
Company total excluding the Transportation business (*)	**1,700.5**	**1,909.9**		**-11.1%**
Adjusted operating income margin	**5.7%**	**6.6%**		

(*) 2010 previously published figures excluding Veolia Transdev – Company adjusted operating income objective indicator for 2011.

Operating income for the years ended December 31, 2011 and 2010 breaks down as follows:

Year ended December 31, 2011		Adjustments		
(€ million)	**Adjusted Operating Income**	**Impairment losses on goodwill(*)**	**Other(**)**	**Operating Income**
Water	971.7	(60.6)	(50.6)	860.5
Environmental Services	508.3	(78.1)	(70.6)	359.6
Energy Services	386.2	(366.1)	(57.3)	(37.2)
Holding companies	(165.7)	-	-	(165.7)
Total	**1,700.5**	**(504.8)**	**(178.5)**	**1,017.2**

(*) Impairment losses on goodwill recorded in respect of Company subsidiaries in Italy (€294.8 million) and the United States (€153.1 million) as of December 31, 2011.

(**) Impairment losses on non-current assets recorded in respect of Company subsidiaries in Italy and excluded from adjusted operating income total €151.6 million as of December 31, 2011.

Year ended December 31, 2010 re-presented (€ million)	Adjusted Operating Income	Adjustments		Operating Income
		Impairment losses on goodwill	Other(*)	
Water	1,045.7		0.4	1,046.1
Environmental Services	584.5	(0.2)	1.5	585.8
Energy Services	440.3		89.0	529.3
Holding companies	(179.1)			(179.1)
Total	**1,891.4**	**(0.2)**	**90.9**	**1,982.1**

(*) Mainly the capital gain realized on the sale of cogeneration activities in the Czech Republic in the Energy Services Division.

Adjusted operating income is equal to operating income, adjusted to exclude the impact of goodwill impairment charges and certain special items (primarily significant capital gains, restructuring charges and non-current asset impairments). See Section 7.2 for a more complete definition.

In 2011, adjusted operating income excludes impairment of goodwill and non-current assets in the amount of €504.8 million and €149.6 million respectively. In general, the Company excludes impairment charges on non-current assets when they are large enough to significantly impact the economics of a cash-generating unit. In 2011, all impairment charges recorded in Italy which were the result of the same external economic trigger were excluded from adjusted operating income, even if the impact on the operating results of certain Divisions (taken in isolation) would not otherwise meet the Company's quantitative thresholds.

Conversely, the additional impairment resulting from the Company's decision to launch a restructuring plan and file for voluntary liquidation of the waste treatment company TEC in the Environmental Services Division in Calabria (Italy) pursuant to the "concordato preventive" of TEC, had an additional negative impact on adjusted operating income of €48.1 million in 2011.

The following table breaks down the main asset and goodwill impairment charges as well as reorganization costs notably in Southern Europe for 2011, indicating those non-current assets impairments that are included in adjusted operating income and those that are excluded (all goodwill impairment is excluded from adjusted operating income):

	Impairment of assets and goodwill and reorganization costs						
(€ million)	Non-current assets				Other(*)		
	Goodwill	Included in Adjusted operating income	Other non-current asset impairments (adjustments)	Total	Included in Adjusted operating income	Other (adjustments)	Total
Water	(60.6)	(33.0)	(50.6)	(144.2)			(144.2)
of which Italy	(22.9)	-	(52.6)	(75.5)			(75.5)
Environmental Services	(78.1)	(79.9)	(50.0)	(208.0)	(6.6)	(20.6)	(235.2)
of which Italy	(78.1)	(41.5)	(50.0)	(169.6)	(6.6)	(20.6)	(196.8)
Energy Services	(366.1)	(15.4)	(49.0)	(430.5)		(8.3)	(438.8)
of which Italy	(193.8)		(49.0)	(242.8)		(4.9)	(247.7)
Transportation							
Holding companies							
Total	**(504.8)**	**(128.3)**	**(149.6)**	**(782.7)**	**(6.6)**	**(28.9)**	**(818.2)**

(*) The other items mentioned above include essentially reorganization costs (notably in Southern Europe) and current assets impairment charges.

Adjusted operating cash flow

Adjusted operating cash flow declined 4.9% (-4.7% at constant exchange rates) to €3,152.3 million for the year ended December 31, 2011, compared to re-presented €3,314.6 million for the year ended December 31, 2010. The adjusted operating cash flow margin fell 0.9 points from re-presented 11.5% in 2010 to 10.6% in 2011.

Adjusted operating cash flow for the year ended December 31, 2011 declined 5.2% (-5.0% at constant exchange rates) compared to previously published figures for the year ended December 2010 excluding Veolia Transport.

The decrease in adjusted operating cash flow in 2011 was impacted by:

- the downturn in activities in Southern Europe, particularly in Italy and in Marine Services operations in the Gulf of Mexico;
- restructuring measures and contract terminations tied to the acceleration of the Company restructuring and asset optimization strategy and the downturn in the environment in Southern Europe and North Africa;
- a fall in operational performance in the Water Division, primarily related to contractual erosion in France and increased asset maintenance costs in the first quarter of 2011 in the United Kingdom;
- and expenses relating to the implementation of cost reduction plans of €90 million.

Conversely, adjusted operating cash flows benefited from:

- the favorable impact of the increase in recycled raw materials prices and activity levels and favorable volume effects in the Environmental Services Division;
- the positive impact of energy prices, offset by weather conditions that were overall less favorable in 2011 than in 2010, in the Energy Services Division; and
- activity growth in the Water Division in Central and Eastern Europe and Asia.

The effects of the Company Efficiency Plan contributed €259 million to gross savings.

The €5.6 million negative foreign exchange impact on adjusted operating cash flow primarily reflects the appreciation compared to the euro of the Australian dollar in the amount of €5.8 million and Eastern European currencies (Czech Republic and Poland) in the amount of €3.4 million, offset by the depreciation of the U.S. dollar in the amount of -€14.3 million.

Movements in adjusted operating cash flow were as follows:

(€ million)	Adjusted operating cash flow			
	Year ended December 31, 2011	Year ended December 31, 2010 re-presented (*)	Change	
			Current exchange rates	Constant exchange rates
Water	1,462.4	1,525.6	-4.1%	-4.2%
Environmental Services	1,197.3	1,271.8	-5.9%	-5.6%
Energy Services	597.6	658.0	-9.2%	-8.8%
Holding companies	(105.0)	(140.8)	+25.4%	+25.4%
Adjusted operating cash flow	**3,152.3**	**3,314.6**	**-4.9%**	
Adjusted operating cash flow at 2010 exchange rates	**3,157.9**	**3,314.6**		**-4.7%**
Adjusted operating cash flow margin	**10.6%**	**11.5%**		

(*) *A reconciliation of previously published and re-presented adjusted operating cash flow for the year ended December 31, 2010 may be found in the Appendix.*

Adjusted operating cash flow reconciles to operating income as follows for the years ended December 31, 2011 and 2010:

Year ended December 31, 2011 (€ million)	Adjusted operating cash flow	Net operating provisions (*)	Net depreciation and amortization	Impairment losses on goodwill and negative goodwill	Capital gains (losses) on disposal of non-current assets	Other	Operating income
Water	1,462.4	19.3	(565.5)	(58.6)	22.1	(19.2)	860.5
Environmental Services	1,197.3	(106.6)	(710.9)	(78.1)	55.4	2.5	359.6
Energy Services	597.6	(37.5)	(236.3)	(366.1)	7.8	(2.7)	(37.2)
Holding companies	(105.0)	(23.4)	(36.8)	-	-	(0.5)	(165.7)
Total	**3,152.3**	**(148.2)**	**(1,549.5)**	**(502.8)**	**85.3**	**(19.9)**	**1,017.2**

(*) *Including non-current asset impairment charges in Italy of €193.1 million for the year ended December 31, 2011 (across all Divisions) of which €151.6 million was excluded from adjusted operating income.*

Year ended December 31, 2010 re-presented (€ million)	Adjusted operating cash flow	Net operating provisions	Net depreciation and amortization	Impairment losses on goodwill and negative goodwill	Capital gains (losses) on disposal of non-current assets	Other	Operating income
Water	1,525.6	(15.0)	(512.4)	0.4	65.4	(17.9)	1,046.1
Environmental services	1,271.8	(20.4)	(706.6)	(0.2)	41.8	(0.6)	585.8
Energy Services	658.0	(5.8)	(226.9)	-	99.6	4.4	529.3
Holding companies	(140.8)	(1.9)	(29.3)	-	-	(7.1)	(179.1)
TOTAL	**3,314.6**	**(43.1)**	**(1,475.2)**	**0.2**	**206.8**	**(21.2)**	**1,982.1**

Analysis by Division

Water

(€ million)	Year ended December 31, 2011	Year ended December 31, 2010 re-presented	% change at current exchange rates	% change at constant exchange rates
Adjusted operating cash flow	1,462.4	1,525.6	-4.1%	-4.2%
Adjusted operating cash flow margin	11.6%	12.5%		
Adjusted operating income	971.7	1,045.7	-7.1%	-7.3%
Adjusted operating income margin	7.7%	8.5%		

Adjusted operating cash flow decreased 4.1% (-4.2% at constant exchange rates) to €1,462.4 million for the year ended December 31, 2011, compared to re-presented €1,525.6 million for the year ended December 31, 2010.

The adjusted operating cash flow margin (ratio of adjusted operating cash flow to revenue) fell from re-presented 12.5% for the year ended December 31, 2010 to 11.6% for the same period in 2011, penalized by both a fall in the margin on construction activities and downward pressure on margins on the renewal of contracts in France.

For Operations activities, adjusted operating cash flow declined 2.3% at current and constant exchange rates. **In France**, the decline in adjusted operating cash flow was due to the negative effects of contractual erosion, in a context of declining volumes sold compared to 2010 attributable to weather conditions in the summer of 2011. **Outside France,** adjusted operating cash flow benefited from activity growth in Asia and Central and Eastern Europe, but also reflects the negative impact of increased asset maintenance costs in the United Kingdom.

Finally, the adjusted operating cash flow of the Technologies and Network business declined in line with the increase in competitive pressure on pipe replacement activities in France. This fall was partially offset by the recovery in industrial activities.

The impact of the Efficiency Plan was €126 million in 2011.

Adjusted operating income decreased 7.1% (-7.3% at constant exchange rates) to €971.7 million for the year ended December 31, 2011, compared to re-presented €1,045.7 million for the year ended December 31, 2010. In addition to the decrease in adjusted operating cash flow, the Water Division's adjusted operating income was negatively impacted by the decrease in capital gains on divestitures, which were particularly favorable in 2010 (-€43.3 million difference) and the impairment of non-current assets in Southern Europe and North Africa in the amount of €33 million as of December 31, 2011.

Net reversals to operating provisions totaled €19.3 million for the year ended December 31, 2011, compared to re-presented net charges of €15.0 million for the year ended December 31, 2010, including in particular the non-current asset impairments detailed above.

Net charges to operating depreciation and amortization totaled €565.5 million for the year ended December 31, 2011, compared to re-presented €512.4 million for the year ended December 31, 2010, the increase being primarily attributable to changes in consolidation scope with the acquisition of certain assets from United Utilities.

Accordingly, the adjusted operating income margin (adjusted operating income / revenue) fell from re-presented 8.5% in the year ended December 31, 2010 to 7.7% in the year ended December 31, 2011.

Environmental Services

(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010 re-presented**	**% change at current exchange rates**	**% change at constant exchange rates**
Adjusted operating cash flow	1,197.3	1,271.8	-5.9%	-5.6%
Adjusted operating cash flow margin	12.3%	13.6%		
Adjusted operating income	508.3	584.5	-13.0%	-13.3%
Adjusted operating income margin	5.2%	6.3%		

Adjusted operating cash flow decreased 5.9% (-5.6% at constant exchange rates) to €1,197.3 million for the year ended December 31, 2011 compared to re-presented €1,271.8 million for the year ended December 31, 2010.

The decrease in adjusted operating cash flow and adjusted operating income in 2011 was mainly due to:

- Veolia Environmental Services operational and commercial difficulties in Calabria, Italy which led the company to bring legal proceedings against the client followed by the automatic termination of the contract;
- operational difficulties at Marine Services in the Gulf of Mexico, with in particular a fall in asset utilization rates;
- the consequences of the notification of the early termination of the Alexandria contract (Egypt);
- an unfavorable movement in fuel prices, only partially passed on to customers;

despite:

- a favorable recycled raw material price effect in 2011, particularly in the first six months;
- growth in hazardous waste activities in France and in the United States;
- the ramp-up of integrated contracts in the United Kingdom;
- the benefit of the Efficiency Plan (€61 million).

The adjusted operating cash flow margin decreased significantly from re-presented 13.6% in the year ended December 31, 2010, to 12.3% in the year ended December 31, 2011.

Adjusted operating income declined 13.0% (-13.3% at constant exchange rates) to €508.3 million for the year ended December 31, 2011, compared to re-presented €584.5 million for the year ended December 31, 2010.

In addition to the decrease in adjusted operating cash flow, the fall in adjusted operating income also reflects the impact of the Veolia Environmental Services restructuring in Calabria which led to the recognition of non current asset impairments in adjusted net operating income of €41.5 million in the fourth quarter of 2011 and the negative impact of changes in discount rates used at December 31 each year to calculate site remediation provisions in the amount of -€33 million compared to December 31, 2010.

Net charges to operating provisions totaled €106.6 million for the year ended December 31, 2011, compared to re-presented €20.4 million for the year ended December 31, 2010, including in particular the non-current asset impairments in Italy detailed above.

Net charges to operating depreciation and amortization totaled €710.9 million for the year ended December 31, 2011, compared to re-presented €706.6 million for the year ended December 31, 2010.

The adjusted operating income margin fell from re-presented 6.3% in the year ended December 31, 2010 to 5.2% in the year ended December 31, 2011.

Energy Services

(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010 re-presented**	**% change at current exchange rates**	**% change at constant exchange rates**
Adjusted operating cash flow	597.6	658.0	-9.2%	-8.8%
Adjusted operating cash flow margin	8.2%	9.2%		
Adjusted operating income	386.2	440.3	-12.3%	-12.1%
Adjusted operating income margin	5.3%	6.1%		

Adjusted operating cash flow decreased 9.2% (-8.8% at constant exchange rates) to €597.6 million for the year ended December 31, 2011, compared to re-presented €658.0 million for the year ended December 31, 2010.

Energy Services Division adjusted operating cash flow benefited in France from a favorable price impact which offset an unfavorable weather effect.

Outside France, the decline in adjusted operating cash flow reflected:

- unfavorable weather conditions compared to 2010, despite a positive energy price impact;
- operational and economic difficulties in Southern Europe and particularly Italy, and
- a fall in sales and electricity prices in Central Europe.

Adjusted operating cash flow benefited from a positive contribution from CO2 sales.

The impact of the Efficiency Plan was €72 million in 2011.

The adjusted operating cash flow margin decreased significantly from re-presented 9.2% in the year ended December 31, 2010, to 8.2% in the year ended December 31, 2011.

Adjusted operating income decreased 12.3% (-12.1% at constant exchange rates) to €386.2 million for the year ended December 31, 2011, compared to re-presented €440.3 million for the year ended December 31, 2010, with a lower contribution from capital gains on disposals than in 2010.

Net charges to operating provisions totaled €37.5 million for the year ended December 31, 2011, compared to re-presented €5.8 million for the year ended December 31, 2010, including in particular the non-current asset impairments in Italy detailed above.

Net charges to operating depreciation and amortization totaled €236.3 million for the year ended December 31, 2011, compared to re-presented €226.9 million for the year ended December 31, 2010.

Overall, the adjusted operating income margin fell from re-presented 6.1% in the year ended December 31, 2010 to 5.3% in the year ended December 31, 2011.

Holding companies

Adjusted operating cash flow of holding companies amounted to -€140.8 million in the year ended December 31, 2010 versus -€105.0 million in the year ended December 31, 2011.

The decrease in these costs during the period was mainly due to a reduction in overhead and the mutualization of shared services.

9.2.3.2 Net finance costs

(€ million)	**Year ended December 31, 2011**	Year ended December 31, 2010 re-presented
Income	113.1	92.7
Expenses	(861.5)	(851.6)
Net finance costs	(748.4)	(758.9)
Other financial income and expenses	(56.3)	(102.5)

Net finance costs fell from €758.9 million in 2010 to €748.4 million in 2011.

The average net financial debt decreased from €15.6 billion as of December 31, 2010 to €14.6 billion as of December 31, 2011.

This variation in net finance costs was the result of a rise in the financing rate (defined as the ratio of net finance costs, excluding fair value adjustments to instruments not qualifying for hedge accounting, to average monthly net financial debt for the period, including the net finance costs related to discontinued operations) from 5.09% in 2010 to 5.39% in 2011, primarily due to:

- the increase in average low-yield cash investments (cost of carry);
- the increase in short-term rates on the floating-rate portion of the debt;
- the cost of buying back the 2013 U.S. dollar bond issue.

9.2.3.3 Income tax expense

Veolia Environnement decided not to recognize any deferred tax assets in excess of the amount of deferred tax liabilities as of December 31, 2011 in respect of the France tax group and therefore recorded impairment for the opening balance amounted €86.9 million in this respect.

Veolia Environnement reviewed its tax projections for the U.S. tax group as of December 31, 2011, taking account of the planned changes in scope for the U.S. tax group and reduced its deferred tax assets in the amount of €137.6 million.

The income tax expense for the year ended December 31, 2011 is €314.5 million, excluding the write-down of the deferred tax assets of the France tax group and the impact of planned changes in U.S. operations.

The income tax rate for the year ended December 31, 2011 is 37.2% after adjustment for one-off items and primarily:

- goodwill impairment of €504.8 million;
- non-current asset impairments in Italy of €193.1 million;
- the write-down of the net deferred tax asset position of the France tax group of €86.9 million;
- and the impact of planned changes in U.S. operations of €137.6 million.

9.2.3.4 Share of net income of associates

The share of net income of associates decreased from €18.0 million in 2010 to €12.3 million in 2011.

9.2.3.5 Net income from discontinued operations

Net income from discontinued operations fell from €29.3 million in 2010 to a net loss of €2.4 million in 2011.

This line item mainly comprises the following amounts in the year ended December 31, 2011:

- the gain on disposal in respect of German activities in the Energy Services Division sold in May and August 2011;
- the gain on disposal in respect of Norwegian activities in the Environmental Services Division sold in March 2011;
- the gain on disposal in respect of "Proxiserve" household assistance services sold in December 2011;
- the reclassification of the net income and expenses of Citelum urban lighting activities in the Energy Services Division, in the course of divestiture;
- the reclassification of Veolia Transport net income and expenses to "Net income from discontinued operations" for the period January 1 to March 3, 2011 and the recognition of a gain on disposal of €429.8 million as of March 3, 2011 in connection with the Veolia Transdev combination;

- the reclassification of Veolia Transdev net income and expenses (Group share) to "Net income from discontinued operations" for the period March 3 to December 31, 2011 and the recognition of an impairment charge of -€440.0 million in connection with the progressive withdrawal from Veolia Transdev announced on December 6, 2011. This impairment charge is the result of a downturn in the performance of the subsidiary and a decrease in implicit market transaction valuation multiples. The value adjustment is also based on non-binding offers received and takes into account the uncertainty related to legal proceedings relative to SNCM.

Key operational indicators for Veolia Transport in 2010 and for Veolia Transdev in 2011 are disclosed below:

(€ million)	Veolia Transdev Year ended December 31, 2011 (*)	Veolia Transport Year ended December 2010(**)
Revenue	4,259.0	5,822.0
Adjusted operating cash flow	173.0	319.9
Operating income	(449.0)	106.5
o/w : Impairment as of December 31, 2011	(440.0)	
Capital gains and losses on disposal	443.0	(29.3)
o/w : Capital gain recognized on March 3, 2011	429.8	
Net income	(55.7)	12.4

(*) Veolia Transport for the period January 1st – March, 3rd 2011 + Group share at 50% of Veolia Transdev for the period March 3rd – December 31st 2011.

(**) including contribution of discontinued operations in United Kingdom as of December 31, 2010.

The new entity Veolia Transdev benefited from indexing clauses and the growth of urban contracts in France (beginning of the Besançon contract and the start-up of the Reims tram); new contract wins and the full-year impact of contracts won last year outside France, particularly in North America (Phoenix contract started in 2010 in the USA and the York Southwest contract in Canada), Germany (full-year impact of S-Bahn Bremen rail contract and bus contract in Frankfurt, Oltholstein, Rhode and Sinsheim) and Australia (start-up of the Joondalup contract in 2011 and growth of the activities in Perth and New South Wales).

Adjusted operating cash flow and operating income were affected by increases in the cost of fuel, strikes at the beginning of the year (particularly at the SNCM and in rail activities in Germany) and a number of one-off costs relating to the Veolia Transdev combination.

9.2.3.6 Net income (loss) attributable to non-controlling interests

Net income attributable to non-controlling interests was €173.2 million for the year ended December 31, 2011, compared to €290.5 million for the year ended December 31, 2010. This decrease in net income attributable to non-controlling interests is mainly due to EDF's share of impairments recorded in the Energy Services Division in Southern Europe compared to EDF's share in capital gains on the divestiture of Dalkia Usti in 2010.

9.2.3.7 Net income attributable to owners of the Company

The net loss attributable to owners of the Company was €489.8 million for the year ended December 31, 2011, compared to a re-presented net income of €558.5 million in 2010. Adjusted net income attributable to owners of the Company was €289.8 million for the year ended December 31, 2011, compared to re-presented €474.0 million for the year ended December 31, 2010.

Given the weighted average number of shares outstanding of 496.3 million in 2011 (basic and diluted) and 481.9 million in 2010 (basic and diluted), earnings per share attributable to owners of the Company (basic and diluted) was -€0.99 in 2011, compared to €1.16 in 2010. Adjusted net income per share attributable to owners of the Company (basic and diluted) was €0.58 in 2011, compared to re-presented €0.98 in 2010.

Adjusted net income for the year ended December 31, 2011 breaks down as follows:

Year ended December 31, 2011 *(€ million)*	Adjusted	Adjustments	Total
Operating income	1,700.5	(683.3)(*)	1,017.2
Net finance costs	(748.4)	-	(748.4)
Other financial income and expenses	(56.3)	-	(56.3)
Income tax expense	(355.4)	(183.6)(**)	(539.0)
Share of net income of associates	12.3	-	12.3
Net income from discontinued operations	-	(2.4)	(2.4)
Non-controlling interests	(262.9)	89.7(***)	(173.2)
Net income attributable to owners of the Company	**289.8**	**(779.6)**	**(489.8)**

(*) adjustments to operating income are presented in Section 9.2.3.1.

(**) primarily the impairment of deferred tax assets of the France tax group and the impact of planned changes in U.S. operations as presented in Section 9.2.3.3.

(***) primarily EDF's share of impairments recorded by the Energy Services Division in Southern Europe, as presented in Section 9.2.3.6.

Adjusted net income for the re-presented year ended December 31, 2010 breaks down as follows:

Year ended December 31, 2010 **re-presented** *(€ million)*	Adjusted	Adjustments	Total
Operating income	1,891.4	90.7(*)	1,982.1
Net finance costs	(758.9)	-	(758.9)
Other financial income and expenses	(102.5)	-	(102.5)
Income tax expense	(301.8)	(17.2)	(319.0)
Share of net income of associates	18.0	-	18.0
Net income from discontinued operations	-	29.3	29.3
Non-controlling interests	(272.2)	(18.3)	(290.5)
Net income attributable to owners of the Company	**474.0**	**84.5**	**558.5**
Previously published net income attributable to owners of the Company	**579.1**	**2.0**	**581.1**

(*) Adjustments to operating income are presented in Section 2.3.1.

9.3 Financing

The following table summarizes the Statement of change in net financial debt and the Consolidated cash flow statement and the reconciling items between both statements for 2011 and 2010.

Year ended December 31, 2011:

(€ million)	**Statement of change in net financial debt (NFD)**	**Reconciling items**	**Consolidated cash flow statement**
Operating cash flow before changes in working capital	3,353	-	3,353
Income taxes paid	(368)		(368)
Changes in working capital	(41)		(41)
Net cash from operating activities (A)	**2,944**		**2,944**
Net cash used in investing activities (in the Statement of change in net financial debt) (B)	**(1,198)**	**101**	**N/A[(1)]**
Dividends received **(C)**	12		12
(Increase)/decrease in receivables and other financial assets **(D)**	53		(53)
Net cash used in investing activities (in the Consolidated cash flow statement)	**N/A[(1)]**		**(1,138)**
Net increase/(decrease) in current borrowings	-	(534)	(534)
New non-current borrowings and other debt	-	745	745
Principal payments on non-current borrowings and other debt	-	(315)	(315)
Issue of share capital subscribed by the non-controlling interests [(2)] **(E)**	49	(46)	3
Other share capital changes including issue of share capital by VE SA [(2)] **(F)**	2	-	2
Dividends paid **(G)**	(547)	-	(547)
Net interest paid [(3)] **(H)**	(771)	17	(754)
Transactions with non-controlling interests: partial purchases	-	(54)	(54)
Transactions with non-controlling interests: partial sales	-	78	78
Net cash from (used in) financing activities	(1,267)		(1,376)
FREE CASH FLOW = (A)+(B)+(C)+(D)+(E)+(F)+(G)+(H)		**438**	
Effect of foreign exchange rate changes and other [(*)]	50	(216)	(166)
Change	**+488**	**(224)**	**264**
Net financial debt/Net cash at the beginning of the year	**(15,218)**		**5,020**
Net financial debt/Net cash at the end of the year	**(14,730)**		**5,284**

[(*)] *The line item "Effect of foreign exchange rate changes and other" primarily includes in 2011 the impact of exchange rates on the debt in the amount of -€64 million and the reclassification in assets and liabilities held for sale of external net financial debt of the Veolia Transdev combination in the amount of €205 million.*

Year ended December 31, 2010:

(€ million)	**Statement of change in net financial debt**	**Reconciling items**	**Consolidated cash flow statement**
Operating cash flow before changes in working capital	**3,719**	**-**	**3,719**
Income taxes paid	**(368)**	**-**	**(368)**
Changes in working capital	**106**	**-**	**106**
Net cash from operating activities (A)	**3,457**	**-**	**3,457**
Net cash used in investing activities (in the Statement of change in net financial debt) (B)	**(1,696)**	**(175)**	**N/A[(1)]**
Dividends received **(C)**	**13**	**-**	**13**
(Increase)/decrease in receivables and other financial assets **(D)**	**41**	**-**	**41**
Net cash used in investing activities (in the Consolidated cash flow statement)	**N/A[(1)]**		**(1,817)**
Net increase/(decrease) in current borrowings	-	(938)	(938)
New non-current borrowings and other debt	-	538	538
Principal payments on non-current borrowings and other debt	-	(149)	(149)
Issue of share capital subscribed by the non-controlling interests [(2)] **(E)**	105	24	129
Other share capital changes including issue of share capital by VE SA [(2)] **(F)**	32	(24)	8
Dividends paid **(G)**	(735)	-	(735)
Net interest paid [(3)] **(H)**	(808)	(14)	(822)
Transactions with non-controlling interests: partial purchases	-	(92)	(92)
Transactions with non-controlling interests: partial sales	-	184	184
Net cash from (used in) financing activities	(1,406)	(471)	(1,877)
FREE CASH FLOW = (A)+(B)+(C)+(D)+(E)+(F)+(G)+(H)		**409**	
Effect of foreign exchange rate changes and other	(500)	598	98
Change	**(91)**	**(48)**	**(139)**
NET FINANCIAL DEBT/NET CASH AT THE BEGINNING OF THE YEAR	**(15,127)**	**-**	**5,159**
NET FINANCIAL DEBT/NET CASH AT THE END OF THE YEAR	**(15,218)**	**-**	**5,020**

(1) The symbol N/A denotes that this figure in the table does not correspond to the definition of net cash from (used in) investing activities in the Consolidated cash flow statement or the Statement of change in net financial debt. In 2011, net cash used in investing activities in the Consolidated cash flow statement and the Statement of change in net financial debt totaled -€1,138 million and -€1,198 million, respectively.
The reconciling items correspond to:
- *assets purchased under finance lease (not included in investments in the Consolidated cash flow statement pursuant to IAS 7) in the amount of €46 million in 2011 compared to €30 million in 2010;*
- *the Net Financial Debt of companies acquired or divested for financial investments and financial divestitures in the amount of -€33 million in 2011 compared to -€113 million in 2010;*
- *transactions with non-controlling interests where there is no change in control for a net amount of -€22 million in 2011 and €92 million in 2010.*

(2) The Consolidated cash flow statement includes all issues of share capital both by the non-controlling interests and the parent company Veolia Environnement, whereas the Statement of change in net financial debt includes only issues of share capital by the non-controlling interests.

(3) The reconciling items correspond to accrued interest on current and non-current borrowings.

9.3.1 Operating cash flow before changes in working capital

Operating cash flow before changes in working capital totaled €3,352.9 million in 2011, including adjusted operating cash flow of €3,152.3 million (compared to re-presented €3,314.6 million in 2010), operating cash flow from financing activities of €8.6 million (compared to re-presented -€14.1 million in 2010) and operating cash flow from discontinued operations of €192.0 million (compared to re-presented €418.3 million in 2010).

9.3.2 Net investment flows

Net investment flows for the years ended December 31, 2011 and 2010 break down as follows

(€ million)	Year ended December 31, 2011	Year ended December 31, 2010
Net cash from/(used in) investing activities in the Consolidated cash flow statement	**(1,138)**	**(1,817)**
New operating financial assets	(3)	(6)
Industrial investments	(43)	(24)
Financial investments	(40)	(135)
Transactions with non-controlling interests: partial purchases	(54)	(92)
Industrial and financial divestitures	7	248
Transactions with non-controlling interests: partial sales	32	184
Dividends received	(12)	(13)
Increase/(decrease) in receivables and other financial assets	53	(41)
Net cash from/(used in) investing activities in the Statement of change in net financial debt	**(1,198)**	**(1,696)**
Issues of share capital subscribed by the non-controlling interests	49	105
Total Net Investments	**(1,149)**	**(1,591)**

9.3.2.1 Net investments

Year ended December 31, 2011:

(€ million)	Water	Environmental Services	Energy Services	Transportation	Other	Total
Industrial investments [(1)]	655	823	549	209	65	2,301
Financial investments [(2)]	28	92	267	12	13	412
New operating financial assets	200	47	100	20	-	367
Transactions with non-controlling interests: partial purchases	1	44	8	1	-	54
Total Gross Investments	**884**	**1,006**	**924**	**242**	**78**	**3,134**
Industrial divestitures	(40)	(54)	(17)	(56)	(2)	(169)
Financial divestitures [(3)]	(144)	(325)	(213)	(62)	(550)	(1,294)
Transactions with non-controlling interests: partial sales	-	-	(32)	-	-	(32)
Issues of share capital subscribed by the non-controlling interests	-	-	(48)	-	(1)	(49)
Total divestitures	**(184)**	**(379)**	**(310)**	**(118)**	**(553)**	**(1,544)**
Principal payments on operating financial assets	(200)	(79)	(145)	(16)	(1)	(441)
Total Net Investments	**500**	**548**	**469**	**108**	**(476)**	**1,149**

(1) Including assets purchased under finance leases.

(2) Including cash and cash equivalents of companies acquired.

(3) Including cash and cash equivalents of companies divested.

Year ended December 31, 2010:

(€ million)	Water	Environmental services	Energy Services	Transportation	Other	Total
Industrial investments [(1)]	713	647	355	339	54	2,108
Financial investments [(2)]	306	61	179	3	12	561
New operating financial assets	303	75	87	30	-	495
Transactions with non-controlling interests: partial purchases	-	-	90	1	1	92
Total Gross Investments	**1,322**	**783**	**711**	**373**	**67**	**3,256**
Industrial divestitures	(52)	(51)	(11)	(89)	(2)	(205)
Financial divestitures [(3)]	(398)	(181)	(161)	(7)	-	(747)
Transactions with non-controlling interests: partial sales	-	-	(183)	(1)	-	(184)
Issues of share capital subscribed by the non-controlling interests	(96)	(4)	(3)	-	(2)	(105)
Total divestitures	**(546)**	**(236)**	**(358)**	**(97)**	**(4)**	**(1,241)**
Principal payments on operating financial assets	(192)	(43)	(156)	(33)	-	(424)
Total Net Investments	**584**	**504**	**197**	**243**	**63**	**1,591**

(1) Including assets purchased under finance leases.

(2) Including cash and cash equivalents of companies acquired.

(3) Including cash and cash equivalents of companies divested.

The Company continues to apply selective investment criteria, while maintiaining industrial investments as required by contractual terms or required maintenance.

(i) Industrial investments

Industrial investments (including assets purchased under finance leases) amounted to €2,301 million in 2011 compared to €2,108 million in 2010 and break down as follows:

- €655 million in the Water Division (down 8.1% on 2010), including €435 million in growth investments and €220 million in maintenance-related investments (€233 million in 2010). Growth investments in 2010 mainly concerned concession assets in France and Eastern Europe (primarily the Sofia contract);
- €823 million in the Environmental Services Division (up 27.2% on 2010), including €285 million in growth investments and €538 million in maintenance-related investments (€471 million in 2010). The increase in industrial investments mainly concerned new waste management and recycling contracts in the United Kingdom and various investments in the hazardous waste sector in France and North America;
- €549 million in the Energy Services Division (up 54.6% on 2010), including €418 million in growth investments and €131 million in maintenance-related investments (€107 million in 2010). The increase in industrial investments mainly concerned new biomass projects in Continental Europe and France;
- €209 million in the Transportation Division (down 38.3% on 2010), including €24 million in growth investments and €185 million in maintenance-related investments (€244 million in 2010). The amount of industrial investments takes into account a greater reliance on operating leases.

Maintenance-related investments totaled €1,094 million in 2011 (3.7% of revenue), compared to €1,075 million in 2010 (3.7% of revenue).

(ii) Financial investments

Financial investments totaled €412 million in 2011, compared to €561 million in 2010. In December 2011, financial investments primarily concerned the acquisition of the Warsaw district heating network in the Energy Services Division for an enterprise value of €227 million (Group share).

The main financial investments in 2010 concerned:

- the acquisition of certain United Utilities assets in Europe by Veolia Water for an enterprise value of €193 million;
- the acquisition of New World Resources Energy (which since changed its name to Dalkia Industry CZ) by Dalkia in the Czech Republic for an enterprise value of €97 million;
- the acquisition of shareholdings in certain companies jointly held with Suez Environnement following the redistribution completed on March 22, 2010.

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

New operating financial assets totaled €367 million in 2011 compared to €495 million in 2010 and break down as follows:

- €200 million in the Water Division, mainly new operating financial assets under the Berlin contract;
- €100 million in the Energy Services Division, comprising various cogeneration investments in France.

(iv) Transactions with non-controlling interests: partial purchases

Partial purchases with non-controlling interests where there is no change in control totaled €54 million in 2011 and mainly concerned the buy-out of residual minority interests in Italy in the Environmental Services Division prior to the voluntary liquidation.

(v) Industrial and financial divestitures

Industrial and financial divestitures amounted to €1,463 million, compared to €952 million in 2010, and break down as follows:

- industrial divestitures of €169 million, including €54 million in the Environmental Services Division and €56 million in the Transportation Division;
- financial divestitures of €1,294 million, including:
  - the Veolia Transdev combination, which reduced Company net financial debt by €550 million in the first quarter of 2011, primarily due to the refinancing of the new entity by both Veolia Environnement and the Caisse des dépôts et consignations,
  - the activities of the Energy Services Division in Germany for an enterprise value of €29 million (Group share),
  - transportation activities in Norway for an enterprise value of €36 million (Group share),
  - Environmental Services Division recycling activities in Norway,
  - the household assistance services business ("Veolia Habitat Services" or Proxiserve) for an enterprise value of €118 million (Group share),
  - cogeneration operations in Estonia in the Energy Services Division for an enterprise value of €69 million (Group share),
  - the residual 15% stake in Dalkia Usti nad Labem to CEZ Group for an enterprise value of €26 million (Group share).

(vi) Transactions with non-controlling interests: partial sales

Partial sales with non-controlling interests where there is no change in control totaled €32 million in 2011 and concerned the sale of 5% of Dalkia Ceska Republica to J&T Group in May 2011.

(vii) Principal payments on operating financial assets

Principal payments on operating financial assets amounted to €441 million in 2011 (including €200 million in the Water Division and €145 million in the Energy Services Division), compared to €424 million in 2010.

(viii) Issues of share capital subscribed by the non-controlling interests

Issues of share capital subscribed by the non-controlling interests totaled €49 million in 2011, compared to €105 million in 2010 and mainly concerned the Energy Services Division, following the acquisition of an interest in Dalkia Eastern Europe by the International Financial Corporation and the European Bank for Reconstruction and Development in June 2011.

9.3.3 Working capital

The increase in working capital requirements, which negatively affected net cash from operating activities by €41 million for the year ended December 31, 2011, was due to:

- in the Works business in the Water Division:
  - a decrease in warranty period liabilities on seawater desalination contracts in the Middle East, and
  - an increase in receivables tied to activity growth in Brazil, Australia and Poland;
- the new operating terms and conditions of the contract with SEDIF (Syndicat des Eaux d'Ile de France);
- slower payment cycles for certain customers, particularly local authorities in certain countries.

9.3.4 Free Cash Flow

The Company monitors the free cash flow indicator, as defined in Section 7.2. The calculation of this indicator for the year ended December 31, 2011 is presented in Section 3.

Free cash flow for the year ended December 31, 2011 (after payment of the dividend) is therefore €438 million, compared to €409 million in 2010.

This increase between 2010 and 2011 was due to:

- a reduction in operating cash flow before changes in working capital, related to the downturn in operations and the impact of divestitures,
- control over maintenance-related investments in 2011 and a selective growth investment policy (acquisition of SPEC, waste-to-energy facilities in the United Kingdom, etc.),
- a €1 billion divestiture program to which must be added the impact of the Veolia Transdev combination which reduced the Company's net financial debt by €550 million,
- relative stability of the working capital requirements between 2010 and 2011,
- a larger percentage of the dividend paid in shares in 2011 compared to 2010: 86% of the dividend was paid in cash in 2010 compared to only 35% in 2011.

9.3.5 Net cash from (used in) financing activities

Net cash from (used in) financing activities in the Statement of change in net financial debt for the years ended December 31, 2011 and 2010 breaks down as follows:

(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010**
Issues of share capital subscribed by the non-controlling interests	49	105
Other share capital changes including issue of share capital by VE SA	2	32
Dividends paid	(547)	(735)
Net interest paid	(771)	(808)
Net cash from (used in) financing activities	**(1,267)**	**(1,406)**

Net cash used in financing activities in the Statement of change in net financial debt totaled €1,267 million in 2011, compared to €1,406 million in 2010. This variation is due to the larger percentage of dividends paid in shares in 2011 compared to 2010.

Net cash from (used in) financing activities in the Consolidated cash flow statement for the years ended December 31, 2011 and 2010 breaks down as follows:

(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010**
Net increase/(decrease) in current borrowings	(534)	(938)
New non-current borrowings and other debt	745	538
Principal payments on non-current borrowings and other debt	(315)	(149)
Issues of share capital subscribed by the non-controlling interests	3	129
Other share capital changes	2	8
Dividends paid	(547)	(735)
Net interest paid	(754)	(822)
Transactions with non-controlling interests: partial purchases	(54)	(92)
Transactions with non-controlling interests: partial sales	78	184
Net cash from (used in) financing activities	**(1,376)**	**(1,877)**

Net cash used in financing activities in the Consolidated cash flow statement totaled €1,376 million in 2011, compared to €1,877 million in 2010.

- The decrease in borrowings in 2011 includes the repayment of the Euro/PLN syndicated credit facility in the amount of €346.5 million in April 2011;
- New non-current borrowings and other debt include the new syndicated credit facility detailed in Section 3.7.

For more details on the Company's financing policy, please refer to Section 3.7 "External financing."

9.3.6 Other changes

9.3.6.1 Increase/(decrease) in receivables and other financial assets

The decrease of €53 million is mainly due to the increase in the non-group share of loans to Dalkia International and its subsidiaries granted by the Company in 2011 and the pre-financing of locomotives in the Transportation Division.

9.3.6.2 Dividends paid

Dividends paid include dividends paid by the parent company of €203 million (€587 million net of the share dividend distribution of €384 million) and dividends paid to non-controlling interests of €344 million.

9.3.7 External financing

9.3.7.1 Rating agencies

As of December 31, 2011, Moody's and Standard & Poor's rated Veolia Environnement SA as follows:

	Short-term	Long-term	Outlook	Recent events
Standard and Poor's	A-2	BBB+	Stable	On September 14, 2011, Standard and Poor's confirmed the ratings assigned to Veolia Environnement on October 3, 2005 and the stable outlook assigned on April 21, 2010.
Moody's	P-2	A3	Rating placed on negative watch	On April 18, 2011, Moody's confirmed the ratings assigned to Veolia Environment on June 27, 2005 and upgraded the negative outlook assigned on March 26, 2009 to stable. On December 13, 2011, Moody's placed the A3 rating on negative watch, with a view to a potential downgrade.

On February 7, 2012, the financial ratings agency, Moody's, downgraded Veolia Environnement's long-term credit rating from "A3" to "Baa1", with a stable outlook. The short-term credit rating remains unchanged at P-2.

9.3.7.2 Main events

Veolia Environnement signed two syndicated credit facilities on April 7, 2011: a 5-year €2.5 billion multi-currency credit facility and a 3-year €500 million credit facility available for drawdown in Polish zloty, Czech crown and Hungarian forint (drawn in Polish zloty for a euro-equivalent of €307.3 million as of December 31, 2011). Both facilities include two one-year extension options. These facilities refinance in advance the €4 billion multi-currency syndicated credit facility held by Veolia Environnement.

During the fourth quarter of 2011, Veolia Environnement performed partial buybacks of certain bond issues on the secondary market:

- the USD bond issue paying a coupon of 5.25% and maturing in June 2013 in the amount of USD 210 million, and
- the EUR bond issue paying a coupon of 4.875% and maturing in May 2013 in the amount of €56 million.

These buybacks bring remaining outstanding amounts on these bond issues to USD 490 million and €500 million respectively.

Subsequent events:

On January 9, 2012, Veolia Environnement SA sent a notice of early redemption to all holders of the U.S. private placement performed in January 2003. Early redemption was effectively performed on February 9, for a euro-equivalent of €350.2 million.

9.3.7.3 Liquidity position

Liquid assets of the Company as of December 31, 2011 break down as follows:

(€ million)	**As of December 31, 2011**	**As of December 31, 2010**
Veolia Environnement:		
Undrawn MT syndicated loan facility	2,692.7	3,654.5
Undrawn MT bilateral credit lines	700.0	1,000.0
Undrawn ST bilateral credit lines	300.0	100.0
Letter of credit facility	483.0	467.7
Cash and cash equivalents	4,283.3	3,680.8
Subsidiaries:		
Cash and cash equivalents	1,440.6	1,726.0
Total liquid assets	**9,899.6**	**10,629.0**
Current debts and bank overdrafts and other cash position items		
Current debts	3,942.3	2,827.1
Bank overdrafts and other cash position items	440.2	387.0
Total current debts and bank overdrafts and other cash position items	**4,382.5**	**3,214.1**
Total liquid assets net of current debts and bank overdrafts and other cash position items	**5,517.1**	**7,414.9**

Veolia Environnement may draw on the multi-currency syndicated credit facility and all credit lines at any time.

Undrawn MT syndicated loan facilities

Veolia Environnement signed two syndicated credit facilities on April 7, 2011: a 5-year €2.5 billion multi-currency credit facility and a 3-year €500 million credit facility available for drawdown in Polish zloty, Czech crown and Hungarian forint. This facility was drawn in Polish zloty for a euro-equivalent of €307.3 million as of December 31, 2011.

Bilateral credit lines

Undrawn credit lines as of December 31, 2011 are as follows:

Bank	Maturity	Amount *(€ million)*
Société Générale	12/29/2015	150
Banco Santander	08/19/2015	100
Bank of Tokyo-Mitsubishi	10/01/2015	150
CM CIC	12/17/2013	100
Commerzbank	12/10/2013	100
CACIB	04/16/2013	100
NATIXIS	03/31/2012	150
BNP Paribas	03/02/2012	150
Total		**1,000**

Letter of credit facility

The portion of the U.S.$1.25 billion U.S. letters of credit facility signed on November 22, 2010 that may be drawn in cash is capped at U.S.$625 million, i.e. half of the facility. As of December 31, 2011, the facility is drawn U.S.$431.2 million in the form of letters of credit. The portion that may be drawn in cash is U.S.$625 million (€483 million euro equivalent) and is undrawn and therefore recorded in the liquidity table.

Cash and cash equivalents of VE SA

Veolia Environnement SA cash surpluses (€4,283.3 million as of December 31, 2011) are managed with a profitability objective close to that of the money market, avoiding exposure to capital risk and maintaining a low level of volatility. Cash equivalents are mainly invested in UCITS (mutual funds), negotiable debt securities (bank certificates of deposit and commercial paper) and related instruments.

9.3.7.4 Net financial debt structure

The net financial debt structure as of December 31, 2011 is as follows:

(€ million)	As of December 31, 2011	As of December 31, 2010
Non-current borrowings	16,706.7	17,896.1
Current borrowings	3,942.3	2,827.1
Bank overdrafts and other cash position items	440.2	387.0
Sub-total borrowings	**21,089.2**	**21,110.2**
Cash and cash equivalents	(5,723.9)	(5,406.8)
Fair value gains/losses on hedge derivatives	(635.4)	(485.4)
Net financial debt	**14,729.9**	**15,218.0**

9.3.7.5 Maturity of non-current borrowings

Non-current borrowings of the Company fall due as follows as of December 31, 2011:

(€ million)	Amount	Maturity of non-current borrowings		
		2 to 3 years	4 to 5 years	More than 5 years
Bonds	13,076.2	2,400.9	2,127.1	8,548.2
Bank borrowings	3,630.5	1,050.2	493.4	2,086.9
Non-current borrowings	**16,706.7**	**3,451.1**	**2,620.5**	**10,635.1**

9.3.7.6 Information on early debt repayment clauses

Veolia Environnement SA debt

Bank financing:

The legal documentation for syndicated loans (particularly the syndicated credit facility signed in April 2011 for an aggregate amount of €3 billion) and bilateral credit lines contracted by Veolia Environnement SA do not contain any financial covenants, i.e. obligations to comply with a debt coverage ratio or interest ratio or a minimum credit rating which, in the event of non-compliance, could lead to the early repayment of the relevant financing.

Bond financing:

The private placement performed in the United States in January 2003 is the only source of bond financing that contains financial covenants (debt coverage ratio < 5.3 and interest coverage ratio > 3.2). It was redeemed early in full on February 9, 2012 for a euro-equivalent of €350.2 million.

The legal documentation for the other notes issued by the Company under its EMTN program (€11.6 billion outstanding as of December 31, 2011) does not contain any financial covenants.

Subsidiary debt:

The project financing borne by specific companies or the financing granted by multilateral development banks to the Group's subsidiaries may contain financial covenants, that is a commitment to comply with a debt coverage ratio, interest coverage ratio or a minimum credit rating, where noncompliance could lead to the early call of the relevant financing.

Furthermore, as of December 31, 2011, two project financing agreements in Italy with outstandings of €71 million and €68 million, respectively, each contained one covenant that was not complied with. They were reclassified in current borrowings.

9.4 Return on capital employed (ROCE)

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

The return on capital employed is defined in Section 9.7.2 below.

Net income from operations is calculated as follows:

(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010 re-presented**
Adjusted operating income	1,700.5	1,891.4
+ Share of net income of associates	12.3	18.0
- Adjusted income tax expense [(1)]	(355.4)	(278.7)
- Revenue from operating financial assets	(383.7)	(380.8)
+ Income tax expense allocated to operating financial assets	83.6	82.4
Net income from operations	**1,057.3**	**1,332.3**

(1) *In 2004, the financial restructuring operations that followed the divestiture of the U.S. activities of the Water Division generated tax losses which were recognized in the consolidated balance sheet. Given its exceptional nature, the resulting credit of €138.4 million recognized in net income was eliminated from the calculation of ROCE. The utilization of these tax losses in 2009 and 2010 generated charges of €29.0 million and €23.1 million, respectively, which were similarly eliminated from the calculation of ROCE. No adjustments were recorded in 2011 in respect of these losses because they were fully utilized as of December 31, 2011.*

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

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

Capital employed in 2011 includes the capital employed of companies classified in assets held for sale as of December 31, 2011.

Capital employed is calculated as follows:

(€ million)	**As of December 31, 2011**	**As of December 31, 2010 re-presented**	**As of December 31, 2009 re-presented**
Intangible assets and property, plant and equipment, net	14,398.2	15,373.7	14,441.8
Goodwill, net of impairment	5,795.9	6,840.2	6,624.6
Investments in associates	325.2	311.7	268.5
Operating and non-operating working capital requirements, net	(777.4)	(506.4)	(220.8)
Net derivative instruments and other *(1)*	(111.0)	(71.3)	(70.5)
Provisions	(2,681.9)	(3,003.8)	(3,040.3)
Capital employed of companies classified in assets and liabilities held for sale	98.2	76.4	258.0
Capital employed	**17,047.2**	**19,020.5**	**18,261.3**
Impact of operations discontinued in 2010 and other restatements *(2)*	**-**	**90.3**	**(209.1)**
2010 published capital employed	**-**	**19,110.8**	**18,052.2**
Impact of operations discontinued in 2011 and other restatements *(3)*		**(1,888.4)**	**(1,763.3)**
2011 published capital employed	**17,047.2**	**17,222.4**	**16,288.9**
2011 average capital employed	**17,134.8**	**16,755.6**	

(1) Excluding derivatives hedging the fair value of debt in the amount of €653.9 million as of December 31, 2011 €531.4 million as of December 31, 2010 and €343.2 million as of December 31, 2009.

(2) Adjustments mainly include the impact of the capital employed of discontinued operations on 2010 published figures, that is Water Division activities in Gabon and the Netherlands, Environmental Services Division activities in Norway, Dalkia activities in Germany and the reclassification of Renewable Energy activities in the Energy Services Division to continuing activities; as well as the correction of the impact of the Marine Services fraud in the Environmental Services Division.

(3) Adjustments mainly include the impact of the capital employed of discontinued operations in 2011 that is Citelum activities in the Energy Services Division, the "Proxiserve" household assistance services business in the Water and Energy Services Divisions, the entire Transportation Division and the reclassification of Water Division activities in Gabon to continuing operations; as well as the correction of the impact of the Marine Services fraud in the Environmental Services Division.

The Company's return on capital employed after tax (ROCE) is as follows:

(€ million)	**Net income from operations**	**Average capital employed**	**ROCE after tax**
2011	**1,057.3**	**17,134.8**	**6.2%**
2010	1,332.3	16,755.6	8.0%

The decrease in the return on capital employed between 2011 and 2010 was due to the downturn in operational performance in 2011, which was particularly marked in Southern Europe, and to a lesser extent the impact of divestitures.

Capital employed breaks down by Division and country as follows:

Year ended December 31, 2011 (€ million)	France	Germany	United Kingdom	Central and Eastern Europe	Other European countries	United States	Oceania	Asia	Middle East	Rest of the world	Total
Water	1,164.8	539.2	1,350.6	903.3	480.2	136.3	50.4	1,810.4	(15.2)	322.5	6,742.5
Environmental Services	1,453.0	735.3	1,148.2	229.3	231.0	1,268.7	371.9	178.6	77.5	169.5	5,863.0
Energy Services	1,067.9	6.6	113.3	1,495.7	516.1	515.1	10.0	193.9	35.5	39.3	3,993.4
Unallocated amounts (1)	(11.6)	-	(27.7)	3.6	176.2	196.4	-	-	(1.9)	113.3	448.3
Segment assets	**3,674.1**	**1,281.1**	**2,584.4**	**2,631.9**	**1,403.5**	**2,116.5**	**432.3**	**2,182.9**	**95.9**	**644.6**	**17,047.2**

Year ended December 31, 2010 re-presented (€ million)	France	Germany	United Kingdom	Central and Eastern Europe	Other European countries	United States	Oceania	Asia	Middle East	Rest of the world	Total
Water	1,050.4	595.3	1,284.6	852.0	578.3	196.0	14.2	1,633.9	14.5	378.9	6,598.1
Environmental Services	1,462.4	707.8	1,061.8	236.7	427.1	1,212.1	369.6	180.9	68.2	167.9	5,894.5
Energy Services	1,050.6	(0.6)	87.1	1,309.7	725.3	654.1	11.6	129.0	28.8	46.6	4,042.2
Unallocated amounts (1)	135.6	-	(49.6)	3.7	169.7	342.3	-	-	(0.6)	86.5	687.6
Segment assets	**3,699.0**	**1,302.5**	**2,383.9**	**2,402.1**	**1,900.4**	**2,404.5**	**395.4**	**1,943.8**	**110.9**	**679.9**	**17,222.4**

Change (€ million)	France	Germany	United Kingdom	Central and Eastern Europe	Other European countries	United States	Oceania	Asia	Middle East	Rest of the world	Total
Water	114.4	(56.1)	66.0	51.3	(98.1)	(59.7)	36.2	176.5	(29.7)	(56.4)	144.4
Environmental Services	(9.4)	27.5	86.4	(7.4)	(196.1)	56.6	2.3	(2.3)	9.3	1.6	(31.5)
Energy Services	17.3	7.2	26.2	186.0	(209.2)	(139.0)	(1.6)	64.9	6.7	(7.3)	(48.8)
Unallocated amounts (1)	(147.2)	-	21.9	(0.1)	6.5	(145.9)	-	-	(1.3)	26.8	(239.3)
Segment assets	**(24.9)**	**(21.4)**	**200.5**	**229.8**	**(496.9)**	**(288.0)**	**36.9**	**239.1**	**(15.0)**	**(35.3)**	**(175.2)**

(1) Including holding companies, other central entities and Proactiva.

9.5 Statutory auditors' fees

In 2011 and 2010, Veolia Environnement and its fully consolidated subsidiaries paid the following fees to its statutory auditors for services rendered in connection with all consolidated companies:

	KPMG Network				Ernst & Young Network			
	Amount (excl. taxes)		Percentage		Amount (excl. taxes)		Percentage	
	2011	2010	2011	2010	2011	2010	2011	2010
Statutory audit, certification, audit of company and consolidated accounts (1)	12.3	15.0	82.0%	89.8%	11.2	15.1	83.6%	83.9%
- Veolia Environnement:	1.2	1.2	8.0%	7.2%	1.0	1.0	7.5%	5.6%
- Fully-consolidated subsidiaries	11.1	13.8	74.0%	82.6%	10.2	14.1	76.1%	78.3%
Other diligences and services directly related to the statutory audit engagement (2)	2.7	1.7	18.0%	10.2%	2.2	2.9	16.4%	16.1%
- Veolia Environnement:	1.2	0.4	8.0%	2.4%	0.9	0.6	6.7%	3.3%
- Fully-consolidated subsidiaries	1.5	1.3	10.0%	7.8%	1.3	2.3	9.7%	12.8%
Sub-total 1	**15.0**	**16.7**	**100%**	**100%**	**13.4**	**18.0**	**100%**	**100%**
Other services rendered by the networks to fully consolidated subsidiaries (3)								
- Legal, tax, employee-related								
- Other								
Sub-total 2								
Total (1+2)	**15.0**	**16.7**	**100%**	**100%**	**13.4**	**18.0**	**100%**	**100%**

(1) Including services provided by independent experts and statutory auditor network members at the request of the statutory auditors for the purpose of the audit.

(2) Diligence and services rendered to Veolia Environnement or its subsidiaries by the statutory auditors or members of their networks.

(3) Non-audit services rendered by network members to Veolia Environnement subsidiaries.

9.6 Forward-looking Information and objectives

For the period 2012-2013, Veolia Environnement's objective is to sell €5 billion in assets, reduce its net financial debt below €12 billion[1], reduce gross operating costs by €220 million and net operating costs by €120 million (in 2013) and pay a dividend in 2012 and 2013 of €0.70 per share, in respect of fiscal years 2011 and 2012.

After 2013, the Company aims, mid-cycle, for organic revenue growth of over 3% per annum, growth in adjusted operating cash flow of over 5% per annum, a debt leverage ratio (net financial debt/(Operating cash flow before changes in working capital + principal payments on operating financial assets) of 3.0x[2] and a return to a dividend payout ratio in line with the Company's historical average.

(1) Excluding foreign exchange rates impact.

(2) +/- 5%

9.7 Appendices to the Operating and Financial Review

9.7.1 2010 Reconciliation of previously published and re-presented data for the year ended December 31, 2010 (revenue, adjusted operating cash flow and operating income)

Reconciliation of previously published and re-presented consolidated revenue for the year ended December 31, 2010 *(€ million)*:

Previously published consolidated revenue for the year ended December 31, 2010	**34,786.6**
Reclassification to net income from discontinued operations of Veolia Habitat Services and Citelum; and reclassification to continuing operations of Water Division activities in Gabon and Pinellas waste-to-energy activities in the United States in the Environmental Services Division	(258,3)
Impact of the reclassification to net income from discontinued operations of Transportation Division activities following the Veolia Transdev combination	(5,764.7)
Correction of the impact of the Marine Services fraud	+0.6
Sub-total	(6,022.4)
Re-presented consolidated revenue for the year ended December 31, 2010	**28,764.2**

Reconciliation of previously published and re-presented consolidated adjusted operating cash flow for the year ended December 31, 2010 *(€ million)*:

Previously published consolidated adjusted operating cash flow for the year ended December 31, 2010	**3,653.8**
Reclassification to net income from discontinued operations of Veolia Habitat Services and Citelum; and reclassification to continuing operations of Water Division activities in Gabon and Pinellas waste-to-energy activities in the United States in the Environmental Services Division	12.8
Impact of the reclassification to net income from discontinued operations of Transportation Division activities following the Veolia Transdev combination	(329.2)
Correction of the impact of the Marine Services fraud	(22.8)
Sub-total	(339.2)
Re-presented consolidated adjusted operating cash flow for the year ended December 31, 2010	**3,314.6**

Reconciliation of previously published and re-presented consolidated operating income for the year ended December 31, 2010 *(€ million)***:**

Previously published consolidated operating income for the year ended December 31, 2010	**2,120.3**
Reclassification to net income from discontinued operations of Veolia Habitat Services and Citelum; and reclassification to continuing operations of Water Division activities in Gabon and Pinellas waste-to-energy activities in the United States in the Environmental Services Division	4.1
Impact of the reclassification to net income from discontinued operations of Transportation Division activities following the Veolia Transdev combination	(119.7)
Correction of the impact of the Marine Services fraud	(22.6)
Sub-total	(138.2)
Re-presented consolidated operating income for the year ended December 31, 2010	**1,982.1**

9.7.2 Accounting definitions

GAAP (Generally Accepted Accounting Principles) indicators

Operating cash flow before changes in working capital, as presented in the Consolidated cash flow statement, is comprised of three components: operating cash flow from operating activities (referred to as "adjusted operating cash flow" and known in French as "capacité d'autofinancement opérationnelle") consisting of operating income and expenses received and paid ("cash"), operating cash flow from financing activities including cash financial items relating to other financial income and expenses and operating cash flow from discontinued operations composed of cash operating and financial income and expense items classified in net income from discontinued operations pursuant to IFRS 5.

The operating income margin is defined as the operating income as a percentage of revenue from continuing operations.

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

Net income (loss) from discontinued operations is the total of income and expenses, net of tax, related to businesses sold or in the process of being sold, in accordance with IFRS 5.

Non-GAAP indicators

In addition, the Group uses non-GAAP indicators for management purposes. These are relevant indicators of the Group's operating and financial performance and can be defined as follows:

- The term "internal growth" (or "growth at constant consolidation scope and exchange rates") includes growth resulting from:
  - the expansion of an existing contract, primarily resulting from an increase in prices and/or volumes distributed or processed,
  - new contracts,
  - the acquisition of operating assets allocated to a particular contract or project:
- The term "external growth" includes growth through acquisitions (performed in the period or which had only partial effect in the prior period), net of divestitures, of entities and/or assets deployed in different markets and/or containing a portfolio of more than one contract;
- The term "change at constant exchange rates" represents the change resulting from the application of exchange rates of the prior period to the current period, all other things being equal;

- Net financial debt represents gross financial debt (non-current borrowings, current borrowings, bank overdrafts and other cash position items), net of cash and cash equivalents and excluding fair value adjustments to derivatives hedging debt;
- The financing rate is defined as the ratio of net finance costs (excluding fair value adjustments to instruments not qualifying for hedge accounting) to average monthly net financial debt for the period;
- The terms adjusted operating income and adjusted net income attributable to owners of the Company correspond respectively to operating income and net income attributable to owners of the Company adjusted for impairment of goodwill, negative goodwill recognized in net income and certain other items defined as non-recurring. An accounting item is non-recurring if it is unlikely to recur during each period and if it substantially changes the economics of one or more cash-generating units;
- The adjusted operating cash flow margin is defined as the ratio of adjusted operating cash flow to revenue from continuing operations;
- The adjusted operating income margin is defined as the adjusted operating income as a percentage of revenue from continuing operations;
- Free Cash Flow represents cash generated (sum of operating cash flow before changes in working capital and principal payments on operating financial assets) net of the cash component of the following items: (i) changes in working capital for operations, (ii) operations involving equity (share capital movements, dividends paid and received), (iii) investments net of divestitures (including the change in receivables and other financial assets), (iv) net financial interest paid and (v) tax paid;
- The term net investment, as presented in the Statement of change in net financial debt, includes industrial investments net of industrial asset disposals (purchases of intangible assets and property, plant and equipment net of disposals), financial investment net of financial divestitures (purchases of financial assets net of divestitures, including the net financial debt of companies entering or leaving the scope of consolidation), partial purchases net of sales resulting from transactions with non-controlling interests where there is no change in control, new operating financial assets and principal payments on operating financial assets. The net investment concept also takes into account issues of share capital by non-controlling interests;
- The Group considers growth investments, which generate additional cash flows, separately from maintenance-related investments, which reflect the replacement of equipment and installations used by the Group;
- The return on capital employed is defined as the ratio of:
  - net income from operations after tax, plus the share of net income from associates, less net operational income, after tax, from operating financial assets (return on operating financial assets net of tax allocated to this activity), to
  - average capital employed during the year,
  - capital employed excludes operating financial assets and net income from operations excludes the related income.

10 Cash flow and capital

Information on cash flows, working capital requirements and investments is set forth in Chapter 9, Sections 9.3.1 to 9.3.6 of this registration document and in Chapter 20, Section 20.1, Notes 14, 15 and 32 to the consolidated financial statements.

Information on borrowing terms and conditions and Veolia Environnement's financing structure is set forth in this registration document in Chapter 9, Section 9.3.7 and Chapter 20, Section 20.1, Notes 15, 18, 21 and 22 to the consolidated financial statements.

11 Research and innovation, patents and licenses

11.1 Research and innovation

11.1.1 Research and Innovation: a priority for Veolia Environnement

Veolia Environnement's activities are at the crossroads of several major challenges facing the modern world: demographic explosion and urbanization, increasing rarity of resources, access to water, fighting climatic change. The solution to these challenges requires a global industrial and technological approach. This transversal approach lies at the heart of Veolia Environnement's Research and Innovation (R&I) strategy.

With today's technologies, these challenges are already lost. It is therefore by focusing fully on the inventive-capacity of its research teams that the Group plans to rise to the environmental challenge, by proposing innovative solutions offering high economic and environmental performance at an affordable cost.

The four-pronged approach of the Veolia Environnement R&I Department comprises: (i) managing and preserving resources, (ii) limiting the impact on the environment, (iii) improving the quality of life of populations and (iv) developing renewable energies sources. Fighting against climate change also occupies a leading place in this framework. Research efforts are concentrated on optimizing energy consumption at Group installations, developing alternative energy sources (bioenergies, biomass, waste-to-energy, alternative fuels), the desalination of sea water and the improvement of treatment processes, monitoring the quality of drinking water, microbiological prevention, the recycling and recovery of waste, the optimization of urban transportation and the intelligent management of cities and their different flows through information technology.

In each of these areas, the know-how and technologies developed by the Group set it apart from the competition. Thanks to their complementary nature, they are also a unique asset enabling the Group to innovate at the crossroads between its businesses and develop the environmental services of the future.

These innovation efforts are supported by a network of international experts renowned for their excellence. Strengthened by this knowledge of markets and needs, the implementation of research programs at test sites around the world enables Veolia Environnement to bring creative solutions to specific local problems and contexts that may be adapted to other regions of the world.

Innovation in environmental services offers an essential competitive edge when responding to calls for tenders, as well as clearly contributing to the development of a more virtuous economy.

11.1.2 The organization of Research & Innovation activities

The organization of R&I activities seeks to break down barriers between research units and pool expertise and resources across transversal subjects. The scientific and technical teams of the Divisions report directly to a single management structure comprising seven departments representing the Group's main areas of expertise. For example, water and waste biologists work together directly. By organizing its teams by area of expertise, the R&I Department seeks to develop scientific synergies and thereby favor the emergence of ground-breaking solutions, innovate at the crossroads between the businesses and facilitate the development of outside partnerships.

Interaction between Veolia Environnement's different activities is constantly increasing - water and waste, waste and energy, energy and transportation, etc. – leading to the implementation of a more unified methodology and research team structure: improved information sharing, pooling of expertise, creation of transversal programs. Already, wastewater treatment plants have the means for energy self-sufficiency and to produce bioplastics; treated water can be reused to power energy turbines and waste is used to produce electricity.

Organized into eight areas, the research programs reflect the eight major technological challenges facing the Group: Bioresources; Waste collection, sorting and recovery; Drinking water; Wastewater; Building and network management; Environmental and health performance; Energy production and efficiency and Transportation, Ecosystem Electric Vehicle.

These programs are carried out in a spirit of innovation, in close conjunction with the Divisions. This synergy and openness strengthens our ability to respond to current and future challenges facing the Group.

In addition, to give our experts sufficient time to concentrate on scientific aspects, a programs department is responsible for defining lines of research, monitoring each project and ensuring the roll-out of innovations in the field.

A Watch and Innovation Department was set-up in 2010. It aims for the more systematic identification of innovations perfected around the world and likely to be developed and integrated into Veolia Environnement's activities. It also seeks to encourage an "open innovation" approach, primarily with cleantech startups.

Each innovative solution must therefore lead to the creation of new services or an improvement in the quality of existing services: increased efficiency, yield or reliability or a decrease in impacts and costs. By intensifying its technology integration role, research activities also strengthen the difference between Veolia Environnement's offerings and those of the competition.

11.1.3 Veolia Environnement Research and Innovation Resources

Veolia Environnement's research activities are overseen by Veolia Environnement Recherche et Innovation (VERI). In 2011, these R&I activities involved nearly 900 experts worldwide (including 450 researchers and 450 on-site developers), with a total budget of approximately €111.7 million.

VERI works on behalf of all Group Divisions, as their needs are similar. In particular, all seek to solve environmental and health problems with the support of numerous tools, such as modeling and chemical and bacteriological analysis. In this way, VERI helps ensure better consistency of R&D activities with the Group's strategy.

Veolia Environnement has four main research centers in France in Rueil-Malmaison, Maisons-Laffitte, Limay and Saint-Maurice, which operate in a network as a single research center.

11.1.4 An international network of Research and Innovation officers

In 2003, Veolia Environnement set up an international network of R&I officers, to identify innovation needs in each region of the world and communicate research work. Certain research centers abroad have acquired specialized expertise and have partnered with centers in France. These research units have become showcases for Veolia Environnement's technological expertise. Locally, the Research & Innovation department provides the Group Divisions with a competitive advantage, by adapting their offerings to the specific requirements of each market. Globally, it groups together initiatives identified around the world in a pool of knowledge, enabling constant improvements in the Company's know-how and the identification of future business trends.

The management of water resources, the availability and quality of which can vary significantly, is a typical example of an area where innovation by the Research department enables technological solutions adapted to each local context to be proposed. In Germany, the Berlin Research Center (KWB) is working on hybrid solutions associating the natural environment (lake embankments) and technology (ozonation) for the production of drinking water or the refining of treated wastewater. In Milwaukee in the United States, the development of a Water Impact Index (Wii) enables a comprehensive assessment of the impact of city operations on water resources and the definition of action plans aimed at minimizing environmental pressure. In China, the majority of surface water is heavily polluted by industrial waste. In 2010, the Research and Innovation Department joined forces with a leading Chinese university, the University of Tsinghua, to open a joint research center and work on the treatment of this industrial effluent.

Innovation, is also improving existing solutions where this is preferable to their replacement. In Central Europe for example, where most heating requirements are met by coal boilers, work by the Research department contributes to the replacement of an increasing percentage of this fossil fuel by biomass, improving the carbon footprint of operations. In Germany, where solid recovered fuels (SRF) are booming, researchers have developed a measurement tool enabling a more detailed assessment of waste deposits for the production of SRF.

The Research Department relies on its foreign units and has developed a network of over 200 international partners in order to stay tuned to emerging markets and technologies and benefit from genetic and marine biology expertise. In Sweden, it joined with Anox-Kaldnes, now a subsidiary of the Group, to perfect a bio-polymer producing wastewater treatment plant, leading to the roll-out of a prototype at the Brussels wastewater treatment plant this year. In the United States, the Research Department is working with Californian companies and start-ups to bring into service quick-charge electric buses.

11.1.5 Innovation: a tried-and-tested approach

The research teams seek to provide innovative practical solutions within their areas of expertise, to improve the competitiveness of the Veolia Environnement Group. R&I is carried out as part of a tried-and-tested approach enabling technological risks to be controlled and enabling rapid progress and the creation of successful commercial applications that are both reliable and effective. The main steps in the innovation process are:

- Strict monitoring of regulations and technology, as well as the competition that enables the Group to foresee future needs and launch new research programs as quickly as possible;
- Laboratory or field tests to verify the feasibility of the research. Digital modeling is often carried out at this stage to enable operating areas to be more rapidly explored and procedures to be intensified (cost savings and efficiency gains, reduced emissions or residues, etc.);
- If the tests are successful, a prototype is built in the laboratory or on-site to evaluate and refine the technology used and also develop advanced management tools to facilitate subsequent operational roll-out;
- The next phase is the development of a pre-industrial unit to be installed at an appropriate site and operated by personnel.

At each step in the innovation process, the collaboration of various parties (research teams, university or private laboratories) is necessary and determines the successful outcome of the research project.

Veolia Environnement's R&I teams are part of a network of researchers. They forge links with basic research teams, each drawing benefit from the expertise of colleagues. While this collaboration enriches the knowledge of the Group R&I department and keeps it informed of recent developments, it also provides effective outlets for scientific progress and feedback to our partners. R&I teams also work with several top universities and participate in research programs led by national and international institutions. They also share their technological knowledge with industrial players.

11.1.6 Main Research and Innovation challenges facing Veolia Environnement

The four main challenges at the core of Veolia Environnement's current Research and Innovation are:

Managing and preserving natural resources

The sector that will be most affected by climate change is water. Research into sea water desalination processes, collection of rain water and the re-use of wastewater after treatment, is aimed at meeting the expected increase in water requirements. In order to preserve natural resources, it is also essential to find solutions to decrease consumption. The mechanization and automation of sorting processes for used materials, as well as the design of recycling processes for end-of-life products or industrial effluents, encourage in this way the re-use and recovery of materials found in waste at a competitive cost.

Limiting environmental impacts

The improvement of treatment techniques for industrial effluents and hazardous waste makes it possible to limit the dispersion of pollutants in the environment and better respect biodiversity and public health. As a global reference in environmental services, the Veolia Environnement Group must set the example with regards to reducing the impact of its activities. Current efforts are therefore focused on reducing discharges from Veolia Environnement facilities, decreasing noise and olfactory pollution and developing even cleaner means of transportation.

Improving quality of life worldwide

The perfecting of wastewater depollution and waste management systems tailored to developing countries improves the environmental safety of non-Western cities and helps prevent epidemics from spreading on a worldwide scale. It also preserves the quality of water and thus the health of those who consume it. Combined with the development of clean means of transportation, the organization of mass transportation reduces greenhouse gas emissions and atmospheric pollution. It also improves living conditions in major cities and encourages economic development in emerging countries.

Developing alternative energy sources

As carbon dioxide emissions continue exceeding the absorption capacity of the biosphere, the production of substitute fuels and biofuels, the recovery of biomass as energy, the development of industrial applications for fuel cells and the optimization of the performance of Group waste incineration plants help limit greenhouse gas emissions. These measures also help respond to the increasing global demand for energy and address the depletion of fossil fuel reserves by replacing them with clean energies.

A large majority of Veolia Environnement's research programs contribute to reducing greenhouse gas emissions, bearing witness to the Group's strong commitment to fighting climate change. Current processes seek to eliminate greenhouse gas emissions or, where this is not possible, reduce emission levels. To this end, R&I activities focus primarily on reducing emissions, improving processes and energetic efficiency and exploiting more renewable energy sources. System approaches now form an integral part of R&I work aimed at integrating the development of decentralized energy sources into the optimized management of energy utilities. At the same time, the Group is striving to implement processes to capture, store and recover CO_2 and foresee future constraints relating to climate change.

11.1.7 Progress in 2011

Open innovation: the Veolia Innovation Accelerator signed its first 7 partnerships with startups in 2011 and launched an innovation hub with the US city of Milwaukee

The Veolia Innovation Accelerator (VIA) program was launched in February 2010 to identify, assess and roll-out the best ecotechnologies proposed by start-ups, on behalf of all Group Divisions. Merely eighteen months after its launch, 300 startups have signed up to the VIA selection process. Following the announcement of the first five partnerships at the San Francisco Cleantech Forum at the beginning of the year with Ostara Nutrient Recovery Technologies Inc. (recovery of nutrients in wastewater), CoSMo (modeling and simulation of complex systems for sustainable cities), Envolure (rapid on-site assessment of wastewater and organic residue), Advanced Cyclones Systems (innovative cyclones for the treatment of smoke emissions) and Greenroad (real time driving assistance), two new partnerships were signed in the second half of 2011 with the start-ups ISD (forecasting water consumption) and Hara (managing the environmental footprint).

Upstream of these partnerships, the Veolia Innovation Accelerator continued to work on developing awareness of the program in the cleantech community and among specialized investment funds.

A more-regional version of the VIA program was tested with the US city of Milwaukee, in close conjunction with Veolia Water North America. Together with VIA, the city aims to create a water innovation hub for the testing and roll-out of clean technologies for cities. This public-private initiative comes in response to strong demand from our customers for recovery technologies and support with their sustainable development policy (for further information visit : via.veolia.com).

Public transport: the "European Bus System of the Future" project develops the information systems of tomorrow to accelerate the development of inter-modality and new digital services

Mass transportation information systems are currently compartmentalized. They consist of a variety of applications and hardware specific to each operator and region which, with only a few exceptions, cannot communicate with each other. Interconnection systems are essential if inter-modal information is to become more readily accessible, rapid, reliable and less expensive than today.

Since 2008, Veolia Environnement's Research and Innovation Department has piloted a project on intelligent transportation as part of the ESBF European project launched under the auspices of the UITP and the European Union. Veolia Environnement Research and Innovation teams have piloted the work of 23 partners and approximately 50 individuals on the data communication architecture of the bus "system", integrating the various components into a test bench and validating the operation of the overall architecture.

The results of this work were presented to all stakeholders during an EBSF event on November 18, 2011, attended by European Commission and UITP officials. This "open data" concept could be extended beyond bus systems to encompass all means of transport. It should encourage the development of new real-time digital services, such as the "predictive maintenance" service currently being tested by the Research Department and Veolia Transdev at the Burnoy site (Greater Paris), substantially decrease investment and operating costs below current levels (by 20 to 30%) and accelerate inter-modality at European level, with the definition in the long-term of international communication standards (for further information see the scientific chronicles at www.chroniquesscientifiques.veolia.com).

Renewable energies: the Optima-Pac project, which aims to optimize performance while reducing the impact of seawater heat pumps on coastline areas, was selected as part of the 11th call for projects by the FUI (Inter-ministerial Unified Fund)

In France, the Optima-Pac joint project (to Optimize the performance of seawater heat pumps and manage the impact on coastline areas) was selected as part of the 11th call for projects by the FUI (Inter-ministerial Unified Fund). This €2.2 million initiative will help identify the impact of seawater heat pumps on the marine environment. Optima-Pac was officially launched on May 5, 2011 and the consortium agreement was published at the end of the summer. This three-year project will be performed from a research site in Monaco, where several technologies of this type are currently in use.

Over 25 researchers and engineers will study the impact on marine biodiversity, define measurement bio-indicators, model and optimize pump operating cycles and model the spread of thermal plume in order to better assemble and combine the pumps.

The Group Research and Innovation Department is more specifically involved in the bio-indicator, marine life modeling and heat pump energy efficiency aspects of this program. It is also responsible for managing and coordinating the different project batches.

The Brussels wastewater treatment plant inaugurates a prototype producing bioplastic from sludge carbon

Last October, Acquiris, the Belgian subsidiary of Veolia Eau which manages the Brussels wastewater treatment plant, the largest in Belgium, presented the first prototype in the world for the production of biodegradable plastic from wastewater.

Research carried out by Veolia Eau’s Swedish subsidiary, AnoxKaldnes, in conjunction with the Veolia Environnement Research and Innovation Department, identified that during the depollution process certain bacteria used to breakdown wastewater accumulate carbon in the form of biopolymer reserves, which have similar properties to products used in the chemical industry. By reusing part of the sludge, the patented technology creates the conditions necessary for these bacteria to stock a maximum amount of biopolymers. These biopolymers are then recovered and recycled into a material that can be used, for example, by the plastics industry to manufacture plastic parts.

REVODYN: an innovative procedure for automatically regulating waste volumes entering sorting centers on conveyor belts and increasing flow through

Together, the Group Research and Innovation Department and Veolia Propreté developed the REVODYN procedure, a system which automatically regulates incoming waste flows and can be easily installed in selective collection sorting centers. This innovation combines off-the-shelf measurement equipment with the mathematical and regulatory expertise of Research Department experts. The procedure improves the stability of the height of waste on conveyor belts, enabling increased volumes to enter the sorting centers while reducing the risk of blocking or saturating the sorting equipment. The concept was developed and perfected at the CGECP site and final validation procedures prior to roll-out are currently being performed at the Bourges site.

CARBO-PRO: a new decision-making tool developed with INRA for the recovery of Residual Organic Products (ROP), based on the calculation of carbon stored in soils at the time of spreading

As for all Residual Organic Products (ROP) used for agricultural purposes (compost, sludge, digestates, manure, etc.), the addition of compost increases the amount of carbon stored in soil thereby improving its fertility. ROPs also help reduce greenhouse gas emissions by sequestrating carbon in the soil. The ability of ROPs to increase carbon stored in soil depends on the type of ROP and the treatment procedures performed prior to spreading (composting, anaerobic digestion, etc.).

The research performed together with INRA led to the development of a new tool, CARBO-PRO. Based on a range of scenarios, this decision-making tool calculates the carbon stored in soil following the spreading of ROPs and estimates the resulting improvements to certain soil properties, such as resistance to erosion, water retention capacity and nitrogen available for plants (for further information visit the CARBO-PRO website: http://carbopro.recherche.veolia.net).

ACTIFLO®: development of a range of green polymer products

Actiflo®, combining ballasted flocculation and lamellar settling, is the most compact clarification process on the market. The development of the Actiflo Turbo® range enabled the Group to offer a process even more competitive than the original and far more compact: the ground area covered is half that of its predecessor. However, in order to operate at such high speeds Actiflo® requires a certain dose of polymers and the use of standard “polyacrylamide” polymers in water treatment is subject to increasing regulation in many countries. By modifying the properties of starch to change its viscosity and charge, the Research and Innovation teams successfully developed a natural additive offering the same level of treatment performance as the synthetic polymer.

Analysis of the residual life of drinking water networks: the Russel solution helps better assess the state of cast iron pipelines and optimize their replacement

A new probe using Eddy current technology (developed by Russel) to inspect cash iron pipelines, was tested and validated at two Veolia Eau pilot sites. This differentiating technology offers real added value over the competition in Europe and Asia. By measuring the residual thickness of corroded pipelines in a network under pressure, it enables network downtime to be reduced. In addition, an air lock for introducing the probe into a network under pressure has been developed jointly by VERI and EIE (SADE subsidiary).

ADEME selects the EMIPAR project to improve understanding of the formation of fine and ultrafine particles emitted by collective and industrial boilers

At the end of 2011, the Group Research and Innovation Department took part in the EMIPAR project selected by ADEME. This initiative is carried out in conjunction with Leroux et Lotz Technologies, Ecole des Mines de Douai and the Mulhouse Risk Management and Environment Laboratory and aims to improve the analysis of final particles and nanoparticles emitted by collective and industrial boilers.

With a term of just over two years, the primary scientific aim of this project is to further the Group’s understanding of the formation of fine and ultrafine particles in industrial combustion chambers of biomass-fired boilers with a thermal output of less than 20 MW, in order to reduce emissions at the source.

This project is of major importance to the Group as, in the long-term, it should enable size specifications to be established for smoke treatment systems for the Group’s biomass-powered boilers. These specifications will ensure it is ready for increasingly strict environmental standards in this area.

11.2 Patents and licenses

See Chapter 6, Section 6.2.5 above (Intellectual property – Company Dependence).

12 Information on trends

12.1 Trends

The main trends relating to or affecting the Company's business are described in Chapters 6 and 9 above.

The events or circumstances that could reasonably have a material effect on the Company's outlook for 2012 were communicated by the Company during the Investors' Day held on December 6, 2011 (presentation available on the Company's website: www.veolia.com) and during the presentation of its 2011 annual results on March 1, 2012 (see Section 12.2 below), following the approval of the Company accounts by the Board of Directors' meeting on February 29, 2012.

12.2 Recent developments

Veolia Environnement

On January 6, 2012, the Company published a press release on the class action filed against the Company and certain of its current and former managers before the Federal Court of the Southern District of New York (USA). The class action alleges that certain financial communications by the Company between 2007 and 2011 were misleading and in violation of Section 10(b) of the 1934 Securities Exchange Act and other US laws.

Veolia Environnement considers any allegation that the relevant financial communications were misleading to be unfounded and intends to file a motion to dismiss once it has been formally notified of the action.

On January 19, 2012, the Company published a press release taking note of the formal opening of proceedings to determine whether behavior has been coordinated on the French market for water and wastewater services in agreement with the *Fédération Professionnelle des Entreprises de l'Eau* (FP2E) (French Federation of Water Companies).

These formal proceedings are a follow-up to the investigation carried out in April 2010 by the antitrust department of the European Commission.

Veolia Environnement noted in the European Commission's press release that the opening of these proceedings in no way prejudges the outcome of the investigation. Veolia Environnement believes that the outcome of these proceedings will be favorable and will continue to cooperate fully with the Commission departments to ensure that the investigation is successfully concluded.

On February 28, 2012, the Group entered into exclusive negotiations with an investor for the progressive withdrawal from Veolia Transdev.

On March 1, 2012, the Company published a press release presenting its annual results for 2011

The Group's post-balance sheet events are presented in Note 43 to the consolidated financial statements.

In its meeting of February 29, 2012, the Veolia Environnement Board of Directors reaffirmed the relevance of the strategic plan adopted in December 2011 and renewed its confidence in the Chairman and Chief Executive Officer, Mr. Antoine Frérot.

In addition, the Board of Directors' meeting of March 15, 2012 decided to convene a Combined Shareholders' Meeting on May 16, 2012 and propose a number of resolutions concerning its composition.

- the ratification of Caisse des Dépôts et Consignations, Veolia Environnement's main shareholder, as Director; the company was co-opted that day and is represented by Mr. Olivier Mareuse;
- the allocation of a Director's position to Groupama, as a significant shareholder of Veolia Environnement; the company will be represented by Mr. Georges Ralli;
- the appointment of three new directors:
    - Mrs. Maryse Aulagnon,
    - Mrs. Nathalie Rachou,
    - Mr. Jacques Aschenbroich;
- the renewal of the term of office as director of Mr. Serge Michel.

The Board sincerely thanked Mrs. Esther Koplowitz and Mr. Jean-François Dehecq, whose terms of office end at the next Shareholders' Meeting, for their commitment and the quality of their work as Directors of Veolia Environnement.

On March 16, 2012, the Company announced a series of decisions, effective immediately, to speed up the implementation of the strategic plan approved by the Board of Directors and, in particular, the creation of an enlarged Executive Committee around the Chairman and CEO, comprising Messrs. Sylvain Boucher, Jérôme Gallot, Jean-Michel Herrewyn, Franck Lacroix, Jean-Marie Lambert, Jérôme Le Conte and Pierre-François Riolacci (see Chapter 16, Section 16.4 below). This Committee is fully committed to the successful implementation of the strategic plan.

Veolia Eau

In India, a consortium comprising Veolia Water India, a subsidiary of Veolia Eau, and Vishvaraj Environment Ltd, won the contract to operate and maintain drinking water facilities for the city of Nagpur (center of India). This 25-year contract is the first public-private partnership of this scale in the water sector in India. It includes an initial five-year construction program, mainly to rehabilitate and upgrade the network and connections to homes. A special-purpose entity, Orange City Water, held jointly with Vishvaraj Environment Ltd,was formed to perform the contract, which will generate estimated cumulated revenue for Veolia Eau of €387 million. Orange City Water will be responsible for delivering a continuous supply of drinking water to the homes of the 2.7 million people living in Nagpur, 24 hours a day and seven days a week.

Veolia Propreté

Veolia Propreté, through its subsidiary Veolia Environmental Services- Technical Solutions (United States), which specializes in the management of hazardous waste, was selected by the City of New York to collect, manage and process electronic waste as well as lighting, mercury and medical waste from all city agencies. The 10-year contract came into effect in December 2010 and may be renewed for two further 5-year periods and represents estimated cumulated revenue of US$5 million.

Veolia Propreté, through its subsidiary Veolia Environmental Services (UK) Plc, a leading UK recycling and waste management company, was named preferred bidder by the Leeds City Council for a Private Finance Initiative (PFI) contract for the treatment and disposal of residual waste. This 25-year contract will generate estimated cumulative revenue of €936 million. The proposal submitted by Veolia Propreté includes the construction in East Leeds Cross Green Industrial Area of an advanced waste recycling and energy recovery facility that will contribute to the local economy with the creation of 300 jobs during construction and 45 permanent positions.

Dalkia

Dalkia continued its expansion in target countries during the opening months of 2012. In Romania, Dalika entered into exclusive negotiations to manage the IASI urban heating network, the second largest city in the country.

Dalkia is also among the bid finalists in Qatar and Abu Dhabi to design, build and operate two cooling networks.

Veolia Transdev

As part of its innovation policy, Veolia Transdev continued to develop the Urban Pulse pilot projects in Chambery, Strasbourg and New Orleans and plans to roll-out this product more widely in 2012. This cell phone application project has an autonomous business model based on geo-localized advertising. In addition, the Group has started rationalizing its legal structure, particularly in Canada where Veolia Transport and Transdev subsidiaries now have a single holding company.

13 Objectives and outlook

As announced on December 6, 2011, Veolia Environnement's objective for the period 2012-2013 is to sell €5 billion in assets, reduce its net financial debt below €12 billion[(1)], reduce gross operating costs by €220 million and net operating costs by €120 million (in 2013) and pay a dividend in 2012 and 2013 of €0.70 per share, in respect of fiscal years 2011 and 2012.

After 2013, the Group's aim, mid-cycle, is for organic revenue growth of over 3% per annum, growth in adjusted operating cash flow of over 5% per annum, a debt leverage ratio (net financial debt/(operating cash flow before changes in working capital + principal payments on operating financial assets) of 3.0x[(5)] and a return to a dividend payment ratio in line with the Company's historical average.

(1) Excluding year-end foreign exchange impacts.

(5) +/- 5%.

14 Board of Directors, Management and Supervisory Bodies and Executive Management

The Company has been a *société anonyme* (a French incorporated company) with a Board of Directors since the general shareholders' meeting (GM) of April 30, 2003. The Company's shares are listed on the Euronext Paris stock market and on the New York Stock Exchange (NYSE). The Company is subject to French laws and regulations, in particular relating to corporate governance, and to regulations applicable to foreign companies listed in the United States.

14.1 Board of directors of the Company

Composition of the Board of Directors and positions held by directors outside the Company

The Company's Board of Directors has sixteen directors and one non-voting member ("*censeur*") as of the date this registration document was filed (See Chapter 16, Section 16.1.2 below).

Name of the director/censeur	*Date of appointment or first reappointment*	*Date of last reappointment*	*Term of office expires*(1)
Antoine Frérot, *Chairman and Chief Executive Officer*	May 7, 2010	–	2014 GM
Louis Schweitzer(*), *Vice-Chairman*	April 30, 2003	May 17, 2011	2015 GM
Daniel Bouton(*)	May 11, 2006	May 7, 2010	2014 GM
Caisse des dépôts et consignations, represented by Olivier Mareuse(2)	March 15, 2012	–	2013 GM
Pierre-André de Chalendar(*)	May 7, 2009	May 17, 2011	2015 GM
Jean-François Dehecq(*)	May 11, 2006	May 7, 2010	**2012 GM** (3)
Paul-Louis Girardot(*)	May 11, 2006	May 7, 2010	2014 GM
Groupe Industriel Marcel Dassault(*), represented by Olivier Costa de Beauregard	May 7, 2010	–	2014 GM
Esther Koplowitz(*)	January 1, 2010	May 7, 2010	**2012 GM** (3)
Philippe Kourilsky	April 30, 2003	May 7, 2009	2013 GM
Serge Michel	May 11, 2006	May 7, 2010	**2012 GM** (3)
Henri Proglio	April 30, 2003	May 7, 2009	2013 GM
Baudouin Prot(*)	April 30, 2003	May 17, 2011	2015 GM
Qatari Diar Real Estate Investment Company(*) represented by Dr. Mohd Alhamadi	May 7, 2010	–	2014 GM
Georges Ralli	May 11, 2006	May 7, 2010	**2012 GM** (3)
Paolo Scaroni(*)	December 12, 2006	May 7, 2009	2013 GM
Thierry Dassault, *censeur*	May 7, 2010	–	2014 GM

(1) The duration of the directors' term of office is 4 years since the adoption by the GM of May 7, 2009 of the resolution reducing the directors' term of office from 6 to 4 years (instantaneous implementation provision for running corporate offices).

(2) As its meeting on March 15, 2012, the Board of Directors appointed Caisse des dépôts et consignations represented by Olivier Mareuse as a director to replace Augustin de Romanet de Beaune for the remainder of his term of office, i.e. until the ordinary general shareholders' meeting called to approve the financial statements for the fiscal year ending on December 31, 2012. This appointment is subject to the ratification of the combined general shareholder's meeting of May 16, 2012.

(3) Duration of appointment reduced to 2 years following the Board of Directors meeting of August 5, 2010.

(*) Independent director.

The table below shows the names and ages of the members of the Board of Directors as of the date the registration document was filed, as well as the date of such persons' first appointment and reappointment, if applicable, and the expiration date of their terms of office. In addition, the table shows the principal position they hold outside the Company and corporate offices they have held with all companies during the last five years.

The corporate offices held by directors, as shown in the list below, are current as of December 31, 2011 on the basis of actualized or known informations on the filing date this registration document with the French Regulatory Authority (AMF).

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Antoine Frérot Age: 53 Date of first appointment: May 7, 2010 Term of office expires: 2014 General Meeting ***Main duties exercised in the Company:*** Chairman and Chief Executive Officer of Veolia Environnement**.	***In France :*** • General Manager of Veolia Eau – Compagnie Générale des Eaux; • Chairman of the Board of Directors of Veolia Water; • Member and Chairman of the Supervisory Board of Eolfi; • Director of Veolia Propreté; • Director of Veolia Transdev; • Member of the Supervisory Board of Dalkia France; • Chairman of Campus Veolia Environnement; • Director of Dalkia International; • Director of Société des Eaux de Marseille; • Chairman of VE France Régions; • Member of the A and B Supervisory Boards of Dalkia; • Chairman of Fondation d'Entreprise VE; • Standing Representative of Veolia Environnement to the Board of Directors of Institut Veolia Environnement; • Vice-Chairman of the Orientation Board of Institut de l'Entreprise. ***Outside France:*** • Director of Veolia Environmental Services North America (USA).	***In France :*** • Standing Representative of Veolia Eau – Compagnie Générale des Eaux to the Board of Directors of Institut Veolia Environnement until 02/22/2011; • Standing Representative of Veolia Eau – Compagnie Générale des Eaux to the Board of Directors of Fondation d'Entreprise VE until 01/25/2010; • Chairman of the Board of Directors of Veolia Propreté until 10/07/2011; • Director of Veolia Transports 03/24/2011; • Member of the Supervisory Board of Ponts Formation Edition until 03/01/2011; • Member of the Supervisory Board of Louis Dreyfus BV until 02/03/2011; • Chief Executive Officer of Veolia Environnement until 12/12/2010; • Director of Sade CGTH until 06/23/2010; • Director of CEP Ports until 04/28/2010; • Member and Chairman of the Supervisory Board of SETDN until 05/28/2010; • Member and Chairman of the Supervisory Board of CEO until 05/28/2010; • Standing Representative of Veolia Eau – Compagnie Générale des Eaux to the Board of Directors of Société des Eaux de Marseille until 04/21/2010; • Director of SARP until 02/18/2010; • Standing Representative of Veolia Eau – Compagnie Générale des Eaux to the Board of Directors of Proxiserve Holding until 01/15/2010; • Chief Executive Officer of Veolia Water until 11/27/2009; • Director and Chairman of the Board of Directors of VWST until 12/07/2009; • Standing Representative of Sud Cars to the Board of Directors of VE Airport until 11/27/2008. ***Outside France:*** • Director of Société Monégasque des Eaux until 04/07/2010.

Louis Schweitzer Age: 69 Date of first appointment: April 30, 2003 Reappointed: May 17, 2011 Term of office expires: 2015 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement**; Vice-Chairman of the Board of Directors since November 27, 2009; Member of the Nominations and Compensation Committee since April 30, 2003.	***Principal position held outside the Company:*** • Chairman of the Board of Directors of Astra Zeneca** (United Kingdom). ***Other corporate offices and positions held in any company:*** ***In France:*** • Director of BNP Paribas**; • Director of L'Oréal**; • Member of the Boards of The Quai Branly Museum; • Member of the Boards of The National Political Science Foundation; • Chairman of the Board of Directors of Société des Amis du Musée du Quai Branly; • Chairman of the Board of Directors of Festival d'Avignon; • Chairman of the Board of Directors of maison de la culture M.C 93. ***Outside France:*** • Chairman of the Board of Directors of AB Volvo** (Sweden); • Member of the Advisory Board of Allianz** (Germany); • Member of the Advisory Board of Bosch (Germany).	***In France:*** • Chairman of the Board of Directors of Renault**; • Director of Électricité de France (EDF)**; • Member of the Board of Directors of the Musée du Louvre; • Chairman of the National Authority against Discrimination and for Equality ("HALDE"); • Chairman of the Supervisory Board of the "Le Monde" group; • Member of the Advisory Board of the Banque de France. ***Outside France:*** • Vice-Chairman of the Supervisory Board of Philips (Netherlands).

Daniel Bouton Age: 61 Date of first appointment: April 30, 2003 Reappointed: May 7, 2010 Term of office expires: 2014 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement**; Member of the Nominations and Compensation Committee since April 1, 2005; Member of the Accounts and Audit Committee since November 2, 2009 and Chairman of this Committee since January 1, 2010.	***Principal position held outside the Company:*** • Chairman of DMJB Conseil; • Senior Advisor of Rothschild & Cie Banque. ***Other offices and positions held with any company:*** • Director of Total SA**.	• Chief Executive Officer and Chairman of the Board of Directors of Société Générale;

Caisse des dépôts et consignations Date of first appointment: March 15, 2012 Term of office expires: 2013 GM ***Principal position held within the Company:*** Director of Veolia Environnement**;	***Principal position held outside the Company:*** • none ***Other offices and positions held with any company:*** ***In France:*** • Director of CNP Assurances**; • Director of Compagnie des Alpes; • Director of Egis SA; • Director of FSI; • Director of Icade**; • Director of la Poste; • Director of Oseo SA; • Member of the Advisory Board of SNI; • Director of Veolia Transdev. ***Outside France:*** • Director of Dexia** (Belgium).	• none

Olivier Mareuse Age : 48 ***Principal position held within the Company:*** Permanent Representative of Caisse des dépôts et consignations to the Board of Directors of Veolia Environnement**	***Principal position held outside the Company*** • Financial Director of Caisse des dépôts et consignations (CDC). ***Other offices and positions held with any company:*** ***In France*** • Director of AEW Europe; • Director of CDC Infrastructure; • Director of FSI; • Director of Icade**; • Director of Société forestière; • Permanent Representative of CDC to the Board of Directors of Qualium Investissement; • Member of Management Committees of CDC. ***Outside France:*** • Director of Dexia** (Belgium).	En France : • Member of the Advisory Board of IXIS Asset Management.

Pierre-André de Chalendar Age: 53 Date of first appointment: May 7, 2009 Reappointed : May 17, 2011 Term of office expires: 2015 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement**; Member of the Accounts and Audit Committee since May 7, 2009; Member of the Research, Innovation and Sustainable Development Committee since May 7, 2010.	***Principal position held outside the Company:*** • Chairman and Chief Executive Officer of Compagnie de Saint-Gobain**. ***Other offices and positions held with any company:*** ***In France:*** • Chairman of the Board of Directors of Verallia. ***Outside France:*** • Director of Saint-Gobain Corporation (USA).	***In France:*** • Assistant Chief Executive Officer of Compagnie de Saint-Gobain**. ***Outside France:*** • Director of SG Aldwych (United Kingdom); • Director of BPB (United Kingdom); • Director of SG Distribution Nordic AB (Sweden).

Jean-François Dehecq Age: 72 Date of first appointment: May 11, 2006 Reappointed: May 7, 2010 Term of office expires: 2012 GM* ***Principal position held within the Company:*** Independent Director of Veolia Environnement**.	***Principal position held outside the Company:*** • Honorary Chairman of Sanofi-Aventis**; • Chairman of Fondation d'Entreprise Sanofi Espoir. ***Other offices and positions held with any company:*** ***In France:*** • Chairman of the Strategic Investment Fund Orientation Committee; • Director of Air France-KLM**; • Director of Balmain; • Vice-Chairman of the National Conference of Industry.	***In France:*** • Chairman of the Board of Directors of Sanofi-Aventis; • Chairman of the National Technical Research Association; • Vice-Chairman of EFPIA (European Federation of Pharmaceutical Industries and Associations); • Director of Finance et Management; • Director of Société Financière des Laboratoires de Cosmétologie Yves Rocher; • Member of the Supervisory Board of the Industrial Innovation Agency; • Governor of the Board of the American Hospital in Paris; • Director of the National Research Agency; • Member of the French Epilepsy Research Foundation; • Chairman of the Board of Directors of ENSAM (École Nationale Supérieure des Arts et Métiers); • Chairman of the National Committee of the General Assemblies of Industry. ***Outside France:*** • Member of the Board of the IFPMA (International Federation of Pharmaceutical Manufacturers Associations).

Paul-Louis Girardot Age: 78 Date of first appointment: April 30, 2003 Reappointed: May 7, 2010 Term of office expires: 2014 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement**; Member of the Accounts and Audit Committee since April 1, 2005; Member of the Research, Innovation and Sustainable Development Committee since September 14, 2006.	***Principal position held outside the Company:*** • Chairman of the Supervisory Board of Veolia Eau – Compagnie Générale des Eaux. ***Other offices and positions held with any company:*** ***In France:*** • Chairman of the Supervisory Board of Compagnie des Eaux de Paris; • Member of the Supervisory Board of Dalkia France; • Member of the A and B Supervisory Boards of Dalkia; • Director of Veolia Propreté; • Director of Veolia Water; • Director of Société des Eaux de Marseille; • Member of the Supervisory Board of Compagnie des Eaux et de l'Ozone; • Vice-Chairman of Institut Veolia Environnement.	• Director of Veolia Transport;

Groupe Industriel Marcel Dassault Date of first appointment: May 7, 2010 Term of office expires: 2014 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement**; Member of the Nominations and Compensation Committee since May 7, 2010; Member of the Accounts and Audit Committee since May 7, 2010.	***Principal position held outside the Company:*** • none ***Other offices and positions held with any company:*** • none	none
Olivier Costa de Beauregard Age: 52 ***Principal position held within the Company:*** Permanent Representative of Groupe Industriel Marcel Dassault (GIMD) to the Board of Directors of Veolia Environnement**.	***Principal position held outside the Company:*** • Managing Director of Groupe Industriel Marcel Dassault (GIMD). ***Other offices and positions held with any company:*** ***In France:*** • Chairman of Financière Dassault; • Chairman of Management Board of immobilière Dasault SA**; • Director of Dassault Médias; • Director of Figaro Classifieds; • Director of Groupe Figaro; • Director of As de Trèfle; • Member of the Supervisory Board of GIMD; • Permanent Representative of GIMD to the Board of Directors of Genoway**; • Permanent Representative of GIMD to the Board of Directors of Artcurial; • Permanent Representative of GIMD to the Board of Directors of Dassault Développement. ***Outside France:*** • Director of SITA SA (Switzerland); • Director of Financière Terramaris (Switzerland); • Vice-Director of Dassault Belgique Aviation (Belgium).	none
Esther Koplowitz First appointment: January 1, 2010 Reappointed: May 7, 2010 Term of office expires: 2012 GM* ***Principal position held within the Company:*** Independent Director of Veolia Environnement**.	***Principal position held outside the Company:*** • President of the Esther Koplowitz Foundation; • Vice-Chairman of the Board of Directors of Fomento de Construcciones y Contratas SA (F.C.C.)** (representing B-1998, SL) (Spain). ***Other offices and positions held with any company:*** ***Outside France:*** • Chairman of the Strategic Committee of F.C.C** (Spain); • Chairman of the Board of Directors of B-1998, SL (company owning 53,9% of the F.C.C.'s share capital) (Spain); • Vice-Chairman of the Board of Directors of Cementos Portland Valderrivas SA** (Spain); • Member of the Board of Directors of Waste Recycling Group (United Kingdom); • Member of the Supervisory Board of ASA Abfall Service AG (Austria); • Member of the Supervisory Board of Alpine Holding GmbH (Austria).	none

Philippe Kourilsky
Age: 69

Date of first appointment:
April 30, 2003

Reappointed:
May 7, 2009

Term of office expires:
2013 GM

Principal position held within the Company:
Director of Veolia Environnement**;
Chairman of the Research, Innovation and Sustainable Development Committee since September 14, 2006.

Principal position held outside the Company:
- Professor at the Collège de France;
- Member of the Science Academy.

Other offices and positions held with any company:
In France:
- Director of Fondation du Collège de France;
- Counsel activities in several companies.

Outside France:
- Chairman of the Singapore Immunology Network.

In France:
- Member of the Board of Directors of the International College of Philosophy;
- Member of Haut Conseil de la Science et de la Technologie.

Serge Michel
Age: 85

Date of first appointment:
April 30, 2003

Reappointed:
May 7, 2010

Term of office expires:
2012 GM*

Principal position held within the Company:
Director of Veolia Environnement**;
Chairman of the Nominations and Compensation Committee since April 30, 2003.

Principal position held outside the Company:
- President of Soficot SAS.

Other offices and positions held with any company:
In France:
- President of SAS CIAM;
- President of SAS Carré des Champs-Élysées;
- President of SAS Société Gastronomique de l'Étoile;
- President of SAS Groupe Epicure;
- President of SAS Les Joies de Sofi;
- Member of the Supervisory Board of Eolfi;
- Member of the Supervisory Board of Compagnie des Eaux de Paris;
- Director of SARP Industries;
- Permanent Representative of EDRIF to the Supervisory Board of Veolia Eau-Compagnie Générale des Eaux;
- Member of the Supervisory Board of Société des Eaux de Trouville Deauville et Normandie;
- Permanent Representative of CEPH to the Board of Directors of SEDIBEX;
- Director of Orsay Finance 1;
- Director of LCC SA;
- Director of Infonet Services.

In France:
- Director of Vinci**;
- Director of Eiffage SA**;
- Permanent Representative of SARP to the Board of Directors of SARP Industries.

Henri Proglio
Age: 62

Date of first appointment:
April 30, 2003

Reappointed:
May 7, 2009

Term of office expires:
2013 GM

Principal position held within the Company:
Director of Veolia Environnement**.

Principal position held outside the Company:
- Chairman and Chief Executive Officer of Électricité de France (EDF)**.

Other offices and positions held with any company:
In France:
- Director of EDF International SAS;
- Director of EDF Energies Nouvelles;
- Director of Natixis**;
- Director of CNP Assurances**;
- Director of Dassault Aviation**;
- Director of Veolia Propreté;
- Member of the Supervisory Board of Veolia Eau – Compagnie Générale des Eaux;
- Member of the Atomic Energy Committee;
- Member of the High Committee for Transparency and Information on Nuclear Safety;
- Chairman of Fondation EDF Diversiterre;
- Chairman of Electra Partnership;
- Director of European Foundation for the tomorrow energies;
- Member of the National Committee for Business Sectors of Vital Importance;
- Vice-Chairman of the Nuclear Energy Strategic Committee.

Outside France:
- Director of Fomento de Construcciones y Contratas SA (F.C.C.)** (Spain);
- Director of Edison** (Italy);
- Chairman of the Board of Directors of Transalpina di Energia (Italy);
- Chairman of the Board of Directors of EDF Energy Holdings (United Kingdom).

In France:
- Chairman and Chief Executive Officer of Veolia Environnement** until 11/27/2009;
- Chairman of the Board of Directors of Veolia Environnement** until 12/12/2010;
- Chairman of the Board of Directors of Veolia Propreté until 03/29/2011;
- Chairman of the Board of Directors of Veolia Transport until 03/24/2011;
- Director of EDF International SA until 05/02/2011;
- Member of the A and B Supervisory Boards of Dalkia until 03/23/2010;
- Chairman of the Board of Directors of Veolia Water until 11/27/2009;
- Chairman of Campus Veolia Environnement until 11/27/2009;
- Chairman and Member of the Supervisory Board of Eolfi until 11/27/2009;
- Chairman of the Supervisory Board of Dalkia France until 11/27/2009;
- Chairman and Director Representing Founding Members of Fondation d'Entreprise VE until 11/27/2009;
- Manager of Veolia Eau – Compagnie Générale des Eaux until 11/27/2009;
- Director of Société des Eaux de Marseille until 11/27/2009;
- Director of Dalkia International until 11/27/2009;
- Member of the Supervisory Board of Lagardère** until 11/16/2009;
- Director of SARP Industries until 10/19/2009;
- *Censeur* of the Supervisory Board of Caisse Nationale des Caisses d'Epargne until 07/31/2009;
- Member of the Supervisory Board of Natixis** until 04/29/2009;
- Director of Casino Guichard Perrachon** until 06/09/2008;
- Member of the Supervisory Board of CNP Assurances** until 07/10/2007;
- Member of the Supervisory Board of Elior** until 03/29/2007.

Outside France:
- Chairman of EDF Energy UK (United Kingdom) until 11/26/2010;
- Director of Veolia Environnement North America Operations Inc. (USA) until 09/13/2010;
- Director of Siram SPA (Italy) until 11/27/2009;
- Director of Veolia Environnement UK Ltd (United Kingdom) until 11/27/2009;
- Director of Veolia Environmental Services Australia (Australy) until 10/19/2009;
- Director of Veolia Environmental Services North America (USA) until 10/19/2009;
- Director of Veolia Environmental Services UK (United Kingdom) until 10/19/2009;
- Director of Veolia Transport Australasia (Australy) until 09/30/2009;
- Director of Veolia Transport Northern Europe (Sweden) until 09/02/2009;
- Director of Veolia Environmental Services Asia (Singapour) until 07/19/2007.

Baudouin Prot Age 60 Date of first appointment: April 30, 2003 Reappointment: May 17, 2011 Term of office expires: 2015 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement**	***Principal position held outside the Company:*** • Chairman of the Board of Directors of BNP Paribas**. ***Other offices and positions held with any company:*** ***In France:*** • Director of Lafarge**; • Director of Pinault-Printemps-Redoute**; • Member of the French Banking Federation Executive Committee. ***Outside France:*** • Director of Pargesa Holding SA** (Switzerland); • Director of Erbé SA (Belgium).	***In France:*** • Chief Executive Officer and Director of BNP Paribas**; • Director of Accor**. ***Outside France:*** • Director of BNL** (Italy).

Qatari Diar Real Estate Investment Company Date of first appointment: May 7, 2010 Term of office expires: 2014 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement**.	***Principal position held outside the Company:*** • Director of Vinci**; ***Other offices and positions held with any company:*** none	none
Dr Mohd Alhamadi Age: 49 ***Principal position held within the Company:*** Permanent Representative of Qatari Diar Real Estate Investment Company to the Board of Directors of Veolia Environnement**.	***Principal position held outside the Company:*** • Chief Corporate Improvement Officer of Qatari Diar Real Estate Investment Company. ***Other offices and positions held with any company:*** • Director of United Lybian Qatari Company (Qatar); • Director of Al Lybia Al Qataria Company (Qatar); • Director of Qatar Projects Company (Qatar).	• Director of Qatar Fuel Company (Qatar); • Vice-Chairman of the Steering Committee of Qatar College of Technology (Qatar).

Georges Ralli
Age 63

Date of first appointment:
April 30, 2003

Reappointed:
May 7, 2010

Term of office expires:
2012 GM*

Principal position held within the Company:
Independent Director of Veolia Environnement**.

Principal positions held outside the Company:
In France:
- President of Maison Lazard SAS;
- President and Managing Partner of Lazard Frères Gestion SAS;
- Managing Partner of Compagnie Financière Lazard Frères SAS and of Lazard Frères SAS;
- Member of the Supervisory Board of VLGI.

Outside France:
- Deputy Chairman and Managing Director of Lazard Group LLC (USA);
- Co-Chairman of the European Investment Banking Committee of Lazard (USA);
- Member of the European Advisory Board of Lazard (USA);
- Chief Executive of the European Investment Banking Business of Lazard (USA).

Other offices and positions held with any company:
In France:
- Director of Chargeurs**;
- Director of Silic**.

Outside France:
- Director of Lazard AB (Sweden);
- Member of the Executive Committee of Lazard BV (Belgium);
- Director of Lazard Asesores Financieros SA (Spain);
- Director of LAZ-MD Holding LLC (USA);
- Member of LFCM Holdings LLC (USA);
- Director of Lazard & Co Srl (Italy);
- Director of Lazard Investments Srl (Italy);
- Chairman of the Advisory Board of Lazard GmbH (Switzerland);
- Chairman of Lazard Wealth Management Europe Sarl (Luxembourg);
- Director of Lazard Wealth Management Holding SL (Spain).

In France:
- Director of VLGI;
- *Censeur* of Eurazeo**;
- Member of the Supervisory Board of Bazile Telecom;
- Vice-President and Executive Director of Compagnie Financière Lazard Frères SAS;
- Vice-President and Executive Director of Lazard Frères SAS;
- Chairman, Chief Executive Officer and Director of Lazard Frères Banque;
- Director of Fonds Partenaires Gestion;
- Managing General Partner (associé commandité gérant) of Partena (SCS);
- Managing Partner of Maison Lazard SAS.

Outside France:
- Director of Crédit Agricole Lazard Financial Products Limited (United Kingdom);
- Director of Crédit Agricole Lazard Financial Products Bank (United Kingdom);
- Member of the Executive Committee of Lazard Strategic Coordination Company LLC (USA);
- Chairman of the Executive Committee of Lazard Fund Management GmbH (Germany).

Paolo Scaroni
Age 65

Date of first appointment:
December 12, 2006

Reappointed:
May 7, 2009

Term of office expires:
2013 GM

Principal position held within the Company:
Independent Director of Veolia Environnement**

Principal position held outside the Company:
- Chief Executive Officer of ENI** (Italy).

Other offices and positions held with any company:
Outside France:
- Vice-Chairman of London Stock Exchange Plc** (England);
- Member of the Board of Directors of Columbia Business School (USA);
- Member of the Board of Directors of Assicurazioni Generali** (Italy);
- Member of the Board of Directors of Fondazione Teatro alla Scala (Italy).

Outside France:
- Member of the Board of Directors of Il Sole 24 Ore (Italy);
- Member of the Supervisory Board of ABN Amro Bank NV (Netherlands).

Thierry Dassault Age 53 Date of first appointment: May 7, 2010 Term of office expires: 2014 GM ***Principal position held within the Company:*** *Censeur* of Veolia Environnement**	***Principal position held outside the Company:*** • Chairman and director of Keynectis SA; • Deputy Chief Executive Officer and Member of the Supervisory Board of Groupe Industriel Marcel Dassault SAS. ***Other offices and positions held with any company:*** ***In France:*** • Director of Dassault Medias SA; • Director of Société du Figaro; • Director of Gaumont SA**; • Member of the Supervisory Board of Particulier et Finances Editions SA; • Member of the Supervisory Board of Veolia Eau – Compagnie Générale des Eaux; • Member of the Managing Committee of I-Ces SAS; • Permanent Representative of SC TDH, Director of Halys SAS; • Permanent Representative of SC TDH, Director of If Research SAS.	***In France:*** • Chairman of Dassault Multimedia; • Director of Socpresse SA.

GM = general shareholders' meeting convened to vote on the financial statements for the past year.

* *As part of the implementation of the reduction to four years of the directors' term of office, Jean-François Dehecq, Esther Koplowitz, Serge Michel and Georges Ralli were appointed or reappointed for a term of office of four years during the general meeting of May 7, 2010, then selected randomly for resignation upon expiration of a term of office of only two years, i.e. until the close of the annual general meeting that votes on the financial statements for the 2011 fiscal year.*

** *Listed company.*

The members of the Board of Directors may be contacted at the Company's head office, 36/38 Avenue Kléber, 75116 Paris, France.

Biographical Information about Directors

Born on June 3, 1958 in Fontainebleau (France), **Antoine Frérot** is a graduate of the École Polytechnique (year 1977), engineer at the Ponts et Chaussées corps and holds a doctorate from the École Nationale des Ponts et Chaussées.

He started his career in 1981 as an engineering researcher at the Central Research Office for French Overseas Departments and Territories. In 1983, he joined the Center of Study and Research of the École Nationale des Ponts et Chaussées as project manager and then become assistant director from 1984 to 1988. From 1988 to 1990, he was in charge of financial operations at Crédit National. In 1990, Antoine Frérot joined Compagnie Générale des Eaux as an official representative and, in 1995, became Chief Executive Officer of CGEA Transport. In 2000, he was appointed Chief Executive Officer of CONNEX, the Transport Division of Vivendi Environnement, and member of the Executive Committee of Vivendi Environnement. In January 2003, Antoine Frérot was appointed Chief Executive Officer of Veolia Eau, the Water Division of Veolia Environnement, and Senior Executive Vice President of Veolia Environnement. In November 2009, he was appointed Chief Executive Officer, and in December 2010 Chairman and Chief Executive Officer, of Veolia Environnement.

Louis Schweitzer is a graduate of the Institut d'Études Politiques (IEP) in Paris and of the École Nationale d'Administration (ENA) and was a financial controller in the Treasury department. From 1981 to 1986, he was chief of staff for Laurent Fabius (who was successively junior Budget Minister, Minister for Industry and Research and Prime Minister). In 1986, he joined Renault's senior management and then successively held the positions of director of planning and management control, Chief Financial Officer and Executive Vice-President. He was appointed Chief Executive Officer of Renault in December 1990, then Chairman and Chief Executive Officer in May 1992 until April 29, 2005, when he was appointed Chairman of the Board of Directors of Renault. Louis Schweitzer did not wish to seek the renewal of his term of office as Director of Renault during the annual general meeting held on May 6, 2009. He was appointed Vice-Chairman of the Veolia Environnement Board of Directors on November 27, 2009.

Daniel Bouton holds a degree in political science, is a graduate of the École Nationale d'Administration (ENA) and was Inspector of Finance at the French Treasury. He has held a number of positions in the French Ministry of Economy, Finance and Industry, including that of budget director, between 1988 and 1991. In 1991, he began working at Société Générale, serving as Chief Executive Officer starting in 1993, and as Chairman and Chief Executive Officer starting in 1997. He was appointed to the position of Chairman of the Board of Directors of Société Générale in May 2008, then resigned from his duties of Director and Chairman of the bank in May 2009. In November 2009, Daniel Bouton incorporated a consulting company, DMJB Conseil, of which he is the Chairman.

Caisse des dépôts et consignations, established in 1816, is a public establishment carrying out tasks of general interest; as such it is a long-term investor seeking to contribute to the growth of companies. Her Permanent representative on the Board of Directors of Veolia Environnement, Olivier Mareuse, having graduated from the IEP in Paris in 1984 and from the École Nationale d'Administration in 1988. He joined CNP Assurances in 1988 as an assistant director in the financial institutions department. In 1989 he was named technical and financial director in the collective insurance department. He then worked as special assistant to the CEO of CNP Assurances between 1991 and 1993. From 1993 to 1998 he worked as director of strategy, management control and relations with shareholders, and he was responsible for the introduction to the stock market of CNP Assurances. He was then appointed director of investments, a post he occupied until 2010. Finally, in October 2010, Mr. Mareuse joined the Caisse des dépôts et consignations first as deputy CFO and then, as from December 2010, as CFO and a member of the management committees.

Pierre-André de Chalendar is a graduate of ESSEC and the École Nationale d'Administration (ENA). He was Inspector of Finance at the French Treasury. In November 1989, he joined *Compagnie de Saint Gobain* where he held various positions, before being appointed Deputy Chief Executive Officer in May 2005, Director in June 2006 then Chief Executive Officer in June 2007, and he was appointed Chairman and Chief Executive Officer of *Compagnie de Saint Gobain* in June 2010.

Jean-François Dehecq is a graduate of the École Nationale des Arts et Métiers. After having been a mathematics teacher from 1964 to 1965 at the Saint-Vincent de Senlis Catholic high school, he became a scientific research intern in the army's nuclear propulsion department. In 1965, he joined the Compagnie Nationale des Pétroles d'Aquitaine (SNPA, which later became Elf Aquitaine). After four years in the economics department (1965 to 1969), he became executive assistant (1969 to 1970), and then operations engineer (1970 to 1971) at the Lacq plant, a major gas production site in France. In 1973, he became Chief Executive Officer of Sanofi, a major division of Elf Aquitaine. From 1982 to 1988, he was deputy Chairman and Chief Executive Officer of Sanofi before assuming full management authority in February 1988. In 1999, he became Chairman and Chief Executive Officer of Sanofi Synthelabo and, in 2004, organized the Sanofi-Aventis merger. From 2007 to 2010, Jean-François Dehecq was the Chairman of the Board of Directors of Sanofi-Aventis.

Paul-Louis Girardot was a director and Chief Executive Officer of Vivendi until 1998. He focused principally on developing the Veolia Environnement Group's utilities concessions, particularly in the water sector. In addition, he contributed significantly to Vivendi's activities in the telephone sector, in particular mobile telephones. He also worked to expand the Veolia Environnement Group's business in the energy services sector and in the decentralized production of electric power (cogeneration), through the Dalkia subsidiary. Paul-Louis Girardot has been Chairman of the Supervisory Board of Veolia Eau-Compagnie Générale des Eaux since 2001.

Groupe Industriel Marcel Dassault operates in the civil aeronautics and military sector and invests in various other industries. Its Permanent Representative to the Board of Directors of Veolia Environnement, **Olivier Costa de Beauregard**, passed the *agrégation* examination of History and is a graduate of the Institut d'Études Politiques (IEP) in Paris and of the École Nationale d'Administration (ENA) (1984-1986). He was Inspector of Finance at the French Treasury from 1986 to 1990 and became a project leader with the Chief Investment Officer of the Union des Assurances de Paris (UAP) in 1991. Mr. Costa de Beauregard was on the Prime Minister's staff from 1993 to 1995 as the Chief Technical Counsel of the Public Facilities, Accomodation and Transportation sectors and was appointed Chief Strategy Officer of AXA–UAP France in 1996. In 1998 he was appointed Executive Officer of Crédit Commercial de France. Mr. Costa de Beauregard joined in 2005 the Groupe Industriel Marcel Dassault of which he is the Deputy Chief Executive Officer.

Esther Koplowitz (Marquise de Casa Peñalver) is the majority shareholder (as well as Vice-Chairman of the Board of Directors and Chairman of the Strategic Committee) of the Spanish group Fomento de Construcciones y Contratas (F.C.C.) specializing in environmental services, renewable energies, infrastructures and cement. She is also Vice-Chairman of the Board of Directors of Cementos Portland Valderrivas. For several years now, Veolia Environnement and F.C.C. have jointly held a subsidiary, Proactiva Medio Ambiente S.A., present in Latin America. Member of the Supervisory Board of Veolia Environnement from 2000 to 2002, Mrs. Esther Koplowitz is the President of the Esther Koplowitz Foundation. In recognition, the Spanish business leader has won numerous awards, including the Grand Cross of Civil Merit.

Philippe Kourilsky is a graduate of the École Polytechnique, and holds a doctorate in sciences from the University of Paris. He has devoted his career to life sciences research. He has held numerous management positions in the public and private research sectors, and in particular was the Director of Research at the CNRS and Director General of the Institut Pasteur from 2000 to 2005. Philippe Kourilsky is currently a professor at the Collège de France, a member of the Académie des Sciences and holds honorary doctorates from several foreign universities.

Serge Michel has spent his entire career in the construction and public works sector. After having held the position of Executive Vice-President with the Compagnie de Saint-Gobain group and been Chairman of Socea, he chaired the SGE group until 1991 and the CISE group until 1997. He was Executive Vice-President of the Compagnie Générale des Eaux until 1992. He is currently President of Soficot, a business management and investment consulting company he founded in 1997.

Henri Proglio is a graduate of the École des Hautes Etudes Commerciales (HEC). He joined Compagnie Générale des Eaux in 1972 and was appointed Chairman and Chief Executive Officer of CGEA in 1990. He was appointed Executive Vice-President of Vivendi Universal and Chairman and Chief Executive Officer of Vivendi Water in 1999. He became Chairman of Veolia Environnement's Management Board in 2000 and Chairman of the Board of Directors and was Chief Executive Officer from April 2003 to November 27, 2009, on which date he was appointed Chairman of the Board of Directors of Veolia Environnement following his appointment as Chairman and Chief Executive Officer of Electricité de France (EDF) by decree of the President of the French Republic issued during the Ministerial Council meeting of November 25, 2009.

Baudouin Prot is a graduate of the École des Hautes Etudes Commerciales (HEC) and of the École Nationale d'Administration (ENA). From 1974 to 1983, he was successively the deputy to the prefect of the Franche-Comté region, Inspector of Finance at the French Treasury and deputy to the energy and raw materials director general in the Ministry of Industry. He joined Banque Nationale de Paris in 1983, where he held various positions before being appointed Executive Vice-President in 1992 and Chief Executive Officer in 1996. After having been appointed director and Executive Vice-President of BNP Paribas in March 2000, then Director and Chief Executive Officer of BNP Paribas in June 2003, Baudouin Prot was appointed Chairman of the Board of Directors of BNP Paribas on December 1, 2011.

Qatari Diar is 100% held by Qatar Investment Authority, which is the sovereign fund of the State of Qatar. The Fund is a large scale class investor in development and property and operates in twenty countries in the Middle East, Africa and Europe. Qatari Diar has total investment funds of more than US$ 60 billion. Its permanent representative on the Board of Directors of Veolia Environnement, **Dr. Mohd A. Wahed Ali Alhamadi** is a Ph.D. and a B.Sc. from the Clarkson University (Potsdam, New York, USA) and a M.Sc. from the North Carolina Agricultural and Technical State University (Greensboro, North Carolina, USA). He began his career as a researcher and teacher at the Qatar College of Technology, of which he was Vice Dean from 1995 to 1997, Acting Dean from 1997 to 2000, and Director from 2001 to 2005. Subsequently, he was at the Qatar University, of which he was Director of the Office of Institutional Research & Planning from 2004 to 2007, and since 2007, Vice President for Institutional Planning & Development. He joined Qatari Diar Real Estate Investment Company in November 2008 as Deputy Chief Executive Officer for Corporate Development, and in March 2010 became its Chief Corporate Improvement Officer in charge of strategic development and planning. Over the past five years, he has served on the Boards of various companies throughout the world (Qatar Fuel Company up to 2008, and from 2009 until present, Qatar Projects Company, United Libyan Qatari Company and Al Libya Al Qataria Company). He has been a member of the Institute of Electrical and Electronics Engineering (USA) since 1987 and of the Association of Institutional Research (USA) since 2006.

Georges Ralli holds a graduate degree (DESS) in banking and finance from the University of Paris-V and is a graduate of the Institut d'Études Politiques (IEP) in Paris and of the Institut Commercial in Nancy. In 1970, he joined Crédit Lyonnais, where he held various management positions until 1981. In 1982, he served as secretary of the Savings Development and Protection Commission. From 1982 to 1985, he headed the financial negotiations department of Crédit du Nord. He joined Lazard in 1986, and became managing partner in 1993 and jointly headed the mergers and acquisitions department of Lazard LLC starting in 1999. Since 2000, Georges Ralli has been Deputy Chairman and Managing Director of the Executive Committee of Lazard LLC (United States) and since 2006 he has been the Co-Chairman of the European Investment Banking Committee of the Lazard Group LLC (United States) and a member of the European Advisory Board. He was head of the Maison française from 2006 to 2009. He currently manages the European M&A activities (President of Maison Lazard) and Asset Management activities (President of Lazard Frères Gestion).

Paolo Scaroni holds a degree in economics from Bocconi University in Milan and an MBA from Columbia Business School in New York. After having spent a year with McKinsey & Company following his MBA, between 1973 and 1985, he held various positions with Saint Gobain, ultimately heading the “flat glass” division. In 1985, Paolo Scaroni became Chief Executive Officer of Techint, while at the same time holding the positions of deputy Chairman of Falck and Executive Vice-President of SIV, a joint venture between Techint and Pilkington plc. He became Chief Executive Officer of Pilkington plc in 1996, a position he held until May 2002. He was Chief Executive Officer of Enel from 2002 to 2005 and in June 2005 became Chief Executive Officer of Eni, a position he still holds.

Thierry Dassault has been in charge of civil equipment at Électronique Serge Dassault in Brazil (1979-1981), Chief Executive Officer of an alarm systems company (1982-1984), and Associate Producer and Director of Advertising and Institutional Films at Claude Delon Productions (1985-1993). From 1994 to 2006 Mr. Dassault was President of Dassault Multimedia, which acquired shares in Infogrames, Gemplus, Infonie, BFM, CdandCo, Net2one, Emme and Welcome Real-time. In 2004, he led the foundation of Keynectis corporation (the French leader in digital certification), of which he is Chairman. At the end of 2006, Thierry Dassault established the investment company TDH, specialized in emerging technologies (and which holds shares in Aquarelle, Bernardaud, Keynectis, Halys, I-Ces, L Capital, Oletis, Wallix, YouScribe.com). He is Deputy Chief Executive Officer of Groupe Industriel Marcel Dassault,.and he is a member of the Boards of : Dassault Médias, Société du Figaro, Gaumont, Groupe Industriel Marcel Dassault, Halys, Keynectis, Particulier and Finances Éditions, If Research SAS, Veolia Eau – Compagnie Générale des Eaux and Veolia Environnement as a *censeur*. He is President of the 58th National Session of the IHEDN, a French national defence academy and think tank. He is Chevalier de la Légion d’Honneur and is an air force Colonel of the French military reserve. Finally, he is Vice-Chairman of the Kidney Foundation (Fondation du rein).

14.2 Convictions, bankruptcies, conflicts of interest and other information

On the basis of the representations made by the members of the Board of Directors to Veolia Environnement, to the Company's knowledge, there are no family ties among the members of the Company's Board of Directors and, during the last five years: (i) no member of the Board of Directors of Veolia Environnement has been convicted of fraud; (ii) no member of the Board of Directors has been involved in any bankruptcy, receivership or liquidation proceedings; (iii) no statutory or regulatory authority (including designated professional organizations) has made any official public accusation and/or imposed a sanction on these persons; and (iv) no director has been forbidden by a court from holding a position as a member of a Board of Directors or Management or Supervisory Body of a publicly held company or from participating in the management or business operations of a publicly held company.

To the Company's knowledge, there is no conflict of interest at the level of the Board of Directors or executive management of Veolia Environnement except for Caisse des dépôts et consignations represented by Mr Olivier Mareuse regarding Veolia Transdev of which Caisse des dépôts et consignations holds 50 % of the share capital. In addition to the provisions of the French Commercial Code (*Code de Commerce*) concerning regulated agreements, the Board of Directors' internal rules and regulations provide that directors must inform the Board of Directors of any existing or potential conflict of interests and abstain from voting in any situation where such a conflict of interest exists. No service contract providing for benefits to be granted in the event such contract is terminated exists between a director or the Chief Executive Officer and the Company or its subsidiaries.

No arrangement or agreement has been concluded with the Company's principal shareholders, other than those concluded with the Groupe Industriel Marcel Dassault and Qatari Diar Real Estate Investment Company (see chapter 18.1, below) or with its customers or suppliers, pursuant to which a member of the Board of Directors thereof has been selected to act as a director or to hold an executive management position in the Company.

Lastly, to the Company's knowledge, the members of the Board of Directors have not agreed to any restrictions on their ability to transfer any interest they may hold in the capital of Veolia Environnement, with the exception of the provision in the Articles of Association requiring each director to own at least 750 registered shares of the Company, without prejudice to the agreements concluded with the Groupe Industriel Marcel Dassault and Qatari Diar Real Estate Investment Company (see chapter 18.1, below).

15 Compensation and benefits of Corporate Officers and Directors

15.1 Compensation of Executive Corporate Officers

The total compensation paid out during the year 2011 to Executive Corporate Officers and other corporate officers by the Company and by controlled companies, within the meaning of Article L. 233-16 of the French Commercial Code, is detailed hereafter.

At its meeting on January 7, 2009, the Board of Directors of Veolia Environnement became aware of the consolidated version of the AFEP-MEDEF Corporate Governance Code of December 2008 concerning, notably, the compensation of Executive Corporate Officers of listed companies. It confirmed that Veolia Environnement uses this corporate governance code as a reference. This registration document and, notably, the tables in section 15.1 hereafter and in Chapter 17, sections 17.3 and 17.4 below (stock subscription or purchase options and free shares) have been prepared in accordance with the format recommended by the AFEP-MEDEF consolidated code, as revised in April 2010, and the AMF's recommendation of December 22, 2008.

15.1.1 Rules and principles adopted by the Board to determine the compensation paid out to Executive Corporate Officers

Principles used to determine the compensation of Mr. Antoine Frérot in his capacity as Chairman and Chief Executive Officer

Fixed compensation and benefits:

At its meeting on March 24, 2011, the Board of Directors decided, following the recommendation made by the Nominations and Compensation Committee, to fix, for the year 2011, a fixed portion of compensation awarded to Mr. Antoine Frérot in his capacity as Chairman and Chief Executive Officer of the Company, at 900,000 euros.

In addition to his compensation, he is entitled to a company car and to social security benefits equivalent to those of employees (sickness, disability). Furthermore, he is eligible for the supplementary defined benefits group pension plan set up in 2006 for category 9 management employees and directors, executive corporate officers of Veolia Environnement.

Variable compensation for the 2010 and 2011 fiscal years:

2010 variable portion of compensation paid to Mr. Antoine Frérot, in his capacity as Chief Executive Officer: Following the proposals made by the Nominations and Compensation Committee, the Board of Directors, at its meeting on March 24, 2010, decided, for the purposes of determining the variable portion of the Chief Executive Officer's compensation in respect of the year 2010, to retain a quantitative portion of 70% and a qualitative portion of 30%. The criteria for the quantitative portion of the variable compensation of the Chief Executive Officer involve the achievement of the budgetary objectives relating, on the one hand, to adjusted operating cash flow after deduction of net investments, adjusted by the positive or negative change in Working Capital Requirements (weighted at 35%), and, on the other hand, to the increase in Adjusted Operating Income (weighted at 35%).

These criteria were in line with the Group's objectives for 2010, which were a positive free cash flow after the payment of dividend and increasing adjusted operating income.

Applying these criteria and having regard to the fact that the objectives announced for the year 2010 had been exceeded, the Board of Directors decided, at its meeting on March 24, 2011, to award Mr. Antoine Frérot an amount of 754,063 euros in respect of the quantitative and qualitative portions of his variable compensation for 2010.

2011 variable portion of compensation paid to Mr. Antoine Frérot, in his capacity as Chairman and Chief Executive Officer:

Following the proposals made by the Nominations and Compensation Committee, it is recalled that the Board of Directors, at its meeting on March 24, 2011, decided, for the purposes of determining the variable portion of the Chairman and Chief Executive Officer's compensation in respect of the year 2011, to retain a quantitative portion of 70% and a qualitative portion of 30%. In line with the Group's 2011 objectives, which were a positive free cash flow after the payment of dividend and increased adjusted operating income (excluding the effect of the Veolia Transport-Transdev merger) and an increase in net profits, the criteria applied to determine the quantitative portion of the Chairman and Chief Executive Officer's variable compensation involved the achievement of the budgetary objectives relating (i) on the one hand, to adjusted operating cash flow after deduction of net investments, adjusted by the positive or negative change in Working Capital Requirements (weighted at 35%), and (ii) on the other hand, to the increase in Operating Income (weighted at 35%).

The qualitative portion of 30% was assessed with respect to the following qualitative criteria: the individual and managerial performance, the implementation of Group projects creating synergies and the promotion of actions taken by the Group in terms of safety.

Applying these criteria and given the very partial achievement of the objectives announced for the year 2011 (achievement of a positive free cash flow above the external objectives announced and an adjusted operating income sharply decreasing as compared to 2010), the Board of Directors, on March 15, 2012, decided to award Mr. Antoine Frérot an amount of 244,940 euros in respect of the quantitative portion of his variable compensation for 2011. However, at the specific request of Mr. Antoine Frérot, he was not awarded the qualitative portion of variable compensation.

The methods used to calculate the variable portion of the Chairman and Chief Executive Officer's compensation for the year 2012, adopted by the Board of Directors on March 15, 2012, are set out at the end of this Chapter 15.1.1.

Total compensation paid to Mr. Antoine Frérot in his capacity as Chairman and Chief Executive Officer of Veolia Environnement

During the year 2011, the total compensation paid to Mr. Antoine Frérot amounted to 1,739,819 euros. Mr. Antoine Frérot thus received the fixed portion of his compensation for 2011 (900,000 euros), as well as the variable portion of his compensation in his capacity as Chairman and Chief Executive Officer of Veolia Environnement for the year 2010, paid in 2011 (754,063 euros). Finally, he received benefits in kind and directors' fees in respect of his positions held within the Company and other companies of the Group.

In respect of the year 2011, the total compensation due amounts to 1,230,696 euros (down 20.7% compared to that due in respect of the 2010 fiscal year) including the fixed portion of his compensation for 2011 (900,000 euros), the variable portion of his compensation for the 2011 fiscal year (244,940 euros) as well as the benefits in kind and directors' fees in respect of his positions held within the Company and other companies of the Group.

The table below shows a summary of compensation of all kinds, detailed in the tables hereafter and in Chapter 17, § 17.3.2 and 17.4 below concerning information relating to stock subscription or purchase options and performance shares.

Table summarizing the total compensation, options and shares granted to Mr. Antoine Frérot for the year 2011

(in euros)	**2010 fiscal year**	**2011 fiscal year**
Total compensation owed for the fiscal year	1,552,255	1,230,696
Value of options granted during the fiscal year	0	0
Value of performance shares granted during the fiscal year	0	0
TOTAL	**1,552,255**	**1,230,696**

Table summarizing the compensation paid out to Mr. Antoine Frérot

	2010 fiscal year		**2011 fiscal year**	
	Amounts owed for the fiscal year	**Amounts paid out during the fiscal year**	**Amounts owed for the fiscal year**	**Amounts paid out during the fiscal year**
Variable compensation (in his capacity as Chief Executive Officer of the Water Division)	n/a	369,200 (1)	n/a	n/a
Fixed compensation in his capacity as Chairman and Chief Executive Officer of the Company (*)	750,000	779,751 (2	900,000	900,000
Variable compensation in his capacity as Chairman and Chief Executive Officer of the Company (*)	754,063 (3)	n/a	244,940 (4)	754,063
Extraordinary compensation	0	0	0	0
Directors' fees				
• Paid by Veolia Environnement	21,877	13,477 (5)	33,600	33,600 (5)
• Paid by controlled companies (6)	24,867 (6)	24,867 (6)	50,558 (6)	50,558 (6)
Benefits in kind	1,448	1,448	1,598	1,598
TOTAL	**1,552,255**	**1,188,743**	**1,230,696**	**1,739,819**

n/a: not applicable

(1) Variable portion for 2009 paid out in 2010.

(2) Includes compensation arrears of €29,751 for 2009 paid out in 2010.

(3) Variable portion for 2010 paid out in 2011.

(4) Variable portion for 2011 to be paid out in 2012.

(5) Directors' fees paid in respect of his position as director for the 4th quarter of the previous fiscal year and the first three quarters of the current fiscal year.

(6) Directors' fees received in respect of positions in other companies of the Veolia Environnement Group, in France and abroad.

(7) Provision of a company car.

(*) CEO until December 12, 2010, then Chairman and Chief Executive Officer as of this same date.

Compensation paid out to Mr. Antoine Frérot in his capacity as Chairman and Chief Executive Officer and objectives for 2012

Following the recommendations made by the Nominations and Compensation Committee, the Board of Directors, at its meeting on March 15, 2012, decided, for the year 2012 , to retain the fixed portion of compensation, unchanged, awarded to Mr. Antoine Frérot (900,000 euros).

In line with the Group's objectives for 2012, the Board of Directors decided, for the purposes of determining the variable portion of the Chairman and Chief Executive Officer's compensation in respect of the 2012 fiscal year, to retain a quantitative portion of 70% and a qualitative portion of 30%.

The criteria applied to determine the quantitative portion of the Chairman and Chief Executive Officer's variable compensation for 2012 remain unchanged as compared to 2011 and involve the achievement of the budgetary objectives relating (i) on the one hand, to adjusted operating cash flow after deduction of net investments, adjusted by the positive or negative change in Working Capital Requirements (weighted at 35%), and (ii) on the other hand, to the increase in Adjusted Operating Income (weighted at 35%).

Furthermore, the qualitative portion of 30% will be assessed depending on the achievement of the Group's strategic transformation plan.

Allocation of stock subscription or purchase options and performance shares

With regard to the policy for the allocation of stock subscription or purchase options and performance shares to the Company's senior executive management, the Board of Directors, on March 24, 2011, decided that due to legal constraints, no allocation of this kind to the Chairman and Chief Executive Officer would be made during the year 2011. For the same reasons, the Board of Directors, on March 15, 2012, decided that no allocation of stock subscription, purchase options or performance shares to the Chairman and Chief Executive Officer would be made during the year 2012.

Information, concerning any stock subscription or purchase options granted to and exercised by the Chairman and Chief Executive Officer during the year 2011, appears in Chapter 17, section 17.3 below.

15.1.2 Total compensation paid to Directors [1]

Amount and distribution of directors' fees in 2011

The General Meeting of May 17, 2011, following a proposal from the Board of Directors, set the total annual amount of directors' fees at 866,000 euros. Since 2010, a provision has been made for an "attendance fee": half of the amount of directors' fees due to a director is paid entirely in proportion to his or recorded attendance (considering participation using telecommunication methods as attendance). For the year 2011, the Board of Directors decided to allocate the directors' fees by renewing the distribution decided in 2010 on the basis of seventeen directors and one non-voting member, applying, if necessary, a pro rata reduction in cases of nominations or terminations of office during the fiscal year:

- an amount of 33,600 euros in respect of the directorship, comprising (a) a fixed amount of 16,800 euros and (b) a variable potential amount of 16,800 euros paid only in proportion to the rate of participation of the director concerned in meetings of the Board during the fiscal year;
- an additional amount of 8,400 euros in respect of the participation of a director as a member (and not as Chairman) of a Board Committee;
- an additional amount of 84,000 euros for the Vice-Chairman of the Board;
- an additional amount of 67,200 euros for the Chairman of the Accounts and Audit Committee;
- an additional amount of 33,600 euros for the Chairman of the Nominations and Compensation Committee;
- an additional amount of 16,800 euros for the Chairman of the Research, Innovation and Sustainable Development Committee; and
- an amount of 16,800 euros in respect of the non-voting member's term of office (or 50% of the amount set aside in respect of the directorship), half of which is only due in proportion to the rate of the non-voting member's participation in meetings of the Board.

(1) Non-executive directors.

Table of directors' fees in 2011 and 2010

The table below shows the amount of directors' fees paid in 2011 and 2010, as well as the amount owed for these two fiscal years to members of the Board of Directors of Veolia Environnement by the Company and by controlled companies. With the exception of senior executive management, the members of the Board of Directors receive no compensation other than directors' fees from the Company and, if applicable, from controlled companies.

	2011				2010			
	Amounts owed for the fiscal year		Amounts paid out during the fiscal year		Amounts owed for the fiscal year		Amounts paid out during the fiscal year	
Name of the director	By the Company	By controlled companies(1)	By the Company	By controlled companies	By the Company	By controlled companies(1)	By the Company	By controlled companies
Jean Azéma(2)	16,948	0	22,909	0	22,909	0	25,180	0
Daniel Bouton	109,200	0	109,200	0	109,200	0	94,400	0
Thierry Dassault, *non-voting member*	14,700	4,600	14,050	4,600	8,188	0	6,738	0
Pierre-André de Chalendar	46,200	0	48,873	0	45,942	0	47,369	0
Jean-François Dehecq	28,000	0	29,018	0	29,018	0	35,200	0
Augustin de Romanet de Beaune(3)	32,200	0	30,545	0	30,545	0	35,200	0
Jean-Marc Espalioux(4)	n/a	n/a	n/a	n/a	17,723	0	32,723	0
Antoine Frérot(5)	33,600	50,558	33,600	50,558	21,877	24,867	13,477	24,867
Paul-Louis Girardot	50,400	46,471	50,400	46,471	50,400	49,673	52,800	49,673
Groupe Industriel Marcel Dassault(6)	50,400	0	50,400	0	32,815	0	20,215	0
Esther Koplowitz (7)	30,800	0	32,073	0	32,073	0	25,200	0
Philippe Kourilsky	50,400	0	48,873	0	48,873	0	52,800	0
Serge Michel	65,800	10,238	67,200	10,238	67,200	6,763	70,400	6,763
Henri Proglio	32,200	19,210	25,200	19,210	0	54,342	10,000	54,342
Baudouin Prot	25,200	0	25,964	0	25,964	0	35,200	0
Qatari Diar Real Estate Investment Company(8)	33,600	0	54,455	0	20,044	0	0	0
Georges Ralli	32,200	0	32,073	0	32,073	0	35,200	0
Paolo Scaroni (7)	26,600	0	22,909	0	22,909	0	35,200	0
Louis Schweitzer	124,600	0	126,000	0	126,000	0	107,000	0
Murray Stuart(7) (9)	n/a	n/a	n/a	n/a	0	0	30,000	0
TOTAL	**803,048**	**131,077**	**823,742**	**131,077**	**743,753**	**135,645**	**764,302**	**135,645**

n/a: not applicable

(1) Directors' fees owed by controlled companies in respect of a fiscal year correspond, hypothetically, to the amounts paid during the said fiscal year.

(2) Directors' fees have been paid to Groupama at the request of Jean Azéma. In 2011, the Company paid the cashier of Groupama surplus earnings totaling €8,252.

(3) Directors' fees are paid to the Caisse des Dépôts et Consignations at the request of Augustin de Romanet de Beaune.

(4) The directorship of Jean-Marc Espalioux ended on May 7, 2010.

(5) The full compensation paid to Antoine Frérot is indicated in Chapter 15.1.1.

(6) Directors' fees are paid to Olivier Costa de Beauregard at the request of the Groupe Industriel Marcel Dassault.

(7) Amounts before withholding tax at source.

(8) Directors' fees are paid to Dr. Mohd Alhamadi at the request of Qatari Diar Real Estate Investment Company. Fees due in respect of the 2010 fiscal year have been paid in 2011 by the Company. The tax treaty between France and Qatar exempts the Company from withholding tax at source.

(9) Murray Stuart resigned from his directorship with effect from December 31, 2009.

Amount and distribution of directors' fees in 2012

Following the proposals made by the Nominations and Compensation Committee, the Board of Directors, on March 15, 2012, decided not to request any changes to the annual amount of directors' fees from the General Meeting of Shareholders which will be held on May 16, 2012. It decided, furthermore, to retain the same distribution of directors' fees as that applied in 2011 subject to the following changes:

- the Chairman and Chief Executive Officer indicated to the Board of Directors his decision to waive off his directors' fees for the year 2012;
- the Board of Directors having decided to replace the post of Vice-Chairman which expires at the time of the General Meeting of Shareholders on May 16, 2012 by that of Senior Independent Director, the annual amount of directors' fees allocated to the Senior Independent Director in an official capacity has been set at 50,000 euros (or a reduction of 34,000 euros compared to the fees allocated to the Vice-Chairman of the Board in an official capacity).

15.2 Compensation of executive managers who are not corporate officers (Executive Committee members)

All members of the Executive Committee in office on December 31, 2011 (see Chapter 16, section 16.4 below), (excluding the Chairman and Chief Executive Officer) received gross compensation totaling 5,222,821 euros in 2011 (for an Executive Committee made up of 9 members excluding the Chairman and Chief Executive Officer), as compared to 5,047,615 euros in 2010 (for an Executive Committee made up of 8 members excluding the Chairman and Chief Executive Officer).

The tables below show the total gross compensation paid out to members of the Company's Executive Committee on December 31, 2009, 2010 and 2011, with the exception of the Chairman and Chief Executive Officer, including fixed and variable compensation paid or due in respect of these fiscal years by Veolia Environnement, benefits in kind and directors' fees received by Executive Committee members in respect of directorships held in companies of the Veolia Environnement Group in France and abroad.

	2009 fiscal year (9 members *)	
(in euros)	**Amounts owed for the fiscal year**	**Amounts paid out during the fiscal year**
Fixed compensation	3,359,287	3,326,648
Variable compensation	2,632,891	1,238,406 (1)
Directors' fees		
• Paid by Veolia Environnement	0	0
• Paid by controlled companies	158,600	158,600
Benefits in kind	22,408	22,408
TOTAL	**6,173,186**	**4,746,062**

(1) *Variable portion for the year 2008 paid in 2009.*

(*) *Including Mr. Antoine Frérot in his capacity as Chief Executive Officer of the Water Division.*

(in euros)	2010 fiscal year (8 members)	
	Amounts owed for the fiscal year	**Amounts paid out during the fiscal year**
Fixed compensation	3,067,244	3,067,244
Variable compensation	2,328,945	1,817,258 (1)
Directors' fees		
• Paid by Veolia Environnement	0	0
• Paid by controlled companies	140,161	140,161
Benefits in kind	22,952	22,952
TOTAL	**5,559,302**	**5,047,615**

(1) Variable portion for the year 2009 paid in 2010.

(in euros)	2011 fiscal year (9 members)	
	Amounts owed for the fiscal year	**Amounts paid out during the fiscal year**
Fixed compensation	3,113,259	3,113,259
Variable compensation	1,335,273	1,923,382 (1)
Directors' fees		
• Paid by Veolia Environnement	0	0
• Paid by controlled companies	162,245	162,245
Benefits in kind	23,935	23,935
TOTAL	**4,634,712**	**5,222,821**

(1) Variable portion for the year 2010 paid in 2011.

Contrary to the previous fiscal year where profit-sharing of 36,000 euros had been paid out in 2010 in respect of 2009, no profit-sharing was paid out to employees under an employment contract with the Company in 2011 in respect of 2010.

15.3 Retirement pensions and other benefits

There is no contract between the members of the Board and the Company or its subsidiaries that provides for the payment of benefits or compensation owed, or that may be owed, in the event of members ceasing or changing their terms of office within the Company or its subsidiaries, other than the compensation in the event of the Chairman and Chief Executive Officer's term of office being terminated and the supplementary defined benefits group pension plan described below.

Compensation in the event of termination as Chairman and Chief Executive Officer

In accordance with the recommendations of the AFEP-MEDEF consolidated corporate governance code of December 2008, the Company's Board of Directors, at its meeting on December 17, 2009, took note that, as of January 1, 2010, Mr. Antoine Frérot's employment contract, suspended on November 27, 2009 when he was appointed Chief Executive Officer of Veolia Environnement, would be terminated. It should be noted that the termination of Mr. Antoine Frérot's employment contract causes him to lose the right under the collective bargaining agreement to receive compensation for his seniority within the Group.

The Board of Directors, at its meeting on December 17, 2009, following a proposal from the Nominations and Compensation Committee, decided to award Mr. Antoine Frérot compensation in the event of the termination of his term of office as Chief Executive Officer, in accordance with the provisions of the "TEPA" Act (Article L. 225-42-1 of the French Commercial Code). Such compensation is conditioned on compliance with performance requirements and is excluded if he is entitled to a retirement pension under the supplementary defined benefits group pension plan set up for the members of the Company's Executive Committee or if he accepts another position within the Group. Payment of this compensation is limited to cases of dismissal, non-renewal of his term of office or "forced departure in connection with a change of control or strategy”. In accordance with the AFEP-MEDEF consolidated corporate governance code, the maximum amount of this termination compensation is equal to twice the amount of total annual gross compensation (excluding directors’ fees and benefits in kind), including the sum of the fixed portion of compensation for the last fiscal year (“Fixed Portion”) and the average variable portion of compensation (“Variable Portion”) paid or owed for the last three fiscal years ended before the termination of his term of office as Chief Executive Officer (“Reference Compensation”). The amount and the fixed and variable components of this compensation both depend on meeting the performance objectives applied to calculate his annual variable compensation. The amount of this compensation is equal to twice the sum of (1) the Variable Portion of his Reference Compensation (the average of the last three fiscal years) and (2) the Fixed Portion of his Reference Compensation (last fiscal year), adjusted by a “Performance Rate” equal to the average percentage of the target bonus (also called “base bonus” or meeting 100% of annual objectives) met over the last three fiscal years ended before the termination of his term of office. In the event that Mr. Antoine Frérot’s term of office as Chief Executive Officer is terminated before it is possible to calculate the Reference Compensation or the average Performance Rate over the last three fiscal years, these indicators will be calculated, as the case may be, over the last one or two fiscal years ended before the date of Mr. Antoine Frérot’s termination in his term of office as Chief Executive Officer.

This compensation, in the event of the termination of Mr. Antoine Frérot’s term of office, was approved on May 7, 2010 by the Company’s General Meeting of Shareholders.

Supplementary defined benefits group pension plan

Starting in the year 2006, the Company set up a supplementary defined benefits group pension plan for members of the Company’s Executive Committee (salaried category 9 management employees, including corporate officers who are parties to a suspended employment contract), in line with practices of other groups included in the CAC 40.

This supplementary pension plan is a regulated agreement subject to the provisions of Article L. 225-42-1 of the French Commercial Code. Accordingly, it was presented for authorization and approved at the Annual General Meeting of Shareholders on May 11, 2006.

This supplementary pension plan, whose financing is outsourced to an insurance company, has the following characteristics:

- a specific plan that takes into account the cancellation of the supplementary pension plan for the benefit of the Group’s executive managers following the split-up of the Vivendi and Veolia Environnement groups and the loss of seniority they had acquired until December 31, 2002 as employees of the former principal shareholder (Compagnie Générale des Eaux, which became Vivendi Universal, then renamed Vivendi);
- an additional plan that is separate from other pensions, that is based on seniority (a minimum of five years’ seniority and two years’ seniority as a member of the Executive Committee), capped at 25% of the annual reference compensation (for 25 years’ seniority);
- a limit on the total retirement benefits received set at a maximum of 50% of the annual reference compensation;
- salaried management employees or senior executive management acquire a potential right to an annual retirement pension calculated as a percentage of their reference compensation up to an amount equal to 60 times the maximum annual Social Security;
- in accordance with legal requirements, the benefits of this supplementary group pension plan are conditioned on the member’s completion of his/her career, whether he/she is a salaried management employee or someone who holds a senior executive management position in Veolia Environnement.

In March 2009 (approved by the General Meeting of Shareholders on May 7, 2009), the rules and regulations of this plan were amended following the Company's adoption of provisions bringing it into conformity with the provisions of the AFEP-MEDEF consolidated corporate governance code recommending the termination of the employment contract of the Chairman and Chief Executive Officer. To ensure that the termination of the employment contracts of senior executive management did not negatively affect their rights, it was decided to amend the rules and regulations governing this plan in order to clarify the eligibility requirements, in an official capacity, of this supplementary defined benefits group pension plan for senior executive management, whether or not they are parties to an employment contract.

After obtaining the opinion of the Nominations and Compensation Committee, the Board of Directors, at its meetings held on October 21 and December 17, 2009, decided to make additional amendments to the rules and regulations governing the supplementary defined benefits group pension plan in order to include, as beneficiaries, members who permanently end their professional career after the age of 55 without subsequently engaging in other professional activity in accordance with legal requirements, to entitle the beneficiaries to choose to defer the payment date of their retirement pension after exercising their retirement rights and to choose between the payment of a survivor's pension to the surviving spouse and the payment of guaranteed annuities to any person of their choice. Lastly, the annual reference compensation is now based on the average of the three highest years of gross annual compensation from among the last ten years. However, this reference compensation is limited to 60 times the maximum annual Social Security.

In accordance with the provisions of Articles L. 225-38 and L. 225-40 of the French Commercial Code, on the basis of a special report prepared by the statutory auditors, the General Meeting of Shareholders on May 7, 2010 approved these changes to the extent that they concern senior executive management.

The amount booked as provisions (cost of services rendered) for this supplementary group pension for 2012 is equal to the amount shown as post-employment benefits in note 40 of the notes to the consolidated financial statements (see below).

Mr. Henri Proglio is no longer a member of this group plan. He chose to exercise his retirement rights on November 1, 2009 after having acquired more than 37 years of seniority within the Group. Due to Henri Proglio's very lengthy period of service within the Company and the rights acquired as a result of this seniority, the annual amount of his lifetime annuity is estimated to be 37% of his annual reference compensation.

In accordance with the recommendations of the AFEP-MEDEF consolidated corporate governance code, the value of the benefits provided by the supplementary pension plan is taken into account when setting the Chairman and Chief Executive Officer's total compensation. Furthermore, the group of potential beneficiaries is not only limited to senior executive management, but also includes salaried executive managers who are members of the Company's Executive Committee. Each year, the increase in potential rights is equal to only a limited percentage of the beneficiaries' compensation. Thus, in the case of the "specific" plan, which takes into account seniority acquired until December 31, 2002 as employees of the former principal shareholder (Compagnie Générale des Eaux, which became Vivendi Universal, then renamed Vivendi), potential rights represent 0.4% of the beneficiary's reference compensation per year of seniority. In the case of the "additional" plan, which takes into account seniority acquired after December 31, 2002, potential rights represent 10% of the beneficiary's reference compensation after five years' seniority, including at least two years' seniority as a member of the Company's Executive Committee, then 0.75% of his reference compensation per additional year of seniority. The reference period used to calculate benefits is the average compensation calculated over several years, excluding compensation paid at the time of employment termination or retirement, as well as any other type of extraordinary compensation. Lastly, provided he is still with the company at the time of his departure or retirement in accordance with legal requirements, the theoretical annual amount of the lifetime annuity of Mr. Antoine Frérot, Chairman and Chief Executive Officer, might be equal to 30% of his annual reference compensation when he has retired.

Summary of the situation as of December 31, 2011

Directors – Corporate Officers	Employment contract[1]		Supplementary pension plan		Compensation or benefits owed or likely to be owed in the event of termination or a change of position		Compensation pursuant to a covenant not to compete	
	Yes	No	Yes	No	Yes	No	Yes	No
Antoine Frérot, Chairman and Chief Executive Officer Start date of term of office as Chief Executive Officer: November 27, 2009 End date of term of office as Chairman and Chief Executive Officer: AGO 2014		X [1]	X [2]		X [3]			X

(1) Pursuant to a decision adopted by the Board of Directors on December 17, 2009, the employment contract of the Chief Executive Officer, Antoine Frérot, was terminated with effect as of January 1, 2010.

(2) Antoine Frérot is a member of the supplementary defined benefits group pension plan set up for the members of the Executive Committee of Veolia Environnement (see Chapter 15.3 above).

(3) Pursuant to a decision adopted by the Board of Directors on December 17, 2009, Antoine Frérot is entitled to compensation in the event of termination of his term of office as Chief Executive Officer, in accordance with the provisions of the "TEPA" Act (Article L. 225-42-1 of the French Commercial Code) and the AFEP-MEDEF consolidated corporate governance code (see Chapter 15.3 above).

16 Operation of management and supervisory bodies

16.1 Operation of the Board of Directors

16.1.1 Principles of Corporate Governance and AFEP-MEDEF Code

The Company applies a corporate governance code in accordance with the provisions of the French Commercial Code in connection with its stock listing on the Euronext Paris market, as well as the US corporate governance principles, especially under the Sarbanes-Oxley Act, since the Company has an ADR listing on the New York Stock Exchange.

On January 7, 2009, the Company's Board of Directors took note of the consolidated version of the AFEP-MEDEF Code of December 2008 and declared that it would use that Code as a reference. The Company adheres to that corporate governance code on a voluntary basis, especially with respect to the preparation of the Chairman of the Board's report called for under Article L. 225-37 of the French Commercial Code; its practices comply with the recommendations of the AFEP and MEDEF included in their corporate governance code, as amended in April 2010 (www.medef.fr, section "corporate governance"). The Company has not set aside any provision of that code.

On April 30, 2003, following the corporate governance report by a work group chaired by Daniel Bouton, the Company's Board of Directors adapted its internal regulations and created an Accounts and Audit Committee and Nominations and Compensation Committee with their own internal regulations (cf. § 16.2, Operation and Work of the Committees of the Board of Directors).

16.1.2 Composition of the Board of Directors

Members of the Board of Directors

As of the date of filing of this registration document, the Board of Directors has sixteen directors and one non-voting member ("censeur"). The list of their names and the expiration dates of their terms of office, a brief curriculum vitae and the table of their terms of office, including outside the Group, is featured in Chapter 14 (§ 14.1 above) and their shareholdings in the Company are shown in Chapter 17 (§ 17.5 below).

The Board members are appointed by the ordinary general meeting at the proposal of the Board of Directors which, in turn, receives the proposals of the Nominations and Compensation Committee. The Board members may be removed at any time by decision of the general meeting. Each director must own at least 750 registered shares in the Company.

The Board of Directors may appoint one or more censeurs under Article 18 of the Articles of Association adopted by the combined general meeting of May 7, 2010. On that date, Thierry Dassault was appointed to the office of censeur by the Board of Directors for a four-year term expiring at the close of the general meeting convened to vote on the 2013 financial statements. The censeur's mission is to attend the Board of Directors' meetings in a non-voting advisory capacity, and the Board may freely ask the censeur for advice.

The Company's Board of Directors has no employee-elected members, but two members of the Company's Works Council attend the Board of Directors' meetings in a non-voting advisory capacity.

Renewal of the Board Members' terms of office

In accordance with the AFEP-MEDEF Code, Article 11 of the Company's Articles of Association provides for a four-year term of office for directors and annual renewal of the terms of one quarter of the Board members.

The combined general meeting held on May 17, 2011 renewed the terms of office of four directors (Jean Azéma, Pierre-André de Chalendar, Baudouin Prot and Louis Schweitzer). Jean Azéma resigned from his office as a director on October 21, 2011. Augustin de Romanet resigned from his office as a director on February 29, 2011, with effect from March 1, 2012. In a meeting on March 15, 2012 the Board of Directors decided to co-opt the Caisse des Dépôts et Consignations represented by Olivier Mareuse, the financial director of the Caisse de Dépôts Group, as a director to replace Augustin de Romanet. Subject to the approval of this appointment by the next ordinary general meeting, to be held on May 16, 2012, the term of office of the Caisse des Dépôts will expire at the end of the remaining initial term of office of Augustin de Romanet, i.e. at the close of the ordinary general meeting convened in 2013 to vote on the accounts for the fiscal year ending on December 31. At its meeting of February 29, 2012, the Board of Directors temporarily appointed Groupama, whose permanent representative is Benoit Maes, the group's Chief Financial Officer, to replace Jean Azéma for the remainder of his term of office. This appointment will be put to the combined general meeting to be held on May 6, 2012. The appointment follows the resignation of Jean Azéma from his term of office with effect from October 21, 2011 as a result of his departure from Groupama. The terms of office of four directors, Jean-Francois Dehecq, Esther Koplowitz, Serge Michel and Georges Ralli, will expire at the close of the general meeting to be held on May 16, 2012.

On March 15, 2012, in accordance with the recommendations of the Nominations and Compensation Committee, the Board of Directors decided to propose to the ordinary general meeting to be held on May 16, 2012, the appointment of Jacques Aschenbroich, Maryse Aulagnon, Nathalie Rachou and the Groupama SA company, represented by Georges Ralli, as well as a four-year extension of the term of office of Serge Michel, to end at the close of the ordinary general meeting held in 2016 to approve the accounts for the fiscal year ending on December 31, 2015. To allow the renewal of one quarter of the Board of Directors in accordance with the Articles of Associations, before the 2015 general meeting one director must be randomly selected from among the directors who were either appointed or had their term of office renewed during the 2012 general meeting; the term of office of the person selected in this way will be reduced to three years, that is, their term of office will expire at the close of the 2015 ordinary general meeting.

Following these appointments and renewal, the Board of Directors shall be composed of seventeen directors, including two women and a censeur.

Applying the principal of equal representation of men and women

The Nominations and Compensation Committee has taken note of the provisions of the Law of January 27, 2011 providing for equal representation for women and men on Boards of Directors. In accordance with that law and the AFEP-MEDEF Code as amended in April 2010, the Nominations and Compensation Committee made recommendations to the Board on March 15, 2012 in order to propose the nomination of an increased number of women to the Board on the occasion of future annual general shareholders' meeting. As of the date of filing of this registration document, the Board has one woman among the directors, accounting for 6.3% of the total Board members.

Selection criteria for directors

The Board of Directors' Nominations and Compensation Committee advises the Board on the selection of candidates for the purpose of renewing the composition of the Board of Directors based on the following criteria, in particular: management skills acquired in major French and foreign international corporations, familiarity with its sector of activity, professional experience, financial and accounting expertise and sufficient availability. The Board is striving to diversify the profiles of its members, of both French and foreign nationality, particularly by increasing the number of women over the coming years, while making sure to bring about a balance among the various stakeholders in the Company. On the date this registration document was filed, the Board had three directors of foreign nationality, representing 18.8% of the total (Esther Koplowitz is Spanish, Paolo Scaroni is Italian, and Dr. Mohd Alhamadi is Qatari).

16.1.3 Independence of the Directors

Criteria of independence of the directors

According to the terms of the internal regulations of the Board of Directors, members are considered independent if they have no relationship with the Company, its Group or its management that might compromise their ability to exercise their judgment objectively. According to the internal regulations, which adopt the criteria stipulated by the AFEP-MEDEF Code, an independent director must:

1) not be an employee or have been a member of the Company's Management Board, director or member of the executive management of its former parent corporation or of any of the companies that it consolidates, nor have held any such position within the past five years;

2) not be a director or executive officer of any company in which the Company directly or indirectly holds a directorship or in which an employee appointed as such, or a director or executive officer of the Company (now or within the past five years) holds or held a directorship;

3) not be a customer, supplier, investment banker or commercial banker that is material for the Company or its group or for which the Company or its group represents a significant part of the activity (nor be directly or indirectly linked with such a person);

4) not have any close family ties with a director or executive officer;

5) not have been an auditor of the Company within the past five years;

6) not have been a member of the Supervisory Board or director of the Company within 12 years before the date on which his current term of office was conferred.

In the case of directors holding 10% or more of the Company's capital or voting rights or representing a juridical person with such shareholdings, the Board, based on a report from the Nominations and Compensation Committee, shall decide whether or not they are independent, taking into account the composition of the Company's capital and the existence of any potential conflicts of interest.

Those criteria are to be evaluated and weighed by the Board of Directors because it may decide that a director who does not meet the criteria defined in the internal regulations may nevertheless be characterized as independent in light of his particular situation or that of the Company, in light of its shareholding structure or any other reason, or vice-versa.

The internal regulations also stipulate that the Board of Directors shall proceed each year, before publishing the registration document, to the evaluation of the independence of each of its members based on the criteria set by said regulations, special circumstances, the situation of the person in question, of the Company and of the Group and the opinion of the Nominations and Compensation Committee.

Evaluation of the independence of the directors

The Board of Directors, in its meeting held on Thursday, March 15, 2012, performed the annual review of the independence of the directors after hearing the opinion of the Nominations and Compensation Committee. The Board characterized the following members as independent: Daniel Bouton, Pierre-Andre de Chalendar, Jean-Francois Dehecq, Paul-Louis Girardot, Groupe Industriel Marcel Dassault represented by Olivier Costa de Beauregard, Baudouin Prot, Qatari Diar Real Estate Investment Company represented by Mohd Alhamadi, Georges Ralli, Paolo Scaroni, Louis Schweitzer and Esther Koplowitz.

The Board decided to uphold the status of Baudouin Prot as an independent director in 2012 in relation to the financing agreed with BNP Paribas, and the general independence of Veolia Environnement in relation to bank financing, as well as the limited weight of the commitments of Veolia Environnement in relation to the activities of this bank. The Board of Directors has also reviewed its position with regard to Georges Ralli; in 2011, he was not considered as independent due to significant business links to the Lazard Bank in 2010, however, the Lazard Bank did not receive any significant mandates from the Company in 2011 or at the start of 2012. The Board upheld the independent status of Qatari Diar Real Estate Investment Company, represented by Dr. Mohd Alhamadi, due to the absence of any significant business relationship between the Company and this director. This situation will be reassessed in 2013.

The Board characterized Paul-Louis Girardot as an independent director because of the time that has elapsed since he ceased to exercise his duties as Chief Executive Officer of the former lead company of the Water Division.

The other directors deemed to be independent do not have any business relations with the Company, or do not have significant business relations that are likely to compromise their ability to exercise their judgment objectively.

Therefore, on the date this registration document was filed, the Company's Board of Directors had eleven independent members, representing 68.8% of the total, which is even higher than the percentage recommended by the AFEP-MEDEF Code.

Among the applicants to become members of the Board of Directors, the Board characterized the following persons as independent: Jacques Aschenbroich, Maryse Aulagnon, Nathalie Rachou and Groupama SA represented by Georges Ralli.

16.1.4 Powers and Work of the Board of Directors

Powers of the Board of Directors

In accordance with the law, the Board of Directors establishes the policies concerning the Company's business and supervises the implementation thereof. Subject to the powers expressly granted by law to shareholders' meetings and within the limits of the corporate purpose, the Board of Directors has the authority to consider all issues concerning the proper operation of the Company and, by its deliberations, resolves matters which concern the Board.

In addition to the powers conferred on the Board of Directors by the law, its internal regulations impose an internal requirement that certain major decisions of the Chairman and Chief Executive Officer (*president-directeur général*) be submitted for the Board of Directors' prior approval. These limitations of internal authority are described below (cf. § 16.3.2).

Meeting frequency, duration and participation

According to its internal regulations, the Company's Board of Directors must meet at least four times a year. In the 2011 fiscal year, it met twelve times (versus eleven times in 2010), and the average duration of the Board meetings was three hours (versus two hours and 15 minutes in 2010). The average attendance rate of the Board members was 84.2% in 2011 (versus 83.6 % in 2010). The option of participating by means of remote transmission was exercised on the occasion of nine meetings out of twelve in 2011 (versus nine meetings out of eleven in 2010).

Work of the Board of Directors in 2011

The activities of the Board of Directors in 2011 were mainly divided among the following subject areas: review of the 2010 annual financial statements, 2011 semi-annual financial statements, and 2012 budget, and reporting on the financial statements of the first and third quarters of 2011, as well as financial communications; dividend policy, and proposed allocation of income and share-based dividend payments; convening and reports/resolutions to be submitted to the annual combined general meeting; the Board's opinion on the Company's policy concerning the granting of stock options and the employee savings plan (PEG), followed by the decision to discontinue the planned award of stock options to senior management (other than the chief executive officer) and employee stock ownership; review of the 2010 registration document and report of the Chairman of the Board pursuant to Article 225-37 of the French Commercial Code; regular summaries and reports by their respective chairman of the work performed by the Accounts and Audit and Nominations and Compensation Committees; annual report by the Chairman of the Committee for Research, Innovation and Sustainable Development on the work performed by this committee; review of the policy for equal opportunities and equal pay based on gender; approval of the final terms and conditions of the merger between Veolia Transport and Transdev, as well as several major transactions (particularly Dalkia's investments in Poland); review of the financing policy and authorization of a number of financing transactions. The Board renewed the financial and legal authorizations granted to the Chairman and Chief Executive Officer, particularly for financing activities and off-balance sheet commitments, and agreed to the Group's material guarantee authorizations.

On issues of corporate governance, in 2011 the Board's work focused on the policy and setting of the amount of compensation of the Chief Executive Officer and examining the policy applicable to the Executive Committee; formally evaluating the Board of Directors and its committees and examining the criteria for selecting directors during the change in its composition, particularly with regard to appointing women to the Board; evaluating the independence of the directors and internal controls and approving the Chairman's report; renewing part of the Board by the general meeting; distributing directors fees.

For the first time, the Board held a meeting in 2011 at one of the Environmental Services Division's industrial sites; in addition to the site visit, the directors had an opportunity to review the Group's toxic waste policy. Similarly, the Board met for a strategic seminar, partly attended by the Executive Committee, to discuss in depth management's key policy objectives in advance of Investor Day on December 6, 2011. The Board then discussed and approved the long-term plan outlining this strategy.

In 2011, the Board of Directors was regularly informed of key commercial developments and the initiatives planned by executive management. The Board also received reports from executive management on road shows and the Investor Day. The Board of Directors, thanks primarily to a system of reporting to the Board and the reports from the Accounts and Audit Committee, was periodically informed of the changes in the body of shareholders, the Group's financial situation and cash position, the off-balance sheet commitments of the Company and of the Group, and changes in significant litigation. The Group's Chief Finance Officer, Secretary General and General Counsel attended the Board meetings in 2011.

The directors receive a monthly report regarding stock prices and the follow-up on analyst recommendations. Every six months, executive management provides the directors with detailed documentation regarding business activities, internal matters (appointments, social policy) and the Group's corporate activities (progress in sustainable development, monitoring of the latest regulations) during the period in question.

Evaluation of the Board and of the actions of Executive Management

Once a year, the Board is required to include a matter of business on its agenda providing for an evaluation of its operations prepared by the Nominations and Compensation Committee and a discussion of its operations for the purpose of improving its efficiency, ensuring that important issues are adequately prepared and discussed during Board meetings and assessing the actual contributions of each member to the Board's work. In addition, the Board's internal regulations provide that a formal evaluation must be carried out every three years by an outside organization, under the direction of the Nominations and Compensation Committee for the purpose of ensuring that the Board complies with the principles governing its operations and studying proposals intended to improve its operations and efficiency. Each year, the Nominations and Compensation Committee provides the Board of Directors with a report evaluating the performances of the Chairman and of the directors, as well as the actions of executive management. The Board then discusses this report.

In accordance with internal regulations, the conclusions of a formal evaluation conducted by an independent body were presented to the Board on March 24, 2011 by the Chairman of the Nominations and Compensation Committee. Pursuant to the decisions taken at this meeting, the Chairman and Chief Executive Officer convened the Board in November 2011 to attend a strategic seminar at which the Executive Committee was present, and which allowed ample time for discussion and exchange; prior to this meeting, directors were sent detailed documentation, including information about the competitive environment in which the Group operates. Furthermore, on March 15, 2012 the Nominations and Compensation Committee provided the Board with its recommendations on the Board's change in [size and] composition. In 2011 executive management reported periodically to the Board on the key questions asked during road shows. Lastly, the Accounts and Audit Committee was given a review in 2011 of the risk management system as well as of the status of initiatives undertaken, and the Board received its committees' annual schedule of tasks.

The annual evaluation began at the start of 2012 under the impetus of the Chairman of the Nominations and Compensation Committee. During the Board meeting on March 15, 2012, the Chairman of the Nominations and Compensation Committee communicated the results of this evaluation:

In general, the Board members were happy with the organization of the Board. The responses were mainly positive in relation to the improvements made to the way it operates following the formal evaluation in 2011; in particular, the organization of a strategic seminar in November 2011 was widely appreciated. Some directors requested the following improvements: meetings to present the business divisions to be held more frequently with the presence of the relevant managers; information to be produced on risks and competitors; more time to be devoted to internal debates; and the Board's authorization levels to be reassessed in terms of its internal regulations. Regarding the composition of the Board, recommendations were made in terms of its size and number of female members. The operation of the committees was considered as satisfactory overall. After discussions, the Board made the following conclusions: the day dedicated to strategy and the organization of a meeting at one of the operating sites will continue in 2012; the general management shall inform the Accounts and Audit Committee of the Group's operations reaching a threshold of between 150 and 300 million euros; steps will be taken to ensure these financial plans are communicated to the Board at an earlier date.

16.1.5 Role of the Chairman of the Board of Directors

The internal regulations of the Board clarify the role of the Chairman of the Board of Directors.

The Chairman of the Board of Directors organizes and directs the work of the Board and reports thereon to general shareholders' meetings. He is responsible for preparing reports on the organization of the Board's work, internal controls and risk management. He chairs general shareholders' meetings.

In general, the Chairman of the Board of Directors ensures the proper operation of the Company's corporate bodies and compliance with good governance principles and practices, in particular regarding the committees created within the Board. He ensures that the directors are in a position to perform their duties and that they are adequately informed. He devotes the time necessary to issues concerning the Group's future and, in particular, issues concerning the Group's strategy.

In accordance with the internal regulations, the directors and the Chief Executive Officer are required to promptly inform the Chairman and the Board of all conflicts of interest, even if only potential, and of all proposed agreements that may be made by the Company in which they may have a direct or indirect interest.

The Chairman of the Board chairs Board meetings and prepares and coordinates the Board's work. In this regard, he:

- convenes Board meetings in accordance with the schedule of meetings agreed upon with the directors and decides if it is necessary to convene Board meetings at any other time;
- prepares the agenda for meetings, supervises the preparation of documentation to be provided to the directors and ensures that the information therein is complete;
- ensures that certain subjects are discussed by the committees in preparation for Board meetings and ensures that the committees perform their duties of making recommendations to the Board;
- leads and directs the Board's discussions;
- ensures the directors' compliance with the provisions of the internal regulations of the Board and of the committees;
- monitors implementation of the Board's decisions;
- in conjunction with the Nominations and Compensation Committee, prepares and organizes the Board's periodic evaluation work.

The Chairman has the means necessary to perform his duties.

16.1.6 Vice-Chairman / Senior Independent Director

Appointment of a Vice-Chairman / Senior Independent Director

On October 21, 2009, the Board of Directors decided to create the position of Vice-Chairman to assist the Chairman with his duties to ensure proper operation of the Company's governing bodies, on the British model of the "Senior Independent Director". In accordance with the internal regulations of the Board, the Senior Independent Director is chosen from among the directors characterized as independent for the duration of his term of office of independent director. The Board appointed the independent director Louis Schweitzer to assume that position of Vice-Chairman, effective November 27, 2009. During the meeting held on March 15, 2012, the Board of Directors duly noted that Louis Schweitzer will reach the age of 70 in 2012; therefore, in application of the Article 12 of the Company's Articles of Associations, he will be unable to continue as Vice-Chairman beyond the general meeting to be held on May 16, 2012. In accordance with the recommendations of the Nominations and Compensation Committee, the Board of Directors has decided to appoint him, following the annual general meeting to be held on May 16, 2012, as a Senior Independent Director, responsible for controlling the satisfactory operation of the Company's governance bodies, for the duration of his term of office as Board member and declare his status as an independent member, as determined by the Board.

Role of the Senior Independent Director

The Senior Independent Director duties include helping the Chairman ensure that the Company's governing bodies run smoothly. In this regard, the Senior Independent Director examines, in particular, conflicts of interest, including potential conflicts of interest that may involve the Board members or the Chairman of the Board with regard to the interests of the Company, whether they arise in connection with operational projects, strategic policies or specific agreements. The Vice-Chairman submits his recommendations to the Chairman and the Board after any necessary consultation with the other independent directors.

The Senior Independent Director is informed of the concerns of major shareholders not represented on the Board regarding governance issues and ensures that such concerns are addressed. If necessary, and in agreement with the Chairman of the Board, the Senior Independent Director may also himself respond to questions of major shareholders or meet with them if the ordinary avenues for doing so (i.e., the Chairman and Chief Executive Officer or the Chief Finance Officer) have been unable to handle such concern or if the nature itself of the matter renders these ordinary avenues inadequate or inappropriate.

In connection with the evaluation of the Board's operations pursuant to its internal regulations, the Senior Independent Director assists the Nominations and Compensation Committee in its work of evaluating the performance of the Chairman of the Board.

16.1.7 Securities Trading by Directors and Executive Officers

Reporting obligations and prohibition of securities trading

According to the Board's internal regulations, every director or censeur must report all transactions performed with regard to the Company's securities to the AMF and to the Company and comply, in particular, with the provisions of Article L. 621-18-2 of the French Monetary and Financial Code and Article 223-22 of the general regulations of the AMF. The members of the Board of Directors and the Company's management personnel or "high officers", and their close personal relations, shall report all acquisitions, sales, subscriptions or trades in the Company's securities and financial instruments to the AMF, within five trading days after completion.

Moreover, the directors and executive officers are subject to French and US regulations concerning the associated violations and the crime of insider trading and which stipulate that the use or disclosure of inside information is a punishable offence. In accordance with Article L. 621-18-4 of the French Monetary and Financial Code, the Company draws up, and keeps up to date, a list of permanent insiders, which is available to the AMF, and which includes in particular the members of the Board of Directors and of the Company's Executive Committee.

The Company's directors and executive officers are required to comply with the provisions of the Company's Code of Conduct with respect to securities transactions (cf. § 4.2.2.2.4 above). In that respect, the members of the Board of Directors and of the Executive Committee are deemed by the Company to be permanent insiders and may not buy or sell the Company's securities, directly or through a third-party intermediary, during certain periods: during the six-week period up to and including the date of publication of the annual financial statements, the four-week period up to and including the publication of the semi-annual financial statements, and the two-week period up to and including the date of publication of quarterly financial information, or even outside of those periods so long as they possess insider information. In order to prevent any difficulties related to applying the code of conduct, the individuals in question should consult with the Company's Secretary General.

Shareholding obligation of Directors and Executive Officers

In accordance with Article L. 225-185 of the French Commercial Code, the Company's Board of Directors decided on March 29, 2007, at the proposal of the Nominations and Compensation Committee, to apply a rule to require its Chairman and Chief Executive Officer to set up a Veolia Environnement share portfolio equal to 50% of the balance of the shares that result from exercising options after payment of tax (capital gains and mandatory social security contributions) and the cost of financing (number of options that it is necessary to exercise by combined exercise and sale in order to finance the exercise price of the portfolio to be set up and the tax). That rule has not been applied in practice, as the performance criterion set in the 2007 stock options plan has not been satisfied and considering that no options or performance shares have been awarded to the Company's directors and executive officers since that date. The rule may be reassessed by the Board in the future.

16.1.8 Other Information about the Operating of the Board

This section summarizes the corresponding sections of the internal regulations of the Board of Directors.

Directors' duties and obligations

According to the Board's internal regulations, its members are subject to obligations such as acting in the Company's best interests, informing the Board of any situation of conflict of interest, even if merely potential, refraining from voting on any decisions in which they may have a conflict of interests; exercising their duties in accordance with the statutory provisions, notably those concerning the limitations of terms of office, and to regularly attend the Board and committee meetings; being informed in order to be able to deal effectively with the agenda items; to maintain genuine professional secrecy and fulfill their obligations of loyalty; comply with the Company's code of conduct with respect to securities transactions. The members of the Board of Directors and, where applicable, the Chief Executive Officer are required to promptly report to the Chairman of the Board any agreement signed by the Company in which they are directly or indirectly interested or made by an intermediary on their behalf.

Each director receives a periodically updated "Director's Guidebook" that includes the following main documents: the Company's Articles of Association, a summary of the Chief Executive Officer's powers, the internal regulations of the Board of Directors, Accounts and Audit Committee, and Nominations and Compensation Committee, the Company's code of conduct with respect to securities transactions, with a reminder of the rules applicable to the reporting obligations of directors and executive officers for transactions performed with regard to the Company's securities, and the "Ethics, Commitment and Responsibility" Charter.

Information provided to directors

The Chairman provides directors, in a timely manner, with the necessary information for them to fully perform their duties. In addition, the Chairman constantly provides the members of the Board with all significant information concerning the Company. Each director receives and has the right to request all necessary information to perform his duties, and may also request additional training concerning the specificities of the Company and the Group.

In order to fulfill their duties, the directors may meet with the key management personnel of the Company and Group, subject to giving prior notice to the Chairman of the Board.

In the event that the Chairman's duties are separated from those of the Chief Executive Officer, the internal regulations of the Board of Directors provide that the non-director Chief Executive Officer is automatically invited to all Board meetings, unless the Chairman or the Board decides otherwise. At the request of the Chairman or of a director, the heads of the Group's divisions may be invited to any Board meeting devoted to the prospects and strategies of their business sector.

Participation by means of telecommunications

Directors may participate in the Board votes by videoconference or other means of telecommunications, under the conditions set out in Articles L. 225-37 and R. 225-21 of the French Commercial Code and as provided by the internal regulations of the Board of Directors. In such case, directors are deemed present for the purpose of calculating the quorum and majority, except with regard to the vote on certain major decisions as provided by law and by the Board's internal rules (in particular, the year-end closing of accounts and preparation of the management report and the consolidated financial statements).

16.1.9 Compensation of the Board members

The rules governing directors' fees and the amounts paid in 2011 are stated in Chapter 15, § 15.1.2 above.

16.2 Operating and Work of the Committees of the Board of Directors

Ever since the Company adopted a mode of governance as a joint stock company with a Board of directors (*société anonyme à conseil d'administration*) on April 30, 2003, the Company's Board of Directors has been assisted by an Accounts and Audit Committee, a Nominations and Compensation Committee, and, since September 14, 2006, by a Committee for Research, Innovation and Sustainable Development.

16.2.1 The Accounts and Audit Committee

Operations and composition of the committee

The Accounts and Audit Committee is held at the initiative of its own Chairman or at the request of the Chairman of the Board of Directors at least five times per year to review the periodic and annual financial statements before their submission to the Board of Directors. In 2011, the Accounts and Audit Committee met seven times (the same as in 2010). The average rate of attendance in 2011 was 96.4% (versus 100% in 2010).

The Accounts and Audit Committee has three to five members appointed by the Board of Directors from among the directors (excluding those directors in management positions) pursuant to a recommendation made by the Nominations and Compensation Committee. The Board appoints the Chairman of the Committee.

As of the date this registration document was filed, this committee has four independent members, as required by the internal regulations of the Board of Directors: Daniel Bouton (Chairman), Pierre-Andre de Chalendar, Paul-Louis Girardot and Groupe Industriel Marcel Dassault, represented by Olivier Costa de Beauregard. The composition of this committee did not change in 2011.

According to the internal regulations of the Accounts and Audit Committee, its members are required to be chosen on the basis of their financial or accounting expertise and at least one committee member must have specific financial or accounting expertise and be independent under the criteria specified in the internal regulations of the Board of Directors. On March 24, 2011, the Board of Directors deemed all the committee members to be financial experts within the meaning of the U.S. Sarbanes-Oxley Act and applicable French legislation, on the grounds that they possessed the necessary expertise and experience. All of the committee's members are considered to be independent according to the criteria set forth in the New York Stock Exchange Manual.

Duties of the committee

The duties of the Accounts and Audit Committee, according to its internal regulations adopted by the Board, take into account U.S. laws and regulations concerning the assessment of internal controls of financial and accounting information, and the Order of December 8, 2008 implementing the Eighth Directive on Statutory Audits of Corporate Financial Statements (Directive 2006/43/EC), and the AMF recommendations of July 2010 into French law.

In general, the Accounts and Audit Committee is responsible for monitoring issues concerning the preparation and control of accounting and financial information and, in particular, for monitoring (i) the integrity of the Group's financial statements and the process for preparing financial information; (ii) the effectiveness of internal control systems concerning financial and accounting information and the Group's risk management systems that are expressed in the accounting system, or identified by executive management, and that may affect the financial statements; (iii) the Group's compliance with statutory and regulatory requirements where these are relevant to financial reporting or internal control; (iv) evaluation of the auditors' skills and independence; and (v) the performance of their duties by the Group's internal audit department and the auditors with respect to auditing the individual and consolidated annual financial statements. In this regard, the duties of the committee are:

a) Process of preparing accounting and financial information: (i) together with the auditors, reviewing the relevance and consistency of the accounting methods used to prepare the individual or consolidated financial statements, examining whether major transactions are adequately processed on a Group-wide level; (ii) reviewing the scope of the consolidated companies and the procedures of collecting financial and accounting information and interviews and seeking the explanations and comments of the auditors in this respect, where necessary; (iii) giving an opinion on the draft semi-annual and annual individual and consolidated financial statements prepared by executive management before those statements are presented to the Board; (iv) interviewing the auditors, the members of executive management and financial officers, particularly on the off-balance-sheet commitments, depreciation/amortization, provisions, goodwill and principles of consolidation; such interviews may be conducted without the presence of the Company's executive management; (v) taking cognizance of, and expressing an opinion on the process of preparing press releases on the occasion of publication of the annual or semiannual financial statements and the quarterly information; and in the context of the Board's examination of the press releases concerning, in particular, the annual and semiannual financial statements, making sure that the presentation of this financial information to the market is consistent with the information in the financial statements, according to the information in its possession.

b) Internal audit: (i) taking cognizance of the Company's audit charter; (ii) examining once a year the Group's annual internal audit program; (iii) periodically receiving information from the Company with regard to the progress in the program to audit and assess the internal control system (cf. section 404 of the Sarbanes-Oxley Act) and risk management, summaries of the auditing assignments carried out and, once a year, an overall analysis of the main lessons learned from the auditing year; and (iv) interviewing the head of the internal audit department and giving the committee’s opinion on the organization of the work of his department.

c) Effectiveness of the internal control and risk management systems, within the framework of the provisions of Section 404 of the Sarbanes-Oxley Act (evaluation of the effectiveness of the internal control procedures regarding financial and accounting information) in particular, and Article L. 823-19 of the French Commercial Code (cf. Order of December 8, 2008 having implemented the Directive concerning the statutory auditing of financial statements): Concerning the monitoring of the effectiveness of internal control systems: (i) periodically receiving information from the Company about the organization and procedures of internal control relating to financial and accounting information; (ii) interviewing the head of the internal control department and giving the committee's opinion on the organization of the work of his department; (iii) hearing an annual report from the Ethics Committee on the whistleblowing system available to employees with respect to accounting, finance, management audits and control; having significant matters referred to it by the Ethics Committee in said fields and ensuring the follow-up of those cases with said committee. Concerning monitoring of the effectiveness of the system of managing the risks expressed in the accounting statements or those identified by executive management that may have an effect on the financial statements:(iv) periodically examining the mapping of the main risks identified by executive management that may affect the financial statements; (v) taking cognizance of the main characteristics of the systems for managing those risks and the results of their ***operation,*** based in particular on the work of the risk management department, the internal audit department and the auditors in relation to internal control procedures; and (vi) following up implementation of corrective actions in relation to any identified weaknesses that might have an impact on the financial statements.

d) Auditors: (i) reviewing the auditors' planned work on an annual basis; (ii) interviewing the auditors and the officers in charge of finances, accounting and treasury, in certain cases, without the presence of members of the Company's executive management; (iii) supervising the procedure for choosing auditors and making recommendations thereon; (iv) giving its opinion regarding the amount of fees requested by the auditors; (v) giving its prior approval to auditor activities that are strictly ancillary or directly complementary to the audit of the financial statements; and (vi) being informed of the fees that the Company and the Group pay to the audit firm and network, ensuring that the amount of these payments or the share of these payments in the firm's and the network's revenue does not call into question the independence of the auditors, and reviewing together with the auditors any risks threatening their independence and the precautionary measures to be taken to reduce such risks.

Activities of the committee in 2011

In 2011, the Accounts and Audit Committee organized its activities, as before, within the framework of a program drawn up by the committee for the year under review. The meetings are covered by minutes and by a report from the Chairman of the committee to the Board of Directors.

The Accounts and Audit Committee proceeded to review the annual and semiannual financial statements and the associated business report. It reviewed the main accounting options, asset impairment tests and risk agreements. The committee noted the financial information and business reports of the first and third quarters of 2011. Pursuant to the provisions of Section 404 of the Sarbanes-Oxley Act, the committee read the summary of the internal control activities and evaluation for the 2010 fiscal year, certified by the auditors, and examined the 20-F report for 2010. It examined fraud reporting, and reviewed the plans of action for fraud prevention, as well as the report on the activities of the Ethics Committee. The Accounts and Audit Committee then examined the summaries of the internal audit assignments performed in 2010 and the first half of 2011, and approved the internal audit program for 2012.

Together with the Company's managers, the committee also reviewed the key processes in its duties: review of the financial policy and planned financing transactions, review of the investment process, tax review and review of legal reporting on major disputes, review of the roll-out of the "Agora" management system and financial procedures, financial review of the Water and Environmental Services Divisions, review of the risk management system and update on the implementation of its plans of action, and review of the environmental risk management system. The committee was also specifically informed of the finalization of the planned merger between Veolia Transport and Transdev, of a fraud committed in a subsidiary (Marine Services), of Dalkia's major planned investment in Poland, and of IFRS changes.

The committee approved the auditors' assignments for 2011 and fee budget for 2012; it reviewed the state of their terms of office as well as their independence, and how they organized their tasks and recommendations. It was also involved in the process to reappoint an auditor.

The committee may interview persons outside the Company if it deems such interviews of use to the performance of its duties. In addition, the committee may consult with outside experts. It may also interview the Company's financial officers or the auditors without the presence of the Chief Executive Officer. Accordingly, in the past fiscal year, the Chairman of the Accounts and Audit Committee and/or the committee members interviewed and met with the Chief Finance Officer, the financial services director, the management process and systems director, the Group's internal audit director, the Secretary General, the general counsel, the senior tax director, the risk management director, the sustainable development director, the ESG-performance director, the business development director, the Veolia Propreté finance director, the secretary general in charge of finances at Veolia Eau, the senior executive vice-president in charge of the Energy Division, the chief finance officer of Dalkia, the vice president of Dalkia Central Europe, and the Company's auditors. The committee did not call upon outside consultants in 2011.

16.2.2 The Nominations and Compensation Committee

Operations and composition of the committee

The Nominations and Compensation Committee meets at the initiative of its Chairman or at the request of the Chairman of the Board of Directors, and at least twice a year. In 2011, the Nominations and Compensation Committee met three times (six times in 2010). Its members' average attendance rate was 100% (100% in 2010).

In accordance with its internal regulations, the Nominations and Compensation Committee has between three and five members, who are appointed by the Board of Directors pursuant to a proposal of the Nominations and Compensation Committee. The committee members are selected from among the directors who do not hold management positions. The Chairman of the committee is appointed by the Board.

On the date of the filing of this registration document, this committee has four members, three of whom are independent on the basis of the criteria set forth in the Board's internal regulations: Serge Michel (Chairman), Daniel Bouton,[(1)], Louis Schweitzer[(1)] and Groupe Industriel Marcel Dassault, represented by Olivier Costa de Beauregard[(1)]. The composition of this committee did not change in 2011.

Duties of the committee

The main duties of the Nominations and Compensation Committee are as follows:

a) Compensation: (i) to study and make proposals regarding the overall compensation of the Company's directors and executive officers, in particular with regard to the rules and criteria governing the variable portion of compensation consistent with the annual evaluation of their performances and the medium-term strategy and performance of the Company and the Group, and with regard to the granting of in-kind corporate benefits, stock purchase or subscription options and allocation of bonus shares, pension plans, termination compensation and any other benefits, ensuring that all such components are taken into account in evaluating and setting their overall compensation; (ii) to propose to the Board of Directors an overall amount of directors' fees to be paid to the directors, as well as the rules for the distribution of these; (iii) to give the Board of Directors its opinion regarding the general policy and terms and conditions for granting stock purchase or subscription options, allocation of bonus shares and setting up employee stock ownership plans, as well as the provisions for sharing the performances of the Company or Group with employees; (iv) to make proposals to the Board concerning the granting of stock options and, if applicable, bonus shares to the Company's directors and executive officers, as well as with respect to the performance conditions applicable thereto; (v) to make proposals to the Board concerning the obligation of the Company's directors and executive officers to keep shares obtained by exercising stock purchase or subscription options or, if applicable, the allocation of bonus shares; and (vi) to give its opinion concerning the compensation policy with regard to the Company's key managers who are not also directors or executive officers of the Company or of other companies of the Group.

---

(1) Independent members.

b) Nominations: the committee is charged with making recommendations regarding the future composition of the Company's management bodies and, most importantly, is responsible for selecting the Company's directors and executive officers and a succession plan and it recommends the appointment of directors, as well as the members and Chairman of each committee of the Board, striving to ensure diversity in experience and points of view, while making certain that the Board of Directors retains the necessary objectivity and independence vis-a-vis any specific shareholder or group of shareholders. The committee gives its opinion on the succession plan for the Company's key managers who are not also directors or executive officers of the Company. The Nominations and Compensation Committee strives to ensure that at least (i) one-half of the directors on the Board of Directors, (ii) two-thirds of the members of the Accounts and Audit Committee and (iii) one-half of the members of the Nominations and Compensation Committee are independent directors. Each year, the Nominations and Compensation Committee conducts a case-by-case evaluation of each of the directors with regard to the independence criteria as set forth in the internal regulations of the Board of Directors and makes proposals to the Board of Directors for the Board's review of the situation of each director in question.

c) Evaluation: The Nominations and Compensation Committee assists the Board in its periodic evaluation work. It prepares the Board's annual evaluation of its organization and operations and leads the formal evaluation of the Board that is carried out every three years by an outside organization. Each year, the committee provides the Board of Directors with a report evaluating the performances of the Chairman and of the directors, as well as the actions of executive management. The Board then discusses this report. Lastly, each year, the key managers who are not also directors or executive officers of the Company have a meeting and interview with each member of the committee.

Activities of the committee in 2011

In 2011, the activities of the Nominations and Compensation Committee were devoted to changes in the composition of its Board, reappointing existing members or selecting new ones; preparing proposals and recommendations for the Board concerning the compensation of the Chairman and Chief Executive Officer and Executive Committee (setting the variable portion for 2010 and the fixed portion for 2011, criteria for calculating the variable portion for 2011); stating its opinion on the compensation of the Executive Committee members; stating its opinion on the policy with respect to awarding stock-options and employee stock ownership; issuing conclusions and following up on the formal evaluation of the operation of the Board of Directors and its committees; assessing the independence of the directors; reviewing the budget for directors' fees and distributing such fees among the directors.

16.2.3 Research, Innovation and Sustainable Development Committee

Operations and composition of the committee

In accordance with its internal regulations, the committee for Research, Innovation and Sustainable Development meets at the initiative of its Chairman or at the request of the Chairman of the Board of Directors. It is required to hold at least three meetings per year. During the 2011 fiscal year, the committee met six times (as it did in 2010). Its members' average attendance rate was 100% (compared with 100 % in 2010).

The Research, Innovation and Sustainable Development Committee has three to five members, who are appointed by the Board of Directors pursuant to recommendations made by the Nominations and Compensation Committee. The Chairman of the committee is appointed by the Board of Directors on the basis of a proposal made by the Chairman of the Board.

As of the date this registration document was filed, this committee had three members, who were appointed by the Board of Directors on September 14, 2006, two of whom are independent: Philippe Kourilsky (Chairman), Paul-Louis Girardot[(1)] and Pierre-André de Chalendar[(1)]. The composition of this committee did not change in 2011.

---

(1) Independent members.

Duties of the committee

The duties of the Research, Innovation and Sustainable Development Committee are to assess the research and development and sustainable development strategies and policies proposed by Company and Group departments and to state its opinion to the Board of Directors.

The committee is informed of programs and priority actions undertaken and it evaluates the results thereof. In particular, it keeps abreast of the budgets and staff levels and gives its opinion regarding the allocation of means and resources and whether they are appropriate in light of strategic choices made.

The committee's main contacts are the Company's Chairman of the Board of Directors, Executive Management and Executive Committee, the Group's research, innovation and development and sustainable development departments, as well as any other manager within the Company who has information or opinions that may be of use to the committee.

The committee may also interview persons outside the Company if it deems such interviews of use to the performance of its duties. In addition, the committee may consult outside experts.

Activities of the committee in 2011

In 2011, the Research, Innovation and Sustainable Development Committee interviewed the senior executive vice-president, the director of sustainable development, the heads of the Company's R&D subsidiary VERI (Veolia Environnement Recherche et Innovation), and, since Divisions were involved, executive managers and technical and developmental directors. Each of those entities had completed a quantitative and qualitative questionnaire in advance. Following a consolidation meeting in the presence of the Chairman and Chief Executive Officer, the Chairman of the Committee reported on the committee's activities in 2011 and gave his assessment of that year at the Board of Directors' meeting on December 15, 2011. In 2011 the committee monitored changes within the Group in the following areas: human resources and budgets devoted to innovation and sustainable development; organization of R&D based on a matrix structure; interface between VERI and the Divisions and/or operational units; definition and consolidation of the scope of R&D; structuring and follow-up of the R&D project portfolio; identification and roll-out of field innovations; industrialization of innovations; protection of competitive advantages; R&D watch and start-ups (VIA, "Veolia Innovation Accelerato"); benchmark for innovation set by the Divisions; sizing of the sustainable development department relative to the Group; international orientation and cross-over of innovation between Divisions; innovative business models; positioning of innovation at the highest level.

16.3 Executive Management

16.3.1 Method of Exercise of Executive Management

As a French joint stock company (*société anonyme*) with a Board of Directors, the Company is legally entitled to opt for either a separation of the duties of the Chairman and of the Chief Executive Officer or to have a single person hold those positions. As mentioned in the AFEP-MEDEF corporate governance code, the law indicates no preference between those two options, and it is the Board of Directors' prerogative to choose between the two methods of executive management in accordance with their specific requirements.

The Company's Board of Directors decided to entrust the executive management of the Company to Antoine Frerot (cf. § 14.1), whose term of office began on November 27, 2009 and was extended on December 12, 2010 to the close of the general meeting convened to vote on the financial statements of 2013. At the same Board meeting of December 12, 2010, the Board took note of the resignation of Henri Proglio from the Chairmanship and decided, on the recommendation of the Nominations and Compensation Committee, to change the mode of exercise of the Company's executive management and voted in favor of combining the duties of Chairman of the Board with those of the Chief Executive Officer, for the following reasons:

- Henri Proglio held the combined duties of Chairman and Chief Executive Officer from 2003 to the end of 2009 and that mode of management proved to be perfectly effective at Veolia Environnement during that period;
- the changes in the Company's governance resulting from the appointment of Henri Proglio as Chairman and Chief Executive Officer of EDF had been the subject of an in-depth review by the Board in 2009. The Board had decided that it was in the interest of the Company and its shareholders to separate the duties of Chief Executive Officer from those of the Chairman of the Board of the Company in order to maintain the Company's continuity and stability vis-a-vis its customers and employees during a transition period;
- this combined mode of governance ensures unified management that is more suitable and effective within a decentralized group such as Veolia Environnement. It is also more tightly knit and responsive, since it simplifies the processes of decision-making and responsibility;
- the internal regulations of the Board of Directors and the presence of independent directors on the Board offer all the guarantees necessary for the exercise of the combined mode of management in accordance with the practices of good governance;
- finally, regarding the practices of CAC 40 companies, it is the preferred management system since most companies with a Board of Directors opted for that combined mode of management.

16.3.2 Limits on the Powers of the Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer, who assumes the duties of executive management, is fully empowered to act in the name of the Company under any circumstances. He is required to act within the limits of the corporate purpose, subject to those powers that the law expressly confers on shareholders' meetings and the Board of Directors. He represents the Company in its relations with third parties.

The powers exercised by the Chairman and Chief Executive Officer are limited by the internal regulations of the Board of Directors as an internal rule. Thus, according to the internal regulations of the Board of Directors, the following actions of the Chief Executive Officer require prior approval from the Board:

- Establishing the Group's strategic policies;
- Group transactions involving amounts in excess of €300 million per transaction, with the exception of financing transactions;
- Financing transactions, regardless of the terms and conditions thereof, involving amounts in excess of €1.5 billion per transaction if the transaction is carried out in a single tranche and €2.5 billion if the transaction is carried out in more than one tranche;
- Transactions in the Company shares representing an overall number in excess of 1% of the overall number of the Company's shares.

16.4 The Executive Committee

In accordance with the Company's principles of corporate governance and practices since April 30, 2003, the combined Chairman and Chief Executive Officer (previously the Chief Executive Officer) is surrounded by an Executive Committee featuring representatives, in particular, of each of the Company's operating Divisions.

Under the chairmanship of Antoine Frerot, the Executive Committee is convened whenever the Group's major policies are established for the purposes of reflection, consultation and decision-making. In addition, it authorizes major Group projects, such as sales contracts and proposed investments, divestments or sales for amounts above certain thresholds. The Executive Committee meets approximately every two weeks.

In order to further enhance the Company's capabilities to assess and oversee projects, in 2008, an undertakings subcommittee of the Veolia Environnement Executive Committee was created under the chairmanship of the Chairman and Chief Executive Officer. This subcommittee conducts an in-depth review of major Group projects that must be submitted to the Executive Committee for final decision, before submission to the Board of Directors for authorization depending on the amounts involved. The subcommittee includes the head of the Group division for a particular project, the Chief Finance Officer and the Company's Secretary General.

On August 4, 2011 the composition of the Executive Committee was modified as follows:

- Denis Gasquet, Senior Executive Vice-President and Chief Operating Officer of Veolia Environnement, took charge of a team dedicated to plans to overhaul of the Group and reduce costs;
- Jérôme Le Conte is now Executive Vice-President in charge of the Environmental Services Division, in place of Denis Gasquet;
- Franck Lacroix is now Executive Vice-President in charge of the Energy Division;
- Jean-Marie Lambert is now Executive Vice-President in charge of Human Resources.

On March 16, 2012, the composition of the Executive Committee was modified again:

- Denis Gasquet, Olivier Orsini(1) and Jean-Pierre Frémont(2) left the Group;
- Sylvain Boucher, Secretary of the Executive Committee, joined the Executive Committee, and temporarily took over the management of the operations department, to replace Denis Gasquet.

On the date of the filing of this registration document, the Company's Executive Committee consists of eight members:

- Antoine Frérot, Chairman and Chief Executive Officer of Veolia Environnement;
- Jérôme Gallot, Chief Executive Officer of Veolia Transdev;
- Jean-Michel Herrewyn, Executive Vice-President in charge of the Water Division;
- Franck Lacroix(3), Executive Vice-President in charge of the Energy Division;
- Jérôme Le Conte, Executive Vice-President in charge of the Environmental Services Division;
- Pierre-Francois Riolacci, Chief Finance Officer;
- Jean-Marie Lambert(4), Executive Vice-President in charge of Human Resources;
- Sylvain Boucher, Secretary of the Executive Committee.

---

(1) Olivier Orsini acted as a Executive Vice-President and Secretary General during the 2011 fiscal year and until March 16, 2012.

(2) Jean-Pierre Frémont acted as the Executive Vice-President in charge of Public Entities and European Affairs during the 2011 fiscal year and until March 16, 2012.

(3) Franck Lacroix replaced Olivier Barbaroux on the Executive Committee on August 4, 2011.

(4) Jean-Marie Lambert replaced Véronique Rouzaud on the Executive Committee on August 4, 2011.

17 Employees – Human Resources

17.1 Human resources policy

2011 was marked by the announcement of a number of structural changes at Group level. Because of a difficult economic context, Veolia Environnement revealed that it wanted to refocus its business activities on the growth markets and services with high added value.

A first restructuring announcement was therefore made on August 4, 2011, followed by an assets disposal program announced on December 6, 2011 concerning Veolia Transdev. Business on the regulated water market in the United Kingdom and the management of solid waste in the United States will require very close attention in terms of human resources over the coming months.

Within this context, the Veolia Environnement human resources policy aims to support the Group's business areas, both by assisting them in the major changes in progress and by developing a proper human resources infrastructure to accompany the change.

Moreover, discussions that have been underway since July 2011 on the "Convergence" transformation plan, which aims to rationalize the organization of the Group and its operating methods, have closely involved the entire HR Division, particularly through work groups devoted to the charter of managerial practices, the functional entities and even the management of executive managers.

With a view to implementing this new strategy, the Executive Committee was the subject of significant changes over 2011, notably with the appointment of Jean-Marie Lambert as Deputy Chief Executive Officer in charge of the Group's human resources.

Despite these changes, the Veolia Environnement industrial model represents continuity, and places the employees at the heart of the Group's success. Whether relating to delegated public service management or industrial contracts, the men and women who deliver our environmental services are totally integrated into the local landscape. The efficiency and the quality of their services create an essential competitive advantage.

This is why ensuring that employees are integrated and retained and that talent is identified continue to be key issues for the Group.

In 2011, Veolia Environnement therefore continued with the deployment of its joint recruitment and mobility portal. The portal improves readability for job advertisements, particularly internal job advertisements, as well as the quality and traceability of the recruitment and mobility process. Thus, in a difficult economic context, Veolia Environnement externally recruited in the region of 34,000 staff on indefinite-term contracts across the world and offered its employees more than 16,000 mobility opportunities.

Similarly, Veolia Environnement is pursuing its skills management policy and offers all its staff, at all stages of their careers, a wide range of training programs for them to develop their know-how and ensure they have rewarding professional careers so as to be able to offer the best service possible to our customers.

With more than 6.6 million training hours given over 2011, and close to ¾ of staff having followed at least one training program, Veolia Environnement is continuing to provide the resources to match its ambitions. In the same way, and despite the constraints mentioned previously, recruitment through work-study schemes remains a priority for the Group.

This human resources policy is also characterized by labor-management dialogue, notably by the signature on 3 February 2011 of the agreement on the projected management of jobs and skills, supplementing the 2004 agreement on skills development and on-the-job training.

Combating discrimination and promoting diversity remains a fundamental objective for Veolia Environnement, as demonstrated by Dalkia obtaining its Diversity Label in July 2011.

17.1.1 Assessing the Group's corporate reality and supporting the implementation of the HR policy

A reliable and complete system of human resources data collection for all entities of the Group has been required in order to breathe life into Veolia Environnement's social plan aimed at more than 330,000 staff members in 77 countries. A network of over 900 correspondents across the globe is used each year to collect human resources data from approximately 1,400 entities. New recruits, departures, compensation, training, diversity: a total of around 200 indicators collected on the basis of a common definition reference document shared by all the Divisions.

Given the international scope of the Group, this reference document is translated into five languages: French, English, German, Spanish and Portuguese. Dedicated software has been used since 2004 in order to ensure the reliability of the data collected and perfect the verification process.

In a changing context in which the Group's profile is being redrawn, the challenges of the financial year are as follows:

- to keep exhaustive information for all stakeholders: investors, customers, labor-management partners, extra-financial rating agencies, NGO's, the media, etc.;
- to build up the use of data and topic-based analyses carried out country by country, and business by business, so as to assess the progress made locally in situ and to ascertain ways for improvement;
- to provide further assistance to local human resources management: specific redress, benchmark of practices concerning the relevant remits of each company of the Group.

Moreover, since 2008 the Veolia Environnement internal audit department has extended its remit to cover human resources in order to supervise the implementation of the policies laid down and the actions put in place.

Audit plans in France and abroad are scheduled each year for on-site assignments of 7 to 15 days on average. In 2011, the internal audit department carried out two cross-audits concerning the Group's entire human resources reporting and recruitment processes and use of the Taléo tool. China and Morocco were also subject to a social audit on various HR policy areas. Audits such as these highlight ways for improvement and for supporting the entities concerned. The Internet audit department then makes observations and recommendations, completed by an action plan defined by the entity and monitored at different dates.

17.1.2 Retaining all our talent and promoting mobility

Veolia Environnement's responses to environmental challenges and to the growing demands of public sector authorities and industrial entities depend on its know-how and, more generally, the performance of its social model. This is why Veolia Environnement strives to attract, train, develop and retain its staff at all skills levels and in all employment areas in which it operates. Operating on local markets, with the need to adapt to multiple requirements and environments to serve its customers, the Group's professionalization of its employees is central to its efficiency and its values.

The "Veolia Skills" initiative caters for these requirements by: externally, promoting access to employment for young people through work-study contracts; and, internally, by prioritizing professionalization and skills development courses for its staff from their arrival and throughout their professional career. This initiative is one of ways in which the Group's employment policy is implemented in France, through concrete and local actions.

Despite a difficult economic context, the mobilization of the resources the Company needs today and in the future remains a priority: Veolia Environnement continues to be very active at environment-related events, and in terms of partnerships through numerous exchanges with the teaching and research sectors.

The Group still has an active policy of recruitment through work-study schemes, with apprenticeship or professionalization contracts, and employed more than 4,400 people on work-study schemes at the end of 2011, with very diverse levels of training.

The initiatives started in previous years in terms of International Corporate Volunteer (VIE) contracts have also continued: they include 91 young graduates assigned abroad for the Group in 2011, for projects of 6 to 24 months. These young people represent a true recruitment pool, particularly for work abroad.

To improve managerial culture, special care is taken in the development of all these resources. The program for the management of executive managers focuses in particular on leadership potential, having an open vision of a changing world and having the ability to embody the Company's socially responsible values. The Group offers its staff specific training and development courses in line with the challenges and businesses of the Group.

Annual performance appraisal interviews define the requirements that are necessary for everyone to develop skills and improve career development prospects. These interviews take place in conjunction with an examination and a peer review of individual and workplace resources, and additional specific interviews take place throughout the professional careers of the employees, such as mid-careers interviews and career reviews.

At Veolia Environnement, we have also improved our systems for anticipating and supporting changes within the businesses serving our customers, ensuring the employability of our staff and facilitating internal mobility. To this end, a labor-management agreement on the projected management of jobs and skills (GPEC) was signed on February 3, 2011. This agreement was particularly relevant with the changes announced for the coming months within Veolia Environnement and has led to a joint initiative on the priorities of the GPEC and employment policy.

Through the "Convergence" project, and in this context of change and development within the Group, providing support with the change, mobility management, establishing individual and collective training plans, implementing an effective employment policy and mobilizing management will be key factors in building the Veolia of tomorrow.

17.1.3 A training policy serving the Company and its employees

Veolia Environnement has adopted an ambitious training policy, which notably features the deployment of Veolia Environnement Campus, with its deep local roots. This global network today comprises 20 campuses and training centers located in 10 countries.

Veolia Environnement's training policy revolves around three objectives:

- increasing the skills of staff in all professions in which the Group operates;
- supporting the commercial development and the performance of the Group; and
- contributing to the development of the corporate culture.

In 2011, more than 690,000 training programs were given, representing more than 6.6 million training hours in total. The aim of these programs is to develop the skills of staff through recognized courses affording job adaptation, the obtaining of certificates and accreditations and the promotion of mobility and career development. The programs are for all categories of staff, and are proposed to them throughout their career.

Veolia Environnement strives to ensure that people with fewer qualifications receive training and progress in their jobs. More than 88% of training initiatives are therefore aimed at operators and technicians.

This training is accessible both to new staff as part of their initial training during work-study periods and to Veolia Environnement staff as on-the-job training. The Campus network in France offers a number of certificates and diplomas dedicated to our various professions, at all levels of training: 12 CAP-level (certificate of professional aptitude) certificates and diplomas, 9 BAC-level (Baccalaureate) certificates and diplomas, 2 BTS (advanced vocational diplomas), 2 professional bachelor degrees and 1 masters degree are therefore available on the Campus network.

The Veolia Environnement Campus network

Created in 1994, the Île-de-France Campus, situated in Jouy-le-Moutier, is a real shop window for the Group’s activities. It is also a place that each year brings together several hundred young managers from all countries and from all of our businesses for a four-day integration period known as “JIVE”. Over the last ten years, more than 6,000 managers (including 20% from abroad) have taken part in this integration course, where they find out about the businesses of our four Divisions, get to know the Veolia Environnement culture and meet the Group’s leaders.

In response to the success of this model and in order to respond to the growth of our businesses, new Veolia Environnement training centers have gradually been set up.

Today the Campus network covers more than two thirds of staff and has 6 sites in France and 14 others in Germany, Sweden, the Czech Republic, China, Israel, Gabon, Morocco, the United Kingdom and the United States.

The Campus network offers 1,953 different training programs. The range of programs was based on the requests of the corporate and business training departments and the local operational units. This means the training programs offered are always consistent with the reality of our professions. In 2011, this training was delivered by 156 permanent trainers and 614 contributors.

A balance between permanent campus trainers and ad hoc contributors from within the Group's companies ensures the relevance of the training content and plays a role in staff cohesion within the Group.

17.1.4 Prevention, health and safety of staff central to our priorities

Health and Safety in the Workplace (SST), a major focus of the transformation plan launched as part of the Veolia Environnement strategic project, has been the subject of a commitment and increased efforts in 2011. The approach to issues linked to prevention, health and safety is essentially shaped by our desire to protect the physical and mental health of our staff. That said, and aware of the fact that performing well in these areas is synonymous with the Company performing well, these areas are of ongoing concern for Veolia Environnement by the very nature of its activities.

The Veolia Environnement Health and Safety at Work results have experienced a slow in the last few years. Veolia Environnement refuses to accept this fate and has decided to set the goal of quickly achieving levels comparable with those of leading industrial undertakings.

Findings at the start of the year have led to the identification of complementary approaches to the policy in place until now. Numerous initiatives have been launched to involve management and to make operators aware of the risks they run in their day-to-day jobs: implementation of an immediate reporting process for industrial accidents and more serious incidents, involvement of the operational line in the analysis of causes of accidents, internal reporting of accidents, management of the biggest risks and monitoring of the results obtained. Other structural initiatives such as setting up management safety inspections have been prepared in 2011 and will be launched in 2012.

The occupational risk prevention approach is based on the involvement of management and on a system of ongoing improvement in order to ensure the observance of commitments, the achievement of our targets and bringing to fruition our safety and prevention ideas, including occupational health, which feature in our Health and Safety in the Workplace general policy statement(1). We also expect our providers to adopt the necessary provisions to ensure prevention and the health, safety and well-being of their staff.

Through the implementation of the Veolia Environnement Prevention, Health and Safety management system, we have been able to effectively manage health and safety issues across the board of the Group's entities. This system focuses on six areas:

1. ***Commitment and motivation***: these should be visible to the entire hierarchy and are essential to the success of the system, so that everyone is involved in creating the desired corporate culture.

2. ***Policy***: the definition of intentions, targets and ideas at a Veolia Environnement level and within the operational units establishes the cornerstones of the prevention, health and safety policy.

3. ***Planning***: the improvement and monitoring of initiatives is designed to ensure compliance with the legal provisions in force and the targets and results expected at a Group level and within the operational units, particularly through the definition of internal rules and procedures.

4. ***Implementation and execution***: the organization of human and material resources and systems contributes to optimal performance in terms of health and safety. The implementation of programs means that the targets and the expected results can be achieved.

5. ***Monitoring and corrective measures***: the monitoring and assessment of performance, particularly through the implementation and monitoring of the audit program, means that corrective measures can be defined and integrated into an approach of ongoing improvement.

6. ***Management review***: this regular assessment of each element of the health and safety management system is analyzed by the Executive Committee. The aim is to adjust the system in order to ensure it is relevant and effective.

All of these areas underpin the Veolia Environnement occupational risk prevention policy, so as to develop a strong and coherent safety culture, a key aspect of the approach. This cultural shift is the result of the visible commitment of management at all levels and also the active motivation of each individual and the awareness-raising and training initiatives. As a result, in 2011, close to 50% of staff received safety training.

A safety policy strengthened internationally

The Group is focused on monitoring its staff on their work assignments throughout the world, particularly in areas where political instability or criminal threats could make them vulnerable.

In 2011, the Group was concerned with protecting its staff from violence in Tunisia, Egypt, Libya, Bahrain and Oman and systematically adopted a precautionary approach. Staff members on international assignments were repatriated, if necessary, by supervised operations with the support of specialist service providers.

Partnerships with global specialists in prevention, medical and security evacuation fall within the framework of country-specific security plans. The Group's security department ensures that crisis management prevention plans are in place, with a monthly map of risk areas circulated to all staff. In 2011, work was carried out in partnership with the legal and risk departments in order to refine the framework of these plans and to verify the operation of the decision-making chain in the event of a crisis.

Fourteen plans have been formalized to date and the aim is to systematize this framework for all countries classified as "risk areas" where members of the Group are on assignments. Veolia Environnement is committed to individually monitoring the situation of employees who sometimes have very close connections with their host country. In the Ivory Coast, the 2010-2011 crisis was managed in close

(1) Note of May 7, 2010: Prevention, Health and Safety commitment of Antoine Frérot.

coordination with the subsidiary's management team and human resources department so as to account for all personal repatriation aspects.

Since the end of 2010, the monitoring of short-term assignments in risk areas has been partially automated thanks to a computerized registration platform. The Veolia Environnement security department endeavors to process travel requests on a case-by-case basis and to personalize any recommendations to staff members, based on their profile, their precise destination and the local news climate. In 2011, more than 2,200 assignments in 64 countries were monitored in this way.

Supporting staff also involves training in these security issues. Five training sessions were specifically set up in 2011 for staff travelling to so-called "sensitive" countries. The Corporate International Volunteers (VIE), guided by the Division HR departments, systematically receive training to raise awareness of security issues. The security department also supports the Veolia Environnement Foundation in training voluntary staff for emergency assignments.

17.1.5 Building and maintaining relationships of trust with employees

Strengthening staff representative committees and labor-management dialogue

The agreement to set up a Group Europe committee signed in October 2005 has been revised, leading to the signature of a unanimous agreement by European labor and management partners in October 2010. This revision was based principally on the following:

- aligning the 2005 agreement with the new European social directives;
- strengthening the role of the representative committee and office in information and exchange processes;
- strengthening training initiatives and implementing topic-based work groups;
- the thresholds for allocating seats on the Europe Group committee: 21 European Union Member States are represented, i.e. covering two-thirds of Veolia Environnement staff;
- setting up "Country labor-management dialogue areas", in addition to the Group Europe committee, in order to forge links between the central committee and the countries and to share information on human resources policy within each country.

Furthermore, an agreement on the projected management of jobs and skills (GPEC) was signed on February 3, 2011. It revises and completes the agreement on skills development and on-the-job training of October 4, 2004 so as to anticipate changes within the businesses in line with the Group's strategy, facilitate and support career development and propose the most appropriate training. The agreement also sets out the procedures and resources.

In a challenging economic environment, labor and management made a joint decision at the end of 2011, as part of a work group, to redefine the priorities of the agreement for 2012.

The monitoring committee of the "occupational risk prevention and health and safety in the workplace" agreement signed in 2008, which runs for three years, has been redefined and perpetuated by labor and management in order to lay down, by means of an amendment, everybody's commitment to the priority area of health, safety and risk prevention for employees of the Group[(1).]

In 2011, the committee focused on the prevention of skills shortfalls with the support of the French National Agency for Improved Working Conditions (ANACT).

---

(1) Note of May 7, 2010: Prevention, Health and Safety commitment of Antoine Frérot.

An agreement on the development of the quality of labor-management dialogue, towards dialogue serving social cohesion and the development of the Group

Veolia Environnement strives to support labor-management dialogue by ensuring its implementation at all levels.

The labor-management agreement on the quality of labor-management dialogue signed in February 2010 by general management and all the union organizations in France testifies to this commitment. Covering close to one-third of Veolia Environnement staff, this agreement has specifically strengthened roles and responsibilities in order to support the labor-management dialogue of recognized and valued partners.

The certifying training launched in May 2011 for central labor-management partners, created in partnership with IEP Paris and the "Dialogues" association, reflects the Group's keen interest in maintaining good-quality relations with labor and management partners. The approach aims to promote their missions by improving their skills and has been incorporated into reflections with union organizations on union careers.

Within the framework of the provisions of the 2010 agreement, organization-based union seminars were set up by each organization in order to better structure themselves and identify their priorities. By systematically participating in exchanges during these seminars, the Group's management listens to its labor-management partners and maintains a dialogue on the key subjects of human resources policy. These representative union organization seminars are held each year.

Two initiatives based on the social and societal responsibility of the Company and health and safety were also set up in 2011 in order to share best practices at a European level. These initiatives will be seeing the launch of two topic-based work groups within the Group Europe Committee in 2012.

Labor-management dialogue central to the Group's changes

During this period of profound change, developing and structuring labor-management dialogue is all the more crucial as it strengthens social cohesion and ensures that the social and social responsibility commitments of the Group are upheld in a difficult economic context.

Providing social support for the change highlights the Group's desire to guarantee staff employability and promote internal mobility. The aim is to ensure that sales are systematically accompanied by a formalized social component. The Group is therefore mindful of the quality of projects and buyers, and demands concrete social commitments in terms of personnel management. Social guarantees were therefore defined for the sale of Veolia Transport in Norway and the United Kingdom as well as for the sale of Proxiserve.

To guarantee the transparency and fluidity of communication with labor-management partners during the Group's changes, the Group restated that the European representative offices would be convened for projects that could impact on the future of employees.

In 2011, the Group France and Europe committees were heavily involved in building the new entity Veolia Transdev, both in terms of its legal dimension up to the closing, but also in terms of the definition of the social commitments of the shareholders when the new entity is set up.

The strategic announcements of August 4 and then December 6 of last year were handled according to this model of ongoing consultation with labor and management.

Chairman and Chief Executive Officer Antoine Frérot and the members of the Executive Committee are personally involved with labor-management relations. The strategic choices are explained in close dialogue during successive and regular meetings of the representative offices and during plenary meetings.

Deputy Chief Executive Officer Jean Marie Lambert, who is in charge of human resources, set up meetings on employment with labor and management at the end of 2011. These meetings have been ongoing since the start of 2012.

17.1.6 Diversity, equal opportunities and combating discrimination

Committed since 2007 to an active policy of promoting diversity and combating discrimination, Veolia Environnement has prioritized two methods of implementing its 2008-2011 action plan.

A more rapid implementation in France through candidacy for the Diversity Label

The Diversity Label monitors all HR and management processes, which are subject to a multi-site audit conducted by Afnor Certification every 18 months. With Diversity Labels in July 2010 for 132 entities, and then Dalkia in July 2011, the Group uses a network of 70 diversity advisors from the Divisions, the Campus and the Company, who closely monitor the implementation of action plans. A select steering committee meets every two months to exchange views on best practices and results. In order to directly involve all decision-makers in the success of the diversity policy, an annual diversity review is submitted respectively to the human resources department, the Group France committee and the Group Executive Committee.

The work to structure HR staff training and communication processes, which was verified in January 2012, and the implementation of a set of indicators have enabled the Group to firmly and lastingly anchor its commitment to better manage and develop its human diversity. In France, 42.3% of the workforce is currently covered by this Label, thereby increasing employee awareness of these issues.

Since its set-up in 2010, the advisory unit, which handles discrimination complaints is regularly contacted, also by employees of "non-labeled" entities of the Group. This demonstrates how widely information is disseminated, particularly by the union organizations, and the benefits of such a system for our staff.

Diversity and discrimination prevention awareness-raising and training modules have enabled information on these subjects to be disseminated to more than 3,000 staff members: managers, recruiters, HR, training managers, staff representative committees (IRP) etc. Sales and purchasing managers have also been directly trained in this area in France. The Group's diversity offers a better understanding of the cultural particularities of the local areas in which it operates and the expectations of its customers, and demonstrates the consideration given to the employees and citizens to whom Veolia Environnement provides its services.

In terms of disability, the coordination of the Veolia Environnement disability units in France ensures that transverse actions are implemented, such as common signage used, specialist recruitment fairs and even outsourcing to the protected sector. Moreover, Veolia Eau (Water Division) has renewed its three-year agreement on disability in 2010, and Veolia Propreté (Environmental Services Division) its agreement with AGEFIPH (government agency promoting the employment of disabled people).

International deployment organized principally around two levers

The career portal is the Group recruitment and mobility management tool. It provides information on job openings and equal opportunities in access to job offers. This principle was notably endorsed by the Group France agreement on the projected management of jobs and skills signed on February 3, 2011. Local implementation (France, United States, United Kingdom, Germany, the Nordic countries, Australia, China etc.) has led to country-specific customized diversity pages, which ensures that the solutions are compliant. The alignment of processes and traceability by the tool facilitates the organization of a community of users, the exchange of best practices and the generation of statistical reports specific to the diversity reporting service.

The management of executive managers and "high flyers" has for two years been subject to targets to increase access to women and the internationalization of job profiles, all validated by the Executive Committee. The Group is fully aware that women make up a veritable potential pool of managers of tomorrow, and committed to an annual celebration of professions for women on March 8, 2011. Exchanges between female and international managers and the Group and Division human resources directors, and then Antoine Frérot, the Group's Chairman and Chief Executive Officer, have highlighted issues such as the organization of working time in the Company and the development of leadership. "*E Voila*" – a network of women – has been set up and works towards the representation of women on boards of directors. It leads a think tank and is trialing a mentoring system supporting other female employees in the Group. The Veolia Environnement Campus has also developed a training program dedicated to "Woman in leadership".

Agreements on gender equality in the workplace have also been signed in France and within the Company and decentralized entities. These agreements contain career support measures promoting access to key positions for women.

Group career progression monitoring and control systems have also been improved: since 2011: an automated questionnaire within the Group social reporting tool gathering information on a set of diversity indicators, particularly as regards the staff-management gender mix, the gender pay gap and even disability. The questionnaire provides a detailed and international snapshot of diversity at Veolia Environnement. The Group therefore has a shared tool for monitoring diversity and for contemplating action plans at different levels.

The more than 300 social initiatives reported during the summer of 2011 demonstrate the commitment of the HR community across the world, particularly with regard to diversity in its broadest sense, equal opportunities, disability, combating prejudice, integration, work-life balance etc.

The Group's diversity policy is today shown by the resolute line of the Divisions to fully incorporate this aspect into the specific culture of their professions: Veolia Eau has signed the Diversity Charter in order to specifically mobilize its employees in France, Veolia Énergie-Dalkia has set up diversity workshops across the world, Veolia Transdev has incorporated this aspect into its new identity, presenting itself as an international player respectful of local cultures and equal opportunities, and Veolia Propreté has fixed precise objectives for success for each of its geographical operating areas.

Preventing situations of distress and supporting the most vulnerable employees

In 2009, an Active Solidarity Plan was launched in consultation with the Group France committee in order to support the most vulnerable employees in a difficult economic context.

Among the measures decided at the time was "*Allô Solidarité*", a staff advisory and support system set up with the support of a partner outside the Company. The pilot phase of the system initially covered the Île-de-France region, and was then rolled out in 2011 to the Provence Alpes Côte d'Azur (PACA), Rhône-Alpes and Nord-Normandie regions.

The platform is currently accessible to 70,000 employees of the Group from all Divisions, and can be contacted by telephone 24/7. Ultimately, all of France will be covered by this system. In 2011, an average of a hundred calls were received each month, mainly about housing and money problems. Half of these were new cases and the other half cases already open. From the number of new cases handled each month, an average of 15 are considered urgent, with 3 requiring immediate action. A partnership with the "Vivons Solidaires" association was also set up in September 2010. Under this partnership, 75 cases were studied in 2011, with an average grant of €1,000 per case. Union organizations are attached to the board of directors and management of this association.

17.1.7 A consistent and competitive compensation policy

Veolia Environnement applies a global compensation policy, which is consistent with the Company's results and accounts for the following components: wages, social security and employee savings. This policy is based on the following principles:

- guaranteeing competitive fixed and variable compensation;
- offering a fair compensation in line with the practices of the local markets on which the Group is present, which incorporates and recognizes the efforts made by each person;
- increasing social security (health, disability and life insurance);
- minimizing the risk associated with the existing systems for paying entitlements or pensions in the various countries in which we do business;
- maintaining and ensuring continued access to employee savings.

Longer life expectancies, the rise in medical costs and retirements make managing the solvency of social security schemes increasingly strategic. In some countries, following the abandonment of public social security systems, economic stakeholders seek to provide health, benefit and pension cover for their employees. Due to its international dimension, the Company must take these factors into account and ensure that it:

- complies with local legislation and, wherever possible, implements complementary social security systems in order to guarantee fair coverage for all its employees;
- ensures the appropriate management of the Company by seeking to manage the costs associated with benefit obligations that fall within the scope of IAS 19;
- finances the schemes by employer and employee co-investment, so that each party assumes responsibility.

The benefit obligations of Veolia Environnement represented €2.1 billion as of December 31, 2011 (excluding Transport Division), representing an increase of €59 million (excluding Transport) compared with the end of 2010. This was linked essentially to the normal cost of the schemes (cost of services + discounting cost – benefits paid out) and to exchange rate effects, offset by reductions and liquidations, notably following the early termination of the Indianapolis contract in the Water Division. These obligations consist mainly of pension schemes with defined benefits (71%) and retirement payments (21%). The other obligations are mainly sickness cover for retirees, length of service reward payments and contract termination compensation payments. These obligations exist in around 50 countries.

17.2 Human resources information ("NRE" law)[1]

The human resources information given below has been taken from the international database that Veolia Environnement has been developing since 2001. This database includes, for all Group companies that are fully or proportionally consolidated, and located in all the countries in which the Group has employees, around 200 human resources indicators, i.e. more than 270,000 data items per year sorted by company, country and geographical area, throughout the world.

The main indicators are presented below under different subheadings. Some figures should be interpreted with caution, in particular averages, since the figures below comprise worldwide data that require a more detailed analysis at the level of the geographical area, country or business area concerned.

Total workforce

As of December 31, 2011, the total workforce was 331,266 employees, compared with 317,034 as of December 31, 2010, an increase of 14,232 (+4.5%).

The table below shows the breakdown of the workforce managed by Veolia Environnement, by Division and by geographical area.

Area	**Water ***	**Environmental Services ***	**Energy Services**	**Transportation**	**TOTAL**	**%**
Europe	57,832	52,629	37,110	77,910	228,179*	68.88%
of which France	*26,937****	*23,569*	*13,688*	*38,607*	*105,499***	*31.85%*
North America	3,563	9,062	700	17,375	30,700	9.27%
South America	6,743	7,395	7,865	1,212	23,215	7.00%
Africa/Middle East	8,761***	2,670	2,125	971	14,527	4.39%
Asia/Pacific	19,752	5,665	4,898	4,330	34,645	10.46%
TOTAL	**96,651,**	**77,421**	**52,698**	**101,798**	**331,266****	**100%**
%	29%	24%	16%	31%	100%	

* *The Proactiva workforce (12,031 people) has been broken down according to the activities of the companies concerned, between Water (4,961 people), and Environmental Services (7,070 people).*

** *For France, this figure includes 2,698 people working at the departments of the Company's headquarters: Veolia Environnement SA, VERI, VETech, Centre d'Analyses Environnementales, Campus Veolia Environnement, Défense Environnement Services, Seureca, OFIS, EOLFI, VE CSP Lyon, VEIS.*

*** *The Veolia Eau Réunion workforce (257 people) is included in the Africa/Middle East area. The workforce for the other subheadings is attached to France.*

As of December 31, 2011, 31.9% of the total Veolia Environnement workforce was located in France, 37.0% in the rest of Europe, 10.5% in the Asia/Pacific region and 20.6% in the rest of the world.

(1) *French New Economics Regulation law n° 2001.420 of May 15, 2001 ("NRE law").*

Breakdown of total workforce by type of contract and by category

Among the 331,266 employees of the Group as of December 31, 2011, 304,774 (92%) were on indefinite-term contracts and 26,492 on fixed-term contracts. Over 2011, 6,599 fixed-term contracts were converted into indefinite-term contracts. Among the employees managed by Veolia Environnement as of December 31, 2011, 30,165 (9.1%) were executives and 301,101 were non-executives. The workforce included 67,978 women, representing 20.5% of the total workforce.

In France, among the 105,756 employees managed by Veolia Environnement as of December 31, 2011, 100,223 (94.8%) were on indefinite-term contracts and 5,533 on fixed-term contracts. Over 2011, 2,062 fixed-term contracts were converted into indefinite-term contracts. Among the employees managed by Veolia Environnement, 13,858 (13.1%) were executives and 91,898 were non-executives. The workforce included 21,134 women (20%).

Weighted average annual workforce

This workforce corresponds to the equivalent number of employees Veolia Environnement would have if these employees had all worked full time throughout the year. It is calculated by weighting the total workforce against both the employment rate and the amount of time worked by each employee. The weighted average annual workforce in 2011 was 320,105.99 employees, of which 296,936.24 (92.8%) were employees on indefinite-term contracts.

In France, the weighted average annual workforce in 2011 was 105,981.07 employees, of which 100,208.31 (94.5%) were employees on indefinite-term contracts.

Consolidated weighted average annual workforce

This figure is calculated by weighting the average annual workforce of the consolidated companies against their financial consolidation rate. The consolidated weighted average annual workforce in 2011 was 258,400 employees.

Staff hired

In 2011, the total number of staff hired was 66,438. In addition to new contracts (3,764) and recruitment through internal mobility (2,386), 33,943 employees on indefinite-term contracts and 26,345 employees on fixed-term contracts were recruited by the Group on the job market. From the number on fixed-term contracts, 6,599 (25%) were converted into indefinite-term contracts over the year. The percentage of the full-time equivalent workforce on fixed-term contracts represented 7.24% of the average full-time equivalent workforce of all employees.

In France, the total number of staff hired in 2011 was 19,835, of which 6,488 were recruited externally on indefinite-term contracts and 11,056 on fixed-term contracts, i.e. 63% of external recruitment. 2,062 fixed-term contracts were converted into indefinite-term contracts over the year. Moreover, from this external recruitment, 1,129 were executives. The percentage of the full-time equivalent workforce of all employees on fixed-term contracts corresponded to 5.4% of the average full-time equivalent workforce in France.

Departures

The total number of departures in France was 63,715, of which 9,609 were individual dismissals and 698 part of layoffs.

In France, the total number of departures in 2011 was 19,098, of which 1,881 were individual dismissals and 136 part of layoffs.

Overtime

The total number of overtime hours worked was 25,865,323 (-3.42% compared with 2010), or an average per employee of 78 hours of overtime per year. The definition of overtime, however, varies from country to country, which sometimes makes it difficult to evaluate such an indicator. Moreover, in a services business, a large number of overtime hours are due to emergency work performed by on-call or on-site personnel, to restore water supplies or heating within a reasonable timeframe for example.

In France, the total number of overtime hours was 4,150,529.52, which corresponds to an average of 39.24 overtime hours per employee, per year.

Labor from outside the Group

The workforce of temporary workers (full-time equivalent) in 2011 was 15,032.15, representing 4.7% of the total full-time equivalent workforce.

In France, the workforce of temporary workers (full-time equivalent) was 6,144.73 (5.8% of the total full-time equivalent workforce).

Information on planned reductions in workforce and job protection schemes, redeployment efforts, rehires and support measures

Changes in the scope of Veolia Environnement have led to employees being transferred, without their contracts being terminated. The restructuring plans that were implemented in 2011 most often corresponded to the loss of markets, or to reorganization that was vital for certain business units. These operations were always carried out in compliance with the legislation and in consultation with labor and management representatives, and for the most part by giving priority to internal redeployment within the Group.

Organization and duration of working time, absenteeism[(1)]

The ways in which working time is organized depend on the companies concerned, the nature of their business, where they are located, and are defined in order to best meet the requirements of the department to which the employees are assigned and the employees' preferences. Although working time is most often based on daily equivalent working time, work schedules may vary considerably (for example, the work may be spread over four, five or six days a week, punch-in and punch-out times may be shifted, flextime may be used, as well as alternate short and long work weeks, and working time may be calculated over the year).

The average work-week is 38.7 hours (compared with 38.9 hours in 2010).

The total number of calendar days of absence was 4,701,090 during 2011, of which 3,283,915 were days of absence for sickness (69.85% of the total). Other reasons for absence were essentially industrial accidents, family events and maternity.

In 2011, the staff absenteeism rate was 4.16% (compared with 4.11% in 2010).

In France, the average working week is 35.2 hours. The total number of calendar days of absence was 2,234,111 in 2011, of which 1,484,016 were days of absence for sickness (66.42% of the total). In 2011, the staff absenteeism rate was 6.24% (compared with 6.57% in 2010).

---

(1) Notes on methodology: until the 2010 fiscal year, the definition of the absenteeism rate included all days of absence. From now on, days of absence for maternity/paternity leave are no longer counted. Absenteeism rates for previous years have been recalculated using the 2011 method for comparison purposes.

Compensation, social charges and gender equality[1]

Average annual gross compensation paid to all employees of the Group was €28,350 in 2011.

These averages are only indicative, however, and should be interpreted with an element of caution. They correspond to a wide diversity of situations due to the nature of the professions and jobs carried out and their geographical location.

Social charges were 24.1% of the total wage bill (these charges were 23.4% in 2010).

Average gross compensation paid to male employees was €29,122 (€27,940 in 2010) and that paid to female employees was €25,161 (€24,186 in 2010), i.e. a difference of €3,961 (representing a pay gap of -13.6%). This difference is mainly due to the nature of the jobs carried out and the demands of this work, as well as differences in age, seniority and qualifications that are often observed between the two populations. Veolia Environnement’s policy is to respect equality between men and women who have the same employment conditions and qualifications.

In France, average annual gross compensation paid to all employees was €32,799 in 2011 (€32,014 in 2010). Average gross compensation paid to male employees was €33,198 (€32,370 in 2010) and that paid to female employees was €31,138 (€30,476 in 2010), i.e. a difference of € 2,060 (representing a pay gap of -6.2%). Social charges were 32.3% of the total wage bill.

Ratio of average compensation and average minimum wage

This indicator makes it possible to carry out an improved comparative evaluation of compensation levels compared with the minimum wage guaranteed or practiced in some countries and, as a result, compared with the minimum employee resource levels in these countries. Last year this ratio was 2.37 and was slightly lower in 2011 at 2.32 in the nineteen countries studied where there is a statutory minimum wage and where two-thirds of Veolia Environnement employees work (their average weighted salary of €30,604 is equal to 2.32 times the average statutory minimum wage in these countries, i.e. €13,217).

Optional and mandatory profit-sharing

The total amount representing optional and mandatory profit-sharing paid by the Group represented €154 million (excluding Veolia Transdev), which is 2.5% of the total wage bill before taxes (excluding Veolia Transdev) in the world.

In France, the total amount of optional and mandatory profit-sharing represented €124 million (excluding Veolia Transdev), which is 5.2% of the total wage bill before taxes (excluding Veolia Transdev) in France.

Business relations and overview of labor-management agreements

Number of labor-management agreements signed in 2011 in the Group: 2,199 labor-management agreements were signed, including 1,177 agreements on compensation, 275 agreements on health, safety and working conditions, 302 agreements on labor-management dialogue and 445 agreements on other subjects or comprising several subjects. There were 17,162 staff representatives.

Number of labor-management agreements signed in 2011 in France: 880 labor-management agreements were signed, including 494 agreements on compensation, 126 agreements on health, safety and working conditions, 105 agreements on labor-management dialogue and 155 agreements on other subjects or comprising several subjects. There were 10,211 staff representatives in France in 2011.

---

(1) Details of methodology: the formula for employer social charges was adjusted this year. The 2010 employer social charges were restated according to the 2011 formula.

Health and safety conditions

Details of methodology: The health and safety data for the Environmental Services Division for 2011 come from the "Acciline" consolidation tool.

The definition of industrial accidents varies from country to country. Indeed, while in some countries only accidents that lead to more than two or three days of absence from work, or even more in some cases, are deemed to be industrial accidents, the Group chose a common definition for all countries and all of its subsidiaries, namely all industrial accidents, not involving commutes, that lead to at least one day of absence from work.

In 2011, the number of industrial accidents, not involving commutes, resulting in at least one day of absence from work was 9,848 (-1% compared with 2010) and the number of calendar days of work lost due to industrial accidents was 438,694.

The number of industrial accidents per million hours worked (or "frequency rate") in one year decreased from 18.09 to 17.13 and the number of calendar days lost due to industrial accidents per thousand hours worked (or the "rate of severity") increased from 0.72 in 2010 to 0.76 in 2011.

154,286 people received safety training in 2011. As evidence of the importance placed on health and safety, 3,198 units throughout the world are dedicated to dealing with occupational health and safety issues.

In France, the frequency and severity of accidents are often higher than those recorded on average throughout the world in light of specific statutory provisions. In 2011, the number of industrial accidents that led to at least one day of absence from work was 4,959 and the number of calendar days lost due to industrial accidents was 296,040. The number of industrial accidents per million hours worked (or "frequency rate") was 30.82 (compared with 30.70 in 2010) and the number of calendar days lost due to industrial accidents per thousand hours worked (or the "rate of severity") was 1.84 (compared with 1.64 in 2010). In 2011, 40,747 people took part in safety training and there were 750 units dedicated to occupational health and safety issues.

Training

Veolia Environnement also attaches a great deal of importance to skills development, maintaining staff employability and supporting staff through training, mobility and building motivational career paths.

Special efforts have been made to develop training abroad:

- total number of training hours given: 6,603,960 hours;
- percentage of the total wage bill comprising training expenses: 2.28 %;
- total number of people taking part in training programs: 691,312 (+16.6% compared with 2010), of which 78,976 were executives and 612,336 non-executives. 89% of people taking part in a training program were non-executives, 523,853 were men and 167,459 were women;
- Average duration of training programs: 9.6 hours.

In France in 2011:

- Total number of training hours given: 1,807,541 hours;
- Percentage of the total wage bill comprising training expenses: 3.2%;
- Total number of people taking part in training programs: 132,744, of which 19,031 were executives and 113,713 non-executives, broken down into 107,975 men and 24,769 women;
- Average duration of training programs: 13.6 hours.

Employment and integration of disabled workers

Details of methodology: Disability data do not cover Veolia Propreté. However, the shared data of Proactiva and the companies are included in the calculation of these indicators. In order to provide a comparison, 2010 data have been restated according to this same rule.

The number of disabled employees was 5,393 as of December 31, 2011, which is +37.8% compared with 2010.

In France, the number of disabled employees was 2,771 as of December 31, 2011, which is +14.3% compared with 2010.

Social work

The consolidated figure for social work grants was € 75,121,012 in 2011. The figure could not be obtained in certain countries, however, which do not report this information. This figure does not include all of the social or solidarity-oriented work carried out by the companies of the Group.

In France, the consolidated figure for social work grants was € 50,294,225.

Outsourcing and procurement

Veolia Environnement sometimes chooses to outsource certain activities that are not part of its core business to companies, which also comply with the fundamental conventions of the International Labor Organization (ILO).

The financial indicators that are currently available do not make it possible to have figures for the extent of outsourcing, which is also difficult to measure at a worldwide level. With respect to activities relating specifically to procurement, some of which are similar to outsourcing, the charter signed by the Group concerns all procurement network players in all countries and lists all the principles and rules that must be adhered to, including ethical principles, such as all those set down in the ILO conventions relating to forced labor, child labor, equal opportunities and freedom of association. The commitments made by suppliers in this respect must be set down in a contractual clause that binds the supplier and Veolia Environnement.

Influence of business activities on regional development and local populations

The services provided by Veolia Environnement grease the wheels of the economies of the areas they cover. A significant proportion of the Group's sales are "redistributed" to stakeholders, such as the Company employees, suppliers and external providers, the tax authorities, the banks and bond investors. The Group carries out most of its purchasing on the local or regional markets, thereby strengthening the economies of the areas in which it operates. By providing efficient public services, Veolia Environnement then provides communities with advantages in urban competition. In the long-term, Veolia Environnement services, which improve urban cleanliness and protect the environment and human health, also serve to improve the performance of the local economy. Lastly, the Group training centers, in line with local needs, strengthen the local economy. In France, Veolia Environnement also participates in seven competiveness centers.

Local populations are directly impacted by the water, urban transportation and waste and energy management services offered by the Group. The Group's expertise and the development of original support solutions enable it to contribute to improving access to essential services in a wide diversity of contexts and countries, thereby meeting the expectations of the authorities which entrust the management of their services to the Group. As part of its social responsibility, the Group is currently developing a societal reporting tool and expertise in evaluating the impact of its actions on the quality of life of inhabitants. For more details, please see the Group's 2011 Corporate Social Responsibility Performance Digest.

17.3 Share subscription and purchase options, bonus shares

17.3.1 Company policy on the allocation of share options and on the allocation of bonus shares

Company policy for the 2011 fiscal year

The Company did not allocate stock options or bonus shares in 2011.

Company policy for the 2012 fiscal year

The Board of Directors at its meeting on March 15, 2012, and following recommendations made by the Nominations and Compensation Committee, laid down the Company's general policy with regard to incentive arrangements for executives and managers of the Group in 2012.

Within this context, the Board of Directors decided against the allocation of stock options or bonus shares in 2012.

In view of these recommendations, the authorization given by the General Shareholders' Meeting on May 7, 2010 with a view to allocating to employees of the Company and its affiliated companies share subscription or purchase options, without discount, for a period of 26 months, representing up to 1% of the share capital as at the allocation decision date (half of which was used during the last issue – stock options plan decided by the Board of Director's meeting on September 28, 2010), will end on July 7, 2012. After this, the General Shareholders' Meeting to be held on May 16, 2012 will not be asked to vote on a new resolution with a view to allocating stock options.

Table outlining share subscription or purchase option plans as of December 31, 2011

As a result of the capital increase recorded on July 10, 2007 (see chapter 21, subsection 21.1.6 below), and in order to preserve the rights of the holders of share subscription or purchase options, the exercise parity of the options was adjusted pursuant to Article L. 225-181 of the French *Code de Commerce*. These adjustments entered into force on July 11, 2007.

	Subscription options	Subscription options	Subscription options	Subscription options
	Plan No. 8	**Plan No. 7**	**Plan No. 6**	**Plan No. 5**
Date of Shareholders' Meeting	05.07.10	05.11.06	05.12.05	05.12.04
Date of Management Board meeting or Board of Directors' meeting	09.28.10	07.17.07	03.28.06	12.24.04
Total number of options initially allocated	2,462,800	2,490,400	4,044,900	3,341,600
• Of which total number of options granted to corporate officers	0	110,000	150,000	110,000
Number of corporate officers initially concerned	0	1	1	1
Number of employees initially concerned	1,221	557	1,378	1,087
Exercise start date	09.29.14	07.18.11	03.29.10	12.25.07
Expiration date	09.28.18	07.17.15	03.28.14	12.24.12
Exercise price*	€ 22.50	€ 57.05	€ 44.03	€ 24.32
Number of options exercised as of December 31, 2011	0	0	1,300	244,491
Total number of shares that could be subscribed or purchased as of December 31, 2011**	2,369,200	562,350	3,286,799	3,062,914

* *Adjusted, where necessary, to take into account transactions affecting the Company's share capital.*

** *After application of legal adjustments and the plan performance conditions, after taking into account options exercised and any changes in the situation of the beneficiaries since each plan was set up.*

A share purchase option plan No. 1 was implemented pursuant to a Management Board decision on June 23, 2000. This plan expired on June 23, 2008. On the plan's expiration date, a total number of 457,962 shares had been acquired by Group executives and employees under this plan.

A share subscription option plan No. 2 was set up on February 8, 2001, also pursuant to a Management Board decision. This plan expired on February 8, 2009. On the plan's expiration date, 1,989,853 shares had been subscribed by Group executives and employees under the plan.

A share subscription option plan No. 3 was set up on January 28, 2002, also pursuant to a Management Board decision. This plan expired on January 28, 2010. On the plan's expiration date, 2,385,941 shares had been subscribed by Group executives and employees under the plan.

A share subscription option plan No. 4 was set up on March 24, 2003, also pursuant to a Management Board decision. This plan expired on March 24, 2011. On the plan's expiration date, 3,253,370 shares had been subscribed by Group executives and employees under the plan.

With regard to potential dilution relating to the share subscription options and bonus shares, see chapter 21, subsection 21.1.5 below.

17.3.2 Options and bonus shares allocated to corporate officers and exercised by them over the 2011 fiscal year

Share subscription or purchase options allocated over the fiscal year to corporate officers by Veolia Environnement and by any Group company

Name of corporate officers	Plan number and date	Nature of the options	Number of options allocated over the fiscal year	Valuation of the options	Exercise price *(in €)*	Exercise period
Antoine Frérot (Chairman and Chief Executive Officer)	N/A	N/A	none	N/A	N/A	N/A

N/A: not applicable.

Bonus shares allocated over the fiscal year to corporate officers by Veolia Environnement and by any Group company

Name of corporate officers	Plan number and date	Number of options allocated over the fiscal year	Valuation of the shares	Availability date	Performance conditions
Antoine Frérot (Chairman and Chief Executive Officer)	N/A	none	N/A	N/A	N/A

N/A: not applicable.

Share subscription or purchase options exercised over the fiscal year by corporate officers

Name of corporate officers	Plan number and date	Number of options exercised over the fiscal year	Nature of the options	Exercise price *(in €)*
Antoine Frérot (Chairman and Chief Executive Officer)	N/A	none	N/A	N/A

N/A: not applicable.

Bonus shares that became available over the fiscal year for corporate officers

Name of corporate officers	Plan number and date	Number of shares that became available over the fiscal year	Acquisition conditions
Antoine Frérot (Chairman and Chief Executive Officer)	N/A	none	N/A

N/A: not applicable.

Share subscription options held by Mr. Antoine Frérot, the Company Chairman and Chief Executive Officer, as of December 31, 2011

Plan number and date	Exercise price *(in €)*	Plan expiration date	Number of options initially allocated	Number of shares remaining under option
Plan No. 1 - 2000	31.41	expired (06.24.08)	40,000	0
Plan No. 2 - 2001	40.59	expired (02.08.09)	41,600	0
Plan No. 3 - 2002	36.65	expired (01.28.10)	45,000	0
Plan No. 4 - 2003	22.14	03.24.11	70,000	0
Plan No. 5 - 2004	24.32	12.24.12	40,000	40,658
Plan No. 6 - 2006	44.03	03.28.14	60,000	60,982
Plan No. 7 - 2007	57.05	07.17.15	40,000	0
TOTAL			**336,600**	**101,640**

Mr. Frérot's options in force as of December 31, 2011 represented 0.02% of the Company's potential share capital at this date. The exercise prices at this same date for these options were all higher than the stock market price for Veolia Environnement shares.

No bonus shares were allocated to Mr. Frérot.

17.3.3 Options granted to the top ten employees who are not corporate officers over the 2011 fiscal year and options exercised by them over the fiscal year

Share subscription or purchase options granted to the top ten employees who are not corporate officers and exercised by them	Total number of options allocated / shares subscribed or purchased	Average weighted price**	Plan number
Options granted over the 2011 fiscal year by Veolia Environnement and any company within the scope of the option award, to the ten employees of Veolia Environnement and of any other company included within this scope, who were granted the highest number of shares in this way	none	N/A	N/A
Options held on Veolia Environnement and the companies referred to above, which were exercised during the 2011 fiscal year by the ten employees of Veolia Environnement and of the aforementioned companies, who exercised the highest number of options in this way*	23,683	22.14	No. 4

* *This does not include options exercised by employees who have left the Group.*

** *Exercise price after legal adjustments.*

17.4 Employee profit-sharing schemes

17.4.1 Optional and mandatory profit-sharing agreements

Given the nature of its business, the Company is unable to allocate funds to the mandatory profit-sharing reserve, and has not therefore entered into any mandatory profit-sharing agreement. An optional profit-sharing agreement, on the other hand, applies to all employees of the Company. The terms of this agreement aim to give employees a vested interest in the performance of the Group and the Company. Four indicators have therefore been defined for the 2011-2013 period: a financial indicator, a second indicator related to the overall performance of the Group in terms of work place health and safety levels, a third indicator accounting for the Group's progress in its environmental results and a final, local indicator, linked to changes in energy consumption at the headquarters.

In general, the Group favors expanding optional profit-sharing schemes in order to give employees a vested interest in the performance of the Division to which they are assigned, on the basis of criteria tailored specifically to the business in question.

17.4.2 Company savings plans and employee share ownership policy

Since 2002, Veolia Environnement employees have been able to invest in various instruments in the Group Savings Plan (GSP), including diversified funds and funds invested in Veolia Environnement shares.

Following a first capital increase in 2002 reserved exclusively for French employees, Veolia Environnement decided in 2004 to offer its employees domiciled abroad the possibility of acquiring shares in the Company during reserved capital increases. The plan was progressively rolled out internationally (it has covered up to 29 countries, including France, all mechanisms combined).

Two share ownership plans have been proposed to date: a "classic" plan, in which the employee is exposed to changes in listed share prices, and a "low-risk" plan (with or without leverage), which protects employees from a fall in the share price while giving them the possibility of benefiting from its increase.

Depending on local particularities, the shares in these two plans are subscribed either directly or through the FCPE (corporate mutual fund). Additional, *ad hoc* plans were put in place in the United Kingdom (Share Incentive Plan) and in China (synthetic formula that replicates the economic conditions of the low-risk shareholder plan) in order to circumvent certain constraints such as tax and exchange control regulations.

The most recent operation took place at the end of 2010 and resulted in the issue of 1,692,862 new shares, representing 0.34% of the Company's share capital at the time the plan was set up. This capital increase, which was reserved for employees, was offered to 185,000 staff in twenty-four countries (except for the United Kingdom).

Around 53,000 employees of the Group now hold shares in Veolia Environnement and, as of the filing date of this registration document, hold 1.71% of the Company's share capital.

In total, approximately 77,470 employees have opened an account in the Veolia Environnement Group Savings Plan.

17.5 Shares held by corporate officers and executives and transactions involving Company securities

Pursuant to Article L. 621-18-2 of the French *Code Monétaire et Financier* and Article 223-22 of the AMF General Regulations, members of the Board of Directors and Company executives or "senior managers", or any person with close links to them, are required to notify the AMF of any acquisitions, sales, subscriptions or exchanges of Company securities or financial instruments, within five days of completing the transaction.

In addition, directors and officers are also subject to French and U.S. regulations on misfeasance and insider trading, which sanction the use or disclosure of privileged information [(1)].

Finally, directors and officers are required to comply with the Company's code of conduct governing trading in its securities (see subsections 4.2.3.1. and 16.1.7 above). Under the provisions of this code, the Company considers members of the Board of Directors and Executive Committee to be permanent insiders, who can only purchase or sell Company securities, directly or through an intermediary, under certain conditions and during specific, time-limited periods, in particular after the publication of the Company's annual and semi-annual results.

---

(1) Pursuant to Article L. 621-18-4 of the French Code Monétaire et Financier, a list of permanent insiders has been drawn up, which notably includes the members of the Veolia Environnement Board of Directors and Executive Committee. This list has been made available to the AMF.

17.5.1 Shares held by directors and the *censeur* and transactions involving Veolia Environnement securities

To the best of the Company's knowledge, directors and the *censeur* held a total of 33,187,904 Veolia Environnement shares as of December 31, 2011, representing approximately 2.74% of the Company's share capital at this date. The table below details the numbers of Veolia Environnement shares held individually by each of the Company's directors and the *censeur*:

	Number of shares held at 12.31.11	Number of shares held at 12.31.10
Jean Azéma*	N/A	799
Daniel Bouton	3,065	3,065
Jean-Francois Dehecq	939	939
Pierre-André de Chalendar	750	750
Augustin de Romanet de Beaune**	908	852
Antoine Frérot	10,793	750
Paul-Louis Girardot	1,110	1,051
Groupe Industriel Marcel Dassault represented by Olivier Costa de Beauregard	32,888,732	26,650,851
Esther Koplowitz	16,449	15,690,
Philippe Kourilsky	750	750
Serge Michel	3,094	3,094
Henri Proglio	248,077	248,077
Baudouin Prot	1,687	1,687
Oatari Diar Real Estate Investment Co. represented by Dr. Mohd Alhamadi***	750	750
Georges Ralli	1,049	985
Paolo Scaroni	866	826
Louis Schweitzer	5,828	5,581
Thierry Dassault (*censeur*)	3,057	1,000
TOTAL	**33,187,904**	**26,936,747**

N/A: not applicable.

* *Jean Azéma tendered his resignation as director on October 21, 2011.*

** *Augustin de Romanet de Beaune tendered his resignation as director, effective as of March 1, 2012.*

*** *On January 14, 2011, Qatari Diar Real Estate Investment Co. acquired 750 shares in the Company pursuant to the provisions of Article 11 of the Company's Articles of Association.*

The table below details transactions involving Veolia Environnement securities made over the 2011 fiscal year by the directors of the Company [(1)]. To the best of the Company's knowledge, no other declaration has been made of transactions involving the purchase or sale of Veolia Environnement securities by directors or any person with close personal links to them over the 2011 fiscal year:

Name of director	Financial instrument	Nature of the transaction	Transaction date	Unit price *(in €)*	Total transaction amount *(in €)*
Augustin de Romanet de Beaune	Shares	Subscription*	06.17.11	18.74	1,049.44
Antoine Frérot	Shares	Subscription*	06.17.11	18.74	787.08
	Shares	Acquisition	08.12.11	11.36	113,611.36
Paul-Louis Girardot	Shares	Subscription*	06.17.11	18.74	1,105.66
Groupe Industriel Marcel Dassault	Other types of financial instrument	Sale	11.21.11	0.0830	20,750
	Other types of financial instrument	Sale	01.28.11	0.1430	35,750
	Other types of financial instrument	Sale	02.07.11	0.1827	45,675
	Other types of financial instrument	Sale	02.21.11	0.1157	28,925
	Other types of financial instrument	Acquisition	04.04.11	1.56	156,000
	Shares	Acquisition	04.04.11	21.94	2,194,000
	Other types of financial instrument	Acquisition	04.06.11	0.20	20,000
	Shares	Acquisition	04.06.11	21.80	2,180,000
	Shares	Acquisition	04.07.11	21.775	2,177,500
	Other types of financial instrument	Acquisition	04.07.11	0.975	97,500
	Shares	Acquisition	04.11.11	22.315	2,231,500
	Other types of financial instrument	Acquisition	04.11.11	0.885	88,500
	Other types of financial instrument	Acquisition	04.12.11	1.20	120,000
	Shares	Acquisition	04.12.11	22	2,200,000
	Shares	Acquisition	04.12.11	22	6,461,224
	Other types of financial instrument	Sale	04.12.11	0.89	261,385.88
	Shares	Acquisition	04.12.11	22	21,999,780
	Other types of financial instrument	Sale	04.12.11	-0.94	,-939,990.60
	Other types of financial instrument	Sale	04.13.11	1.69	169,000
	Other types of financial instrument	Acquisition	04.13.11	1.72	172,000
	Shares	Acquisition	04.14.11	21.96	2,196,000
	Other types of financial instrument	Acquisition	04.14.11	1.54	154,000
	Other types of financial instrument	Sale	04.14.11	3.3116	331,160
	Other types of financial instrument	Acquisition	04.14.11	2.09	209,000
	Other types of financial instrument	Acquisition	04.14.11	1.855	185,500
	Other types of financial instrument	Sale	04.14.11	1.8361	183,610
	Shares	Acquisition	04.15.11	22.05	2,205,000
	Other types of financial instrument	Acquisition	04.15.11	1.75	175,000
	Other types of financial instrument	Acquisition	05.10.11	1.6477	164,770
	Other types of financial instrument	Sale	05.10.11	2.9373	293,730
	Other types of financial instrument	Acquisition	05.12.11	1.80	180,000
	Other types of financial instrument	Sale	05.12.11	3.0327	303,270
	Other types of financial instrument	Sale	05.17.11	2.67	267,000
	Other types of financial instrument	Acquisition	05.17.11	1.34	134,000
	Other types of financial instrument	Sale	05.17.11	2.1088	210,880
	Other types of financial instrument	Acquisition	05.17.11	0.7001	70,010
	Shares	Subscription*	06.17.11	18.74	34,828,271
	Shares	Acquisition	08.05.11	11.96	2,392,480
	Shares	Acquisition	08.10.11	10.4259	4,170,360
	Shares	Acquisition	08.12.11	11.0247	2,204,940

(1) This table, which has been drawn up pursuant to Article 223-26 of the AMF General Regulations, details the transactions reported to the AMF over the 2011 fiscal year by the directors of the Company.

Name of director	Financial instrument	Nature of the transaction	Transaction date	Unit price *(in €)*	Total transaction amount *(in €)*
	Shares	Acquisition	08.17.11	11.384	2,846,000
	Shares	Acquisition	08.18.11	11.09	1,109,070
	Shares	Acquisition	08.19.11	10.5353	2,054,383.50
	Shares	Acquisition	08.26.11	10.6646	1,333,077.50
	Shares	Acquisition	09.01.11	11.64	1,164,000
	Sell options	Acquisition	09.01.11	12.36	1,236,000
	Shares	Acquisition	09.08.11	10.675	2,668,745
	Sell options	Acquisition	09.08.11	13.135	1,313,500
	Shares	Acquisition	09.09.11	10.3568	517,840
	Sell options	Acquisition	09.15.11	12.945	1,294,500
	Shares	Acquisition	09.15.11	10.524	1,736,552.50
	Sell options	Acquisition	09.19.11	11.84	1,184,000
	Shares	Acquisition	09.19.11	11.02	1,102,000
	Shares	Acquisition	09.22.11	10.31	1,031,000
	Sell options	Acquisition	09.22.11	13.18	1,318,000
Esther Koplowitz	Shares	Subscription*	06.17.11	18.74	14,223.66
Philippe Kourilsky	Shares	Subscription*	06.17.11	18.74	1,442.98
Qatari Diar Investment Real Estate Company	Shares	Acquisition	09.19.11	10.62	13,778,691
Paolo Scaroni	Shares	Subscription*	06.17.11	18.74	749.60
Louis Schweitzer	Shares	Subscription*	06.17.11	18.74	4,628.78
Thierry Dassault (*censeur*)	Shares	Subscription*	06.17.11	18.74	1,068.18
	Shares	Acquisition	08.10.11	10.93	21,860

* *Dividend received in the form of new shares.*

17.5.2 Transactions involving Veolia Environnement securities made by members of the Executive Committee

The table below details transactions involving Veolia Environnement securities made over the 2011 fiscal year by members of the Company Executive Committee (*see* subsection 16.4.1 above) [(1)]. To the best of the Company's knowledge, no other declaration has been made of transactions involving the purchase or sale of Veolia Environnement securities by these people or any person with close personal links to them over the 2011 fiscal year:

*Name of member**	Financial instrument	Nature of the transaction	Transaction date	Unit price *(in €)*	Total transaction amount *(in €)*
Olivier Barbaroux**	Shares	Subscription***	06.17.11	18.74	26,667.02
	Shares	Subscription***	06.17.11	18.74	26,254.74
Denis Gasquet	Shares	Subscription***	06.17.11	18.74	10,681.80
Pierre-François Riolacci	FCPE units	Subscription****	08.31.11	11.585	50,000

* *List excludes Antoine Frérot (see subsection 17.5.1 above).*

** *On August 4, 2011, Olivier Barbaroux was replaced on the Executive Committee by Franck Lacroix.*

*** *Dividend received in the form of new shares.*

****Subscription to the capital increase within the scope of the GSP.*

(1) This table, which has been drawn up pursuant to Article 223-26 of the AMF General Regulations, details the transactions reported to the AMF over the 2011 fiscal year by the "senior managers" of the Company referred to in Article L. 621-18-2 of the French Code Monétaire et Financier.

18 Principal Shareholders

18.1 Shareholders of Veolia Environnement as of December 31, 2011

The table below shows the number of shares and the corresponding percentages of share capital and voting rights held as of December 31, 2011 by Veolia Environnement's principal known shareholders.

Each Veolia Environnement share entitles its holder to one vote. There are no shares with double voting rights or non-voting shares (however, the voting rights of treasury shares are not exercised).

To the Company's knowledge, as of the filing date of this registration document, no shareholder other than those listed in the table below directly or indirectly held 4% or more of the Company's shares or voting rights.

Shareholders on December 31, 2011	Number of shares	Percentage of share capital	Number of voting rights	Percentage of voting rights ***
Caisse des Dépôts [(1)]	47,873,873	9.21	47,873,873	9.47
Groupe Industriel Marcel Dassault – GIMD [(2)]	32,888,732	6.33	32,888,732	6.51
Groupe Groupama [(3)]	29,366,758	5.65	29,366,758	5.81
Velo Investissement (Qatari Diar) [(4)]	24,681,519	4.75	24,681,519	4.88
EDF [(5)]	20,577,271	3.96	20,577,271	4.07
Veolia Environnement [(6)]	14,237,927	2.74	0**	0
Public and other investors	350,026,880	67.36	350,026,880	69.26
Total	**519,652,960***	**100.00**	**505,415,033***	**100.00**

* *It must be specified that the share capital may change over the fiscal year depending on exercise of stock options.*

** *As of December 31, 2011 and the date this registration document was filed, Veolia Environnement held 14,237,927 treasury shares.*

*** *Percentage of voting rights as a share of actual voting rights (Veolia Environnement treasury shares do not exercise voting rights).*

(1) *According to the analysis of the Company's shareholders as of December 31, 2011. To the Company's knowledge, the most recent declaration of threshold crossing of Caisse des dépôts et consignations was filed on June 15, 2009 (AMF Decision and Information no. 209C0862 dated June 15, 2009).*

(2) *According to the statement of registered shareholders as of December 31, 2011 prepared by Société Générale (the account manager), and according to the analysis of the Company's shareholders as of December 31, 2011. To the Company's knowledge, the most recent declaration of threshold crossing of Groupe Industriel Marcel Dassault (GIMD) was filed on March 11, 2010 (AMF Decision and Information no. 210C0246 dated March 15, 2010).*

(3) *According to the analysis of the Company's shareholders as of December 31, 2011. To the Company's knowledge, the most recent declaration of threshold crossing of Groupama was filed on December 30, 2004 (AMF Decision and Information no. 205C0030 dated January 7, 2005).*

(4) *According to the analysis of the Company's shareholders as of December 31, 2011. To the Company's knowledge, the most recent declaration of threshold crossing of Velo Investissement (Qatari Diar) was filed on April 16, 2010 (AMF Decision and Information no. 210C0335 dated April 16, 2010).*

(5) *According to the statement of registered shareholders as of December 31, 2011 prepared by Société Générale (the account manager) and according to the analysis of the Company's shareholders as of December 31, 2011. To the Company's knowledge, EDF's most recent declaration of threshold crossing was filed on December 30, 2002 (Euronext notice no. 2002-4424 dated December 31, 2002). In that declaration, EDF reported that on such date it held 16,155,492 Veolia Environnement shares. Furthermore, in the amendment dated November 24, 2002 to the agreement dated June 24, 2002 described in Chapter 18, §18.2, of this registration document, EDF stated that it would hold shares acquired in the Company as a financial investment, that it did not seek to influence the Company's management and that it would exercise its voting rights solely for the purpose of enhancing the value of its investment.*

(6) *Treasury shares without voting rights. This figure is included in the monthly report of transactions carried out by Veolia Environnement with respect to its own shares that was filed with the French Regulatory Authority (AMF) on January 5, 2012.*

On March 12, 2010, Groupe Industriel Marcel Dassault (GIMD) reported it had acquired shares in excess of the 5% threshold of share capital and voting rights in Veolia Environnement and undertook to retain this holding for a period of five years. The General Shareholders' Meeting of May 7, 2010 approved the appointment of Mr. Olivier Costa de Beauregard, representing Groupe Industriel Marcel Dassault as director, for a term of four years ending on the date of the General Shareholders' Meeting held to adopt the financial statements for the year ended December 31, 2013.

On April 16, 2010, Veolia Environnement and the Qatari Diar fund announced the signature of an agreement aimed at setting up a long-term strategic partnership, including the acquisition by Qatari Diar of a 5% share capital in Veolia Environnement with full voting rights. This acquisition reflects the groups' mutual ambition to work together on infrastructure and utilities projects in the Middle East and North Africa. The Qatari Diar fund gave an undertaking to the Group to hold its share capital and voting rights for a period of three years. The appointment of the Qatari Diar fund to the Board of Directors was approved by the Annual General Meeting of Shareholders of May 7, 2010 for a term of four years ending the Annual General Meeting of Shareholders held to adopt the financial statements for the year ended December 31, 2013.

To the Company's knowledge, there is no agreement between one or more of the Company's other shareholders or any provision in a shareholders' agreement or agreement to which the Company is a party that could have a material impact on the Company's share price, and there is no shareholders' agreement or other agreement of such nature to which any significant non-listed subsidiary of the Company is a party, other than the agreements with (i) EDF described in Chapter 20, § 20.1 (notes 37 and 40.3 to the 2011 consolidated financial statements), and in Chapter 18 an 22 of this registration document and (ii) la Caisse des dépôts et consignations, described in Chapter 20, §20.1 (notes 37 and 40.3 to the 2011 consolidated financial statements) of this registration document.

No third party controls Veolia Environnement and, to the Company's knowledge, there is no agreement in existence that, if implemented, could at a subsequent date result in a change of control or takeover of the Company.

Table summarizing changes in the Company's principal shareholders (that directly or indirectly have held more than 4% of the Company's shares) over the last three fiscal years*

	Situation on December 31, 2011			Situation on December 31, 2010			Situation on December 31, 2009		
Shareholder	Number of shares	% of share capital	% of voting rights	Number of shares	% of share capital	% of voting rights	Number of shares	% of share capital	% of voting rights
Caisse des Dépôts	47,873,873	9.21	9.47	47,273,114	9.47	9.75	47,273,114	9.58	9.87
Groupe Industriel Marcel Dassault - GIMD	32,888,732	6.33	6.51	29,150,851	5.84	6.01	na	na	na
Groupe Groupama	29,366,758	5.65	5.81	28,396,438	5.69	5.86	28,234,444	5.72	5.89
Velo Investissement (Qatari Diar)	24,681,519	4.75	4.88	24,681,519	4.95	5.09	na	na	na
Capital Group Companies	na	na	na	na	na	na	22,252,765	4.51	4.65
EDF	20,577,271	3.96	4.07	19,329,226	3.87	3.99	18,287,428	3.70	3.82

* *Figures are taken from the 2011, 2010 and 2009 registration documents. Figures for Capital Group Companies have been combined to take into account the percentages of the Company's share capital and voting rights held by all companies of that group.*

na: not applicable.

18.2 Changes in the Company's Shareholders

- SNEGE, a wholly-owned subsidiary of Vivendi Universal, owned 99.99% of the Company's share capital from its incorporation until March 31, 1999. Between April 1 and April 9, 1999, Vivendi Universal acquired 100% of the Company's share capital at its par value.
- In July 2000, the Company's shares began trading on the Euronext Paris First Market, which led Vivendi Universal's equity stake in the Company to fall from 100% to 72.3%.
- In December 2001, Vivendi Universal made an over-the-counter block sale of 32.4 million of the Company's shares, representing 9.3% of the Company's total share capital, further reducing its stake in the Company to 63%.
- In July 2002, the Company carried out a capital increase without suspending preemptive subscription rights. This capital increase was completed on August 2, 2002. Pursuant to the terms of an agreement dated June 24, 2002, several financial investors, including Caisse des dépôts et consignations, Groupama, BNP Paribas, AGF, Société Générale, Dexia, Caisses d'Epargne, Crédit Lyonnais and Natexis Banques Populaires (the "Group of Declared Investors" or "GID 1"), acquired and exercised the preemptive subscription rights which had been granted to Vivendi Universal and subscribed for the remainder of the shares not subscribed by the public. Upon conclusion of the transaction, the GID 1 held 9.4% of the Company's share capital.
- On November 24, 2002, Vivendi Universal, the Company, the GID 1 and a group of new long-term investors including EDF, Caisse des dépôts et consignations, Groupama SA, AXA, Compagnie d'Investissement de Paris SAS, Eurazeo, Aurélec, Dexia Crédit Local, Caisse Nationale des Caisses d'Epargne, Assurances Générales de France Holding, CNP-Assurances, Crédit Agricole Indosuez (Suisse) SA (on its own behalf and on behalf of a client), CIC, Generali, Crédit Lyonnais, Médéric Prévoyance and Wasserstein Family Trust LLC ("New Investors"), signed an amendment to the June 24, 2002 agreement, pursuant to which on December 24, 2002 Vivendi Universal sold to the New Investors and to Veolia Environnement a total of 82,486,072 of the Company's shares (of which 3,624,844 were sold to the Company, which represented approximately 0.9% of its share capital at the time of sale). For each share purchased, the Company and the New Investors also received an option to purchase the Company's shares at a price of €26.50 per share, exercisable at any time between December 24, 2002 and December 23, 2004 inclusive. As of the expiration date of these options, i.e., December 23, 2004, none had been exercised.
- On December 31, 2002, the Company certified completion of a capital increase reserved to employees of the Company and the Group, which had been approved on June 27, 2002. The Sequoia employee investment fund subscribed for these shares in the name and on behalf of its beneficiaries. Upon conclusion of this transaction, 1,183,158 new shares with a par value of €13.50 each had been subscribed at a price of €26.50 per share, thereby increasing share capital by €15,972,633, which represented approximately 1.28% of the Company's share capital.
- On December 6, 2004, the Company certified completion of a share capital increase reserved to employees of the Company and the Group, which had been approved by the Board of Directors on September 16, 2004. Several employee investment funds acting in the name and on behalf of their beneficiaries subscribed for this capital increase. Upon conclusion of this transaction, 1,351,468 new shares with a par value of €5 each had been subscribed for at a price of €18.71 per share, thereby increasing share capital by €6,757,340, which represented approximately 0.33% of the Company's share capital.
- On December 8 and December 9, 2004, Vivendi Universal disposed of 15% of the 20.36% stake it held in the Company's capital through (i) a private placement for investors involving 10% of the Company's capital; (ii) the conclusion of a derivative transaction with Société Générale involving 3% of the Company's capital; and (iii) a redemption by Veolia Environnement of its shares, involving 2% of the share capital, which was completed on December 29, 2004.

- On December 6, 2005, the Company certified completion of a capital increase reserved to employees of the Company and the Group, which had been approved by the Board of Directors on September 15, 2005. Several employee investment funds acting in the name and on behalf of their beneficiaries subscribed for this capital increase. Upon conclusion of this transaction, 1,281,928 new shares with a par value of €5 per share had been subscribed at a price of €28.11 per share, thereby increasing share capital by €6,409,640, which represented approximately 0.3% of the Company's capital on the date completion was certified.
- On July 6, 2006, Vivendi (formerly Vivendi Universal) announced the completion of the sale of the 5.3% share of Veolia Environnement capital it still held, representing a total of 21,523,527 shares, under an accelerated book building procedure. As a result of this transaction, Vivendi no longer holds any shares in the Company(1).
- On December 15, 2006, the Company certified completion of a capital increase reserved to employees of the Company and the Group, which had been approved by the Board of Directors on September 14, 2006. Several employee investment funds acting in the name and on behalf of their beneficiaries subscribed for this capital increase. Upon conclusion of this transaction, 1,931,340 new shares with a par value of €5 each had been subscribed for at a price of €37.52 each, thereby increasing capital by €9,656,700, which represented approximately 0.47% of the Company's capital on the date completion was certified.
- On July 10, 2007, the Company certified completion of a capital increase for cash with maintenance of preemptive subscription rights, which had been approved by the Board of Directors on June 10, 2007. Upon conclusion of this transaction, 51,941,040 new shares with a par value of €5 each were issued, thereby increasing share capital by €259,705,200. The total amount of the capital increase, including the issue premium, was €2,581,469,688.
- On December 12, 2007, the Company certified completion of a capital increase consisting of (i) a capital increase reserved to current and retired employees of the Company and the Group, in France and abroad, the subscription for which was carried out directly and through several employee investment funds; and (ii) a capital increase reserved for Sequoia Souscription International – SAR, a subsidiary of Calyon, acting pursuant to a structured share offer for employees from countries unable to participate in traditional employee shareholder plans. Upon completion of this transaction, 3,250,446 new shares with a par value of €5 each, which were subscribed for at a price of €48.18 and €60.23 (depending on the plan), were issued, thereby increasing share capital by €16,252,230, which represented approximately 0.7% of the Company's share capital on the date completion was certified.
- On June 4, 2009, the Company certified completion of a capital increase for cash for a total amount of €322,993,629, which was carried out in order to pay a share dividend in accordance with the fifth resolution adopted by the combined general shareholders' meeting held on May 7, 2009. This transaction resulted in the issuance of 20,111,683 new shares with a par value of €5 each, i.e., an increase in the Company's capital of €100,558,415. Upon completion of this transaction, the Company's share capital had been increased to €2,463,441,745, divided into 492,688,349 shares with a par value of €5 each.
- On August 5, 2009, the Company recorded completion of a capital increase reserved to current and retired employees of the Company and the Group, in France and abroad, the subscription for which was carried out directly and through several employee investment funds. Upon completion of this transaction, 911,014 new shares with a par value of €5 each had been issued, which were subscribed for at a price of €21.28, and which increased the Company's capital by €4,555,070, which represented approximately 0.18% of the Company's capital on the date completion was recorded.
- On March 4, 2010, the Company recorded completion of a capital increase pursuant to options exercised during the 2009 fiscal year. After these options were exercised, 31,011 new shares with a par value of €5 each were issued, thereby increasing the Company's nominal share capital by €155,055. Upon conclusion of this transaction, the Company's capital had been increased to €2,468,151,870, divided into 493,630,374 shares with a par value of €5 each.

---

(1) Following the transfer, Vivendi reported that as of July 11, 2006 it held less than 5% of the capital and voting rights of Veolia Environnement and that it no longer held any securities of the Company (AMF Decision and Information no. 206C1511 of July 24, 2006).

- On June 7, 2010, the Company certified completion of a capital increase for cash for a total amount of €79,268,062.32, which was carried out in order to pay a share dividend in accordance with the fifth resolution adopted by the combined general shareholders' meeting held on May 7, 2010. This transaction resulted in the issuance of 3,732,018 new shares with a par value of €5 each, i.e., an increase in the Company's capital of €18,660,090. Upon completion of this transaction, the Company's share capital had been increased from €2,468,151,870 divided into 493,630,374 shares to €2,486,811,960 divided into 497,362,392 shares wuth a par value of €5 each.
- On December 15, 2010, the Company recorded completion of a capital increase reserved to current and retired employees of the Company and the Group, in France and abroad, the subscription for which was carried out directly and through several employee investment funds. This transaction resulted in the issuance of 1,692,862 new shares with a par value of €5 each, which were subscribed for at a price of €17.74, and which increased the Company's nominal share capital by €8,464,310, which represented approximately 0.34% of the Company's capital on the date completion was recorded. Upon completion of this transaction, the Company's share capital had been increased to €2,495,276,270 divided into 499,055,254 shares with a par value of €5 each.

  Following this transaction, the share of the Company's capital held by employees was, on that date, approximatively 2%[1] .
- On January 26, 2011, the Company recorded completion of a capital increase pursuant to options exercised during the 2010 fiscal year. After these options were exercised, 71,113 new shares with a par value of €5 each were issued, thereby increasing the Company's nominal share capital by €355,565. Upon conclusion of this transaction, the Company's capital had been increased to €2,495,631,835, divided into 499,126,367 shares with a par value of €5 each.
- On June 15, 2011, the Company certified completion of a capital increase for cash for a total amount of €383,465,301.04, which was carried out in order to pay a share dividend in accordance with the fifth resolution adopted by the combined general shareholders' meeting held on May 17, 2011. This transaction resulted in the issuance of 20,462,396 new shares with a par value of €5 each, i.e., an increase in the Company's capital of €102,311,980. Upon completion of this transaction, the Company's share capital had been increased from €2,495,631,835 divided into 499,126,367 shares to €2,597,943,815, divided into 519,588,763 shares with a par value of €5 each.
- On August 3, 2011, the Company recorded completion of a capital increase pursuant to options exercised during the first half of 2011. After those options were exercised, 64,197 new shares with a par value of €5 each were issued, thereby increasing the Company's nominal share capital by €320,985. Upon conclusion of this transaction, the Company's capital had been increased from €2,598,264,800, divided into 519,652,960 shares with a par value of €5 each.

(1) *As of December 31, 2010, the Company's emplyees held 1.91% of its share capital.*

19. Related-party transactions

Information concerning transactions with related parties in 2011 is included in the statutory auditors' special report concerning regulated agreements and commitments concluded in 2011 (Schedule 1 to this registration document, and in chapter 20, paragraph 20.1, note 40 to the consolidated financial statements.

See also the statutory auditors' reports concerning regulated agreements for the 2009 and 2010 fiscal years, which are included as Schedules to Veolia Environnement's 2009 and 2010 registration documents.

20 Financial information concerning the assets, financial condition and results of the issuer

20.1 Consolidated Financial Statements

Consolidated Statement of Financial Position

Assets

(€ million)	Notes	As of December 31, 2011	2010(1)	2009(1)	As of January 1, 2009(1)
Goodwill	5	5,795.9	6,840.2	6,624.6	6,723.3
Concession intangible assets	6	4,629.1	4,164.6	3,624.8	3,637.7
Other intangible assets	7	1,280.8	1,505.8	1,437.8	1,535.2
Property, plant and equipment	8	8,488.3	9,703.3	9,379.2	9,423.4
Investments in associates	9	325.2	311.7	268.5	311.6
Non-consolidated investments	10	106.3	130.7	174.6	202.8
Non-current operating financial assets	11	5,088.3	5,255.3	5,275.2	5,298.9
Non–current derivative instruments - Assets	30	742.8	621.1	431.9	508.4
Other non-current financial assets	12	736.5	773.1	753.9	817.3
Deferred tax assets	13	1,263.9	1,749.6	1,588.0	1,552.2
Non-current assets		**28,457.1**	**31,055.4**	**29,558.5**	**30,010.8**
Inventories and work-in-progress	14	1,020.8	1,130.6	978.0	1,013.1
Operating receivables	14	11,427.6	12,488.7	12,241.3	13,093.2
Current operating financial assets	11	357.0	373.3	376.6	452.3
Other current financial assets	12	114.6	132.3	217.7	321.4
Current derivative instruments – Assets	30	48.1	34.6	45.6	142.8
Cash and cash equivalents	15	5,723.9	5,406.8	5,614.4	3,849.6
Assets classified as held for sale	25	3,256.5	805.6	722.6	203.0
Current assets		**21,948.5**	**20,371.9**	**20,196.2**	**19,075.4**
TOTAL ASSETS		**50,405.6**	**51,427.3**	**49,754.7**	**49,086.2**

(1) Amounts as of December 31, 2010, December 31, 2009 and January 1, 2009 re-presented pursuant to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors – See Note 1 to the Consolidated Financial Statements.

Equity and liabilities

(€ million)	Notes	As of December 31, 2011	2010 (1)	2009 (1)	As of January 1, 2009(1)
Share capital		2,598.2	2,495.6	2,468.2	2,362.9
Additional paid-in capital		9,796.2	9,514.9	9,433.2	9,197.5
Reserves and retained earnings attributable to owners of the Company		(5,324.7)	(4,134.6)	(4,504.0)	(4,599.1)
Total equity attributable to owners of the Company	16	**7,069.7**	**7,875.9**	**7,397.4**	**6,961.3**
Total equity attributable to non-controlling interests		2,765.4	2,928.5	2,670.1	2,530.5
Equity	16	**9,835.1**	**10,804.4**	**10,067.5**	**9,491.8**
Non-current provisions	17	2,077.1	2,313.9	2,291.1	2,160.2
Non-current borrowings	18	16,706.7	17,896.1	17,647.3	17,063.9
Non–current derivative instruments – Liabilities	29	215.4	195.1	139.3	159.9
Deferred tax liabilities	13	1,891.1	2,101.4	1,951.2	1,936.0
Non-current liabilities		**20,890.3**	**22,506.5**	**22,028.9**	**21,320.0**
Operating payables	14	12,598.6	13,773.9	13,076.9	13,591.8
Current provisions	15	604.8	689.9	749.2	773.1
Current borrowings	18	3,942.3	2,827.1	2,983.1	3,219.7
Current derivative instruments – Liabilities	30	81.5	51.7	84.8	125.9
Bank overdrafts and other cash position items	15	440.2	387.0	454.9	465.7
Liabilities directly associated with assets classified as held for sale	25	2,012.8	386.8	309.4	98.2
Current liabilities		**19,680.2**	**18,116.4**	**17,658.3**	**18,274.4**
TOTAL EQUITY AND LIABILITIES		**50,405.6**	**51,427.3**	**49,754.7**	**49,086.2**

(1) Amounts as of December 31, 2010, December 31, 2009 and January 1, 2009 re-presented pursuant to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - See Note 1 to the Consolidated Financial Statements.

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

Consolidated Income Statement

		Year ended December 31,		
(€ million)	**Notes**	**2011** (2)	**2010** (2) (3)	**2009** (1) (2) (3)
Revenue	19	**29,647.3**	**28,764.2**	**27,847.7**
o/w Revenue from operating financial assets		383.7	380.9	375.6
Cost of sales		(24,919.0)	(23,255.0)	(22,677.9)
Selling costs		(595.1)	(574.8)	(539.9)
General and administrative expenses		(3,176.0)	(3,139.5)	(3,021.1)
Other operating revenue and expenses		60.0	187.2	180.1
Operating income	20	**1,017.2**	**1,982.1**	**1,788.9**
Finance costs	21	(861.5)	(851.6)	(817.5)
Income from cash and cash equivalents	21	113.1	92.7	92.1
Other financial income and expenses	22	(56.3)	(102.5)	(83.2)
Income tax expense	23	(539.0)	(319.0)	(197.8)
Share of net income of associates	9 & 24	12.3	18.0	8.7
Net income (loss) from continuing operations		**(314.2)**	**819.7**	**791.2**
Net income (loss) from discontinued operations	25	(2.4)	29.3	25.6
Net income (loss) for the year		**(316.6)**	**849.0**	**816.8**
Attributable to owners of the Company		**(489.8)**	**558.5**	**559.0**
Attributable to non-controlling interests	26	173.2	290.5	257.8
(in euros)				
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY PER SHARE (4)	27			
Diluted		(0.99)	1.16	1.18
Basic		(0.99)	1.16	1.18
NET INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO OWNERS OF THE COMPANY PER SHARE (4)	27			
Diluted		(0.97)	1.07	1.15
Basic		(0.97)	1.07	1.15
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO OWNERS OF THE COMPANY PER SHARE (4)	27			
Diluted		(0.02)	0.09	0.03
Basic		(0.02)	0.09	0.03

(1) In 2009, as part of ongoing efficiency measures, the Group reclassified certain expenses from cost of sales to selling costs and general and administrative expense. These reclassifications had no impact on operating income (see Note 20, Operating income).

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

- *the whole Transportation business, in the process of being sold (see Note 4);*
- *Water activities in the Netherlands, divested in December 2010 and Environmental Services activities in Norway, divested in March 2011;*
- *German operations in the Energy Services division, partially divested in May 2011;*
- *household assistance services (Proxiserve) held jointly by the Water and Energy Services divisions, divested in December 2011;*
- *urban lighting activities (Citelum) in the Energy Services division,*

are presented in a separate line, Net income from discontinued operations, for the years ended December 31, 2011, 2010 and 2009.

Furthermore, as the divestiture process for Water activities in Gabon and Pinellas incineration activities in the United States was interrupted in the first and second semesters of 2011 respectively, these activities are no longer presented in Net income from discontinued operations.

(3) Amounts as of December 31, 2010 and December 31, 2009 re-presented pursuant to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - See Note 1 to the Consolidated Financial Statements.

(4) The weighted average number of shares outstanding at December 31, 2011 is 496.3 million (basic and diluted). (See Note 27, Earnings per share).

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

Consolidated Statement of Comprehensive Income

	Year ended December 31,		
(€ million)	**2011**	**2010**[(1)]	**2009** [(1)]
Net income (loss) for the year	(316.6)	**849.0**	**816.8**
Actuarial gains and losses on pension obligations	(32.7)	(72.9)	(67.8)
Related income tax expense	(26.8)	16.9	14.3
Amount net of tax	(59.5)	(56.0)	(53.5)
Other items of comprehensive income not subsequently released to net income	**(59.5)**	**(56.0)**	**(53.5)**
Fair value adjustments on available-for-sale assets	(1.7)	(1.8)	(3.3)
Related income tax expense	0.4	(0.1)	(0.6)
Amount net of tax	(1.3)	(1.9)	(3.9)
Fair value adjustments on cash flow hedge derivatives	(49.4)	27.3	46.2
Related income tax expense	14.6	(9.7)	(5.8)
Amount net of tax	(34.8)	17.6	40.4
Foreign exchange gains and losses:			
• on the translation of the financial statements of subsidiaries drawn up in a foreign currency	79.2	587.0	65.2
Amount net of tax	79.2	587.0	65.2
• on the net financing of foreign operations	(4.2)	(165.2)	2.2
• related income tax expense	(82.3)	52.6	3.8
Amount net of tax	(86.5)	(112.6)	6.0
Other items of comprehensive income subsequently released to net income	**(43.4)**	**490.1**	**107.7**
Total Other comprehensive income	(102.9)	**434.1**	**54.2**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	(419.5)	**1,283.1**	**871.0**
- Attributable to owners of the Company	(564.3)	884.0	632.0
- Attributable to non-controlling interests	144.8	399.1	239.0

(1) Amounts as of December 31, 2010 and December 31, 2009 re-presented pursuant to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - See Note 1 to the Consolidated Financial Statements.

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

Consolidated Cash Flow Statement

(€ million)	Notes	Year ended December 31, 2011	2010 (2)	2009 (1) (2)
Net income (loss) for the year		(316.6)	849.0	816.8
Operating depreciation, amortization, provisions and impairment losses	20	2,842.5	1,884.2	1,869.1
Financial amortization and impairment losses		5.6	18.6	7.2
Gains/losses on disposal	20	(592.4)	(277.2)	(306.1)
Share of net income of associates	9	(13.4)	(18.4)	0.9
Dividends received	22	(4.9)	(6.9)	(8.7)
Finance costs and finance income	21	796.1	811.2	792.0
Income tax expense	23	558.3	362.4	319.1
Other items		77.7	95.8	69.1
Operating cash flow before changes in working capital		**3,352.9**	**3,718.7**	**3,559.4**
Changes in working capital	14	(40.7)	105.8	450.4
Income taxes paid		(368.2)	(367.9)	(408.5)
Net cash from operating activities		**2,944.0**	**3,456.6**	**3,601.3**
Including Net cash from operating activities of discontinued operations		***187.8***	***365.3***	***416.3***
Industrial investments	42	(2,258.3)	(2,083.7)	(2,104.8)
Proceeds on disposal of intangible assets and property, plant and equipment		168.9	205.2	258.7
Purchases of investments		(372.1)	(426.3)	(177.9)
Proceeds on disposal of financial assets		1,286.9	498.6	522.3
Operating financial assets				
- New operating financial assets	11	(363.5)	(489.1)	(483.1)
- Principal payments on operating financial assets	11	441.0	424.1	455.2
Dividends received	9 & 22	12.4	12.9	14.8
New non-current loans granted		(160.3)	(59.8)	(43.8)
Principal payments on non-current loans		110.5	31.8	65.8
Net decrease/increase in current loans		(3.1)	69.1	140.9
Net cash used in investing activities		**(1,137.6)**	**(1,817.2)**	**(1,351.9)**
Including Net cash used in investing activities of discontinued operations		***878.1***	***(170.2)***	***17.7***
Net increase/decrease in current borrowings	18	(534.5)	(938.2)	(1,323.9)
New non-current borrowings and other debts	18	745.1	537.6	3,301.2
Principal payments on non-current borrowings and other debts	18	(315.0)	(148.8)	(1,514.8)
Proceeds on issue of shares		2.5	128.8	157.1
Share capital reduction				
Transactions with non-controlling interests: partial purchases and sales		24.4	91.8	50.9
Purchases of/proceeds from treasury shares		2.2	7.9	4.9
Dividends paid		(547.0)	(735.6)	(434.0)
Interest paid		(753.6)	(821.9)	(729.8)
Net cash used in financing activities		**(1,375.9)**	**(1,878.4)**	**(488.4)**
Including Net cash used (provided) in financing activities of discontinued operations		***(19.5)***	***(4.2)***	***(138.6)***
NET CASH AT THE BEGINNING OF THE YEAR		**5,019.8**	**5,159.5**	**3,383.9**
Effect of foreign exchange rate changes and other		(166.6)	99.3	14.6
NET CASH AT THE END OF THE YEAR		**5,283.7**	**5,019.8**	**5,159.5**
Cash and cash equivalents	15	5,723.9	5,406.8	5,614.4
Bank overdrafts and other cash position items	15	440.2	387.0	454.9
NET CASH AT THE END OF THE YEAR		**5,283.7**	**5,019.8**	**5,159.5**

(1) Figures for the year ended December 31, 2009 have been adjusted for the application of the amendments to IAS 7 as follows:

- *replacement costs are now included in Net cash from operating activities: the impact of this reclassification between "Operating depreciation, amortization, provisions and impairment losses" in cash flows from operating activities and "Industrial investments" in investing activities is -€360.9 million in the year ended December 31, 2009;*
- *transactions with non-controlling interests without a change in control are now recorded in cash flows from financing activities: the impact of this reclassification between "Proceeds on disposals of financial assets" in investing flows and "Transactions with non–controlling interests: partial purchases and sales" in financing flows is €50.9 million in the year ended December 31, 2009.*

(2) 2010 and 2009 amounts re-presented pursuant to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - See Note 1 to the Consolidated Financial Statements.

Net cash flows attributable to discontinued operations as defined in IFRS 5 primarily concern the Veolia Transdev combination (see Note 4).

Discontinued operations are presented in Note 25.

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, 2009	**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**
Impact of the Marine Services correction					**(39.9)**			**(39.9)**		**(39.9)**
As of January 1, 2009 (1)	**472,576,666**	**2,362.9**	**9,197.4**	**(457.5)**	**(3,629.4)**	**(432.9)**	**(79.2)**	**6,961.3**	**2,530.5**	**9,491.8**
Issues of share capital of the parent company	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*
Net foreign investments						*82.0*		*82.0*	*(0.1)*	*81.9*
Actuarial gains and 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 AFS assets							*0.1*	*0.1*	*(4.0)*	*(3.9)*
Total other comprehensive income					(51.2)	88.5	35.7	73.0	(18.8)	54.2
Net income for the year					559.0			559.0	257.8	816.8
Other changes					1.6			1.6	(2.2)	(0.6)
As of December 31, 2009 (1)	**493,630,374**	**2,468.2**	**9,433.2**	**(452.6)**	**(3,663.5)**	**(344.4)**	**(43.5)**	**7,397.4**	**2,670.1**	**10,067.5**

(1) Amounts as of January 1, 2009 and December 31, 2009 re-presented pursuant to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - See Note 1 to the Consolidated Financial Statements.

(€ 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, 2009 (1)	**493,630,374**	**2,468.2**	**9,433.2**	**(452.6)**	**(3,663.5)**	**(344.4)**	**(43.5)**	**7,397.4**	**2,670.1**	**10,067.5**
Issues of share capital of the parent company	5,495,993	27.4	81.7					109.1	-	109.1
Parent company dividend distribution					(579.5)			(579.5)	-	(579.5)
Elimination of treasury shares				7.9				7.9	-	7.9
Share purchase and subscription options					6.2			6.2	-	6.2
Third party share in share capital increases of subsidiaries								-	104.8	104.8
Third party share in dividend distributions of subsidiaries								-	(233.5)	(233.5)
Transactions with non-controlling interests					60.2			60.2	(9.9)	50.3
Total transactions with non-controlling interests	**5,495,993**	**27.4**	**81.7**	**7.9**	**(513.1)**	**-**	**-**	**(396.1)**	**(138.6)**	**(534.7)**
Foreign exchange translation						*478.0*		*478.0*	*109.0*	*587.0*
Net foreign investments						*(112.3)*		*(112.3)*	*(2.5)*	*(114.8)*
Actuarial gains and losses on pension obligations					*(52.0)*			*(52.0)*	*(4.0)*	*(56.0)*
Fair value adjustments on cash flow hedge derivatives						*2.5*	*13.6*	*16.1*	*3.7*	*19.8*
Fair value adjustments on AFS assets							*(4.3)*	*(4.3)*	*2.4*	*(1.9)*
Total Other comprehensive income					(52.0)	368.2	9.3	325.5	108.6	434.1
Net income for the year					558.5			558.5	290.5	849.0
Total comprehensive income for the year					**506.5**	**368.2**	**9.3**	**884.0**	**399.1**	**1,283.1**
Other changes		-	-	-	(9.4)	-	-	(9.4)	(2.1)	(11.5)
As of December 31, 2010 (1)	**499,126,367**	**2,495.6**	**9,514.9**	**(444.7)**	**(3,679.5)**	**23.8**	**(34.2)**	**7,875.9**	**2,928.5**	**10,804.4**

(1) Amounts as of December 31, 2009 and December 31, 2010, re-presented pursuant to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - See Note 1 to the Consolidated Financial Statements.

(€ 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, 2010 (1)	**499,126,367**	**2,495.6**	**9,514.9**	**(444.7)**	**(3,679.5)**	**23.8**	**(34.2)**	**7,875.9**	**2,928.5**	**10,804.4**
Issues of share capital of the parent company	20,462,396	102.3	280.4					382.7		382.7
Parent company dividend distribution					(586.8)			(586.8)	-	(586.8)
Elimination of treasury shares				2.2				2.2		2.2
Share purchase and subscription options	64,197	0.3	0.9		1.8			3.0		3.0
Third party share in share capital increases of subsidiaries									2.5	2.5
Third party share in dividend distributions of subsidiaries									(343.9)	(343.9)
Transactions with non-controlling interests					(43.7)			(43.7)	54.1	10.4
Total transactions with non-controlling interests	**20,526,593**	**102.6**	**281.3**	**2.2**	**(628.7)**	**-**	**-**	**(242.6)**	**(287.3)**	**(529.9)**
Foreign exchange translation						*102.3*		*102.3*	*(23.2)*	*79.1*
Net foreign investments						*(10.1)*		*(10.1)*	*4.8*	*(5.3)*
Actuarial gains and losses on pension obligations					*(53.1)*			*(53.1)*	*(6.4)*	*(59.5)*
Fair value adjustments on cash flow hedge derivatives						*(81.1)*	*(31.9)*	*(113.0)*	*(2.9)*	*(115.9)*
Fair value adjustments on AFS assets							*(0.6)*	*(0.6)*	*(0.7)*	*(1.3)*
Total Other comprehensive income					(53.1)	11.1	(32.5)	(74.5)	(28.4)	(102.9)
Net income for the year					(489.8)			(489.8)	173.2	(316.6)
Total comprehensive income for the year					**(542.9)**	**11.1**	**(32.5)**	**(564.3)**	**144.8**	**(419.5)**
Other changes					0.7			0.7	(20.6)	(19.9)
As of December 31, 2011	519,652,960	2,598.2	9,796.2	(442.5)	(4,850.4)	34.9	(66.7)	7,069.7	2,765.4	9,835.1

(1) Amounts as of December 31, 2010 re-presented pursuant to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - See Note 1 to the Consolidated Financial Statements.

The dividend distribution per share for fiscal year 2011 is €0.70, compared to €1.21 for fiscal years 2010 and 2009.

A dividend distribution of €0.70 per share is proposed to the Annual General Meeting of Shareholders of May 16, 2012.

The total dividend paid recorded in the Consolidated Cash Flow Statement of €547 million, €735 million and €434 million for the years ended December 31, 2011, 2010 and 2009, respectively, includes:

(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Parent company dividend distribution	(587)	(580)	(554)
Third party share in dividend distributions of subsidiaries	(344)	(234)	(202)
Scrip dividend (1)	384	79	322
TOTAL DIVIDEND PAID	(547)	**(735)**	**(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 no.1606/2002 of July 19, 2002, as amended by European Regulation no. 297/2008 of March 11, 2008, the consolidated financial statements for the year ended December 31, 2011 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_en.htm.

These financial statements are accompanied, for comparative purposes, by financial statements for fiscal years 2010 and 2009 drawn up in accordance with the same standards framework.

In the absence of IFRS standards or interpretations and in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Veolia Environnement refers to other IFRS dealing with similar or related issues and the conceptual framework. Where appropriate, the Group may use other standard references and in particular U.S. standards.

1.1.2 Standards, standard amendments and interpretations applicable from fiscal year 2011

The accounting principles and valuation rules applied by the Group in preparing the consolidated financial statements for the year ended December 31, 2011 are identical to those applied by the Group as of December 31, 2010, with the exception of the following standards, standard amendments and interpretations which came into mandatory effect as of January 1, 2011:

- IAS 24 revised, *Related Party Disclosures;*
- Amendments to IAS 32, *Financial Instruments: presentation*: Classification of rights issues;
- Amendments resulting from the 2008-2010 annual improvement process (excluding amendments to IFRS 3 and IAS 27 adopted in 2010);
- IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments;*
- Amendments to IFRIC 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.*

The first-time application of these standards, interpretations and amendments did not have a material impact.

1.1.3 Texts which enter into mandatory effect after December 31, 2011, adopted early from fiscal year 2011

The Group decided to adopt early the amendment to IAS 1, *Presentation of Financial Statements:* presentation of other comprehensive income.

The first-time application of this amendment to the standard did not have an impact.

1.1.4 Texts which enter into mandatory effect after December 31, 2011

The following texts enter into mandatory effect after December 31, 2011 (in the course of adoption by the European Union):

- IFRS 9, Financial Instruments: Classification and Measurement of Financial Assets and Liabilities (phase 1);
- IFRS 10, Consolidated Financial Statements;
- IFRS 11, Joint Arrangements;
- IFRS 12, Disclosure of Interests in Other Entities;
- IFRS 13, Fair value measurement;
- Amendments to IAS 28, Investments in Associates;
- Amendments to IAS 19 which propose eliminating the possibility of deferring the recognition of actuarial gains and losses (the corridor approach);
- Amendments to IAS 12, Income taxes: Recovery of Underlying Assets;
- Amendments to IFRS 9, Financial Instruments, which proposes to push back the mandatory effective date of application of the standard to fiscal years beginning on or after January 1, 2015;
- Amendments to IFRS 7, Financial Instruments – Disclosures, Transfers of Financial Assets;
- Amendments to IFRS 7 related to the offsetting of financial assets and liabilities and disclosures on transition to IFRS 9.

Subject to their definitive adoption by the European Union, these standards, standard amendments and interpretations are of mandatory application from January 1, 2012 or later. The Group is currently assessing the potential impact of the first-time application of these texts.

The consolidation standards detailed above (IFRS 10, IFRS 11 and IFRS 12), published in May 2011 and providing, at this stage, for retrospective application from January 1, 2013 have not yet been adopted by the European Union.

Nonetheless, as these standards are likely to trigger significant changes to the Group financial statements, analysis and implementation procedures were launched in fiscal year 2011.

IFRS 11, *Joint Arrangements*, provides in particular for joint ventures to be accounted for using the equity method and removes the option for proportionate consolidation currently provided in IAS 31, *Interests in Joint Ventures*. The Group currently proportionately consolidates a certain number of material companies and is in the course of assessing the precise impact of the application of this new standard on the consolidated financial statements. (see Note 35).

Procedures were also launched in fiscal year 2011 in respect of IFRS 10, *Consolidated Financial Statements*. These procedures included drafting a framework for the assessment of control as defined in the new standard and an analysis methodology for so-called complex cases, involving several partners in a dense contractual environment. Concomitantly, the scope of review procedures was identified within the different Group businesses.

1.1.5 Accounting changes

In the second quarter of 2011, the Group discovered an incidence of accounting fraud in the United States at the Marine Services unit, which is part of the Environmental Services division. Marine Services is an industrial services business, and a subsidiary of Veolia Environmental Services North America. It operates a fleet of boats and provides services to offshore petroleum installations, primarily in the Gulf of Mexico.

Following an investigation that was completed in July 2011, the Group determined that certain expenditures had been recorded as inventory, non-current assets or prepaid expenses, rather than charges in the income statement. As a result, operating income in the Group's consolidated financial statements for the years 2007 to 2010 was overstated by a total amount of approximately €52 million (excluding exchange rate impacts) for the four years combined. The amount involved was less than 1% of operating income for each of the affected years.

In light of these irregularities, the Group reviewed the profit forecasts for Marine Services that it used to record deferred tax assets with respect to the U.S. tax group during the affected years. The Group determined that its forecasts probably would have been different had the irregularities not existed. Deferred tax assets are determined on the basis of estimates of future taxable income. In the context of the identified irregularities, the Group estimates that the amount of deferred tax assets for the four affected years combined would have been approximately €33 million lower (excluding exchange rate impacts) if the operating income of Marine Services had been properly recorded.

The impact of these accounting irregularities was not material in the context of the Group's consolidated financial statements for the affected financial years, but would be material when taken on a cumulative basis and compared to 2011 figures. In accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the Group correct comparative figures for each of the affected financial years in its 2011 financial statements.

The corrections to the income statement for each of the years affected by these irregularities are as follows, in millions of euro:

	Revenue	Operating income	Tax impact	Exchange rate impact	Total Correction
2007	0	(6)	(19)	(1)	(26)
2008	0	(6)	(7)	(3)	(16)
2009	(3)	(18)	(7)	(1)	(26)
2010	1	(22)	0	0	(22)
TOTAL	**(2)**	**(52)**	**(33)**	**(5)**	**(90)**

The 2010 and 2009 Income Statements presented in comparison to fiscal year 2011 were therefore corrected for the irregularities identified. The income statement for fiscal year 2011 is not affected by this matter.

The impact of these retrospective corrections on earnings per share (-€0.05 in each fiscal year 2010 and 2009) was not material.

The Consolidated Statements of Financial Position as of December 31, 2010, December 31, 2009 and January 1, 2009, presented in comparison to data as of December 31, 2011 were corrected as follows, in millions of euro:

	Equity attributable to owners of the Company	Property, plant and equipment	Deferred tax assets	Inventories and work-in-progress	Operating receivables	Operating payables
As of December 31, 2010, re-presented	(90.3)	(3.3)	(35.9)	(30.2)	(14.6)	6.3
As of December 31, 2009, re-presented	(63.2)	(3.2)	(33.3)	(19.3)	(6.2)	1.2
As of January 1, 2009, re-presented	(39.9)	(3.7)	(27.3)	(8.9)	0	0

The Group has initiated the sale of the Marine Services activity, reclassified in assets and liabilities held for sale as of December 31, 2011.

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 a historical cost basis, 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, 2011 were adopted by the Board of Directors on February 29, 2012 and will be presented for approval to the Annual General Meeting of Shareholders on May 16, 2012.

1.3 Basis of presentation as of December 31, 2011

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, 2011, 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 equity in a subsidiary that is not directly or indirectly attributable to the Group. These interests are presented separately in the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position.

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 the majority of the economic advantages and/or assumes the majority 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 Transactions impacting the consolidation scope

1.5.1 Business combinations and goodwill

Business combinations are recorded in accordance with the acquisition method as defined in IFRS 3.

Under this method, identifiable assets acquired and liabilities assumed of the acquiree are recorded at fair value at the acquisition date.

The goodwill arising from the business combination is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest and, where applicable, the fair value of any previously held interest, over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

This goodwill is measured in the functional currency of the company acquired and recognized in assets in the Consolidated Statement of Financial Position.

The Group may elect, on an individual transaction basis, at the acquisition date, to measure non-controlling interests either at fair value (full goodwill) or at the share in the fair value of the identifiable net assets of the company acquired.

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 recorded in assets in the Statement of Financial Position (see Note 1.11, Impairment of intangible assets, property, plant and equipment and non–financial assets).

Where the terms and conditions of a business combination are advantageous, negative goodwill arises. The corresponding profit is recognized in net income at the acquisition date.

Acquisition-related costs are expensed in the period in which the costs are incurred and the services received.

Pursuant to the provisions of IFRS 3, the Group may finalize the recognition of the business combination during the measurement period. This period ends when all the necessary information has been obtained and no later than one year after the acquisition date.

1.5.2 Transactions with non-controlling interests

Dilution and accretion transactions in entities controlled by the Group are recognized as transactions in equity, as they are transactions performed by the owners of the company acting in this capacity.

Pursuant to the provisions of IAS 27 and IAS 32, *Financial Instruments: Presentation*, these transactions are recognized in equity at their net-of-tax amount and do not therefore impact the Consolidated Income Statement of the Group.

These transactions are presented in financing activities in the Cash Flow Statement.

1.5.3 Assets/liabilities 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 Consolidated 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, 2011, the results of operations sold or in the course of being sold in 2011 must also be adjusted in the comparative financial statements as of December 31, 2010 and 2009. The 2010 and 2009 comparative income statements therefore differ from those published previously.

Internal transactions between the Group and discontinued operations of any nature, whether operating or financial, are recorded in expenses of discontinued operations in fiscal year 2011 and comparative periods, enabling the presentation of the economic results of entities sold on this line.

The impact of these operations on cash flows from operating, investing and financing activities is presented in specific lines of the Consolidated Cash Flow Statement for the year ended December 31, 2011 and comparative periods.

The 2010 and 2009 Consolidated Statements of Financial Position are unchanged.

1.6 Translation of foreign subsidiaries' financial statements

Statements of financial position, 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 statement of financial position 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, 2011**	**As of December 31, 2010**	**As of December 31, 2009**
U.S. Dollar	0.7729	0.7484	0.6942
Pound Sterling	1.1972	1.1618	1.1260
Czech Crown	0.0388	0.0399	0.0378
Average annual exchange rate *(one foreign currency unit = €xx)*	**Average annual rate 2011**	**Average annual rate 2010**	**Average annual rate 2009**
U.S. Dollar	0.7185	0.7537	0.7177
Pound Sterling	1.1523	1.1652	1.1222
Czech Crown	0.0407	0.0395	0.0378

1.7 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.

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.

1.8 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.*

Property, plant and equipment are primarily depreciated on a straight-line basis, unless another systematic depreciation basis better reflects the rate of consumption of the asset.

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, assets financed by finance lease are initially recorded at the lower of fair value and the present value of future minimum lease payments. Subsequently, the Group does not apply the remeasurement model but the cost model as authorized by IAS 16 and IAS 38.

These assets are depreciated over the shorter of the expected useful life of the asset and the lease term, unless it is reasonably certain that the asset will become the property of the lessee at the end of the contract. This accounting policy complies with IAS 17 and Group accounting methods regarding the recognition and measurement of intangible assets and property, plant and equipment.

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

1.9 Government grants

1.9.1 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.

1.9.2 Investment grants relating to concession arrangements

Investment grants received in respect of concession arrangements (see Note 1.20) 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.

1.9.3 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.

1.10 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.

Intangible assets are amortized on a straight-line basis over their useful life, unless another systematic amortization basis better reflects the rate of consumption of the asset.

Useful lives are as follows:

	Range of useful lives in number of years *
Fees paid to local authorities	3 to 80
Purchased contractual rights	3 to 34
Purchased software	3 to 10
Other intangible assets	1 to 28

* *The range of useful lives is due to the diversity of intangible assets concerned.*

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 or group of assets is estimated.

Goodwill and other assets with an indefinite useful life are subject to systematic annual impairment tests following the update of the long-term plan and more frequent tests where there is an indication of loss in value.

Where the resulting recoverable amount is less than the net carrying amount of the asset or group of assets, an impairment is recorded.

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

Goodwill and impairment tests

A Cash-Generating Unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Given the Group's activities, cash-generating units and groups of cash-generating unites are below operating segments in the organizational structure and generally represent a country in each division.

For the purpose of impairment tests, goodwill is allocated, from the acquisition date, to each of the cash-generating units or each of the groups of cash-generating units that are expected to benefit from the business combination.

A cash-generating unit to which goodwill has been allocated is subject to annual impairment tests and more frequent tests where there is an indication of impairment, by comparing the net carrying amount of the CGU, including the goodwill, to its recoverable amount.

Therefore, changes in the general economic and financial environment, or changes in the Group’s economic performance or stock market capitalization represent, in particular, external indicators of impairment that are analyzed by the Group to determine whether it is appropriate to perform more frequent impairment tests.

Where appropriate, goodwill impairment is recognized in operating income and is definitive.

Measuring recoverable amount

The need to recognize an impairment is assessed by comparing the net carrying amount of the assets and liabilities of the CGU or group of CGUs with their recoverable amount.

The recoverable amount of a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is determined based on available information enabling the best estimate of the amount obtainable from the sale of the cash-generating unit in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

The value in use determined by the Group is equal to the present value of the future cash flows expected to be derived from the CGU or group of CGUs, taking account of their residual value and based on the following:

- Forecast cash flows taken from the long-term plan prepared each year in June and validated by the Board of Directors on November 29, 2011. This plan covers the year in progress and the next six years. This period is representative of the average duration of the Group's long-term contract portfolio and its short-term activities. Exceptionally, the long-term plan was extended to 2025 for the "Water–China" CGU, in order to identify standard flows for the calculation of the terminal value, as Water activities in China follow a specific economic model, with extremely long contract terms (fifty years) and high investment flows during the initial contract years;
- Terminal values are calculated based on discounted forecast flows for the last year of the long-term plan (2017). These flows are determined for each CGU or group of CGUs based on a perpetual growth rate which takes account of factors such as inflation;
- 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 CGU or group of CGUs is exposed, with the other risks reflected in the expected future cash flows from the assets;
- Investments included in forecast future cash flows are those investments that enable the level of economic benefits expected to arise from the assets to be maintained in their current condition;
- Restructuring plans to which the Group is not committed are not included in forecast cash flows used to determine values in use.

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 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, 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, Veolia Environnement generally assumes responsibility for the maintenance and repair of the installations 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 rehabilitation of landfill 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".

1.14 Financial instruments

1.14.1 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.

1.14.2 Measurement, recognition and derecognition of financial assets

Financial assets are initially recognized at fair value plus 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 effective interest rate (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 disposals.

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 and 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 swapped flows 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.

1.14.3 Cash and cash equivalents

Cash equivalents are held to meet short-term cash commitments. In order to be considered a cash equivalent, an investment must be readily convertible to a known amount of cash and subject to a negligible risk of change in value, thereby satisfying the requirements of IAS 7.

Cash and cash equivalents include all cash balances, certain term deposits, negotiable debt instruments and monetary UCITS.

Term deposits and negotiable debt instruments present characteristics satisfying the requirements of IAS 7 when their yield is based on short-term money-market rates (such as Eonia) and their maturity is less than 3 months (contractually or due to an early exit option exercisable at least every 3 months and held at a low or nil cost, without loss of capital or remuneration received net of the early exit penalty of less than the yield on short-term investments).

UCITS classified in "cash equivalents" comply with Directive 2009/65/EC of the European Commission of July 13, 2009 and constitute short-term monetary UCITS (pursuant to the AMF classification no. 2005-12 of January 25, 2005 as amended on May 3, 2011). Pursuant to AMF Position no. 2011-13 of September 23, 2011, these UCITS are presumed to satisfy the cash equivalent criteria defined by IAS 7. These UCITS can be sold daily on demand, conferring on them the characteristics of short-term, highly liquid investments that are readily convertible to known amounts of cash. These instruments are not intended to be held more than three months and offer a yield similar to the EONIA (European Overnight Index Average) interbank rate, thereby limiting sensitivity to interest rates. The regularity of performance trends does not expose them to a material risk of change in value.

Cash equivalents are valued at fair value through the Consolidated Income Statement. Note 27.1 sets out the method of determining fair value. Cash and cash equivalents belong to fair value levels 1 and 2:

- instruments with a quoted price in an active market in level 1;
- other instruments, that are not quoted but the fair value of which is determined using valuation techniques involving standard mathematical calculation methods integrating observable market data, in level 2.

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.

1.14.4 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.

1.14.5 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, *Financial Instruments: Presentation*, non–controlling interest put options are recognized as liabilities.

1.14.6 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 swapped flows 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:

- 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 (primarily 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.

1.14.7 Embedded derivatives

An embedded derivative is a component of a host contract that satisfies the definition of a derivative instrument 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.

1.14.8 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.

1.15 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 is capped at the total of the discounted present value of profits, in the form of future repayments or reductions in plan contributions and 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. They are determined based on the yield offered by bonds issued by top-quality companies (rated AA) or treasury bonds where the market is not liquid, with maturities equivalent to the average term of the plans valued in the relevant region. 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, *Employee Benefits*, actuarial gains and losses are offset against other comprehensive income and are not amortized in the Consolidated Income Statement.

1.16 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 at 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.

1.17 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:

- the amount of revenue can be measured reliably;
- the significant risks and rewards of ownership of the goods have been transferred to the buyer, in the case of sales of goods;
- the stage of completion of the transaction at the year-end may be reasonably determined in the case of sales of services;
- the recovery of the counterparty is considered probable;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.17.1 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.

1.17.2 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.

1.17.3 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 1.22).

1.17.4 IFRIC 4 Contracts

Contracts falling within the scope of IFRIC 4, *Determining Whether an Arrangement Contains a Lease* (see Note 1.20), 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 design, construction and financing of the construction of a specific asset/installation on behalf of the customer and the operation of the asset concerned. In this context and in accordance with IFRIC 4, revenue is recognized in accordance with the accounting method applicable to construction contracts.

Construction revenue is recognized in accordance with the percentage completion method and, more generally, the principles set out in IAS 11. At the same time, the amount of built assets is recorded in "Operating financial assets".

The service invoiced to the client includes a component representing the operation of the specific asset/installation concerned and a second component representing the financing of the construction.

- Revenue relating to the operation of the asset is recognized on delivery of the goods or performance of the service, in accordance with IAS 18.
- 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.

1.17.5 Concession arrangements (IFRIC12)

See Note 1.20 on Service concession arrangements.

1.18 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.

1.19 Income taxes

The income tax expense (credit) includes the current tax charge (credit) and the deferred tax charge (credit).

Deferred tax assets are recognized on deductible timing differences and/or tax loss carry forward.

Deferred tax assets arising from timing differences are only recognized when it is probable that:

- there are sufficient taxable timing differences within the same tax group or tax entity that are expected to reverse in the same periods as the expected reversal of such deductible timing differences or in the periods when the deferred tax assets arising from tax losses can be carried back or forward;
- or the Group is likely to generate sufficient future taxable profits against which the asset can be offset.

At each period end, the Group reviews the recoverable amount of deferred tax assets arising from material tax losses carried-forward.

Deferred tax assets arising from these tax losses are no longer recognized or are reduced when required by the specific facts and circumstances of each company or tax group concerned, and particularly when:

- the forecast period and uncertainties regarding the economic environment no longer enable the probability of utilization to be assessed;
- the companies have not started utilizing the losses;
- the forecast utilization period exceeds the carry forward period authorized by tax legislation;
- offset against future taxable profits is uncertain due to the risk of different interpretations of the application of tax legislation.

Deferred tax assets and liabilities are adjusted for the effects of changes in prevailing tax laws and rates at the year end. Deferred tax balances are not discounted.

1.20 Description of Group concession activities

In the course of its business, Veolia Environnement provides collective services (distribution of drinking water and heating, passenger transport network, household waste collection, etc.) to local authorities in return for a remuneration based on services rendered.

These collective services (also known as services of general interest or general economic interest or public services) are generally managed by Veolia Environnement under contracts entered into at the request of public bodies which retain control thereof.

Concession arrangements involve the transfer of operating rights for a limited period, under the control of the local authority, using dedicated installations built by Veolia Environnement, or made available to it for a fee or nil consideration:

- These contracts define "public service obligations" in return for remuneration. The remuneration is based on operating conditions, continuity of service, price rules and obligations with respect to the maintenance/replacement of installations. The contract determines the conditions for the transfer of installations to the local authority or a successor at its term;
- Veolia Environnement can, in certain cases, be responsible for a given service as it holds the service support network (water/heat distribution network, water treatment network). Such situations are the result of full or partial privatizations. Provisions impose public service obligations and the means by which the local authority may recover control of the concession holder.

These contracts generally include price review clauses. These clauses are mainly based on cost trends, inflation, changes in tax and/or other legislation and occasionally on changes in volumes and/or the occurrence of specific events changing the profitability of the contract.

In addition, the Group generally assumes a contractual obligation to maintain and repair facilities managed under public service contracts. The resulting maintenance and repair costs are analyzed in accordance with IAS 37 on provisions and, where appropriate, a provision for contractual commitments is recorded in respect of commitments resulting from delays in the performance of work.

The nature and extent of the Group's rights and obligations under these different contracts differ according to the public services rendered by the different Group divisions.

The accounting treatment is disclosed in Notes 6 and 11.

Water

Veolia Environnement manages municipal drinking water and/or waste water services. These services encompass all or part of the water cycle (extraction from natural sources, treatment, storage and distribution followed by collection and treatment of waste water and release into the environment).

In France, these services are primarily rendered under public service delegation "affermage" contracts with a term of 8 to 20 years. They concern the production and distribution of drinking water and/or the collection and treatment of waste water. They use specific assets, such as distribution or wastewater treatment networks and drinking water or wastewater treatment plants, which are generally provided by the concession grantor and returned to it at the end of the contract.

Abroad, Veolia Environnement renders its services under contracts which reflect local legislation, the economic situation of the country and the investment needs of each partner.

These contracts are generally concession arrangements, service contracts or O&M (Operate & Manage) and BOT contracts with an average term of between 7 and 40 years, and sometimes longer.

Contracts can also be entered into with public entities in which Veolia Environnement purchased an interest on their partial privatization. The profitability of these contracts is not fundamentally different from other contracts, but operations are based on a partnership agreement with the local authority.

Environmental Services

Both in France and abroad, the main concession arrangements entered into by Veolia Environnement concern the treatment and recovery of waste in sorting units, storage and incineration. These contracts have an average term of 18 to 30 years.

Energy Services

Veolia Environnement has developed a range of energy management activities: heating and cooling networks, thermal and multi-technical services, industrial utilities, installation and maintenance of production equipment, integration services for the comprehensive management of buildings and electrical services on public roadways.

The main contracts concern the management of heating and air-conditioning networks under urban concessions or on behalf of local authorities.

In Eastern Europe, Veolia Environnement's Energy Services division provides services under mixed partial privatizations or through public-private partnerships with local authorities responsible for the production and distribution of thermal energy.

Transportation

Veolia Environnement's Transportation division provides passenger transport services on behalf of local, regional and national public authorities.

Veolia Environnement primarily provides these services in France and abroad under service contracts comprising public service obligations (as per EU terminology), with terms of 7 to 15 years.

Accounting for service concession arrangements

Concession arrangements are recognized in accordance with IFRIC 12, *Service Concession Arrangements*.

A substantial portion of the Group's assets is used within the framework of concession or affermage contracts granted by public sector customers ("grantors") and/or by concession companies purchased by the Group on full or partial privatization. The characteristics of these contracts vary significantly depending on the country and activity concerned.

Nonetheless, they generally provide, directly or indirectly, for customer involvement in the determination of the service and its remuneration, and the return of the assets necessary to the performance of the service at the end of the contract.

IFRIC 12 is applicable to concession arrangements comprising a public service obligation and satisfying all of the following criteria:

- the concession grantor controls or regulates the services to be provided by the operator using the asset, the infrastructure, the beneficiaries of the services and prices applied;
- the grantor controls the significant residual interest in the infrastructure at the end of the term of the arrangement.

Pursuant to IFRIC 12, such infrastructures are not recognized in assets of the operator as property, plant and equipment but in financial assets ("financial asset model") and/or intangible assets ("intangible asset model") depending on the remuneration commitments given by the grantor.

1.20.1 Financial asset model

The financial asset model applies when the operator has an unconditional right to receive cash or another financial asset from the grantor in remuneration for concession services.

In the case of concession services, the operator has such an unconditional right if the grantor contractually guarantees the payment of:

- amounts specified or determined in the contract or
- the shortfall, if any, between amounts received from users of the public service and amounts specified or determined in the contract.

Financial assets resulting from the application of IFRIC 12 are recorded in the Consolidated Statement of Financial Position under the heading "Operating financial assets" and recognized at amortized cost.

Unless otherwise indicated in the contract, the effective interest rate is equal to the weighted average cost of capital of the entities carrying the assets concerned.

Pursuant to IAS 39, an impairment loss is recognized if the carrying amount of these assets exceeds the present value of future cash flows discounted at the initial EIR.

The portion falling due within less than one year is presented in "Current operating financial assets," while the portion falling due within more than one year is presented in the non-current heading.

Revenue associated with this financial model includes:

- revenue recorded on a completion basis, in the case of construction operating financial assets (in accordance with IAS 11);
- the remuneration of the operating financial asset recorded in Revenue from operating financial assets (excluding principal payments);
- service remuneration.

1.20.2 Intangible asset model

The intangible asset model applies where the operator is paid by the users or where the concession grantor has not provided a contractual guarantee in respect of the recoverable amount. The intangible asset corresponds to the right granted by the concession grantor to the operator to charge users of the public service in remuneration of concession services.

Intangible assets resulting from the application of IFRIC 12 are recorded in the Consolidated Statement of Financial Position under the heading "Concession intangible assets" and are amortized, generally on a straight-line basis, over the contract term.

Under the intangible asset model, Revenue includes:

- revenue recorded on a completion basis for assets and infrastructure under construction (in accordance with IAS 11);
- service remuneration.

1.20.3 Mixed or bifurcation model

The choice of the financial asset or intangible asset model depends on the existence of payment guarantees granted by the concession grantor.

However, certain contracts may include a payment commitment on the part of the concession grantor covering only part of the investment, with the balance covered by royalties charged to users.

Where this is the case, the investment amount guaranteed by the concession grantor is recognized under the financial asset model and the residual balance is recognized under the intangible asset model.

1.21 Finance leases

IFRIC 4 seeks to identify the contractual terms and conditions of agreements which, without taking the legal form of a lease, convey a right to use a group of assets in return for payments included in the overall contract remuneration. It identifies in such agreements a lease contract which is then analyzed and accounted for in accordance with the criteria laid down in IAS 17, based on the allocation of the risks and rewards of ownership.

The contract operator therefore becomes the lessor of its customers. Where the lease transfers the risks and rewards of ownership of the asset in accordance with IAS 17 criteria, the operator recognizes a financial asset to reflect the corresponding financing, rather than an item of property, plant and equipment.

These financial assets are recorded in the Consolidated Statement of Financial Position under the heading "Operating financial assets". They are initially recorded at the lower of fair value and total future flows and subsequently at amortized cost using the effective interest rate of the contract.

The portion falling due within less than one year is presented in "Current operating financial assets," while the portion falling due within more than one year is presented in the non-current heading.

Contracts falling within the scope of IFRIC 4 are either outsourcing contracts with industrial customers, BOT (Build, Operate and Transfer) contracts, or incineration or cogeneration contracts under which, notably, demand or volume risk is, in substance, transferred to the prime contractor.

During the construction phase, a financial receivable is recognized in the Consolidated Statement of Financial Position and revenue in the Consolidated Income Statement, in accordance with the percentage completion method laid down in IAS 11 on construction contracts.

The financial receivables resulting from this analysis are initially measured at the fair value of lease payments receivable and then amortized using the effective interest method.

After a review of the contract and its financing, the implied interest rate on the financial receivable is based on either the Group financing rate and /or the borrowing rate associated with the contract.

1.22 Construction contracts

Veolia Environnement recognizes income and expenses associated with construction contracts in accordance with the percentage of completion method defined in IAS 11.

These contracts are entered into with local authorities or private partners for the construction of infrastructures. They are generally fixed-price contracts as defined by IAS 11.

Revenue generated by construction services rendered by the Group is measured at the fair value of the consideration received or receivable, where total income and expenses associated with the construction contract and the stage of completion can be determined reliably.

The percentage of completion is determined by comparing costs incurred at the period-end with total estimated costs under the contract. Costs incurred comprise costs directly attributable to the contract and borrowing costs incurred up to completion of the work. However administrative and selling costs are expensed in the period incurred.

Where total contract costs exceed total contract revenue, the Group recognizes a loss to completion as an expense of the period, irrespective of the stage of completion and based on a best estimate of forecast results including, where appropriate, rights to additional income or compensation, where they are probable and can be determined reliably. Provisions for losses to completion are recorded as liabilities in the Consolidated Statement of Financial Position.

The amount of costs incurred, plus profits and less losses recognized and intermediary billings is determined on an individual contract basis. In accordance with IAS 11, where positive, this amount is recognized in assets in "amounts due from customers for construction contract work" (in “Other operating receivables”). Where negative, it is recognized in liabilities in "amounts due to customers for construction contract work" (in “Other operating payables”).

Partial payments received under construction contracts before the corresponding work has been performed, are recognized in liabilities in the Consolidated Statement of Financial Position under advances and down-payments received.

1.23 Electricity purchase and sale contracts

Incidentally to their operations, certain Veolia Environnement subsidiaries are required to purchase or sell electricity on the market, in order to manage supplies and optimize costs.

Revenue

After analysis of contractual terms and conditions, the net margin on trading activity transactions is recognized in "Revenue".

Financial instruments

Certain subsidiaries enter into electricity transactions (forward contracts, options) which are recognized as derivative instruments in accordance with IAS 39.

Application scope of IAS 39

Options and forward purchase and sale contracts with physical delivery are excluded from the application scope of IAS 39 if entered into for own use (exception for own-use).

This exception is applicable when the following conditions are satisfied:

- the volumes purchased or sold under the contracts reflect the operating requirements of the subsidiary;
- the contracts are not subject to net settlement as defined by IAS 39 and, in particular, physical delivery is systematic;
- the contracts are not equivalent to sales of options, as defined by IAS 39.

Recognition and measurement of instruments falling within the application scope of IAS 39

Instruments falling within the application scope of IAS 39 are derivative instruments and are measured at fair value, calculated using models mostly based on observable data (see Note 1.26). Fair value movements are recorded in operating income. The net impact of the unwinding of these transactions is recorded in revenue (see Note 29).

1.24 Greenhouse gas emission rights

Faced with increased greenhouse gas emissions into the atmosphere, the International Community introduced a regulatory system within the framework of the Kyoto protocol, aimed at reducing such emissions. This system was finalized in 1997 and came into effect in February 2005 and seeks to achieve a reduction in emission levels of at least 5% compared to 1990, over the commitment period 2008-2012 for industrialized countries. Emissions are capped through the allocation of emission rights (AAU: Assigned Amount Units) to each country, which must be surrendered in 2014 based on actual emissions during the period 2008-2012. Developing countries have no reduction objectives under the Kyoto protocol, but emission credits (CER: Certified Emission Reduction) may be presented to companies or States that contribute to investments enabling a reduction in greenhouse gas emissions in these countries.

At a European level, the European Union decided to implement, via Directive 2003/87/EC of October 13, 2003, an internal trading system for emission rights (EUA: EU Allowance). This system has been in effect since January 1, 2005. The “Project” Directive 2004/101/EC established a link between the Kyoto system and the European system, enabling the operators concerned to use CER, up to an agreed maximum, to satisfy their surrender obligations in the place of EUA.

Directive 2009/29/EC of April 26, 2009 amended the ETS Directive and extended the allowance trading system beyond the second period (2008-2012). It covers the period 2013-2020 and provides for a progressive reduction in allowances allocated and new allocation procedures.

The European Regulation of November 12, 2010 established a scheme for auctioning greenhouse gas allowances for the period 2013-2020. The European Commission decision of December 15, 2010 defined allocation rules for the free grant of allowances for the period 2013-2020. Allocation calculation guidance was published in the first and second quarters of 2011. Operators filed the necessary data with the national authorities and performed preliminary calculations. The definitive allocations will be known at the end of 2012. The Group, and primarily the Energy Services division, is currently assessing the potential effects of these grant conditions on a site-by-site basis.

The actual emissions position is determined each year and the corresponding rights surrendered. The Group then purchases or sells emission rights, depending on whether actual emissions are greater or lesser than emission rights allocated.

In the absence of specific IFRS provisions, the Group has adopted the “net liability approach,” which involves the recognition of a liability at the period-end if actual emissions exceed allowances held, in accordance with IAS 37.

Allowances are managed as a production cost and, in this respect, are recognized in inventories:

- at nil value, when they are received free of charge;
- at acquisition cost, if purchased for valuable consideration on the market.

Consumption of this inventory is recognized on a weighted-average unit cost basis.

Transactions in these allowances performed on the forward market are recorded at market value at the period-end. Fair value gains and losses on financial instruments relating to these forward transactions are recognized in other comprehensive income or net income depending on whether they qualify as cash flow hedges in accordance with IAS 39.

1.25 Segment reporting

The information presented for each operating segment is identical to that presented to the Group's Chief Operating Decision Maker (Chairman and Chief Executive Officer) for decision making purposes. This information is based on the internal organization of the Group's activities and corresponds to the Group's four business segments, that is, Water, Environmental Services, Energy Services and Transportation.

The Chief Operating Decision Maker receives summary information by division, which he uses to measure the performance of each business.

Budget objectives set for each division head comprise objectives based on revenue, operating net income, investment and other key ratios. These objectives are set for each division as a whole.

The variable compensation of Executive Committee members is based on the performance of the Group or of each division (including, in particular, adjusted operating cash flow; a reconciliation between adjusted operating cash flow and operating income is presented in Note 42).

Financial information by operating segment is prepared in accordance with the same rules used to prepare the Consolidated Financial Statements.

1.26 Fair value determination principles

The fair value of all financial assets and liabilities is determined at the period-end, either for recognition in the accounts or disclosure in the notes to the financial statements (see Note 28).

Fair value is determined:

i. based on quoted prices in an active market (level 1) or;

ii. using internal valuation techniques involving standard mathematical calculation methods integrating observable market data (forward rates, interest rate curves, etc.). Valuations produced by these models are adjusted to take account of a reasonable change in the credit risk of Veolia Group or the counterparty (level 2) or;

iii. using internal valuation techniques integrating parameters estimated by the Group in the absence of observable market data (level 3).

Quoted prices in active market (level 1)

When quoted prices in an active market are available they are adopted in priority for the determination of the market value. Marketable securities and certain quoted bond issues are valued in this way.

Fair values determined using models integrating observable market data (level 2)

The majority of derivative instruments (swaps, caps, floors, etc.) are traded over the counter and, as such, there are no quoted prices. Valuations are therefore determined using models commonly used by market participants to value such financial instruments.

Valuations calculated internally in respect of derivative instruments are tested every six months for consistency with valuations issued by our counterparties.

The fair value of unquoted borrowings is calculated by discounting contractual flows at the market rate of interest.

The net carrying amount of receivables and payables falling due within less than one year and certain floating-rate receivables and payables is considered a reasonable estimate of their fair value, due to the short payment and settlement periods applied by the Veolia Group.

The fair value of fixed-rate loans and receivables depends on movements in interest rates and the credit risk of the counterparty.

Valuations produced by these models are adjusted to take account of changes in Veolia Group credit risk.

Fair values determined using models integrating certain non-observable data (level 3)

Derivative instruments valued using internal models integrating certain non-observable data include certain electricity derivative instruments for which there are no quoted prices in an active market (notably for electricity purchase options with extremely long maturity) or observable market data (forward prices for component materials, interest-rate curves, etc.), in particular for distant maturities.

2 Use of management estimates in the application of Group accounting standards

Veolia Environnement may be required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosures of contingent assets and liabilities. Future results may be different from these estimates.

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

Underlying estimates and assumptions are reviewed on an ongoing basis. The impact of changes in accounting estimates is recognized in the period the change is made if it affects this period only and in the period the change is made and prior periods if they are also affected by the change.

Notes 5 on goodwill and 25 on discontinued operations present the impact of -€440 million impairment on the Veolia Transdev goodwill,in the course of being sold. This value adjustment is the result of a downturn in the performance of the subsidiary and a decrease in implicit market transaction valuation multiples in this sector. The value adjustment is based on non-binding offers received on January 27, 2012 and also incorporates the potential impact on the transaction price of current legal proceedings concerning one of the assets of this group, SNCM (see Note 38, Contingent liabilities).

Notes 1.5.1 and 5 on goodwill and business combinations present the methods adopted for the fair value measurement of identifiable assets acquired and liabilities assumed in business combinations. Allocations are based on future cash flow assumptions and discount rates.

Notes 1.11, 5 and 20 concern goodwill and non-current asset impairment tests. Group management performed tests based on best forecasts of discounted future cash flows of the activities of the cash-generating units concerned. Sensitivity analyses were also performed on invested capital values and are presented in the aforementioned notes.

Note 1.14 describes the principles adopted for the determination of financial instrument fair values.

Note 30 on derivative instruments describes the accounting treatment of derivative instruments. Veolia Environnement valued these derivative instruments, allocated them and tested their effectiveness where necessary.

Notes 17 and 31 on provisions and the employee benefit obligation detail the provisions recognized by Veolia Environnement. Veolia Environnement determined these provisions based on best estimates of these obligations.

Note 23 on the income tax expense presents the tax position of the Group and is primarily based in France and in the United States on best estimates available to the Group of results of tax audits in progress and trends in future tax results.

All these estimates are based on organized procedures for the collection of forecast information on future flows, validated by operating management, and on expected market data based on external indicators and used in accordance with consistent and documented methodologies.

The following calculation method was adopted for discount rates:

- Application of IAS 36, *Impairment of assets*: in accordance with Group practice, the discount rates used correspond to the weighted-average cost of capital, calculated annually at the end of the first half-year. A specific risk premium is included in the calculation of the weighted average cost of capital for peripheral countries in the euro zone. Given the exceptional economic situation in the secondary sovereign debt market for certain peripheral countries during the second semester of 2011, the discount rates of these countries were maintained unchanged between June 30, 2011 and December 31, 2011;
- Application of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*: the discount rates used consist of a risk-free interest rate and a risk premium specific to the underlying assets and liabilities;
- Application of IAS 19, *Employee Benefits*: commitments were measured using a range of market indices and, in particular the iboxx index.

3 Significant events

3.1 Economic and operational context

Group results were marked by the following events in 2011:

- the creation of the Veolia Transdev joint venture with Caisse des dépôts et consignations on March 3, 2011, followed by the Company's decision to withdraw from the Transportation business as of December 31,2011. As a consequence, the company recognized a disposal gain on March 3, 2011 amounted €429.8 million and an impairment as of December 31, 2011 of €440.0 million;
- localized operating difficulties, particularly in Southern Europe and North Africa;
- in the Water division, the erosion of margins in France and the negative impact of increased asset maintenance costs in the United Kingdom.

Faced with these economic, financial and political difficulties in Southern Europe and Northern Africa, the Group accelerated the implementation of its restructuring and asset optimization strategy and reviewed its asset values in these regions, and particularly Italy.

Accordingly the Group recognized an expense of €783.2 million in respect of the main non-current asset impairments in the accounts for the year ended December 31, 2011. A detailed breakdown of impairment losses recognized on goodwill and non-current assets in 2011 is presented in Note 20.

The majority of impairments on non-current assets and goodwill concern the Group's activities in Southern Europe, and primarily Italy, in the United States and in Northern Africa, as detailed below:

- In the Environmental Services division, following the failure of contractual negotiations with the Calabria Region and the non-payment of amounts due, the Group requested the termination of the TEC incinerator concession arrangement due to breach of contract by the local authority. The Group also decided to launch a restructuring plan and place its subsidiary in Calabria in voluntary liquidation. As this company is no longer a going concern, the Group recognized asset impairments on non-current assets of €169.6 million;
- In the Water division, the Group recognized non-current asset impairments of €75.5 million in Italy. This impairment takes into consideration the request for the termination of the contract in Calabria (Italy), due to operating difficulties, regulatory changes and the difficult financial context from the first half of the year;
- In the Energy Services division, photovoltaic field installation activities were discontinued in Spain and Italy. Furthermore, the new management appointed at the beginning of 2011 in Southern Europe launched a comprehensive restructuring of the activity (involving, in particular, employee redundancy plans, the regrouping of sites and the discontinuation of activities) in both Italy and Spain. Related non-current asset impairments totaled €263.2 million;
- The Group also reviewed the value of its activities in Morocco in the Water division (€59.0 million) and a less favorable than forecast growth outlook in a difficult economic environment in the Energy Services division in the United States led the Group to recognize non-current asset impairments of €153.1 million.

3.2 Changes in the Group structure

Veolia Transdev combination

This transaction is presented in detail in Note 4.

Acquisitions

On July 26, Dalkia Polska won the privatization bid for the Warsaw urban heating network. The European Commission issued a favorable opinion on the takeover by Dalkia Polska, a subsidiary of Dalkia International of an 85% stake in SPEC. The deal was closed on October 11, 2011 for an enterprise value of €227 million (Group share). The company is consolidated from this date and the fair value measurement of identifiable assets and liabilities acquired was determined on a provisional basis as of December 31, 2011.

This acquisition is presented in detail in Note 32.

Divestitures

- On February 14, 2011, the Group signed an agreement for the disposal of its sorting-recycling activities in Norway. The divestiture was completed on March 25, 2011.
- In May and August 2011, the activities of the Energy Services division in Germany were sold for an enterprise value of €29 million (Group share).
- On May 5, 2011, the Group sold its transportation activities in Norway for an enterprise value of €36 million (Group share).
- On May 23, 2011, the Group sold 5% of Dalkia Ceska Republica to J&T Group for an enterprise value of €32 million.
- On June 29, 2011, the EBRD and IFC acquired a 5% interest each in the Baltic-Russian activities of the Energy Services division in the amount of €38 million.
- On July 1, 2011, the Group sold its United Kingdom activities previously owned by Veolia Transport.
- On August 10, 2011, the Group sold its solid waste activities in Belgium in the Environmental Services division.
- On December 16, 2011, the Group sold its household assistance services business (“Veolia Habitat Services” or Proxiserve) for an enterprise value of €118 million.
- On December 20, 2011, the Group sold its cogeneration activities in Estonia for an enterprise value of €69 million (Group share).
- On December 22, 2011, the Group sold its residual 15% stake in Dalkia Usti nad Labem to CEZ Group for an enterprise value of €26 million (Group share). Accordingly, in fiscal years 2010 and 2011, cumulative divestitures of Dalkia Usti nad Labem activities, comprising a cogeneration (heat and electricity) plant and the primary district heating system for the city of Usti nad Labem, represented a total enterprise value of €171 million (Group share).

The divestiture of Norwegian recycling activities in the Environmental Services division, German activities in the Energy Services division, United Kingdom and Norwegian activities in the Transportation division and Proxiserve household assistance services is presented in discontinued operations.

Investor Day

During its Investor Day held in Paris on December 6, 2011, the Group presented its strategic plan and mid-term outlook based primarily on refocusing the activity and business portfolio, with in particularly €5 billion in assets divestitures over the next two years, the restructuring of activities on the three core businesses (Water, Environmental Services and Energy Services) and the sale of regulated Water activities in the United Kingdom and solid waste activities in the United States.

3.3 Group financing policy

Refinancing of the main loan facility

Veolia Environnement signed two syndicated loan facilities on April 7, 2011: a 5-year €2.5 billion multi-currency loan facility and a 3-year €500 million loan facility available for drawdown in Polish zloty, Czech crown and Hungarian forint. Both facilities include two one-year extension options. These facilities refinance in advance the €4 billion multi-currency syndicated loan facility held by Veolia Environnement as of December 31, 2010.

Payment of the dividend

In accordance with the decision of the Annual General Meeting of Shareholders of May 17, 2011, the Group offered its shareholders a share or cash option with respect to the dividend payment. The share payment option was widely taken up, resulting in the creation of 20,462,396 shares representing approximately 3.94% of share capital and 4.05% of voting rights. Accordingly, the dividend payment in cash totaled €203 million and was paid on June 17, 2011.

Partial buyback of bond lines

On December 22, 2011, the Company announced the partial buyback of USD 210 million of its US-dollar 5.25% bond line maturing in June 2013 and of €56 million of its Euro 4.875% bond line maturing in May 2013.

4 Veolia Transdev Combination

On May 4, 2010, the Caisse des dépôts et consignations and Veolia Environnement concluded their agreement on the Transdev-Veolia Transport combination by the creation of a 50/50 joint venture combining Transdev and Veolia.

As part of this transaction, the companies Veolia Transport and Transdev were transferred respectively by their shareholders to the newly created joint venture, Veolia Transdev. Prior to completing the transaction, the Caisse des dépôts et consignations subscribed to a €200 million share capital increase by Transdev;

Following completion of the combination, Veolia Environnement became the industrial operator of the new entity and Caisse des dépôts et consignations a long-term strategic partner.

On March 3, 2011, the transaction was effectively completed:

- following authorization of the combination by the relevant anti-monopoly authorities and approval by the French Ministry of the Economy of the privatization of Transdev.
- following the final amendments to the shareholders' agreement in order to simplify measures regarding the governance of the new entity.

Following the changes in the shareholders' agreement, the new entity has a single Chief Executive, Mr. Jérôme Gallot, with full operational responsibilities. Veolia Environnement and the Caisse des dépôts et consignations exercise joint control over the new entity.

From this date and pursuant to IAS/IFRS, Veolia Environnement lost exclusive control of Veolia Transport in exchange for a 50% investment in the Veolia Transdev joint venture, which is proportionately consolidated.

On December 6, 2011, during the Investor Day, the Group presented its strategic plan encompassing the refocusing of its activities and business portfolio and leading to the decision to withdraw progressively from the Transportation sector.

The communication of these decisions and progress with the withdrawal process as of December 31, 2011, led the Company to classify the Transportation business as a group of assets held for sale and consider the Transportation business as a discontinued operation as defined by IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations.*

The accounting impacts of these transactions in the Group financial statements are quantified below:

- **Impact on the main Income Statement headings**

The main accounting impacts of the combination break down as follows:

- The net income and expenses of Veolia Transport were recorded in a separate income statement line, *Net income from discontinued operations*. Amounts presented in *Net income from continued operations* in fiscal years 2010 and 2009 were also restated retrospectively on the same line. Income and expenses reclassified in fiscal year 2011 consist of 100% of Veolia Transport income and expenses for the period January 1 to March 3, 2011 and 50% of Veolia Transdev income and expenses for the period March 3 to December 31 (including income and expenses incurred in transactions with other Group entities).
- The recognition of a gain on disposal of €429.8 million following the loss of control of Veolia Transport on March 3, 2011, comprising:
  - the Veolia Transport disposal gain of €391.5 million;
  - items recorded directly in other comprehensive income of €38.3 million (mainly a foreign exchange translation gain of €34.2 million).

The recognition of an impairment as of December 31 of €440 million on Veolia Transdev goodwill. This value adjustment is the result of a downturn in the performance of the subsidiary and a decrease in implicit market transaction valuation multiples in this sector. The value adjustment is based on non-binding offers received on January 27, 2012 and also incorporates the potential impact on the transaction price of current legal proceedings concerning one of the assets of this group, SNCM (see Note 38, Contingent liabilities).

(€ millions)	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Revenue	4,259.0	5,764.7	5,860.7
Operating income	(449.0)	119.7	152.9
Financial items	(40.4)	(47.0)	(65.9)
Income tax expense	(9.8)	(20.7)	(43.8)
Share of net income of associates	0.5	0.3	(10.0)
Net income (loss) reclassified in discontinued operations	**(498.7)**	**52.3**	**33.2**
Capital gains and losses on disposals	443.0	-	-
Tax impacts on disposal	-	-	-
Disposal gain after tax reclassified in Net income (loss) from discontinued operations	**443.0**	**-**	**-**
Total reclassified in Net income (loss) from discontinued operations	**(55.7)**	**52.3**	**33.2**

Transaction-related costs expensed in the accounts of Veolia Transdev totaled €13.7 million and are recognized in *Net income from discontinued operations.*

- **Impact on the main Consolidated Statement of Financial Position headings**

The main accounting impacts break down as follows:

- the derecognition of all Veolia Transport assets and liabilities, fully consolidated in the accounts, following loss of control by the Group on March 3, 2011 and as a consequence the Group recognized a disposal gain amounted €429.8 million;
- the fair value remeasurement of the assets and liabilities held in the Veolia Transdev joint venture, following the acquisition of 50% joint control by the Group. The fair value allocation primarily concerned contracts and contract portfolios, brands, real-estate sites and travelling systems.
- the recognition of an impairment loss of €440 million on Veolia Transdev goodwill.
- the reclassification of the entire assets and liabilities of the Veolia Transdev joint venture consolidated using the proportionate method in assets and liabilities held for sale following the withdrawal decided by the Group.

(€ million)	**100% de-recognition of Veolia Transport (a)**	**50% recognition of Veolia Transdev (b)**	**Impact presented in change in consolidation scope (a)+(b)**	**Flows during the period**	**Transfers to assets/liabilities classified as held for sale**
Assets					
Goodwill	(543.6)	730.0	186.4	(446.1)	(283.9)
Concession intangible assets	(14.2)	7.1	(7.1)	6.1	(13.2)
Other intangible assets	(125.0)	159.5	34.5	2.4	(161.9)
Property, plant and equipment	(1,607.1)	1,163.6	(443.5)	(149.4)	(1,014.2)
Investments in associates	(2.5)	3.2	0.7	0.8	(4.0)
Non-consolidated investments	(13.0)	20.2	7.2	(2.8)	(17.4)
Non-current operating financial assets	(87.8)	35.3	(52.5)	64.1	(99.4)
Derivative instruments - Assets	(2.6)	5.3	2.7	(2.4)	(2.9)
Other non-current financial assets	(81.0)	53.6	(27.4)	(5.3)	(48.3)
Deferred tax assets	(192.8)	181.0	(11.8)	3.4	(184.4)
TOTAL NON-CURRENT ASSETS	**(2,669.6)**	**2,358.8**	**(310.8)**	**(529.2)**	**(1,829.6)**
Inventories and work-in-progress	(96.8)	58.4	(38.4)	0.5	(58.9)
Operating receivables	(1,145.2)	769.7	(375.5)	(74.0)	(695.7)
Current operating financial assets	(15.9)	7.9	(8.0)	13.3	(21.2)
Other current financial assets	(29.9)	19.2	(10.7)	12.0	(31.2)
Current derivative instruments	(1.7)	1.7	-	0.7	(2.4)
Cash and cash equivalents	(252.9)	282.3	29.4	(130.5)	(151.8)
Assets classified as held for sale	(18.6)	19.2	0.6	(12.1)	2,790.8
TOTAL CURRENT ASSETS	**(1,561.0)**	**1,158.4**	**(402.6)**	**(190.1)**	**1,829.6**
TOTAL ASSETS	**(4,230.6)**	**3,517.2**	**(713.4)**	**(719.3)**	**-**

(€ million)	**100% de-recognition of Veolia Transport (a)**	**50% recognition of Veolia Transdev (b)**	**Impact presented in change in consolidation scope (a)+(b)**	**Flows during the period**	**Transfers to assets/liabilities classified as held for sale**
Equity and liabilities					
Equity attributable to owners of the Company	**(304.8)**	**691.1**	**386.3**		
Equity attributable to non-controlling interests	(118.9)	86.4	(32.5)		
Equity	**(423.7)**	**777.5**	**353.8**	**-**	**-**
Non-current provisions	(258.9)	136.4	(122.5)	10.0	(146.4)
Non-current borrowings	(166.7)	230.9	64.2	(24.0)	(206.9)
Derivative instruments - Liabilities	(2.1)	1.7	(0.4)	4.3	(6.0)
Deferred tax liabilities	(256.6)	262.0	5.4	(3.7)	(258.3)
TOTAL NON-CURRENT LIABILITIES	**(684.3)**	**631.0**	**(53.3)**	**(13.4)**	**(617.6)**
Current borrowings	(85.3)	235.3	150.0	(101.0)	(134.3)
Operating payables	(1,354.7)	973.8	(380.9)	(9.1)	(964.7)
Current provisions	(94.3)	61.5	(32.8)	(18.4)	(43.1)
Current derivative instruments - Liabilities	7.3	(7.7)	(0.4)	7.1	(0.6)
Bank overdrafts and other cash position items	(28.7)	60.0	31.3	(44.9)	(15.1)
Group financing	(1,537.6)	771.3	(766.3)	-	-
Liabilities directly associated with assets classified as held for sale	(29.3)	14.5	(14.8)	(14.1)	1,775.4
TOTAL CURRENT LIABILITIES	(3,122.6)	2,108.7	(1,013.9)	(180.4)	617.6
TOTAL EQUITY AND LIABILITIES	**(4,230.6)**	**3,517.2**	**(713.4)**	**(193.8)**	**-**

- **Impact on cash flows**

(€ million)	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009
Net cash from operating activities	163.0	298.9	335.6
Net cash used (from) in investing activities	621.7	(219.8)	(126.0)
Net cash used (from) in financing activities	(129.4)	20.1	(88.2)
Net increase (decrease) in cash and cash equivalents reclassified in net cash flows of discontinued operations	655.3	99.2	121.4

- **Impact on Group debt and cash and cash equivalents**

(€ million)	Veolia Transport at 100%	Veolia Transdev at 50%	Net impact as of March 3	Impact of transfers to assets/liabilities classified as held for sale as of December 31, 2011
Non-current borrowings	(166.7)	230.9	64.2	(206.9)
Current borrowings	(85.3)	235.3	150.0	(134.3)
Group financing	(1,537.6)	771.3	(766.3)	
Bank overdrafts and other cash position items	(28.7)	60.0	31.3	(15.1)
Gross borrowings	**(1,818.3)**	**1,297.5**	**(520.8)**	**(356.3)**
Cash and cash equivalents	252.9	(282.3)	(29.4)	151.8
Net debt	**(1,565.4)**	**1,015.2**	**(550.2)**	**(204.5)**

The Veolia Transdev combination reduced Group net financial debt by €550 million in the first quarter of 2011, primarily due to the refinancing of the new entity by both Veolia Environnement and the Caisse des dépôts et consignations. The loans granted by Veolia Environnement and the Caisse des dépôts et consignations are granted jointly to Veolia Transdev. The cash and cash equivalents of Veolia Transdev and its subsidiaries is pooled and managed by Veolia Environnement.

As of December 31, 2011, external financing and net cash and cash equivalents were reclassified in assets and liabilities held for sale in the amount of €205 million.

- **Other comprehensive income of discontinued operations**

(€ million)		Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009
Actuarial gains and losses on pension obligations	Net of tax	(9.3)	(6.5)	(6.7)
Fair value reserve	Net of tax	1.4	2.7	36.1
Foreign exchange gains and losses	Net of tax	(41.2)	31.6	32.1
Other comprehensive income		**(49.1)**	**27.8**	**61.5**
- attributable to owners of the Company		(40.0)	25.3	60.9
- attributable to non-controlling interests		(9.1)	2.5	0.6

Other comprehensive income released to net profit consists of the foreign exchange translation reserve and the fair value reserve, net of tax, attributable to owners of the Company.

5 Goodwill

5.1 Movements in goodwill

Goodwill breaks down as follows:

(€ million)	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
Gross	**6,677.4**	7,362.8	7,104.9
Accumulated impairment losses	**(881.5)**	(522.6)	(480.3)
NET	**5,795.9**	**6,840.2**	**6,624.6**

The main goodwill balances in net carrying amount by cash-generating unit (amounts in excess of €100 million as of December 31, 2011) are as follows:

(€ million)	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
Water – Distribution France	865.5	865.4	743.3
Environmental Services - United Kingdom	734.3	712.0	690.0
Environmental Services North America Solid Waste	660.1	635.6	591.3
Environmental Services - Germany	409.1	402.1	402.1
Dalkia France	337.8	337.8	337.8
Water – China	289.8	268.0	240.4
Water Solutions & Technologies	289.7	293.9	280.3
Environmental Services France Solid Waste	257.3	235.6	238.5
Water – United Kingdom	241.5	239.6	222.7
Water – Czech Republic	227.5	230.5	219.1
Water Germany (excl. Berlin)	137.7	137.7	137.7
Water – Berlin	134.4	134.4	134.4
Veolia Energy Services – Poland	116.1	117.7	114.5
Environmental Services – Marius Pedersen	106.2	105.9	102.2
Goodwill balances > €100 million as of December 31, 2011	**4,807.0**	**4,716.2**	**4,454.3**
Dalkia Italy	-	185.2	185.2
Veolia Energy Services – United States	-	159.5	147.4
Goodwill balances > €100 million impaired in fiscal year 2011	**-**	**344.7**	**332.6**
Transportation goodwill	**-**	**549.0**	**537.6**
Other goodwill balances < €100 million	988.9	1,230.3	1,300.1
TOTAL GOODWILL	**5,795.9**	**6,840.2**	**6,624.6**

Goodwill balances of less than €100 million break down by division as follows:

Goodwill < €100 million *(€ million)*	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
Water	182.2	238.4	275.5
Environmental Services	486.2	600.1	654.2
Energy Services	289.9	361.4	362.9
Other	30.6	30.4	7.5
TOTAL	**988.9**	**1,230.3**	**1,300.1**

As of December 31, 2011, accumulated impairment losses totaled €881.5 million and mainly concerned goodwill of the "Environmental Services – Germany" cash-generating unit (€343.0 million), the "Energy Services – Italy" cash-generating unit (€193.8 million), the "Energy Services – United States" cash-generating unit (€164.7 million), the "Environmental Services – Italy" cash-generating unit (€78.1 million) and the "Water – Morocco" cash-generating unit (€37.7 million).

Movements in the net carrying amount of goodwill by division are as follows:

(€ million)	As of December 31, 2010	Changes in consolidation scope	Foreign exchange translation	Impairment losses	Transfers to Assets classified as held for sale	Other	As of December 31, 2011
Water	2,408.0	(19.2)	24.3	(58.6)	13.0	0.8	**2,368.3**
Environmental Services	2,691.2	(3.2)	45.9	(78.1)	(3.3)	0.7	**2,653.2**
Energy Services	1,161.6	(12.1)	(26.7)	(366.1)	(12.9)	-	**743.8**
Transportation	549.0	173.9	0.8	(440.0) (1)	(283.9)	0.2	**0.0**
Incl. VeoliaTransdev		717.5	6.2	(440.0) (1)	(283.9)	0.2	
Incl. VeoliaTransport	549.0	(543.6)	(5.4)	-	-	-	-
Other	30.4	-	0.2	-	-	-	**30.6**
GOODWILL	**6,840.2**	**139.4**	**44.5**	**(942.8)**	**(287.1)**	**1.7**	**5,795.9**

(1) Reclassified as discontinued operations.

Changes in consolidation scope primarily concern the disposal of Veolia Transportation (-€543.6 million), the acquisition of joint control of the Veolia Transdev joint venture (€730.0 million) (see Note 4) and the sale of Transportation activities in Norway (-€20.9 million).

Acquisitions during the year are presented in Note 32, Main acquisitions, and primarily concern the acquisition of SPEC by the Energy Services division.

Foreign exchange translation gains and losses are primarily due to the appreciation of the U.S. dollar, the pound sterling and the Chinese renminbi yuan and the depreciation of the Polish zloty against the euro in the amount of €22.3 million, €31.2 million, €23.1 million and -€15.3 million, respectively.

Transfers to Assets classified as held for sale mainly concern the assets of the Veolia Transdev group reclassified as discontinued operation (€283.9 million, see Note 4).

Impairment losses recognized in the year total €942.8 million of which €440.0 million on Veolia Transdev reclassified as discontinued operations (see Note 25) and €502.8 million recorded in operating income and detailed in Note 20.

Recap: Movements in the net carrying amount of goodwill during **2010** are as follows:

(€ million)	As of December 31, 2009	Changes in consolidation scope	Foreign exchange translation	Impairment losses	Transfers to Assets classified as held for sale	Other	As of December 31, 2010
Water	2,253.3	89.5	72.7	0.4	(13.0)	5.1	2,408.0
Environmental Services	2,678.4	(2.9)	104.0	(0.2)	(84.8)	(3.3)	2,691.2
Energy Services	1,147.9	17.5	25.2	-	(28.9)	(0.1)	1,161.6
Transportation	537.6	7.9	33.0	(26.1)	(3.3)	(0.1)	549.0
Other	7.4	-	0.6	-	32.2	(9.8)	30.4
GOODWILL	**6,624.6**	**112.0**	**235.5**	**(25.9)**	**(97.8)**	**(8.2)**	**6,840.2**

Changes in consolidation scope primarily concern the following acquisitions and divestitures:

- Water division: the redistribution of companies previously held jointly with Suez Environnement (€64.3 million) and the acquisition of certain United Utilities Group businesses (€16 million);
- Energy Services division: acquisition of New World Resources Energy (NWR Energy) (€24.1 million).

Foreign exchange translation gains and losses are primarily due to the appreciation of the U.S. dollar, the pound sterling, the Chinese renminbi yuan and the Australian dollar against the euro in the amount of €80.8 million, €30.9 million, €29.4 million and €22.6 million, respectively.

Transfers to Assets classified as held for sale mainly concern Environmental Services division assets in Norway classified as held for sale in the amount of -€84.5 million and the impact of the interruption of the divestiture process for Renewable Energy activities in the amount of €32.2 million.

Impairment losses recognized in the year total €25.9 million and mainly concern the Transportation division.

Recap: Movements in the net carrying amount of goodwill during 2009 are as follows:

(€ million)	As of December 31, 2008	Changes in consolidation scope	Foreign exchange translation	Impairment losses	Other	As of December 31, 2009
Water	2,247.7	10.0	14.4		(18.8)	2,253.3
Environmental Services	2,736.7	(84.1)	49.2		(23.4)	2,678.4
Energy Services	1,131.1	12.8	5.0	(1.0)	-	1,147.9
Transportation	551.3	(16.5)	11.6	(5.5)	(3.3)	537.6
Other	56.5	(16.3)	(0.6)	-	(32.2)	7.4
GOODWILL	**6,723.3**	**(94.1)**	**79.6**	**(6.5)**	**(77.7)**	**6,624.6**

Changes in the consolidation scope primarily concern divestitures in 2009 (Dalkia UK in the Energy Services division, VPNM in the Environmental Services division and Freight activities in the Transportation division) and the acquisition of Digismart in the Energy Services division.

Foreign exchange translation gains and losses are primarily due to the depreciation of the U.S. dollar and the appreciation of the pound sterling against the euro in the amount of -€37.2 million and €65.5 million, respectively.

Other movements primarily consist of the transfer of goodwill to "Assets classified as held for sale" in the amount of -€77.7 million, primarily in the Environmental Services division, the Renewable Energy sector and certain French subsidiaries under joint control in the Water division.

5.2 Impairment tests

Veolia Environnement performs systematic annual impairment tests in respect of goodwill and other intangible assets with an indefinite useful life. More frequent tests are performed where there is indication that the cash-generating unit may have suffered a loss in value, in accordance with the procedures set out in Note 1.11.

Veolia Environnement Group has 87 cash-generating units as of December 31, 2011, including 30 cash-generating units with allocated goodwill in excess of €20 million (excluding Transportation business).

On the Transportation business in the process of divestiture, the value adjustment is the result of a downturn in the performance of the subsidiary and a decrease in implicit market transaction valuation multiples in this sector. The value based on cash flow projections is coherent with enterprise value included on non-binding offers. The calculation also incorporates the potential impact of current legal proceedings concerning SNCM (see Note 38, Contingent liabilities).

Key assumptions underlying the determination of recoverable amounts

The calculation basis for recoverable amounts is presented in Note 1.11.

Changes in the economic and financial context, as well as changes in the competitive or regulatory environment may impact estimates of recoverable amounts, as may unforeseen changes in the political, economic or legal systems of certain countries.

Cash flow projections in the long-term plan reflect changes in volumes, prices, direct costs and investment in the period, determined based on contracts and activities and in line with past data and expected changes over the period covered by the long-term plan.

Other assumptions influencing the determination of recoverable amounts are the discount rate and the perpetual growth rate:

Discount rates used in 2011 reflect the country or geographical area of the cash-generating unit, in accordance with the criteria set out in Notes 1.11 and 2. The discount rates for the main geographical areas are as follows:

France:	6.6%	United Kingdom:	6.9%
United States:	6.6%	China:	7.5%
Germany:	6.6%	Italy:	7.8%

*Perpetual growth rates u*sed to determine terminal values also reflect the country or geographical area of the cash-generating unit, in accordance with the criteria set out in Note 1.11 and break down as follows for the main geographical areas*:*

France:	1.9%	United Kingdom:	2.0%
United States:	2.0%	China:	3.2%
Germany:	1.9%	Italy:	1.9%

As in 2010, impairment tests were performed based on the 2012 budget for all Group cash-generating units: a reduction in cash flows in the 2012 budget prepared at the end of 2011, of over 10% compared with 2012 figures in the long-term plan, or any other indication of loss in value relating to the operating activities of the CGU, led the Group to review its business plans for the following cash-generating units: Italy (excl. Calabria) and Poland in the Environmental Services division.

Impairment tests led to the recognition of impairments of €942.8 million in 2011 and primarily:

- in the Energy Services division in Italy (€193.8 million), the United States (€153.1 million) and Spain (€18.2 million);
- in the Environmental Services division in Italy (€78.1 million);
- in the Water division in Morocco (€37.2 million) and Italy (€22.9 million);
- in the Transportation business reclassified as discontinued operation (€440.0 million).

A breakdown of the main impairment losses is presented in Note 20.

Sensitivity of recoverable amounts

Recoverable amounts determined for impairment testing purposes were tested for their sensitivity to a 1% increase in discount rates and a 1% decrease in perpetual growth rates.

For a certain number of cash-generating units, these tests led to the identification of recoverable amounts lower than the net carrying amount of the cash-generating unit, adjusted where appropriate for impairments recognized during the period:

(€ million)	**Veolia Energy Services – United States**	**Dalkia Italy**	**Water – Southern Europe**	**Other**	**Total**
Difference between the recoverable amount and the net carrying amount	47	30	19	19	115
Difference between the recoverable amount and the net carrying amount, with an increase in the discount rate (1%)	(59)	(32)	(28)	(24)	(143)
Difference between the recoverable amount and the net carrying amount, with a decrease in the perpetual growth rate (1%)	(40)	(41)	(17)	(5)	(103)

The “Other” column includes the Energy Services Spain, Environmental Services Italy (excl. Calabria) and Water Morocco cash-generating units, which are not individually material.

The Group identified the above cash-generating units as material and sensitive and subjected them to additional sensitivity tests focusing on changes in operating cash flows, the main operating assumption considered by the Group when analyzing the recoverable amount of goodwill.

The changes in operating cash flows taken into account for the purpose of these sensitivity tests include operating cash flow before changes in working capital as defined in Note 41, less investments net of divestitures as defined in Note 1.11, plus changes in working capital.

A 5% decrease in operating cash flows over the period of the long-term plan would generate a decrease in the recoverable amount of €28 million for the Veolia Energy Services United States cash-generating unit, €19 million for the Dalkia Italy cash-generating unit and €16 million for the Water Southern Europe cash-generating unit. Net carrying amounts remain lower than recoverable amounts.

The following table presents the percentage change in each of the key assumptions taken individually, which brings the estimated recoverable amount into line with the net carrying amount of the cash-generating units.

(in %)	**Veolia Energy Services – United States**	**Dalkia Italy**	**Water – Southern Europe**
Discount rate	0.40	0.44	0.37
Perpetual growth rate	(0.50)	(0.53)	(0.47)
Operating cash flows	(8.31)	(7.60)	(5.88)

6 Concession intangible assets

Movements in the net carrying amount of concession intangible assets during **2011** are as follows:

(€ million)	As of December 31, 2010	Additions	Disposals	Impairment losses	Amortization/ reversals	Changes in consolidation scope	Foreign exchange translation	Transfers to Assets classified as held for sale	Other	As of December 31, 2011
Concession intangible assets, gross	5,851.0	620.7	(51.3)			(28.7)	167.5	272.0	(26.6)	**6,804.6**
Amortization and impairment losses	(1,686.4)		39.7	(146.3)	(292.6)	6.4	(20.4)	(116.8)	40.9	**(2,175.5)**
CONCESSION INTANGIBLE ASSETS, NET	**4,164.6**	**620.7**	**(11.6)**	**(146.3)**	**(292.6)**	**(22.3)**	**147.1**	**155.2**	**14.3**	**4,629.1**

Additions concern the Water division in the amount of €315.8 million, the Energy Services division in the amount of €146.9 million and the Environmental Services division in the amount of €127.4 million.

A breakdown of **impairment losses** recognized in 2011 is presented in Note 20. These mainly concerned:

- the Environmental Services division in Italy (€91.1 million) and France (€12.1 million);
- the Water division in Italy (€22.6 million);
- the Energy Services division in France (€13.2 million).

Foreign exchange translation gains and losses are primarily due to the appreciation of the Chinese renminbi yuan against the euro in the amount of €134.9 million.

Transfers to Assets classified as held for sale mainly concern the reclassification out of "Assets classified as held for sale" of the assets of Water division activities in Gabon (+€175.8 million) following the decision to interrupt the divestiture process and the assets of the Veolia Transdev group reclassified as discontinued operation(-€13.2 million, see Note 4).

Concession intangible assets break down by division as follows:

	As of December 31, 2011			Net carrying amount as of December 31, 2010	Net carrying amount as of December 31, 2009
(€ million)	Gross carrying amount	Amortization and impairment losses	Net carrying amount		
Water	4,903.0	(1,335.3)	**3,567.7**	3,196.8	2,844.8
Environmental Services	759.4	(361.0)	**398.4**	385.5	263.2
Energy Services	1,046.9	(453.1)	**593.8**	513.1	480.0
Transportation	-	-	**-**	14.4	-
Other	95.3	(26.1)	**69.2**	54.8	36.8
CONCESSION INTANGIBLE ASSETS	**6,804.6**	**(2,175.5)**	**4,629.1**	**4,164.6**	**3,624.8**

Recap: Movements in the net carrying amount of concession intangible assets during **2010** are as follows:

(€ million)	**As of December 31, 2009**	**Additions**	**Disposals**	**Impairment losses**	**Amortization/ reversals**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets classified as held for sale**	**Other**	**As of December 31, 2011**
Concession intangible assets, gross	5,129.1	497.4	(17.3)	-	-	223.8	193.9	(302.9)	127.0	5,851.0
Amortization and impairment losses	(1,504.3)	-	11.0	(6.5)	(256.6)	(35.8)	(16.8)	123.3	(0.7)	(1,686.4)
CONCESSION INTANGIBLE ASSETS, NET	**3,624.8**	**497.4**	**(6.3)**	**(6.5)**	**(256.6)**	**188.0**	**177.1**	**(179.6)**	**126.3**	**4,164.6**

Additions concern the Water division in the amount of €339.0 million, the Energy Services division in the amount of €71.8 million and the Environmental Services division in the amount of €53.5 million.

Changes in consolidation scope mainly concern external growth transactions in the Water division with the acquisition of certain United Utilities Group businesses in the amount of €101.8 million and the unwinding of companies previously held jointly with Suez Environnement in the amount of €50.6 million.

Foreign exchange translation gains and losses are primarily due to the appreciation of the Chinese renminbi yuan against the euro in the amount of €158.3 million.

7 Other intangible assets

Other intangible assets break down as follows:

(€ million)	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
INTANGIBLE ASSETS WITH AN INDEFINITE USEFUL LIFE, NET	**14.7**	**76.2**	**70.0**
Intangible assets with an definite useful life, gross	3,426.9	3,549.4	3,271.5
Amortization and impairment losses	(2,160.8)	(2,119.8)	(1,903.7)
INTANGIBLE ASSETS WITH A DEFINITE USEFUL LIFE, NET	**1,266.1**	**1,429.6**	**1,367.8**
INTANGIBLE ASSETS, NET	**1,280,8**	**1,505.8**	**1,437.8**

Movements in the net carrying amount of other intangible assets during **2011** are as follows:

(€ million)	As of December 31, 2010	Additions	Disposals	Impairment losses	Amortization	Changes in consolidation scope	Foreign exchange translation	Transfers to Assets classified as held for sale	Other	As of December 31, 2011
INTANGIBLE ASSETS WITH AN INDEFINITE USEFUL LIFE, NET	**76.2**	**1.7**	**(0.4)**	**(0.7)**		**(8.6)**	**1.8**	**(55.6)**	**0.3**	**14.7**
Fees paid to local authorities	451.3	3.6	(0.5)	(8.4)	(57.1)	(0.2)	6.6	10.1	(3.7)	**401.7**
Purchased contractual rights	382.3	0.2	0.1	(51.8)	(34.8)	(56.4)	0.4	38.7	9.5	**288.2**
Purchased software	138.9	65.3	(1.1)	0.4	(50.8)	(3.6)	1.2	(20.0)	12.0	**142.3**
Purchased customer portfolios	75.2	-	(0.1)	(5.4)	(25.9)	108.1	3.6	(88.3)	0.7	**67.9**
Other purchased intangible assets	188.2	13.2	(2.1)	(2.1)	(23.3)	51.2	2.5	(37.9)	(4.5)	**185.2**
Other internally-developed intangible assets	193.7	29.0	2.3	(0.4)	(34.4)	(14.4)	0.7	(9.0)	13.3	**180.8**
INTANGIBLE ASSETS WITH A DEFINITE USEFUL LIFE, NET	**1,429.6**	**111.3**	**(1.4)**	**(67.7)**	**(226.3)**	**84.7**	**15.0**	**(106.4)**	**27.3**	**1,266.1**
OTHER INTANGIBLE ASSETS	**1,505.8**	**113.0**	**(1.8)**	**(68.4)**	**(226.3)**	**76.1**	**16.8**	**(162.0)**	**27.6**	**1,280.8**

Intangible assets with an indefinite useful life are primarily trademarks.

Fees paid to local authorities in respect of public service contracts total €401.7 million as of December 31, 2011, including €397.1 million for the Water division. The amortization of fees paid at the beginning of concession arrangements, calculated over the contract term, totaled -€57.1 million in 2011, including -€56.5 million for the Water division.

A breakdown of the main **impairment losses** recognized in 2011 is presented in Note 20. These primarily concern the Water division in Morocco (€21.8 million), Italy (€30 million) and Portugal (€8.3 million).

Changes in consolidation scope primarily concern the Veolia Transdev combination (€34.5 million, see Note 4) and external growth in the Environmental Services division (€33.3 million).

Transfers to Assets classified as held for sale mainly concern the Veolia Transdev group reclassified as discontinued operation(-€161.9 million, see Note 4).

Recap: Movements in the net carrying amount of other intangible assets during **2010** are as follows:

(€ million)	As of December 31, 2009	Additions	Disposals	Impairment losses	Amortization	Changes in consolidation scope	Foreign exchange translation	Other	As of December 31, 2010
INTANGIBLE ASSETS WITH AN INDEFINITE USEFUL LIFE, NET	**70.0**	**0.4**	**-**	**(0.8)**	**-**	**-**	**6.0**	**0.6**	**76.2**
Fees paid to local authorities	501.7	8.5	(1.0)	(4.3)	(58.7)	11.1	11.5	(17.5)	451.3
Purchased contractual rights	322.6	0.4	-	-	(47.2)	79.4	11.6	15.5	382.3
Purchased software	142.2	42.6	-	0.1	(52.2)	1.8	5.9	(1.5)	138.9
Purchased customer portfolios	65.3	-	-	-	(9.4)	9.5	9.5	0.3	75.2
Other purchased intangible assets	188.0	24.3	(1.1)	(5.8)	(27.5)	3.9	6.6	(0.2)	188.2
Other internally-developed intangible assets	148.0	52.0	(0.6)	(0.6)	(27.2)	-	1.5	20.6	193.7
INTANGIBLE ASSETS WITH A DEFINITE USEFUL LIFE, NET	**1,367.8**	**127.8**	**(2.7)**	**(10.6)**	**(222.2)**	**105.7**	**46.6**	**17.2**	**1,429.6**
OTHER INTANGIBLE ASSETS	**1,437.8**	**128.2**	**(2.7)**	**(11.4)**	**(222.2)**	**105.7**	**52.6**	**17.8**	**1,505.8**

Intangible assets with an indefinite useful life are primarily trademarks.

Fees paid to local authorities in respect of public service contracts total €451.3 million as of December 31, 2010, including €445.9 million for the Water division. The amortization of fees paid at the beginning of concession arrangements, calculated over the contract term, totaled -€58.7 million in 2010, including -€58.1 million for the Water division.

Changes in consolidation scope impacting “Purchased contractual rights” primarily concern external growth in the Water division (€39.2 million) and the Energy Services division (€39.1 million).

Other movements in “Purchased contractual rights” consist of the transfer of the assets of Renewable Energy activities from “Assets classified as held for sale” following the decision to interrupt the divestiture process launched in 2009; other movements in "Fees paid to local authorities” consist of the transfer of certain Water division assets to “Assets classified as held for sale” in the amount of -€10.3 million.

8 Property, plant and equipment

Movements in the net carrying amount of property, plant and equipment during **2011** are as follows:

(€ million)	As of December 31, 2010	Additions	Disposals	Impairment losses	Depreciation	Changes in consolidation scope	Foreign exchange translation	Transfers to Assets classified as held for sale	Other	As of December 31, 2011
Property, plant and equipment, gross	21,116.1	1,581.6	(769.8)	-	-	(777.8)	45.7	(2,447.4)	(75.2)	**18,673.2**
Depreciation and impairment losses	(11,412.8)	-	662.0	(103.9)	(1,250.0)	545.7	(17.1)	1,376.1	15.1	**(10,184.9)**
PROPERTY, PLANT AND EQUIPMENT,	**9,703.3**	**1,581.6**	**(107.8)**	**(103.9)**	**(1,250.0)**	**(232.1)**	**28.6**	**(1,071.3)**	**(60.1)**	**8,488.3**

Additions concern the Water division in the amount of €284.4 million, the Environmental Services division in the amount of €677.9 million, the Energy Services division in the amount of €380.7 million and the Transportation business in the amount of €169.0 million.

Disposals, net of impairment losses and depreciation, of -€107.8 million, mainly concern the Water division in the amount of -€18.4 million, the Environmental Services division in the amount of -€30.2 million and the Transportation business in the amount of -€50.0 million.

A breakdown of the main impairment losses recognized in 2011 is presented in Note 20. These primarily concern the Energy Services division in Italy (-€43.0 million) and the Environmental Services division in the United States (-€26.3 million).

Changes in consolidation scope mainly concern:

- the impact of the Veolia Transdev combination (-€443.5 million, see Note 4);
- the acquisition of SPEC (+€319.0 million, see Note 32);
- the divestiture of Proxiserve (-€62.6 million), of cogneneration activities in Estonia (-€48.6 million) in the Energy Services division and of activities in Norway (-€21 million) and Morocco (-€14.8 million) in the Transportation business.

Transfers to Assets classified as held for sale mainly concern the assets of the Veolia Transdev group reclassified as discontinued operation (-€1,014.2 million, see Note 4), the decision to sell Marine Services activities in the Environmental Services division (-€80.9 million) and the impact of the interruption of the divestiture process for Water division activities in Gabon (+€20.3 million).

Other movements include the consequences of the application of IFRIC 12 following the renegotiation of STIF contracts in the Transportation business in the amount of -€71.2 million.

Property, plant and equipment break down by division as follows:

(€ million)	As of December 31, 2011 Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount as of December 31, 2010	Net carrying amount as of December 31, 2009
Water	4,662.3	(2,397.4)	**2,264.9**	2,289.6	2,130.4
Environmental Services	9,437.6	(5,841.6)	**3,596.0**	3,606.6	3,650.7
Energy Services	4,187.6	(1,751.3)	**2,436.3**	2,023.5	1,909.0
Transportation	0.0	0.0	**0.0**	1,624.2	1,562.0
Other	385.7	(194.6)	**191.1**	159.4	127.1
PROPERTY, PLANT AND EQUIPMENT	**18,673.2**	**(10,184.9)**	**8,488.3**	**9,703.3**	**9,379.2**

The breakdown of property, plant and equipment by class of assets is as follows:

(€ million)	As of December 31, 2011 Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount as of December 31, 2010	Net carrying amount as of December 31, 2009
Land	1,876.0	(959.7)	**916.3**	914.7	884.1
Buildings	3,025.1	(1,458.1)	**1,567.0**	1,645.4	1,620.4
Technical installations, plant and equipment	9,209.1	(4,947.0)	**4,262.1**	4,179.5	3,725.1
Travelling systems and other vehicles	2,107.7	(1,482.7)	**625.0**	1,956.5	1,939.0
Other property, plant and equipment	1,826.6	(1,327.7)	**498.9**	545.6	636.2
Property, plant and equipment in progress	628.7	(9.7)	**619.0**	461.6	574.4
PROPERTY, PLANT AND EQUIPMENT	**18,673.2**	**(10,184.9)**	**8,488.3**	**9,703.3**	**9,379.2**

The decrease in "Travelling systems and other vehicles" is attributable to the Veolia Transdev group pursuant to the restructuring of the Group's activities announced on December 6, 2011. These assets were transferred to Assets classified as held for sale (see Note 4).

Recap: Movements in the net carrying amount of property, plant and equipment during **2010** are as follows:

(€ million)	As of December 31, 2009	Additions	Disposals	Impairment losses	Depreciation	Changes in consolidation scope	Foreign exchange translation	Transfers to Assets classified as held for sale	Other	As of December 31, 2010
Property, plant and equipment, gross	19,990.2	1,568.3	(809.6)	-	-	155.8	670.9	(468.9)	9.4	21,116.1
Depreciation and impairment losses	(10,611.0)	-	655.3	(19.8)	(1,293.3)	(51.7)	(328.9)	297.5	(60.9)	(11,412.8)
PROPERTY, PLANT AND EQUIPMENT, NET	**9,379.2**	**1,568.3**	**(154.3)**	**(19.8)**	**(1,293.3)**	**104.1**	**342.0**	**(171.4)**	**(51.5)**	**9,703.3**

Additions concern the Water division in the amount of €343.8 million, the Environmental Services division in the amount of €571.4 million, the Energy Services division in the amount of €264.7 million and the Transportation division in the amount of €339.5 million.

Disposals, net of impairment losses and depreciation of -€154.3 million, mainly concern the Water division in the amount of -€29.3 million, the Environmental Services division in the amount of -€39.5 million and the Transportation division in the amount of -€76.2 million.

Changes in consolidation scope mainly concern, in the Energy Services division, the acquisition of New World Resources Energy (NWR Energy) (€21 million), the acquisition of the Baltimore network in the United States (€24.8 million) and the redistribution of companies previously held jointly with Suez Environnement (€47.5 million).

Foreign exchange translation gains and losses are primarily due to the appreciation against the euro of the pound sterling in the amount of €53.5 million, the appreciation of the Australian dollar in the amount of €56.7 million and the appreciation of the U.S. dollar in the amount of €103.3 million.

Transfers to assets classified as held for sale mainly concern Environmental Services assets in Norway (€88.5 million).

9 Investments in associates

The principal investments in associates with a value of greater than €10 million as of December 31, 2011 are as follows:

	As of December 31,								
	% control			Share in equity			Share of net income		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Fovarosi Csatomazasi Muvek	25.00%	25.00%	25.00%	80.7	89.6	91.1	1.7	1.0	0.1
Regaz (Gaz de Bordeaux)	24.00%	24.00%	24.00%	27.1	27.0	23.8	1.6	4.1	4.0
Cie Méridionale de Navigation(1)					-	-	-	-	(10.2)
Mayflower	10.00%	10.00%		27.1	26.7		0.5	0.4	
Kraftwerk Mehrum(2)	16.70%			19.9			(1.6)		
Doshion VWS	30.00%	30.00%	30.00%	16.8	19.2	16.8	0.1	0.4	0.4
TIRU	24.00%	24.00%	24.00%	16.3	15.0	13.0	1.5	1.5	1.1
Berlinwasser China Holding (BWI)(4)	-	49.00%	49.00%	-	13.3	12.0	0.5	0.7	0.2
Stadtereinigung Holtmeyer GmbH(3)			40.00%		-	11.9		-	(0.4)
SDC PTE	30.32%	30.32%	30.32%	12.1	8.8	-	3.0	-	
CIACG	41.97%	41.97%	41.97%	11.5	10.1	8.7	1.7	1.8	(2.5)
Acqua Campania	47.90%	23.71%	-	10.8	5.5	-	0.9	-	-
Other amounts < €10 million in 2011				102.9	96.5	91.2	3.5	8.6	6.4
INVESTMENTS IN ASSOCIATES				**325.2**	**311.7**	**268.5**	**13.4(5)**	**18.5(5)**	**(0.9)(5)**

(1) Companies sold in 2009.

(2) Change in consolidation method (from proportionate consolidation to equity accounting).

(3) Companies sold in 2010.

(4) Companies sold in 2011.

(5) Pursuant to IFRS 5, a portion of this net income is reclassified in Net income from discontinued operations in the amount of €1.1 million in 2011, €0.5 million in 2010 and -€9.7 million in 2009 (see Note 25).

Movements in investments in associates during **2011** are as follows:

(€ million)	% control as of December 31, 2011	2010	Net income	Dividend distribution	Foreign exchange translation	Changes in consolidation scope	Other	2011
Fovarosi Csatomazasi Muvek	25.00%	89.6	1.7	-	(10.6)	-	-	80.7
Regaz (Gaz de Bordeaux)	24.00%	27.0	1.6	(1.5)	-	-	-	27.1
Mayflower	10.00%	26.7	0.5	(0.9)	0.8	-	-	27.1
Kraftwerk Mehrum	16.70%	-	(1.6)	(0.1)	-	21.6	-	19.9
Doshion VWS	30.00%	19.2	0.1	-	(2.5)	-	-	16.8
Berlinwasser China Holding (BWI)	-	13.3	0.5		(0.5)	0.9	(14.2)	-
TIRU	24.00%	15.0	1.5	-	(0.1)	-	(0.1)	16.3
SDC PTE	30.32%	8.8	3.0	-	0.3	-	-	12.1
CIACG	41.97%	10.1	1.7	(0.3)	-	-	-	11.5
Acqua Campania	47.90%	5.5	0.9	(1.1)	-	5.5	-	10.8
Other amounts < €10 million in 2011		96.5	3.5	(3.6)	(0.4)	10.4	(3.5)	102.9
INVESTMENTS IN ASSOCIATES		**311.7**	**13.4**	**(7.5)**	**(13.0)**	**38.4**	**(17.8)**	**325.2**

No material amounts were transferred to Assets classified as held for sale in 2009, 2010 or 2011.

Summarized financial information for the main investments in associates is as follows (100% of amounts):

(€ million)	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
Non-current assets	1,287.6	908.9	767.6

Current assets	1,237.0	720.4	438.2
TOTAL ASSETS	**2,524.6**	**1,629.3**	**1,205.8**
Equity attributable to owners of the Company	968.9	878.3	581.5
Equity attributable to non-controlling interests	7.5	16.3	14.5
Non-current liabilities	315.8	283.8	223.3
Current liabilities	1,232.4	450.9	386.5
TOTAL EQUITY AND LIABILITIES	**2,524.6**	**1,629.3**	**1,205.8**
INCOME STATEMENT			
Revenue	1,042.3	777.8	431.4
Operating income	70.8	74.2	25.8
Net income for the year	36.1	40.7	7.1

Recap: Movements in investments in associates during **2010** are as follows:

(€ million)	**% control as of December 31, 2010**	**2009**	**Net income**	**Dividend distribution**	**Foreign exchange translation**	**Changes in consolidation scope**	**Other**	**2010**
Fovarosi Csatomazasi Muvek	25.00%	91.1	1.0	-	(2.5)	-	-	89.6
Regaz (Gaz de Bordeaux)	24.00%	23.8	4.1	(1.0)	-	-	-	26.9
Mayflower	10.00%		0.4	-	(2.5)	28.8	-	26.7
Doshion VWS	30.00%	16.8	0.4	-	2.0	-	-	19.2
Stadtereinigung Holtmeyer Gmbh	-	11.9	-	-	-	(11.9)	-	-
Berlinwasser China Holding (BWI)	49.00%	12.0	0.7	(0.8)	1.4	-	-	13.3
TIRU	24.00%	13.0	1.5	-	0.5	-	-	15.0
CIACG	41.97%	8.7	1.8	(0.4)	-	-	-	10.1
Other amounts < €10 million in 2010		91.2	8.6	(3.8)	6.5	13.2	(4.8)	110.9
INVESTMENTS IN ASSOCIATES		**268.5**	**18.5**	**(6.0)**	**5.4**	**30.1**	**(4.8)**	**311.7**

10 Non-consolidated investments

In accordance with IAS 39, non-consolidated investments are recognized at fair value. Unrealized gains and losses are taken directly through other comprehensive income, except for unrealized losses considered long-term or material which are expensed in the Consolidated Income Statement in "Other financial income and expenses" (see Note 22).

Movements in non-consolidated investments during **2011** are as follows:

(€ million)	**As of December 31, 2010**	**Additions**	**Disposals**	**Changes in consolidation scope**	**Fair value adjustments**	**Impairment losses**	**Foreign exchange translation**	**Transfers to Assets classified as held for sale**	**Other**	**As of December 31, 2011**
Non-consolidated investments	130.7	25.6	(17.9)	(2.3)	(1.6)	(4.3)	0.7	(18.2)	(6.4)	106.3

The Group did not hold any investment lines in excess of €20 million as of December 31, 2011.

Transfers to Assets classified as held for sale mainly concern the non-consolidated investments of the Veolia Transdev group as part of the reclassification of this joint venture in discontinued operations (-€17.4 million, see Note 4).

Recap: Movements in non-consolidated investments during **2010** are as follows:

(€ million)	**As of December 31, 2009**	**Additions**	**Disposals**	**Changes in consolidation scope**	**Fair value adjustments**	**Impairment losses**	**Foreign exchange translation**	**Other**	**As of December 31, 2010**
Non-consolidated investments	174.6	20.5	(29.8)	(18.2)	(9.7)	(10.9)	2.5	1.7	130.7

The investment in Méditerranea delle Acque was sold during 2010. The Group did not hold any investment lines in excess of €20 million as of December 31, 2010.

11 Non-current and current operating financial assets

Operating financial assets comprise financial assets resulting from the application of IFRIC 12 on accounting for concession arrangements and from the application of IFRIC 4 (see Notes 1.20 and 1.21).

Movements in the net carrying amount of non-current and current operating financial assets during **2011** are as follows:

(€ million)	As of December 31, 2010	New financial assets	Repayments / disposals	Impairment losses [1]	Changes in consolidation scope	Foreign exchange translation	Non-current / current reclassification	Transfers to Assets classified as held for sale	Other	As of December 31, 2011
Gross	5,317.3	381.0	(36.9)	-	(64.7)	33.3	(406.6)	(135.2)	48.3	5,136.5
Impairment losses	(62.0)	-	-	(4.3)	-	(0.1)	5.0	-	13.2	(48.2)
NON-CURRENT OPERATING FINANCIAL ASSETS	**5,255.3**	**381.0**	**(36.9)**	**(4.3)**	**(64.7)**	**33.2**	**(401.6)**	**(135.2)**	**61.5**	**5,088.3**
Gross	373.3	0.2	(404.1)	-	(9.3)	2.0	406.6	(24.9)	13.2	357.0
Impairment losses	-	-	-	5.0	-	-	(5.0)	-	-	-
CURRENT OPERATING FINANCIAL ASSETS	**373.3**	**0.2**	**(404.1)**	**5.0**	**(9.3)**	**2.0**	**401.6**	**(24.9)**	**13.2**	**357.0**
NON-CURRENT AND CURRENT OPERATING FINANCIAL ASSETS	**5,628.6**	**381.2**	**(441.0)**	**0.7**	**(74.0)**	**35.2**	**-**	**(160.1)**	**74.7**	**5,445.3**

(1) Impairment losses are recorded in operating income.

The principal **new operating financial assets** in 2011 mainly concern:

- the Water division and in particular projects in Berlin (€129 million);
- the Energy Services division and in particular cogeneration plants (€66.9 million);
- the Environmental Services division and in particular new Private Finance Initiative (PFI) contracts for the processing and disposal of residual waste in the United Kingdom (€47.4 million).

The principal **repayments and disposals of operating financial assets** in 2011 concern:

- the Water division and in particular projects in Berlin (-€141.3 million);
- the Energy Services division and in particular cogeneration plants (-€110.0 million);
- the Environmental Services division and in particular the non-recourse assignment of Valomed receivables to the Royal Bank of Scotland (-€28.5 million).

Foreign exchange translation gains and losses on current and non-current operating financial assets mainly concern the Water division (€20.8 million) and the Environmental Services division (€17.4 million), primarily due to the appreciation of the Chinese renminbi yuan and the pound sterling against the euro.

Non-current/current reclassifications mainly concern:

- the Water division and in particular projects in Berlin (€140.8 million);
- the Energy Services division and in particular cogeneration plants (€85.4 million).

Changes in consolidation scope mainly concern the impacts of the Veolia Transdev combination (-€60.5 million, including -€52.5 million classified as non-current, see Note 4).

Transfers to Assets classified as held for sale mainly concern the assets of the Veolia Transdev group reclassified as discontinued operation (-€120.6 million, see Note 4) and the placing of Citelum in the Energy Services division for sale (-€46.7 million).

The breakdown of operating financial assets by division is as follows:

	As of December 31,								
	Non-current			Current			TOTAL		
(€ million)	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**
Water	3,873.9	3,889.2	3,870.3	215.6	197.7	188.8	4,089.5	4,086.9	4,059.1
Environmental Services	697.4	698.0	711.8	51.2	47.2	42.8	748.6	745.2	754.6
Energy Services	416.0	488.3	528.4	86.8	110.0	126.0	502.8	598.3	654.4
Transportation	-	89.7	86.7	-	17.2	18.7	-	106.9	105.4
Other	101.0	90.1	78.0	3.4	1.2	0.3	104.4	91.3	78.3
OPERATING FINANCIAL ASSETS	**5,088.3**	**5,255.3**	**5,275.2**	**357.0**	**373.3**	**376.6**	**5 ,445.3**	**5,628.6**	**5,651.8**

IFRIC 12 operating financial assets maturity schedule:

(€ million)	**1 year**	**2 to 3 years**	**4 to 5 years**	**More than 5 years**	**Total**
Water	184.8	370.4	394.6	2,699.7	**3,649.5**
Environmental Services	49.1	97.6	99.2	475.6	**721.5**
Energy Services	2.6	4.3	3.4	9.8	**20.1**
Other	0.4	1.1	1.6	2.2	**5.3**
TOTAL	**236.9**	**473.4**	**498.8**	**3,187.3**	**4,396.4**

IFRIC 4 operating financial assets maturity schedule:

(€ million)	**1 year**	**2 to 3 years**	**4 to 5 years**	**More than 5 years**	**Total**
Water	30.9	73.5	79.3	256.3	**440.0**
Environmental Services	2.0	5.0	6.1	14.1	**27.2**
Energy Services	84.2	105.8	80.9	211.7	**482.6**
Other	3.0	6.4	7.5	82.2	**99.1**
TOTAL	**120.1**	**190.7**	**173.8**	**564.3**	**1,048.9**

Recap: Movements in the net carrying amount of non-current and current operating financial assets during **2010** are as follows:

(€ million)	As of December 31, 2009	New financial assets	Repayments / disposals	Impairment losses [1]	Changes in consolidation scope	Foreign exchange translation	Non-current / current reclassification	Transfers to Assets classified as held for sale	Other	As of December 31, 2010
Gross	5,325.0	485.8	(27.6)	-	(79.7)	117.9	(479.1)	(20.4)	(4.6)	5,317.3
Impairment losses	(49.8)	-	-	(11.4)	-	(0.8)	-	-	-	(62.0)
NON-CURRENT OPERATING FINANCIAL ASSETS	**5,275.2**	**485.8**	**(27.6)**	**(11.4)**	**(79.7)**	**117.1**	**(479.1)**	**(20.4)**	**(4.6)**	**5,255.3**
Gross	380.0	1.6	(396.5)	-	(4.3)	5.9	479.1	(0.3)	(92.2)	373.3
Impairment losses	(3.4)	-	-	-	-	-	-	-	3.4	-
CURRENT OPERATING FINANCIAL ASSETS	**376.6**	**1.6**	**(396.5)**	**-**	**(4.3)**	**5.9**	**479.1**	**(0.3)**	**(88.8)**	**373.3**
NON-CURRENT AND CURRENT OPERATING FINANCIAL ASSETS	**5,651.8**	**487.4**	**(424.1)**	**(11.4)**	**(84.0)**	**123.0**	**-**	**(20.7)**	**(93.4)**	**5,628.6**

(1) Impairment losses are recorded in operating income.

The principal **new operating financial assets** in 2010 mainly concern:

- the Water division and in particular projects in Berlin (€124.0 million);
- the Energy Services division and in particular cogeneration plants (€59.7 million);
- the Environmental Services division and in particular new Private Finance Initiative (PFI) contracts for the processing and disposal of residual waste in the United Kingdom (€62.3 million).

The principal **repayments of operating financial assets** in 2010 concern:

- the Water division and in particular projects in Berlin (-€141.7 million);
- the Energy Services division and in particular cogeneration plants (-€118.0 million).

Foreign exchange translation gains and losses on non-current operating financial assets mainly concern the Water division (€94.0 million), primarily due to the appreciation of the Chinese renminbi yuan and the Korean won against the euro.

Non-current/current reclassifications mainly concern:

- the Water division and in particular projects in Berlin (€142.3 million);
- the Energy Services division and in particular cogeneration plants (€95.2 million).

Changes in consolidation scope are mainly due to the partial sale of activities in the Netherlands in the Water division for -€125.9 million.

12 Other non-current and current financial assets

(€ million)	Non-current 2011	Non-current 2010	Non-current 2009	Current 2011	Current 2010	Current 2009	TOTAL 2011	TOTAL 2010	TOTAL 2009
Gross	764.6	787.0	774.8	134.8	134.8	195.8	899.4	921.8	970.6
Impairment losses	(70.4)	(72.3)	(73.5)	(32.0)	(31.6)	(31.9)	(102.4)	(103.9)	(105.4)
FINANCIAL ASSETS IN LOANS AND RECEIVABLES	**694.2**	**714.7**	**701.3**	**102.8**	**103.2**	**163.9**	**797.0**	**817.9**	**865.2**
OTHER FINANCIAL ASSETS	**42.3**	**58.4**	**52.6**	**11.8**	**29.1**	**53.8**	**54.1**	**87.5**	**106.4**
TOTAL OTHER FINANCIAL ASSETS	**736.5**	**773.1**	**753.9**	**114.6**	**132.3**	**217.7**	**851.1**	**905.4**	**971.6**

As of December 31,

12.1 Movements in other non-current financial assets

Movements in the value of other non-current financial assets during 2011 are as follows:

(€ million)	As of December 31, 2010	Additions	Repayments / disposals	Changes in consolidation scope	Impairment losses (1)	Foreign exchange translation	Non-current / current reclassification	Transfers to Assets classified as held for sale	Other	As of December 31, 2011
Gross	787.0	190.4	(116.4)	(16.5)	-	(6.1)	(35.4)	(34.9)	(3.5)	764.6
Impairment losses	(72.3)	-	-	0.5	0.9	(2.3)	1.8	(0.3)	1.3	(70.4)
NON-CURRENT FINANCIAL ASSETS IN LOANS AND RECEIVABLES	**714.7**	**190.4**	**(116.4)**	**(16.0)**	**0.9**	**(8.4)**	**(33.6)**	**(35.2)**	**(2.2)**	**694.2**
OTHER NON-CURRENT FINANCIAL ASSETS	**58.4**	**63.5**	**(1.9)**	**(57.3)**	**(3.0)**	**0.6**	**(0.7)**	**(12.6)**	**(4.7)**	**42.3**
TOTAL OTHER NON-CURRENT FINANCIAL ASSETS	**773.1**	**253.9**	**(118.3)**	**(73.3)**	**(2.1)**	**(7.8)**	**(34.3)**	**(47.8)**	**(6.9)**	**736.5**

(1) Impairment losses are recorded in financial income and expenses.

Transfers to Assets classified as held for sale mainly concern the assets of the Veolia Transdev group reclassified as discontinued operation (-€48.3 million, see Note 4).

Non-current financial assets in loans and receivables

As of December 31, 2011, the principal non-current financial assets in loans and receivables primarily correspond to the non-Group portion of loans granted to companies consolidated on a proportionate basis for €441.8 million (mainly Dalkia International and its subsidiaries).

Other non-current financial assets

Other non-current financial assets are classified as "Available-for-sale assets" in accordance with the principles set out in Note 1.14.2.

Recap: Movements in other non-current financial assets during 2010 are as follows:

(€ million)	As of December 31, 2009	Additions	Repayments / disposals	Changes in consolidation scope	Impairment losses [1]	Foreign exchange translation	Non-current / current reclassification	Other	As of December 31, 2010
Gross	774.8	59.9	(43.8)	6.7	-	19.6	(16.6)	(13.6)	787.0
Impairment losses	(73.5)	-	-	-	3.8	(5.8)	-	3.2	(72.3)
NON-CURRENT FINANCIAL ASSETS IN LOANS AND RECEIVABLES	**701.3**	**59.9**	**(43.8)**	**6.7**	**3.8**	**13.8**	**(16.6)**	**(10.4)**	**714.7**
OTHER NON-CURRENT FINANCIAL ASSETS	**52.6**	**30.8**	**(2.5)**	**(20.6)**	**(1.2)**	**(1.6)**	**(1.8)**	**2.7**	**58.4**
TOTAL OTHER NON-CURRENT FINANCIAL ASSETS	**753.9**	**90.7**	**(46.3)**	**(13.9)**	**2.6**	**12.2**	**(18.4)**	**(7.7)**	**773.1**

(1) Impairment losses are recorded in financial income and expenses.

Non-current financial assets in loans and receivables

As of December 31, 2010, the principal non-current financial assets in loans and receivables primarily correspond to the non-Group portion of loans granted to companies consolidated on a proportionate basis for €428.2 million (mainly Dalkia International and its subsidiaries).

Other non-current financial assets

Other non-current financial assets are classified as "Available-for-sale assets" in accordance with the principles set out in Note 1.14.2.

12.2 Movements in other current financial assets

Movements in other current financial assets during **2011** are as follows:

(€ million)	As of December 31, 2010	Repayments / disposals	Changes in consolidation scope	Fair value adjustments	Impairment losses (1)	Foreign exchange translation	Non-current / current reclassification	Transfers to Assets classified as held for sale	Other	As of December 31, 2011
Gross	134.8	3.6	(17.4)	-	-	3.3	35.4	(24.5)	(0.4)	134.8
Impairment losses	(31.6)	-	0.2	-	1.2	(0.1)	(1.8)	0.1	-	(32.0)
CURRENT FINANCIAL ASSETS IN LOANS AND RECEIVABLES, NET	**103.2**	**3.6**	**(17.2)**	**-**	**1.2**	**3.2**	**33.6**	**(24.4)**	**(0.4)**	**102.8**
OTHER CURRENT FINANCIAL ASSETS	**29.1**	**(5.7)**	**(2.0)**	**0.2**	**-**	**-**	**0.7**	**(8.9)**	**(1.6)**	**11.8**
TOTAL OTHER CURRENT FINANCIAL ASSETS, NET	**132.3**	**(2.1)**	**(19.2)**	**0.2**	**1.2**	**3.2**	**34.3**	**(33.3)**	**(2.0)**	**114.6**

(1) Impairment losses are recorded in financial income and expenses.

The accounting treatment of other current financial assets identified as loans and receivables complies with the required treatment of loans and receivables as defined by IAS 39.

Other financial assets are identified as available-for-sale assets in accordance with the accounting principles described in Note 1.14.2.

Transfers to Assets classified as held for sale mainly concern the assets of the Veolia Transdev reclassified as discontinued operation(-€31.2 million, see Note 4).

Recap: Movements in other current financial assets during **2010** are as follows:

(€ million)	As of December 31, 2009	Change in business	Changes in consolidation scope	Fair value adjustments	Impairment losses (1)	Foreign exchange translation	Non-current / current reclassification	Other	As of December 31, 2011
Gross	195.8	(70.1)	(5.3)	-	-	4.9	16.6	(7.1)	134.8
Impairment losses	(31.9)	-	7.0	-	(2.8)	(0.5)	-	(3.4)	(31.6)
CURRENT FINANCIAL ASSETS IN LOANS AND RECEIVABLES, NET	**163.9**	**(70.1)**	**1.7**	**-**	**(2.8)**	**4.4**	**16.6**	**(10.5)**	**103.2**
OTHER CURRENT FINANCIAL ASSETS	**53.8**	**(3.8)**	**(4.6)**	**-**	**3.2**	**1.0**	**1.8**	**(22.3)**	**29.1**
TOTAL OTHER CURRENT FINANCIAL ASSETS, NET	**217.7**	**(73.9)**	**(2.9)**	**-**	**0.4**	**5.4**	**18.4**	**(32.8)**	**132.3**

(1) Impairment losses are recorded in financial income and expenses.

The accounting treatment of other current financial assets in loans and receivables complies with the required treatment of loans and receivables as defined by IAS 39.

Other financial assets are classified as available-for-sale assets in accordance with the accounting principles described in Note 1.14.2.

Repayments during the year mainly concern the repayment of asset pre-financing in the Transportation division and financial receivables.

13 Deferred tax assets and liabilities

Movements in deferred tax assets and liabilities during **2011** are as follows:

(€ million)	As of December 31, 2010	Changes in business through net income	Changes in business through equity	Changes in consolidation scope	Foreign exchange translation	Transfers to Assets /liabilities classified as held for sale	Other	As of December 31, 2011
Deferred tax assets, gross	2,626.3	117.5	20.6	(87.9)	7.4	(340.7)	16.8	**2,360.0**
Deferred tax assets not recognized	(876.7)	(332.7)	(113.6)	70.7	(7.0)	163.6	(0.4)	**(1,096.1)**
DEFERRED TAX ASSETS, NET	**1,749.6**	**(215.2)**	**(93.0)**	**(17.2)**	**0.4**	**(177.1)**	**16.4**	**1,263.9**
DEFERRED TAX LIABILITIES	**2,101.4**	**(8.7)**	**(6.6)**	**9.5**	**33.3**	**(255.1)**	**17.3**	**1,891.1**

As of December 31, 2011, deferred tax assets not recognized total -€1,096.1 million, including -€764.9 million on tax losses and -€331.2 million on timing differences. As of December 31, 2010, such deferred tax assets totaled -€876.7 million, including -€715.6 million on tax losses and -€161.1 million on timing differences.

No deferred tax assets were recognized in the Consolidated Statement of Financial Position in respect of the loss of €453 million (tax base) reported in 2011 by the Veolia Environnement French tax group. Furthermore, after adjusting taxable projected income, in particular for margin erosion in the Water division, the Group restricted recognized deferred tax assets to the amount of deferred tax liabilities. The negative impact of €190 million was recognized €75 million in net income and €115 million in reserves.

As of December 31, 2011, the tax group in the United States has ordinary tax losses carried forward, relating to the restructuring of Water businesses in 2006 and associated with losses incurred by the former activities of U.S. Filter. These tax losses, which may exceed USD 4 billion, are currently being reviewed by the U.S. tax authorities (see Note 36).

After adjusting the taxable projected income for the probable divestiture in 2012 of certain Group activities in the United States, deferred tax assets of USD 178 million (€136 million) were recognized in the Consolidated Statement of Financial Position in respect of these tax losses as of December 31, 2011, compared to USD 370 million (€275 million) as of December 31, 2010.

Changes in business through equity mainly include the tax effect of fair value adjustments and actuarial gains and losses and the impact of the impairment of deferred tax assets of the France tax group initially recognized in equity in the amount of €115 million.

Changes in consolidation scope mainly concern the Veolia Transdev combination (-€11.8 million in respect of deferred tax assets and +€5.4 million in respect of deferred tax liabilities, see Note 4) and the acquisition of SPEC in the Energy Services division (€12.1 million in respect of deferred tax assets and €26.5 million in respect of deferred tax liabilities, see Note 32).

Foreign exchange translation gains and losses are mainly due to fluctuations in the U.S. dollar, the Chinese renminbi yuan, the pound sterling and the Polish zloty against the euro.

Transfers to Assets and liabilities classified as held for sale mainly concern the Veolia Transdev group reclassified as discontinued operation (-€184.4 million in respect of deferred tax assets and -€258.3 million in respect of deferred tax liabilities, see Note 4).

Deferred tax assets and liabilities **break down by nature** as follows:

(€ million)	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
DEFERRED TAX ASSETS			
Tax losses	1,006.6	1,145.3	942.9
Provisions and impairment losses	478.2	434.7	401.6
Employee benefits	210.3	265.1	219.3
Financial instruments	189.5	182.6	159.0
Operating financial assets	102.3	105.3	112.5
Fair value remeasurement of assets purchased	29.5	65.9	65.8
Foreign exchange translation	4.9	23.7	8.5
Finance leases	23.2	30.8	34.5
Intangible assets and Property, plant and equipment	11.8	22.7	28.7
Other	303.7	350.2	317.3
DEFERRED TAX ASSETS, GROSS	**2,360.0**	**2,626.3**	**2,290.1**
DEFERRED TAX ASSETS NOT RECOGNIZED	**(1,096.1)**	**(876.7)**	**(702.1)**
RECOGNIZED DEFERRED TAX ASSETS	**1,263.9**	**1,749.6**	**1,588.0**

(€ million)	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
DEFERRED TAX LIABILITIES			
Intangible assets and Property, plant and equipment	796.2	852.8	799.2
Fair value remeasurement of assets purchased	252.6	283.4	245.2
Operating financial assets	210.5	214.1	192.5
Financial instruments	86.2	89.6	91.2
Finance leases	88.3	96.1	88.9
Provisions	53.5	49.7	47.1
Foreign exchange translation	20.4	38.6	11.7
Employee benefits	40.8	43.5	36.9
Other	342.6	433.6	438.5
DEFERRED TAX LIABILITIES	**1,891.1**	**2,101.4**	**1,951.2**

The breakdown by **main tax group** as of December 31, 2011 is as follows:

(€ million)	Recognized deferred tax assets on tax losses	Recognized deferred tax assets on timing differences	Deferred tax liabilities on timing differences	Net recognized deferred tax position
French tax groups		**294.1**	**(304.5)**	**(10.4)**
France Veolia Environnement tax group	-	214.3	(214.3)	-
Dalkia France tax group	-	79.8	(90.2)	(10.4)
United States tax group	**135.6**	**186.5**	**(302.2)**	**19.9**
United Kingdom tax group	**-**	**116.6**	**(430.5)**	**(313.9)**
TOTAL	**135.6**	**597.2**	**(1,037.2)**	**(304.4)**

The timing schedule for the reversal of the net deferred tax position on timing differences and the deferred tax asset position on tax losses of the France Veolia Environnement tax group and the United States tax group is as follows:

	Deferred tax assets on tax losses			Net deferred tax on timing differences			Total		
(€ million)	5 years or less	More than 5 years	Total	5 years or less	More than 5 years	Total	5 years or less	More than 5 years	Total
Veolia Environnement tax group	-	-	-	-	-	-	-	-	-
United States tax group	135.6	-	135.6	(36.0)	(79.7)	(115.7)	99.6	(79.7)	19.9

The **expiry schedule** for deferred tax assets on tax losses recognized and not recognized as of December 31, 2011 is as follows:

	Expiry			
(€ million)	5 years or less	More than 5 years	Unlimited	Total
Recognized tax losses	**24.5**	**139.0**	**78.2**	**241.7**
o/w French tax groups	-	-	-	-
o/w United States tax group	-	135.6	-	135.6
o/w United Kingdom tax group	-	-	-	-
Tax losses not recognized	**83.9**	**64.4**	**616.6**	**764.9**
o/w French tax groups	-	-	255.3	255.3
o/w United States tax group	-	-	-	-
o/w United Kingdom tax group	-	-	-	-

Deferred tax assets and liabilities **break down by destination** as follows:

(€ million)	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
DEFERRED TAX ASSETS, NET			
Deferred tax assets on net income	1,152.7	1,530.5	1,438.1
Deferred tax assets on reserves	111.2	219.1	149.9
DEFERRED TAX ASSETS, NET	**1,263.9**	**1,749.6**	**1,588.0**
DEFERRED TAX LIABILITIES			
Deferred tax liabilities on net income	1,856.0	2,060.4	1,900.5
Deferred tax liabilities on reserves	35.1	41.0	50.7
DEFERRED TAX LIABILITIES	**1,891.1**	**2,101.4**	**1,951.2**

Recap: Movements in deferred tax assets and liabilities during 2010 are as follows:

(€ million)	As of December 31, 2009	Changes in business through net income	Changes in business through equity	Changes in consolidation scope	Foreign exchange translation	Other	As of December 31, 2010
Deferred tax assets, gross	2,290.1	179.5	9.7	14.5	132.8	(0.3)	2,626.3
Deferred tax assets not recognized	(702.1)	(145.3)	(1.0)	4.2	(24.7)	(7.8)	(876.7)
DEFERRED TAX ASSETS, NET	**1,588.0**	**34.2**	**8.7**	**18.7**	**108.1**	**(8.1)**	**1,749.6**
DEFERRED TAX LIABILITIES	**1,951.2**	**5.5**	**(2.6)**	**69.5**	**66.9**	**10.9**	**2,101.4**

14 Working capital

Movements in net working capital during **2011** are as follows:

(€ million)	As of December 31, 2010	Changes in business	Impairment losses	Changes in consolidation scope	Foreign exchange translation	Transfers to Assets/ liabilities classified as held for sale	Other	As of December 31, 2011
Inventories and work-in-progress, net	1,130.6	28.1	13.9	(76.1)	2.1	(59.6)	(18.2)	1,020.8
Operating receivables, net	12,488.7	330.8	(23.5)	(481.6)	28.0	(829.8)	(85.0)	11,427.6
Operating payables	13,773.9	305.1	-	(436.9)	53.0	(1,007.4)	(89.1)	12,598.6
NET WORKING CAPITAL	**(154.6)**	**53.8**	**(9.6)**	**(120.8)**	**(22.9)**	**118.0**	**(14.1)**	**(150.2)**

Amounts transferred to “Assets classified as held for sale” and “Liabilities directly associated with assets classified as held for sale” mainly concern the Veolia Transdev group reclassified as discontinued operation (€210.1 million in net working capital, see Note 4) and urban lighting activities (Citelum) in the Energy Services division (-€71.8 million in net working capital). These amounts also include the impact of the interruption of the divestiture process for Water division activities in Gabon (-€21.0 million in net working capital).

Changes in consolidation scope mainly concern the Veolia Transdev combination (-€33.0 million in net working capital, see Note 4), the acquisition of SPEC in the Energy Services division (-€26.1 million in net working capital, see Note 32) and the divestiture of the household assistance services business (Proxiserve) held jointly by the Water and Energy Services divisions (-€18.3 million in net working capital).

Net working capital includes “operating” working capital (inventories, trade receivables, trade payables and other operating receivables and payables, tax receivables and payables other than current tax), “tax” working capital (current tax receivables and payables) and “investment” working capital (receivables and payables in respect of industrial investments).

Movements in each of these working capital categories in 2011 are as follows:

(€ million)	As of December 31, 2010	Changes in business	Impairment losses	Changes in consolidation scope	Foreign exchange translation	Transfers to Assets/ liabilities classified as held for sale	Other	As of December 31, 2011
Inventories and work-in-progress, net	1,130.6	28.1	13.9	(76.1)	2.1	(59.6)	(18.2)	1,020.8
Operating receivables (including tax receivables other than current tax)	12,287.9	262.2	(23.2)	(446.0)	27.2	(824.8)	(48.4)	11,234.9
Operating payables (including tax payables other than current tax)	(13,135.2)	(240.3)	0.0	439.3	(41.4)	975.4	5.8	(11,996.4)
OPERATING WORKING CAPITAL (1)	**283.3**	**50.0**	**(9.3)**	**(82.8)**	**(12.1)**	**91.0**	**(60.8)**	**259.3**
Tax receivables (current tax)	176.6	72.2	-	(15.4)	0.5	(3.9)	(55.5)	174.5
Tax payables (current tax)	(221.0)	(31.4)	-	17.9	(0.6)	19.3	59.8	(156.0)
TAX WORKING CAPITAL	**(44.4)**	**40.8**	**-**	**2.5**	**(0.1)**	**15.4**	**4.3**	**18.5**
Receivables on non-current asset disposals	24.2	(3.6)	(0.3)	(20.2)	0.3	(1.1)	18.9	18.2
Industrial investment payables	(417.7)	(33.4)	-	(20.3)	(11.0)	12.7	23.5	(446.2)
INVESTMENT WORKING CAPITAL	**(393.5)**	**(37.0)**	**(0.3)**	**(40.5)**	**(10.7)**	**11.6**	**42.4**	**(428.0)**
NET WORKING CAPITAL	**(154.6)**	**53.8**	**(9.6)**	**(120.8)**	**(22.9)**	**118.0**	**(14.1)**	**(150.2)**

(1) The change in working capital presented in the Consolidated Cash Flow Statement is equal to the sum of operating working capital changes in business activity and impairment losses presented above.

Movements in inventories during **2011** are as follows:

Inventories (€ million)	As of December 31, 2010	Changes in business	Impairment losses	Reversal of impairment losses	Changes in consolidatio n scope	Foreign exchange translation	Transfers to Assets classified as held for sale	Other	As of December 31, 2011
Raw materials and supplies	593.3	52.5	-	-	(67.4)	(2.4)	(58.3)	(0.4)	517.3
Work-in-progress	463.6	(23.5)	-	-	(1.4)	4.6	(1.6)	(17.5)	424.2
Other inventories	153.7	(0.9)	-	-	(12.8)	(1.2)	(5.2)	-	133.6
INVENTORIES AND WORK-IN-PROGRESS, GROSS	**1,210.6**	**28.1**	**-**	**-**	**(81.6)**	**1.0**	**(65.1)**	**(17.9)**	**1,075.1**
IMPAIRMENT LOSSES ON INVENTORIES AND WORK-IN-PROGRESS	**(80.0)**	**-**	**(29.4)**	**43.3**	**5.5**	**1.1**	**5.5**	**(0.3)**	**(54.3)**
INVENTORIES AND WORK-IN-PROGRESS, NET	**1,130.6**	**28.1**	**(29.4)**	**43.3**	**(76.1)**	**2.1**	**(59.6)**	**(18.2)**	**1,020.8**

(1) Including CO_2 inventories.

Inventories mainly concern the Water division in the amount of €308.4 million and the Energy Services division in the amount of €470.9 million.

Movements in operating receivables during **2011** are as follows:

Operating receivables *(€ million)*	**As of December 31, 2010**	**Changes in business**	**Impairment losses** (1)	**Reversal of impairment losses** (1)	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets classified as held for sale**	**Other**	**As of December 31, 2011**
Trade receivables	9,852.8	165.3	-	-	(346.2)	14.4	(561.5)	(27.2)	9,097.6
Impairment losses on trade receivables	(600.4)	-	(194.8)	173.0	12.0	(1.3)	10.5	(3.7)	(604.7)
TRADE RECEIVABLES, NET (2)	**9,252.4**	**165.3**	**(194.8)**	**173.0**	**(334.2)**	**13.1**	**(551.0)**	**(30.9)**	**8,492.9**
Other current operating receivables	1,187.5	(112.4)	-	-	(73.8)	4.2	(149.2)	14.4	870.7
Impairment losses on other current operating receivables	(77.9)	-	(17.8)	16.1	3.9	(0.4)	8.2	2.0	(65.9)
OTHER OPERATING RECEIVABLES, NET (2)	**1,109.6**	**(112.4)**	**(17.8)**	**16.1**	**(69.9)**	**3.8**	**(141.0)**	**16.4**	**804.8**
Other receivables (3)	800.1	109.6	-	-	(19.6)	14.1	(48.2)	(11.9)	844.1
Tax receivables	1,326.6	168.3	-	-	(57.9)	(3.0)	(89.6)	(58.6)	1,285.8
OPERATING RECEIVABLES, NET	**12,488.7**	**330.8**	**(212.6)**	**189.1**	**(481.6)**	**28.0**	**(829.8)**	**(85.0)**	**11,427.6**

(1) Impairment losses are recorded in operating income and included in the line "Changes in working capital" in the Consolidated Cash Flow Statement.

(2) Financial assets as defined by IAS 39, valued in accordance with the rules applicable to loans and receivables.

(3) Receivables recognized on a percentage completion basis in respect of construction activities and prepayments.

Short-term commercial receivables and payables without a declared interest rate are recognized at nominal value, unless discounting at the market rate has a material impact.

Changes in consolidation scope mainly concern the Veolia Transdev combination (-€375.5 million, see Note 4) and the divestiture of the household assistance services business (Proxiserve) held jointly by the Water and Energy Services divisions (-€108.0 millions).

Transfers to Assets classified as held for sale mainly concern the Veolia Transdev group reclassified as discontinued operation (-€695.7 million, see Note 4) and urban lighting activities (Citelum) in the Energy Services division (-€205.5 million). These amounts also include the impact of the interruption of the divestiture process for Water division activities in Gabon (+€71.8 million).

Securitization of receivables in France

Securitized debts total €482.9 million as of December 31, 2011 compared to €487.1 million as of December 31, 2010 and €499.7 million as of December 31, 2009 (Water division).

The risks associated with these securitized receivables (principally credit risk and late payment risk) are retained by the Group, justifying their retention as assets in the Consolidated Statement of Financial Position. The financing secured is recognized in "Current borrowings" (see Note 18, Current borrowings).

Assignment of receivables

Receivables definitively assigned to third parties in the Energy Services division total €257 million as of December 31, 2011, including €139 million in France and €110 million in Italy. Assigned receivables total €192 million as of December 31, 2010, including €62 million in France and €123 million in Italy. They total €134 million as of December 31, 2009 and solely concern Italy.

Movements in operating payables during **2011** are as follows:

Operating payables *(€ million)*	**As of December 31, 2010**	**Changes in business**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Liabilities classified as held for sale**	**Other**	**As of December 31, 2011**
Trade payables	5,535.3	80.9	(140.3)	15.1	(344.9)	(6.0)	5,140.1
Other operating payables (1)	5,332.0	0.5	(213.7)	35.3	(450.7)	17.2	4,720.6
Other liabilities (2)	1,340.2	180.7	(28.3)	2.8	(105.7)	(35.9)	1,353.8
Tax and employee-related liabilities	1,566.4	43.0	(54.6)	(0.2)	(106.1)	(64.4)	1,384.1
OPERATING PAYABLES	**13,773.9**	**305.1**	**(436.9)**	**53.0**	**(1,007.4)**	**(89.1)**	**12,598.6**

(1) Financial liabilities as defined by IAS 39, measured at amortized cost.

(2) Primarily deferred income.

Trade payables are recognized as liabilities at amortized cost in accordance with IAS 39 for accounting purposes. Short-term commercial payables without a declared interest rate are recognized at nominal value, unless discounting at the market rate has a material impact.

Changes in consolidation scope mainly concern the Veolia Transdev combination (-€380.9 million, see Note 4) and the divestiture of the household assistance services business (Proxiserve) held jointly by the Water and Energy Services divisions (-€100.6 million).

Transfers to Assets classified as held for sale mainly concern the Veolia Transdev group reclassified as discontinued operation (-€964.7 million, see Note 4) and urban lighting activities (Citelum) in the Energy Services division (-€148.6 million). These amounts also include the impact of the interruption of the divestiture process for Water division activities in Gabon (+€106.8 million).

Recap: Movements in net working capital during **2010** are as follows:

(€ million)	**As of December 31, 2009**	**Changes in business**	**Impairment losses**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets/ liabilities classified as held for sale**	**Other**	**As of December 31, 2010**
Inventories and work-in-progress, net	978.0	115.7	(6.9)	4.1	31.9	(0.8)	8.6	1,130.6
Operating receivables, net	12,241.3	325.2	(30.3)	161.3	259.7	(116.8)	(351.7)	12,488.7
Operating payables	13,076.9	605.7	(0.0)	205.8	294.2	(119.4)	(289.3)	13,773.9
NET WORKING CAPITAL	**142.4**	**(164.8)**	**(37.2)**	**(40.4)**	**(2.6)**	**1.8**	**(53.8)**	**(154.6)**

(€ million)	**As of December 31, 2009**	**Changes in business**	**Impairment losses**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets/ liabilities classified as held for sale**	**Other**	**As of December 31, 2010**
Inventories and work-in-progress, net	978.0	115.7	(6.9)	4.1	31.9	(0.8)	8.6	1,130.6
Operating receivables (including tax receivables other than current tax)	12,040.6	274.4	(30.3)	160.1	255.4	(117.3)	(295.0)	12,287.9
Operating payables (including tax payables other than current tax)	(12,501.7)	(458.7)	-	(195.3)	(268.6)	115.5	173.6	(13,135.2)
OPERATING WORKING CAPITAL (1)	**516.9**	**(68.6)**	**(37.2)**	**(31.1)**	**18.7**	**(2.6)**	**(112.8)**	**283.3**
Tax receivables (current tax)	189.7	37.8	-	1.2	4.0	-	(56.1)	176.6
Tax payables (current tax)	(220.8)	(67.3)	-	(3.9)	(8.4)	5.3	74.1	(221.0)
TAX WORKING CAPITAL	**(31.1)**	**(29.5)**	**-**	**(2.7)**	**(4.4)**	**5.3**	**18.0**	**(44.4)**
Receivables on non-current asset disposals	11.0	13.0	-	-	0.3	0.5	(0.6)	24.2
Industrial investment payables	(354.4)	(79.7)	-	(6.6)	(17.2)	(1.4)	41.6	(417.7)
INVESTMENT WORKING CAPITAL	**(343.4)**	**(66.7)**	**-**	**(6.6)**	**(16.9)**	**(0.9)**	**41.0**	**(393.5)**
NET WORKING CAPITAL	**142.4**	**(164.8)**	**(37.2)**	**(40.4)**	**(2.6)**	**1.8**	**(53.8)**	**(154.6)**

(1) The change in working capital presented in the Consolidated Cash Flow Statement is equal to the sum of operating working capital changes in business activity and impairment losses presented above.

Recap: Movements in inventories during **2010** are as follows:

Inventories *(€ million)*	**As of December 31, 2009**	**Changes in business**	**Impairment losses**	**Reversal of impairment losses**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets/ liabilities classified as held for sale**	**Other**	**As of December 31, 2010**
Raw materials and supplies	611.6	10.0	-	-	3.5	17.9	(34.8)	(14.9)	593.3
Work-in-progress	287.1	107.0	-	-	0.9	9.1	45.3	14.2	463.6
Other inventories	154.2	(1.3)	-	-	-	6.1	(13.1)	7.8	153.7
INVENTORIES AND WORK-IN-PROGRESS, GROSS	**1,052.9**	**115.7**	**-**	**-**	**4.4**	**33.1**	**(2.6)**	**7.1**	**1,210.6**
IMPAIRMENT LOSSES ON INVENTORIES AND WORK-IN-PROGRESS	**(74.9)**	**-**	**(44.5)**	**37.6**	**(0.3)**	**(1.2)**	**1.8**	**1.5**	**(80.0)**
INVENTORIES AND WORK-IN-PROGRESS, NET	**978.0**	**115.7**	**(44.5)**	**37.6**	**4.1**	**31.9**	**(0.8)**	**8.6**	**1,130.6**

(1) Including CO_2 inventories.

Recap: Movements in operating receivables during **2010** are as follows:

Operating receivables *(€ million)*	**As of December 31, 2009**	**Changes in business**	**Impairment losses (1)**	**Reversal of impairment losses (1)**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets/liabilities classified as held for sale**	**Other**	**As of December 31, 2010**
Trade receivables	9,638.3	268.9	-	-	136.8	191.5	(115.6)	(267.1)	9,852.8
Impairment losses on trade receivables	(560.3)	-	(150.6)	116.4	(23.4)	(9.8)	15.1	12.2	(600.4)
TRADE RECEIVABLES, NET (2)	**9,078.0**	**268.9**	**(150.6)**	**116.4**	**113.4**	**181.7**	**(100.5)**	**(254.9)**	**9,252.4**
Other current operating receivables	1,178.0	(0.9)	-	-	34.9	29.7	(11.0)	(43.2)	1,187.5
Impairment losses on other current operating receivables	(76.8)	-	(15.1)	18.9	0.8	(0.6)	0.6	(5.7)	(77.9)
OTHER OPERATING RECEIVABLES, NET (2)	**1,101.2**	**(0.9)**	**(15.1)**	**18.9**	**35.7**	**29.1**	**(10.4)**	**(48.9)**	**1,109.6**
Other receivables (3)	728.4	13.0	-	0.1	5.8	39.6	5.3	7.9	800.1
Tax receivables	1,333.7	44.2	-	-	6.4	9.3	(11.2)	(55.8)	1,326.6
OPERATING RECEIVABLES, NET	**12,241.3**	**325.2**	**(165.7)**	**135.4**	**161.3**	**259.7**	**(116.8)**	**(351.7)**	**12,488.7**

(1) Impairment losses are recorded in operating income and included in the line "Changes in working capital" in the Consolidated Cash Flow Statement.

(2) Financial assets as defined by IAS 39, valued in accordance with the rules applicable to loans and receivables.

(3) Receivables recognized on a percentage completion basis in respect of construction activities and prepayments.

Recap: Movements in operating payables during **2010** are as follows:

Operating payables *(€ million)*	**As of December 31, 2009**	**Changes in business**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets/ liabilities classified as held for sale**	**Other**	**As of December 31, 2010**
Trade payables [(1)]	5,312.2	272.2	56.1	138.0	(25.1)	(218.1)	5,535.3
Other operating payables [(1)]	4,933.4	226.6	122.0	113.0	(74.5)	11.5	5,332.0
Other liabilities [(2)]	1,324.4	(2.4)	17.0	25.0	(13.9)	(9.9)	1,340.2
Tax and employee-related liabilities	1,506.9	109.3	10.7	18.2	(5.9)	(72.8)	1,566.4
OPERATING PAYABLES	**13,076.9**	**605.7**	**205.8**	**294.2**	**(119.4)**	**(289.3)**	**13,773.9**

(1) *Financial liabilities as defined by IAS 39, measured at amortized cost.*

(2) *Primarily deferred income.*

Recap: Movements in net working capital during **2009** are as follows:

(€ million)	**As of December 31, 2008**	**Changes in business**	**Impairment losses**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets/ liabilities classified as held for sale**	**Other**	**As of December 31, 2009**
Inventories and work-in-progress, net	1,013.1	5.5	6.1	(3.6)	4.7	(53.5)	5.7	978.0
Operating receivables, net	13,093.2	(414.0)	(82.3)	(219.8)	95.6	(107.6)	(123.8)	12,241.3
Operating payables, net	13,591.8	(98.4)	-	(227.9)	105.2	(174.7)	(119.1)	13,076.9
NET WORKING CAPITAL	**514.5**	**(310.1)**	**(76.2)**	**4.5**	**(4.9)**	**13.6**	**1.0**	**142.4**

(€ million)	**As of December 31, 2008**	**Changes in business**	**Impairment losses**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets/ liabilities classified as held for sale**	**Other**	**As of December 31, 2009**
Inventories and work-in-progress, net	1,013.1	5.5	6.1	(3.6)	4.7	(53.5)	5.7	978.0
Operating receivables (including tax receivables other than current tax)	12,844.4	(441.0)	(82.5)	(217.1)	89.1	(92.7)	(59.6)	12,040.6
Operating payables (including tax payables other than current tax)	(12,791.9)	61.4	-	207.2	(94.2)	73.5	42.3	(12,501.7)
Operating working capital [(1)]	**1,065.6**	**(374.1)**	**(76.4)**	**(13.5)**	**(0.4)**	**(72.7)**	**(11.6)**	**516.9**
Tax receivables (current tax)	227.0	31.4	-	(2.7)	6.5	(13.3)	(59.2)	189.7
Tax payables (current tax)	(324.7)	(19.0)	-	(1.7)	(12.3)	72.1	64.8	(220.8)
TAX WORKING CAPITAL	**(97.7)**	**12.4**	**-**	**(4.4)**	**(5.8)**	**58.8**	**5.6**	**(31.1)**
Receivables on non-current asset disposals	21.8	(4.4)	0.2	0.0	-	(1.6)	(5.0)	11.0
Industrial investment payables	(475.2)	56.0	-	22.4	1.3	29.1	12.0	(354.4)
INVESTMENT WORKING CAPITAL	**(453.4)**	**51.6**	**0.2**	**22.4**	**1.3**	**27.5**	**7.0**	**(343.4)**
NET WORKING CAPITAL	**514.5**	**(310.1)**	**(76.2)**	**4.5**	**(4.9)**	**13.6**	**1.0**	**142.4**

(1) *The change in working capital presented in the Consolidated Cash Flow Statement is equal to the sum of operating working capital changes in business activity and impairment losses presented above.*

Movements in inventories during **2009** are as follows:

Inventories *(€ million)*	**As of December 31, 2008**	**Changes in business**	**Impairment losses**	**Reversal of impairment losses**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets/ liabilities classified as held for sale**	**Other**	**As of December 31, 2009**
Raw materials and supplies	626.4	5.3	-	-	(6.6)	5.4	(12.5)	(6.4)	611.6
Work-in-progress	329.3	1.4	-	-	(0.4)	(1.8)	(42.7)	1.3	287.1
Other inventories [1]	139.4	(1.2)	-	-	3.0	2.3	0.1	10.6	154.2
INVENTORIES AND WORK-IN-PROGRESS, GROSS	**1,095.1**	**5.5**	**-**	**-**	**(4.0)**	**5.9**	**(55.1)**	**5.5**	**1,052.9**
IMPAIRMENT LOSSES ON INVENTORIES AND WORK-IN-PROGRESS	**(82.0)**	**-**	**(36.5)**	**42.6**	**0.4**	**(1.2)**	**1.6**	**0.2**	**(74.9)**
INVENTORIES AND WORK-IN-PROGRESS, NET	**1,013.1**	**5.5**	**(36.5)**	**42.6**	**(3.6)**	**4.7**	**(53.5)**	**5.7**	**978.0**

(1) Including CO_2 inventories.

Recap: Movements in operating receivables during **2009** are as follows:

Operating receivables *(€ million)*	**As of December 31, 2008**	**Changes in business**	**Impairment losses [1]**	**Reversal of impairment losses [1]**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets/ liabilities classified as held for sale**	**Other**	**As of December 31, 2009**
Trade receivables	10,253.0	(381.5)	-	-	(199.6)	55.8	(56.9)	(32.5)	9,638.3
Impairment losses on trade receivables	(550.9)	-	(180.5)	112.2	11.3	(0.3)	9.5	38.4	(560.3)
Trade receivables, net [2]	**9,702.1**	**(381.5)**	**(180.5)**	**112.2**	**(188.3)**	**55.5**	**(47.4)**	**5.9**	**9,078.0**
Other current operating receivables	1,314.1	(63.3)	-	-	(12.0)	24.6	(15.2)	(70.2)	1,178.0
Impairment losses on other current operating receivables	(59.6)	-	(27.7)	13.7	0.0	(0.2)	-	(3.0)	(76.8)
Other operating receivables, net [2]	**1,254.5**	**(63.3)**	**(27.7)**	**13.7**	**(12.0)**	**24.4**	**(15.2)**	**(73.2)**	**1,101.2**
Other receivables [3]	663.4	86.0	-	-	(1.7)	8.2	(28.4)	0.9	728.4
Tax receivables	1,473.2	(55.2)	-	-	(17.8)	7.5	(16.6)	(57.4)	1,333.7
OPERATING RECEIVABLES, NET	**13,093.2**	**(414.0)**	**(208.2)**	**125.9**	**(219.8)**	**95.6**	**(107.6)**	**(123.8)**	**12,241.3**

(1) Impairment losses are recorded in operating income and included in the line "Changes in working capital" in the Consolidated Cash Flow Statement.

(2) Financial assets as defined by IAS 39, valued in accordance with the rules applicable to loans and receivables.

(3) Receivables recognized on a percentage completion basis in respect of construction activities and prepayments.

Recap: Movements in operating payables during **2009** are as follows:

Operating payables *(€ million)*	**As of December 31, 2008**	**Changes in business**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets/ liabilities classified as held for sale**	**Other**	**As of December 31, 2009**
Trade payables (1)	5,634.5	(272.4)	(50.4)	35.2	(30.4)	(4.3)	5,312.2
Other operating payables (1)	5,112.2	1.9	(129.7)	47.3	(63.6)	(34.7)	4,933.4
Other liabilities (2)	1,255.6	90.8	(1.2)	6.8	(6.0)	(21.6)	1,324.4
Tax and employee-related liabilities	1,589.5	81.3	(46.6)	15.9	(74.7)	(58.5)	1,506.9
OPERATING PAYABLES	**13,591.8**	**(98.4)**	**(227.9)**	**105.2**	**(174.7)**	**(119.1)**	**13,076.9**

(1) Financial liabilities as defined by IAS 39, measured at amortized cost.

(2) Primarily deferred income.

15 Cash and cash equivalents

Movements in cash and cash equivalents and bank overdrafts and other cash position items during **2011** are as follows:

(€ million)	**As of December 31, 2010**	**Change in business**	**Changes in consolidation scope**	**Fair value adjustments** [1]	**Foreign exchange translation**	**Transfers to Assets/ liabilities classified as held for sale**	**Other**	**As of December 31, 2011**
Cash	1,429.9	(73.5)	(11.2)	-	5.3	(176.0)	(33.4)	1,141.1
Cash equivalents	3,976.9	584.0	(2.9)	-	(0.3)	(2.9)	28.0	4,582.8
CASH AND CASH EQUIVALENTS	**5,406.8**	**510.5**	**(14.1)**	**-**	**5.0**	**(178.9)**	**(5.4)**	**5,723.9**
Bank overdrafts and other cash position items	**387.0**	**82.5**	**(1.0)**	**-**	**1.0**	**(29.3)**	**-**	**440.2**
Net cash	**5,019.8**	**428.0**	**(13.1)**	**-**	**4.0**	**(149.6)**	**(5.4)**	**5,283.7**

(1) Fair value adjustments are recorded in financial income and expenses.

Transfers to Assets classified as held for sale mainly concern the net cash of the Veolia Transdev group classified as discontinued operation (-€136.7 million, see Note 4) and the net cash of Citelum (-€14.1 million) in the Energy Services division.

As of December 31, 2011, cash and cash equivalents total €5,723.9 million, compared to €5,406.8 million as of December 31, 2010. This heading includes cash balances “subject to restrictions” of €420 million as of December 31, 2011.

As of December 31, 2011, the Water division held cash of €561.2 million, the Environmental Services division held cash of €218.7 million, the Energy Services division held cash of €208.0 million, Veolia Environnement SA held cash of €79.1 million and certain subsidiaries (primarily insurance) held cash of €74.1 million.

Investment supports used by the Group include monetary UCITS (Undertakings for Collective Investment in Transferable Securities), negotiable debt instruments (bank certificates of deposit and treasury notes with a maturity of less than three months) and monetary notes.

Surplus cash balances of other Group subsidiaries, not pooled at Veolia Environnement SA level, are invested in accordance with procedures defined by the Group. Note 29.3.2 – Management of liquidity risk, presents a breakdown of investments by nature.

As of December 31, 2011, cash equivalents were primarily held by Veolia Environnement SA in the amount of €4,204.2 million, including monetary UCITS of €1,883.9 million, negotiable debt instruments (bank certificates of deposit and treasury notes with a maturity of less than three months) of €794.0 million, monetary notes of €219.1 million and term deposit accounts of €1,307.2 million. Cash equivalents are accounted for as assets at fair value through the Consolidated Income Statement. These instruments are held between 1 and 90 days.

Bank overdrafts and other cash position items consist of credit balances on bank accounts and related accrued interest payable, corresponding to brief overdrafts.

Recap: Movements in cash and cash equivalents during **2010** are as follows:

(€ million)	**As of December 31, 2009**	**Change in business**	**Changes in consolidation scope**	**Fair value adjustments [1]**	**Foreign exchange translation**	**Other**	**As of December 31, 2010**
Cash	1,310.4	(29.5)	86.6	-	66.1	(3.7)	1,429.9
Cash equivalents	4,304.0	(372.7)	5.6	(1.3)	20.7	20.6	3,976.9
CASH AND CASH EQUIVALENTS	**5,614.4**	**(402.2)**	**92.2**	**(1.3)**	**86.8**	**16.9**	**5,406.8**
Bank overdrafts and other cash position items	**454.9**	**(86.0)**	**8.2**		**11.5**	**(1.6)**	**387.0**
Net cash	**5,159.5**	**(316.2)**	**84.0**	**(1.3)**	**75.3**	**18.5**	**5,019.8**

(1) Fair value adjustments are recorded in financial income and expenses.

Changes in consolidation scope mainly concern acquisitions of companies previously held jointly with Suez Environnement (€43.2 million) and the acquisition of certain United Utilities Group businesses (€33.1 million) in the Water division.

Foreign exchange translation gains and losses are primarily due to the appreciation of the Australian dollar and the Chinese renminbi yuan against the euro in the amount of €21.9 million and €18.1 million, respectively.

Other net movements concern transfers to “Assets classified as held for sale” and “Liabilities directly associated with assets classified as held for sale” in the amount of -€14.2 million, primarily in the Environmental Services division (-€12.1 million) and the net cash of Renewable Energy activities of €14.7 million following the decision to interrupt the divestiture process launched in 2009.

As of December 31, 2010, the Water division held cash of €586.1 million, the Environmental Services division held cash of €190.1 million, the Energy Services division held cash of €266.4 million, the Transportation division held cash of €207.7 million, Veolia Environnement SA held cash of €22.9 million and certain subsidiaries (primarily insurance) held cash of €156.7 million.

Investment supports used by the Group include UCITS (Undertakings for Collective Investment in Transferable Securities), negotiable debt instruments (bank certificates of deposit and treasury notes with a maturity of less than three months) and monetary notes.

Surplus cash balances of other Group subsidiaries, not pooled at Veolia Environnement SA level, are invested in accordance with procedures defined by the Group. Note 29.3.2 – Management of liquidity risk, presents a breakdown of investments by nature.

As of December 31, 2010, cash equivalents were primarily held by Veolia Environnement SA in the amount of €3,657.9 million including monetary UCITS of €2,836.1 million, negotiable debt instruments (bank certificates of deposit and treasury notes with a maturity of less than three months) of €249.0 million, monetary notes of €175.3 million and term deposit accounts of €397.5 million. Cash equivalents are accounted for as assets designated at fair value through the Consolidated Income Statement. These instruments are held between 1 and 90 days.

Bank overdrafts and other cash position items consist of credit balances on bank accounts and related accrued interest payable, corresponding to brief overdrafts.

16 Equity

16.1 Share capital management objectives, policies and procedures

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

This policy has led Veolia Environnement to define a debt coverage ratio: Net financial debt / (Operating cash flow before changes in working capital + principal payments on operating financial assets) of 3 by 2014 +/-5%.

Net financial debt is equal to gross borrowings (non-current borrowings, current borrowings, bank overdrafts and other cash position items), less cash and cash equivalents and excluding fair value adjustments to derivatives hedging debt.

16.2 Equity attributable to owners of the Company

16.2.1 Share capital

The share capital is fully paid up.

Share capital increases

In 2009, Veolia Environnement performed a share capital increase of €322 million on the payment of scrip dividends. As decided by the Annual General Shareholders' Meeting of May 7, 2009, the Group offered shareholders a choice of payment of the dividend in cash or shares. Shareholders elected for the payment of 58% of dividends in shares, leading to the creation of 20,111,683 shares, representing just over 4.25% of the share capital and 4.39% of voting rights.

In addition, in 2009, Veolia performed a share capital increase (including additional-paid-in capital) reserved for employees (Group employee savings plan) of €19.4 million (excluding issuance costs). No discount was granted on the subscription price.

Finally, Veolia Environnement performed a share capital increase of €0.7 million following the exercise of share options.

In 2010, Veolia Environnement performed a share capital increase of €79 million on the payment of scrip dividends. As decided by the Annual General Shareholders' Meeting of May 7, 2010, the Group offered shareholders a choice of payment of the dividend in cash or shares. The option to receive payment of the dividend in shares led to the creation of 3,732,018 shares.

In addition, in 2010, Veolia performed a share capital increase (including additional-paid-in capital) reserved for members of Group employee savings plans of €30 million (excluding issuance costs).

In 2011, Veolia Environnement performed a share capital increase of €1.2 million following the exercise of share purchase and subscription options.

In addition, Veolia Environnement performed a share capital increase of €382.7 million (net of issuance costs) on the payment of scrip dividends. As decided by the Annual General Shareholders' Meeting of May 17, 2011, the Group offered shareholders a choice of payment of the dividend in cash or shares. The option to receive payment of the dividend in shares led to the creation of 20,462,396 shares.

Number of shares outstanding and par value

The number of shares outstanding is 493,630,374 as of December 31, 2009, 499,126,367 as of December 31, 2010 and 519,652,960 as of December 31, 2011 (including treasury shares). The par value of each share is €5.

Authorized but unissued shares

The Veolia Environnement combined general shareholders' meeting grants two types of share issuance authorizations to the Board of Directors: (i) authorizations for the issuance of new shares, which are collectively limited to 70% of the number of shares outstanding on the date of the general shareholders' meeting; and (ii) authorizations for the preferential issuance of warrants, which is limited to 25% of the number of shares outstanding on the date of the decision to issue and which may only be used in the context of an outstanding tender offer on the Company's shares. The first category of authorizations yields an exact number of authorized but unissued shares, whereas the number of shares authorized but unissued under the second category of authorizations will depend on the number of shares already outstanding on the date of the decision. Both types of authorizations, with the same limitations on issuance, i.e. 70% and 25%, were approved by the combined general shareholders' meetings in 2009 and 2010.

Fiscal years 2009, 2010 and 2011

For 2009, authorized but unissued shares under the first category amounted to 330,803,666 shares on the basis of 472,576,666 shares outstanding on May 7, 2009, the date of the general shareholders' meeting voting the authorizations.

As of December 31, 2009, 21,022,697 shares had been issued from among the 330,803,666 above-mentioned authorized shares.

For 2010, authorized but unissued shares under the first category amounted to 345,541,261 shares on the basis of 493,630,374 shares outstanding on May 7, 2010, the date of the general shareholders' meeting voting the authorizations.

As of December 31, 2010, 5,424,880 shares had been issued from among the 345,541,261 above-mentioned authorized shares.

For 2011, authorized but unissued shares under the first category amounted to 349,388,456 shares on the basis of 499,126,367 shares outstanding on May 17, 2011, the date of the combined general shareholders' meeting.

As of December 31, 2011, 20,462,396 shares had been issued from among the 349,388,456 above-mentioned authorized shares.

16.2.2 Offset of treasury shares against equity

In 2009, Veolia Environnement transferred 109,533 shares as consideration for an external growth transaction performed by a subsidiary for an amount of €1.9 million and 138,909 shares as part of the share capital increase reserved for employees. As of December 31, 2009, the Group held 14,731,592 of its own shares.

In 2010, Veolia Environnement transferred 202,597 shares as consideration for a minority interest buy-out (external growth) transaction performed by a subsidiary for an amount of €4.2 million and 190,092 shares as part of the share capital increase reserved for employees. As of December 31, 2010, the Group held 14,338,903 of its own shares.

In 2011, Veolia Environnement transferred 100,976 shares in part payment of the scrip dividend. As of December 31, 2010, the Group held 14,237,927 of its own shares.

16.2.3 Share purchase and subscription options

In accordance with IFRS 2, an expense of €10.9 million in 2009, €4.0 million in 2010 million and €1.8 million in 2011 was recognized in respect of share option plans granted to employees.

16.2.4 Appropriation of net income and dividend distribution

A dividend of €586.8 million was distributed by Veolia Environnement SA in 2011. 2010 net income attributable to owners of the Company of €581.1 million was appropriated to the distribution of this dividend, with the balance allocated to reserves.

16.2.5 Foreign exchange translation reserves

Accumulated foreign exchange translation reserves as of January 1, 2009 are negative in the amount of €432.9 million (Group share), including -€51.8 million related to the U.S. dollar, -€385.9 million related to the pound sterling, +€74 million related to the Czech crown and +110.1 million related to the Chinese renminbi yuan.

In 2009, translation gains of €88.5 million (Group share) concerned the U.S. dollar in the amount of -€57.5 million, the pound sterling in the amount of +€65.8 million, the Chinese renminbi yuan in the amount of -€85.0 million and the Australian dollar in the amount of +€60.0 million.

Accumulated foreign exchange translation reserves as of December 31, 2009 are negative in the amount of €344.4 million (Group share), including -€109.3 million related to the U.S. dollar, -€320.1 million related to the pound sterling, +€81.6 million related to the Czech crown and +€25.1 million related to the Chinese renminbi yuan.

Accumulated foreign exchange translation reserves total +€23.8 million as of December 31, 2010 (Group share).

The increase in foreign exchange translation reserves primarily reflects the appreciation of the Chinese renminbi yuan, the U.S. dollar and the Australian dollar against the euro in 2010. Movements in foreign exchange translation reserves are nonetheless significantly limited by the Group policy of securing borrowings in the local currency.

Accumulated foreign exchange translation reserves total +€34.9 million as of December 31, 2011 (Group share).

The increase in foreign exchange translation reserves primarily reflects the appreciation of the Chinese renminbi yuan (+€124.2 million, Group share), U.S. dollar (+€33.7 million, Group share) and pound sterling (+€37.3 million, Group share) against the euro in 2011. Movements in foreign exchange translation reserves are nonetheless significantly limited by the Group policy of securing borrowings in the local currency.

Movements in foreign exchange translation reserves (attributable to owners of the Company and to non-controlling interests)

(€ million)	Total	o/w Attributable to owners of the Company
Translation differences on the financial statements of subsidiaries drawn up in a foreign currency	(259.8)	(297.2)
Translation differences on net foreign investments	(46.6)	(47.2)
As of December 31, 2009	**(306.4)**	**(344.4)**
Translation differences on the financial statements of subsidiaries drawn up in a foreign currency	327.2	180.8
Translation differences on net foreign investments	(159.2)	(157.0)
As of December 31, 2010	**168.0**	**23.8**
Translation differences on the financial statements of subsidiaries drawn up in a foreign currency	79.1	102.3
Translation differences on net foreign investments	(86.5)	(91.2)
Movements in 2011	**(7.4)**	**11.1**
Translation differences on the financial statements of subsidiaries drawn up in a foreign currency	406.3	283.1
Translation differences on net foreign investments	(245.7)	(248.2)
As of December 31, 2011	**160.6**	**34.9**

Amounts released from Foreign exchange translation reserves to the Consolidated Income Statement totaled €34.2 million and mainly concerned the Transportation business (see Note 4).

Breakdown by currency of Foreign exchange translation reserves attributable to owners of the Company

(€ million)	As of December 31, 2009	As of December 31, 2010	Movement	As of December 31, 2011
Chinese renminbi yuan	25.1	143.2	124.2	267.4
Czech Crown	81.6	95.8	(22.9)	72.9
Australian dollar	14.5	81.0	(7.3)	73.7
U.S. Dollar	(109.3)	26.6	33.7	60.3
Canadian dollar	4.6	16.4	(6.7)	9.7
Slovakian crown	19.3	16.4	-	16.4
Swiss franc	1.5	8.6	1.7	10.3
Swedish crown	12.8	7.2	(6.8)	0.4
Norwegian crown	(1.8)	5.6	(5.4)	0.2
Pound Sterling	(320.1)	(284.1)	37.3	(246.8)
Hong Kong dollar	(5.7)	(46.2)	(21.4)	(67.6)
Polish zloty	(8.7)	(21.7)	(8.5)	(30.2)
Romanian leu	(12.4)	(13.5)	(2.1)	(15.6)
Korean won	(27.4)	(12.0)	4.8	(7.2)
Mexican peso	(7.8)	(9.2)	(2.7)	(11.9)
Hungarian florint	(4.8)	(7.8)	(14.1)	(21.9)
Other currencies	(5.8)	(17.5)	(92.7)	(75.2)
TOTAL	**(344.4)**	**23.8**	**11.1**	**34.9**

The decrease in the "Other currencies" line includes €85 million in respect of the tax consequences of the review of the forecast tax schedule for the France tax group (see Note 13).

16.2.6 Fair value reserves

Fair value reserves attributable to owners of the Company total -€43.5 million as of December 31, 2009, -€34.2 million as of December 31, 2010 and -€66.7 million as of December 31, 2011 and break down as follows:

(€ million)	Available-for-sale securities	Commodity derivatives hedging cash flows	Foreign currency derivatives hedging cash flows	Interest rate derivatives hedging cash flows	Total	o/w Attributable to owners of the Company
As of December 31, 2009	**12.0**	**(9.5)**	**4.1**	**(57.3)**	**(50.7)**	**(43.5)**
Fair value adjustments	5.1	10.1	1.7	7.7	24.6	19.1
Other movements	(7.0)	(0.1)		(2.0)	(9.1)	(9.8)
As of December 31, 2010	**10.1**	**0.5**	**5.8**	**(51.6)**	**(35.2)**	**(34.2)**
Fair value adjustments	(1.9)	(2.0)	(1.5)	(33.8)	(39.2)	(34.2)
Other movements	0.6	3.0	(1.2)	0.7	3.1	1.7
As of December 31, 2011	**8.8**	**1.5**	**3.1**	**(84.7)**	**(71.3)**	**(66.7)**

Amounts are presented net of tax.

No material amounts were released to the Consolidated Income Statement in respect of interest rate derivatives hedging cash flows and recorded in finance costs and income.

16.3 Non-controlling interests

A breakdown of the movement in non-controlling interests is presented in the Statement of Changes in Equity.

The decrease in non-controlling interests in 2011 is mainly due to the dividend distribution for -€343.9 million, offset by net income for the year of €173.2 million and transactions between shareholders for €54.1 million.

The increase in non-controlling interests in 2010 is due to the dividend distribution for -€233.5 million, offset by net income for the year of €290.5 million and the various share capital increases for €104.8 million.

The increase in non-controlling interests in 2009 is due to the dividend distribution for -€202.0 million, offset by net income for the year of €257.8 million and the various share capital increases for €149.8 million.

17 Non-current and current provisions

In accordance with IAS 37 (see Note 1.13), provisions maturing after more than one year are discounted. Changes in discount rates applied to “Provisions for closure and post-closure costs” (waste storage facilities), which make up the majority of non-current provisions, are as follows:

Changes in discount rates

	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
Euro			
2 to 5 years	3.28%	3.66%	2.49%
6 to 10 years	4.59%	4.67%	4.14%
More than 10 years	5.67%	5.65%	5.59%
U.S. Dollar			
2 to 5 years	2.72%	3.56%	2.24%
6 to 10 years	4.35%	4.75%	4.67%

More than 10 years	5.74%	5.95%	5.92%
Pound Sterling			
2 to 5 years	3.76%	4.32%	2.26%
6 to 10 years	5.04%	5.21%	4.43%
More than 10 years	5.84%	5.86%	5.68%

The discount rate calculation methodology is presented in Note 2, Use of management estimates in the application of Group accounting standards.

Movements in non-current provisions during **2011** are as follows:

(€ million)	As of December 31, 2010	Addition/ Charge	Repayment / Utilization	Reversal	Actuarial gains (losses)	Unwinding of the discount	Changes in consolidation scope	Foreign exchange translation	Non-current / current reclassification	Other	As of December 31, 2011
Tax litigation	109.6	14.9	-	(6.5)	-	0.1	1.4	(0.2)	(32.6)	(0.3)	86.4
Employee litigation	9.8	3.1	-	(1.0)	-	-	(1.8)	(0.0)	(0.5)	(5.5)	4.1
Other litigation	114.6	16.4	-	(12.4)	-	0.6	(0.6)	0.4	(55.0)	(16.5)	47.5
Contractual commitments	180.9	179.7	(177.4)	(1.8)	-	1.4	3.1	0.2	-	92.9	279.0
Provisions for work-in-progress and losses to completion on long-term contracts	205.8	16.2	-	(11.2)	-	4.6	(57.1)	1.1	(25.1)	3.7	138.0
Closure and post-closure costs	615.5	3.5	-	(3.7)	-	65.8	(24.5)	4.7	(62.0)	3.7	603.0
Restructuring provisions	1.2	0.5	-	(0.0)	-	(0.0)	0.8	(0.0)	(1.3)	(0.6)	0.6
Self-insurance provisions	116.8	34.9	-	(12.4)	-	1.8	(9.4)	0.6	(17.6)	(16.0)	98.7
Other provisions	78.9	35.0	-	(3.7)	-	1.5	(10.1)	(0.3)	(11.9)	(21.6)	67.8
Non-current provisions excl pensions and other employee benefits	**1,433.1**	**304.2**	**(177.4)**	**(52.7)**	**-**	**75.8**	**(98.2)**	**6.5**	**(206.0)**	**39.8**	**1,325.1**
Provisions for pensions and other employee benefits	**880.8**	**103.0**	**(120.9)**	**(28.2)**	**33.8**	**22.1**	**(54.7)**	**3.3**	**-**	**(87.2)**	**752.0**
NON-CURRENT PROVISIONS	**2,313.9**	**407.2**	**(298.3)**	**(80.9)**	**33.8**	**97.9**	**(152.9)**	**9.8**	**(206.0)**	**(47.4)**	**2,077.1**

Changes in consolidation scope mainly concern the Veolia Transdev joint venture (-€122.5 million, see Note 4) and the divestiture of solid waste activities in Belgium in the Environmental Services division (-€30.5 million).

Other movements mainly concern the transfer to "Liabilities classified as held for sale" of provisions of the Veolia Transdev group as part of the reclassification of this joint venture as discontinued operations (-€146.4 million, including €91.7 million in respect of provisions for pensions and other employee benefits) and the impact of the interruption of the divestiture process for Water division activities in Gabon (+€95.2 million, including €10.3 million in respect of provisions for pensions and other employee benefits).

Movements in current provisions during **2011** are as follows:

(€ million)	**As of December 31, 2010**	**Charge**	**Utilization**	**Reversal**	**Changes in consolidation scope**	**Foreign exchange translation**	**Non-current / current reclassification**	**Other**	**As of December 31, 2011**
Tax litigation	47.1	43.5	(46.1)	(3.4)	(2.8)	(0.4)	32.6	2.5	73.0
Employee litigation	25.6	16.0	(10.3)	(2.2)	(5.0)	(0.1)	0.5	(3.9)	20.6
Other litigation	127.5	36.5	(59.6)	(34.1)	3.4	0.2	55.0	(35.1)	93.8
Provisions for work-in-progress and losses to completion on long-term contracts	89.7	18.1	(74.1)	(4.1)	(10.8)	(0.4)	27.6	(12.0)	34.0
Closure and post-closure costs	99.7	5.9	(49.2)	(29.0)	1.0	(0.1)	62.0	(3.1)	87.2
Restructuring provisions	13.9	22.0	(9.4)	(4.3)	(0.4)	(0.6)	1.3	(1.7)	20.8
Self-insurance provisions	101.4	89.1	(88.4)	(9.1)	(13.5)	1.0	17.6	(11.7)	86.4
Other provisions	185.0	111.4	(94.0)	(18.9)	(17.7)	(0.1)	9.3	14.0	189.0
CURRENT PROVISIONS	**689.9**	**342.5**	**(431.1)**	**(105.1)**	**(45.8)**	**(0.5)**	**205.9**	**(51.0)**	**604.8**

Changes in consolidation scope mainly concern the Veolia Transdev joint venture (-€32.8 million, see Note 4).

Other movements mainly concern the transfer to "Liabilities directly associated with assets classified as held for sale" of provisions of the Veolia Transdev group as part of the reclassification of this joint venture in discontinued operations (-€43.1 million, see Note 4) and the impact of the interruption of the divestiture process for Water division activities in Gabon (+€11.7 million).

Movements in current and non-current provisions break down as follows:

Litigation

This provision covers all losses that are considered probable and that relate to litigation (taxation, employee or other) arising in the normal course of Veolia Environnement's business operations.

Provisions for litigation total €325.4 million as of December 31, 2011, compared to €434.2 million as of December 31, 2010.

The Water, Energy Services and Environmental Services divisions account for €162.5 million, €58.1 million, €58.0 of these provisions respectively as of December 31, 2011.

Contractual commitments

As part of its obligations under public services contracts, Veolia Environnement generally has contractual obligations for the maintenance and repair of the installations 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. These provisions total €279.0 million and primarily relate to the Water and Energy Services divisions in the amount of €173.7 million and €105.3 million, respectively.

Provisions for work-in-progress and losses to completion on long-term contracts

These provisions mainly concern the Water division in the amount of €60.0 million and the Environmental Services division in the amount of €102.6 million.

Closure and post-closure costs

This provision encompasses the legal and contractual obligations of the Group on the completion of operating activities at a site (primarily site rehabilitation provisions) and, more generally, expenditure associated with environmental protection as defined in the ethics charter of each entity (provision for environmental risks).

These provisions total €690.2 million and primarily concern the Environmental Services division in the amount of €617.6 million in 2011, compared to €636.8 million in 2010 and €610.6 million in 2009 and the Energy Services division in the amount of €60.1 million in 2011, compared to €64.4 million in 2010 and €58.8 million in 2009.

The decrease in these provisions is mainly due to changes in interest rates and the unwinding of the discount in the Environmental Services division in the amount of €65.6 million.

By nature of obligation, these provisions concern:

- **Provisions for site rehabilitation** which cover obligations relating to closure and post-closure costs at waste disposal facilities operated by the Group and for which it is responsible. These provisions primarily concern the Environmental Services division. Forecast site restoration costs are provided pro rata to waste tonnage deposited over the authorized duration of the sites and total €626.2 million at the end of 2011, including €583.9 million in respect of the Environmental Services division compared to €590.6 million at the end of 2010 and €567.2 million at the end of 2009;
- **Provisions for environmental risks** in the amount of €43.1 million compared to €41.9 million in 2010 and €48.2 million in 2009;
- **Provision for plant dismantling**, essentially in the Water, Energy Services and Environmental Services divisions in the amount of €20.9 million in 2011, compared to €30.2 million in 2010 and €15.5 million in 2009.

Self-insurance provisions

As of December 31, 2011, self-insurance provisions total €185.1 million and were mainly recorded by Group insurance and reinsurance subsidiaries in the amount of €98.4 million, the Energy Services division in the amount of €43.2 million and the Environmental Services division in the amount of €28.6 million.

Other provisions

Other provisions include various obligations recorded as part of the normal operation of the Group's subsidiaries.

Provisions for pensions and other employee benefits

Provisions for pensions and other employee benefits as of December 31, 2011 total €752.0 million, and include provisions for pensions and other post-employment benefits of €618.5 million (governed by IAS 19 and detailed in Note 31, Employee benefit obligation) and provisions for other long-term benefits of €133.5 million.

Recap: Movements in non-current provisions during **2010** are as follows:

(€ million)	**As of December 31, 2009**	**Addition/ Charge**	**Repayment / Utilization**	**Reversal**	**Actuarial gains (losses)**	**Unwinding of the discount**	**Changes in consolidation scope**	**Foreign exchange translation**	**Non-current / current reclassification**	**Other**	**As of December 31, 2010**
Tax litigation	123.3	60.8		(8.1)	-	0.9	0.5	0.1	(67.4)	(0.5)	109.6
Employee litigation	10.7	3.2	-	(2.7)	-	-	-	-	(1.5)	0.1	9.8
Other litigation	97.9	34.6	-	(6.7)	-	1.3	0.1	1.2	(20.2)	6.4	114.6
Contractual commitments	267.7	165.2	(161.2)	(0.7)	-	1.0	2.3	0.1	-	(93.5)	180.9
Provisions for work-in-progress and losses to completion on long-term contracts	215.2	59.7	-	(2.0)	-	6.7	-	1.1	(68.8)	(6.1)	205.8
Closure and post-closure costs	607.9	4.6	-	(18.2)	-	47.2	(4.7)	17.1	(43.4)	5.0	615.5
Restructuring provisions	0.8	0.7	-	(0.1)	-	-	-	-	(0.2)	-	1.2
Self-insurance provisions	112.7	23.2	-	(7.8)	-	2.3	(0.1)	1.9	(19.4)	4.0	116.8
Other provisions	76.9	24.6	-	(10.3)	-	1.3	3.9	2.8	(9.7)	(10.6)	78.9
Non-current provisions excl pensions and other employee benefits	**1,513.1**	**376.6**	**(161.2)**	**(56.6)**	**-**	**60.7**	**2.0**	**24.3**	**(230.6)**	**(95.2)**	**1,433.1**
Provisions for pensions and other employee benefits	**778.0**	**87.9**	**(102.3)**	**(11.8)**	**69.4**	**33.7**	**3.2**	**23.3**	**-**	**(0.6)**	**880.8**
NON-CURRENT PROVISIONS	**2,291.1**	**464.5**	**(263.5)**	**(68.4)**	**69.4**	**94.4**	**5.2**	**47.6**	**(230.6)**	**(95.8)**	**2,313.9**

Recap: Movements in current provisions during **2010** are as follows:

(€ million)	**As of December 31, 2009**	**Charge**	**Utilization**	**Reversal**	**Changes in consolidation scope**	**Foreign exchange translation**	**Non-current / current reclassification**	**Other**	**As of December 31, 2010**
Tax litigation	44.2	17.6	(75.3)	(7.3)	2.6	0.7	67.4	(2.8)	47.1
Employee litigation	24.5	12.3	(11.3)	(2.6)	0.1	0.1	1.5	1.0	25.6
Other litigation	116.8	64.1	(60.6)	(23.7)	(1.5)	2.1	20.2	10.1	127.5
Provisions for work-in-progress and losses to completion on long-term contracts	148.4	23.6	(81.0)	(14.3)	0.6	1.1	68.7	(57.4)	89.7
Closure and post-closure costs	78.4	25.8	(34.8)	(8.1)	(3.1)	2.9	43.4	(4.8)	99.7
Restructuring provisions	8.9	10.1	(3.9)	(1.4)	-	0.7	0.2	(0.7)	13.9
Self-insurance provisions	135.1	99.1	(110.4)	(8.3)	-	5.0	19.4	(38.5)	101.4
Other provisions	192.9	93.2	(67.1)	(20.3)	16.5	2.8	9.8	(42.8)	185.0
CURRENT PROVISIONS	**749.2**	**345.8**	**(444.4)**	**(86.0)**	**15.2**	**15.4**	**230.6**	**(135.9)**	**689.9**

18 Non-current and current borrowings

	As of December 31,								
	Non-current			Current			TOTAL		
(€ million)	2011	2010	2009	2011	2010	2009	2011	2010	2009
Bond issues	**13,076.2**	**13,625.7**	**13,264.5**	**690.8**	**17.1**	**36.9**	**13,767.0**	**13,642.8**	**13,301.4**
• maturing in < 1 year	-	-	-	690.8	17.1	36.9	690.8	17.1	36.9
• maturing in 2-3 years	2,400.9	2,004.5	1,045.2	-	-	-	2,400.9	2,004.5	1,045.2
• maturing in 4-5 years	2,127.1	2,382.0	2,951.7	-	-	-	2,127.1	2,382.0	2,951.7
• maturing in > 5 years	8,548.2	9,239.2	9,267.6	-	-	-	8,548.2	9,239.2	9,267.6
Other borrowings	**3,630.5**	**4,270.4**	**4,382.8**	**3,251.5**	**2,810.0**	**2,946.2**	**6,882.0**	**7,080.4**	**7,329.0**
• maturing in < 1 year	-	-	-	3,251.5	2,810.0	2,946.2	3,251.5	2,810.0	2,946.2
• maturing in 2-3 years	1,050.2	1,429.8	1,511.1	-	-	-	1,050.2	1,429.8	1,511.1
• maturing in 4-5 years	493.4	572.2	779.7	-	-	-	493.4	572.2	779.7
• maturing in > 5 years	2,086.9	2,268.4	2,092.0	-	-	-	2,086.9	2,268.4	2,092.0
TOTAL NON-CURRENT AND CURRENT BORROWINGS	**16,706.7**	**17,896.1**	**17,647.3**	**3,942.3**	**2,827.1**	**2,983.1**	**20,649.0**	**20,723.2**	**20,630.4**

18.1 Movements in non-current and current bond issues

Movements in non-current and current bond issues during **2011** are as follows:

(€ million)	As of December 31, 2010	Increases/ subscriptions	Repayments	Changes in consolidation scope	Fair value adjustments (1)	Foreign exchange translation	Non-current / current reclassification	Other	As of December 31, 2011
Non-current bonds	13,625.7	124.5	(194.6)	0.0	150.6	63.5	(693.5)	-	13,076.2
Current bonds	17.1	-	(20.5)	1.1	-	0.6	693.5	(1.0)	690.8
TOTAL BONDS	**13,642.8**	**124.5**	**(215.1)**	**1.1**	**150.6**	**64.1**	**0.0**	**(1.0)**	**13,767.0**

(1) Fair value adjustments are recorded in financial income and expenses.

Non-current borrowings are recorded as financial liabilities at amortized cost for accounting purposes. Hedging transactions were entered into in respect of certain fixed-rate borrowings. Fair value hedge accounting was applied to these transactions.

Repayments mainly consist of the buyback of bond lines for a euro-equivalent of €189 million.

Non-current/current reclassifications concern the bond line maturing in February 2012 in the amount of €671.9 million.

Non-current bonds break down by maturity as follows:

(€ million)	As of December 31, 2009	As of December 31, 2010	As of December 31, 2011	Maturing in		
				2 to 3 years	**4 to 5 years**	**> 5 years**
Publicly offered or traded issuances [(a)]	12,511.8	12,836.0	12,264.2	2,194.7	1,994.5	8,075.0
European market [(i)]	11,206.7	11,403.0	10,940.1	1,800.0	1,994.5	7,145.6
U.S. market [(ii)]	1,305.1	1,433.0	1,324.1	394.7	0.0	929.4
Private placements [(b)]	299.1	324.9	338.8	154.7	104.5	79.6
Three Valleys bond issue [(c)]	221.2	228.4	235.5	-	-	235.5
Stirling Water Seafield Finance bond issue [(d)]	90.7	90.2	89.2	8.2	9.4	71.6
Other amounts < €50 million in 2011	141.7	146.2	148.5	43.3	18.7	86.5
BOND ISSUES	**13,264.5**	**13,625.7**	**13,076.2**	**2,400.9**	**2,127.1**	**8,548.2**

(a) Publicly offered or traded issuances.

(i) European market: As of December 31, 2011, an amount of €11,612.1 million is recorded in the Consolidated Statement of Financial Position in respect of bonds issued under the European Medium Term Notes (EMTN) Program, including €10,940.1 million maturing in more than one year. The impact of the fair value measurement of hedged interest rate risk is €506.3 million at the year-end.

During the last quarter of 2011, Veolia Environnement bought back in a number of transactions €56 million of the bond line maturing in May 2013 and paying a coupon of 4.875%, reducing nominal outstandings to €500 million.

(ii) U.S. market: As of December 31, 2011, nominal outstandings on the bond issues performed in the United States on May 27, 2008 total €1,228.9 million (euro equivalent) and the amount in the Consolidated Statement of Financial Position is €1,324.1 million (including fair value adjustments of €32.9 million).

These fixed-rate bond issues total USD 1.6 billion and comprise three tranches:

- *Tranche 1, maturing June 3, 2013, of USD 490 million, bearing fixed-rate interest of 5.25%; USD 210 million was bought back over the course of the fourth quarter of 2011;*
- *Tranche 2, maturing June 1, 2018, of USD 700 million, bearing fixed-rate interest of 6%;*
- *Tranche 3, maturing June 1, 2038, of USD 400 million, bearing fixed-rate interest of 6.75%.*

(b) Private placements: As of December 31, 2011, the euro-equivalent amount in the Consolidated Statement of Financial Position of private placements performed in the United States in 2003 (USPP) is €338.8 million (including fair value adjustments of €21.9 million). These bonds issues comprise five tranches:

- *Tranches A, B and C, maturing January 30, 2013 of €33 million (fixed-rate interest of 5.84%), £7 million (fixed-rate interest of 6.22%) and USD 147 million (fixed-rate interest of 5.78%) respectively;*
- *Tranche D, maturing January 30, 2015, of USD 125 million, bearing fixed-rate interest of 6.02%;*
- *Tranche E, maturing January 30, 2018, of USD 85 million, bearing fixed-rate interest of 6.31%.*

(c) VW Central (formerly Three Valleys) bond issue: The £200 million bond issue performed by VW Central in the U.K. (Water division) in July 2004, bearing interest of 5.875%, is recognized as of December 31, 2011, at amortized cost for a euro equivalent of €235.5 million. This bond matures on July 13, 2026.

(d) Stirling Water Seafield Finance bond issue: The outstanding balance as of December 31, 2011 on the amortizable bond issue performed in 1999 by Stirling Water Seafield Finance (Veolia Water UK subsidiary, Water division), is £81.9 million. This bond issue is recognized at amortized cost for a euro equivalent of €89.2 million as of December 31, 2011 (non-current portion). This bond matures on September 26, 2026.

Breakdown of non-current bond issues by component:

Transaction *(all amounts are in € million)*	**Final maturity**	**Currency**	**Nominal**	**Interest rate**	**Net carrying amount**
Series 10	05/28/2013	EUR	500	4.875%	521
Series 11	05/28/2018	EUR	750	5.375%	837
Series 12	11/25/2033	EUR	700	6.125%	695
Series 14	06/30/2015	USD	39	4.690%	43
Series 15	06/17/2015	EUR	875	1.75% (indexed to European inflation)	987
Series 17	02/12/2016	EUR	900	4.000%	965
Series 18	12/11/2020	EUR	600	4.375%	665
Series 21	01/16/2017	EUR	1,140	4.375%	1,249
Series 23	05/24/2022	EUR	1,000	5.125%	1,069
Series 24	10/29/2037	GBP	778	6.125%	803
Series 25	04/24/2014	EUR	1,250	5.250%	1,279
Series 26	04/24/2019	EUR	750	6.750%	791
Series 27	06/29/2017	EUR	250	5.700%	261
Series 28 (PEO)	01/06/2021	EUR	834	4.247%	775
Total bond issues (EMTN)	**n/a**	**n/a**	**10,366**	**n/a**	**10,940**
USD Series Tranche 1	06/03/2013	USD	379	5.250%	395
USD Series Tranche 2	06/01/2018	USD	541	6.000%	591
USD Series Tranche 3	06/01/2038	USD	309	6.750%	338
Total publicly offered or traded issuances in USD	**n/a**	**n/a**	**1,229**		**1,324**
USPP EUR 2013	01/30/2013	EUR	33	5.840%	32
USPP GBP 2013	01/30/2013	GBP	8	6.220%	8
USPP USD 2013	01/30/2013	USD	114	5.780%	114
USPP USD 2015	01/30/2015	USD	97	6.020%	104
USPP USD 2018	01/30/2018	USD	66	6.310%	81
Total U.S. private placements	**n/a**	**n/a**	**318**	**n/a**	**339**
VW Central (formerly Three Valleys) bond issue	07/13/2026	GBP	239	5.875%	235
Stirling Water Seafield Finance bond issue	09/26/2026	GBP	98	5.822%	89
Total principle bond issues	**n/a**	**n/a**	**12,250**	**n/a**	**12,927**
Total other bond issues	**n/a**	**n/a**		**n/a**	**149**
TOTAL NON-CURRENT BOND ISSUES	**n/a**	**n/a**		**n/a**	**13,076**

Recap: Movements in non-current and current bond issues during 2010 are as follows:

(€ million)	As of December 31, 2009	Increases/ subscriptions	Repayments	Changes in consolidation scope	Fair value adjustments (1)	Foreign exchange translation	Non-current / current reclassification	Other	As of December 31, 2010
Non-current bonds	13,264.5	52.4	(1.7)	-	174.5	159.1	(23.9)	0.8	13,625.7
Current bonds	36.9	-	(41.3)	-	-	(3.1)	23.9	0.7	17.1
TOTAL BONDS	**13,301.4**	**52.4**	**(43.0)**	**-**	**174.5**	**156.0**	**-**	**1.5**	**13,642.8**

(1) Fair value adjustments are recorded in financial income and expenses.

18.2 Movements in other borrowings

(€ million)	As of December 31, 2010	Increases/ subscriptions	Repayments	Changes in consolidation scope	Fair value adjustments (1)	Foreign exchange translation	Non-current / current reclassification	Transfers to Liabilities classified as held for sale	Other	As of December 31, 2011
Other non-current borrowings	4,270.4	666.2	(120.4)	51.4	1.6	18.4	(1,079.6)	(206.1)	28.6	3,630.5
Other current borrowings	2,810.0	385.2	(881.7)	50.4	7.0	21.1	1,079.6	(165.4)	(54.7)	3,251.5
OTHER BORROWINGS	**7,080.4**	**1,051.4**	**(1,002.1)**	**101.8**	**8.6**	**39.5**	**-**	**(371.5)**	**(26.1)**	**6,882.0**

(1) Fair value adjustments are recorded in financial income and expenses.

The decrease in other non-current borrowings in 2011 breaks down as follows:

Increases and repayments mainly concern draw-downs on project debt and on the Polish zloty syndicated loan facility.

Changes in consolidation scope mainly concern the Veolia Transdev combination (+€64.2 million, see Note 4).

Non-current/current reclassifications primarily reflect the impact of the refinancing of the syndicated loan facilities maturing April 2012 and April 2011 in the amount of €345 million (see Note 3).

Transfers to liabilities classified as held for sale mainly concern the transfer to Liabilities directly associated with assets classified as held for sale of the other borrowings of the Veolia Transdev group classified as discontinued operation (-€206.9 million, see Note 4).

Breakdown of other **non-current borrowings** by main component:

(€ million)	As of December 31, 2009	As of December 31, 2010	As of December 31, 2011	Maturing in 2 to 3 years	4 to 5 years	> 5 years
BWB and SPE debts [(a)]	1,344.7	1,334.9	1,325.8	228.9	117.6	979.3
Finance lease obligations [(b)]	650.4	571.1	434.5	135.6	78.6	220.3
Multi-currency syndicated loan facility [(c)]	305.4	345.5	307.3	307.3	-	-
Delfluent [(d)]	108.4	-	-	-	-	-
Shenzhen [(e)]	99.1	107.8	112.6	11.6	16.7	84.3
Non-controlling interest put options (Note 1.14.5) [(f)]	95.2	18.1	34.8	28.3	6.5	-
VSA Tecnitalia [(g)]	94.5	76.8	-	-	-	-
Redal [(h)]	92.7	90.4	82.3	19.3	22.9	40.1
Cogevolt [(i)]	91.0	34.7	-	-	-	-
Syndicated loan facility in CZK [(j)]	75.4	59.9	-	-	-	-
Glen Water Holding Ltd [(k)]	75.8	77.5	78.4	4.9	6.0	67.5
VID [(l)]	67.1	78.9	73.8	7.5	10.0	56.3
Other amounts < €70 million	1,283.1	1,474.9	1,181.0	306.8	235.1	639.1
OTHER NON-CURRENT BORROWINGS	**4,382.8**	**4,270.4**	**3,630.5**	**1,050.2**	**493.4**	**2,086.9**

(a) BWB and SPE debts: The Berliner Wasser Betriebe ("BWB" in Water division) non-current borrowing, proportionately consolidated in the amount of 50%, breaks down as follows:

- *the debt borne by the operating companies of €1,116.1 million as of December 31, 2011, compared to €1,102.9 million as of December 31, 2010 and €1,088.6 million as of December 31, 2009;*
- *special purpose entity (SPE) debts of €209.7 million as of December 31, 2011, compared to €232.0 million as of December 31, 2010 and €256.1 million as of December 31, 2009.*

(b) Finance lease obligations: As of December 2011, finance lease obligations fall due between 2012 and 2031. Interest rates are fixed or floating (indexed to EONIA, euro T4M and euro TAM or their equivalent for financing in other currencies).

(c) Multi-currency syndicated loan facility: This €4 billion multi-currency syndicated loan facility maturing in 2012 was refinanced early in April 2011 by two syndicated loan facilities: a 5-year €2.5 billion multi-currency loan facility and a 3-year €500 million loan facility available for drawdown in Polish zloty, Czech crown and Hungarian forint. Both facilities include two one-year extension options. As of December 31, 2011, the Polish zloty syndicated loan facility was drawn in the amount of PLN 1,370 billion (euro equivalent of €307.3 million).

(d) Delfluent: As of December 31, 2010, after the sale of a 29% stake, Delfluent is no longer proportionately consolidated but equity accounted.

(e) Shenzhen: This financing, which concerns the comprehensive water management contract for the town of Shenzhen, is carried by Beijing Capital VW Invest. Co proportionately consolidated (50%), in the amount of €112.6 million (euro equivalent) as of December 31, 2011. This Chinese renminbi yuan redeemable loan matures in June 2022 and bears interest to December 2012 at a fixed-rate of 7.05%, now revisable each year.

(f) The increase in non-controlling interest put options reflects the new commitment granted by the Group on the acquisition of SPEC (see Note 32).

(g) VSA Tecnitalia: this borrowing was transferred to current borrowings.

(h) Redal: This non-recourse debt carried by Redal, Morocco (Water division), was fully consolidated in 2008 and is now proportionately consolidated in the amount of 52%. It matures on December 31, 2022 and amounts to €82.3 million as of December 31, 2011.

(i) Cogevolt: This securitization of future receivables was organized to finance cogeneration installations in the Energy Services division. The debt reflects payments due in respect of the amortization of future receivables over the period to May 2012 and was therefore transferred to current borrowings as of December 31, 2011. The average fixed rate of interest payable on this debt is 5.24%.

(j) Syndicated loan facility in CZK: This CZK 12 billion syndicated loan facility arranged by Komerčni Banka, Crédit Lyonnais and ING Bank in favor of Veolia Environnement, refinanced in 2005 the five-year CZK 8 billion syndicated loan facility negotiated in November 2003. It includes a CZK 8 billion tranche which matured on July 29, 2010 and a CZK 4 billion redeemable tranche maturing July 27, 2012. As of December 31, 2011, this syndicated loan facility amounts to CZK1 billion, or a euro equivalent of €38.8 million and was transferred to current borrowings.

(k) Glen Water: debt carried by Glen Water Holding Ltd proportionately consolidated in the amount of 50%. It matures in December 2030, bears interest at a rate of 6.047% and amounts to €78.4 million as of December 31, 2011.

(l) VID: financing carried by V.I.D. Desalination Company Ltd in respect of the Ashkelon project, proportionately consolidated in the amount of 50%. This amortizable loan bears interest at a rate of 7.75%, matures in 2026 and amounts to €73.8 million as of December 31, 2011.

Current borrowings are recorded as financial liabilities at amortized cost for accounting purposes.

Other **current borrowings** total €3,251.5 million as of December 31, 2011 compared to €2,810.0 million as of December 31, 2010 and €2,946.2 million as of December 31, 2009.

The increase in current borrowings in **2011** mainly concerns the debt of €228 million owed to Caisse des Dépôts et Consignations in respect of Veolia-Transdev cash surpluses invested in VE SA.

Changes in consolidation scope mainly concern the Veolia Transdev combination (+€150.0 million, see Note 4), the divestiture of Transportation activities in Norway (-€28.5 million), the divestiture of activities in Germany (-€31.9 million) and of Digismart (-€24.6 million) in the Energy Services division, the divestiture of activities in Norway in the Environmental Services division (-€90.7 million) and the debt relating to the acquisition of 6.9% of Voda (€79.3 million).

Transfers to liabilities classified as held for sale mainly concern the transfer to Liabilities directly associated with assets classified as held for sale of other borrowings of the Veolia Transdev group classified as discontinued operation (-€134.3 million, see Note 4)and those of the Marine Services activities (-€46.0 million) in the Environmental Services division.

As of December 31, 2011, current borrowings mainly concern:

- Veolia Environnement SA for €2,189.4 million (including bond issues for €671.9 million, treasury notes of €499.8 million, securitization program debts of €391.3 million and accrued interest on debt of €346.7 million);
- the Water division for €785.8 million (including the company carrying the Berlin contract for €139.5 million and the Tianjin debt for €123.2 million);
- the Environmental Services division for €472.3 million;
- the Energy Services division for €411.3 million (including the current portion of Cogevolt financing of €34.7 million).

The current portion of Group finance lease obligations is €88.7 million as of December 31, 2011, compared to €112.4 million as of December 31, 2010 and €117.4 million as of December 31, 2009.

Recap: Movements in other borrowings during 2010 are as follows:

(€ million)	**As of December 31, 2009**	**Increases/ subscriptions**	**Repayments**	**Changes in consolidation scope**	**Fair value adjustments**	**Foreign exchange translation**	**Non-current / current reclassification**	**Other**	**As of December 31, 2010**
Other non-current borrowings	4,382.8	514.2	(147.0)	(43.1)	(5.1)	103.1	(550.5)	16.0	4,270.4
Other current borrowings	2,946.2	-	(909.8)	(25.3)	7.9	241.4	550.5	(0.9)	2,810.0
OTHER BORROWINGS	**7,329.0**	**514.2**	**(1,056.8)**	**(68.4)**	**2.8**	**344.5**	**-**	**15.1**	**7,080.4**

18.3 Breakdown of non-current and current borrowings by currency

Borrowings are primarily denominated in euro, pound sterling, U.S. dollar, Chinese renminbi yuan and Polish zloty.

Borrowings break down by original currency (before currency swaps) as follows:

(€ million)	**As of December 31, 2009**	**As of December 31, 2010**	**As of December 31, 2011**
Euro	15,444.3	15,385.1	15,420.7
U.S. Dollar	1,902.9	2,142.9	1,996.2
Pound Sterling	1,282.7	1,328.0	1,353.6
Chinese renminbi yuan	496.7	632.9	726.7
Polish zloty	311.2	293.2	338.7
Moroccan dirham	166.4	193.4	158.7
Danish crown	146.5	159.4	196.0
Israeli shekel	109.1	129.3	144.0
Czech Crown	365.2	95.1	68.4
Korean won	38.4	33.1	26.8
Norwegian crown	21.3	19.3	0.0
Other	345.7	311.5	219.2
NON-CURRENT AND CURRENT BORROWINGS	**20,630.4**	**20,723.2**	**20,649.0**

18.4 Finance leases

The Group uses finance leases to finance the purchase of certain operating property, plant and equipment and real estate assets recognized as assets in the Consolidated Statement of Financial Position.

Assets financed by **finance lease** break down by category as follows:

(€ million)	**Property, plant and equipment**	**Concession intangible assets**	**Operating financial assets**	**Total**
As of December 31, 2011	**258.4**	**114.9**	**220.1**	**593.4**
As of December 31, 2010	343.5	131.1	237.0	711.6
As of December 31, 2009	381.2	146.2	267.6	795.0

The decrease in property, plant and equipment is mainly due to the transfer to assets classified as held for sale of the assets of the Veolia Transdev group as part of the reclassification of this joint venture in discontinued operations (see Note 4).

As of December 31, 2011, future minimum lease payments under these contracts are as follows:

(€ million)	**Finance leases**
Less than 1 year	160.9
2 to 3 years	166.0
4 to 5 years	119.7
More than 5 years	289.2
TOTAL FUTURE MINIMUM LEASE PAYMENTS	**735.8**
Less amounts representing interest	190.6
PRESENT VALUE OF MINIMUM LEASE PAYMENTS (FINANCE LEASES)	**545.2**

Contingent rent and sub-lease income for the period recorded in the Consolidated Income Statement is not material.

19 Revenue

As for other Income Statement headings, Revenue does not include amounts relating to discontinued operations, in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations* (see Note 25). Such amounts concern:

- the whole Transportation business, in the process of divestiture (see Note 4);
- Water activities in the Netherlands, divested in December 2010 and Environmental Services activities in Norway, divested in March 2011;
- German operations in the Energy Services division, divested in May and August 2011;
- household assistance services (Proxiserve) held jointly by the Water and Energy Services divisions, divested in December 2011;
- urban lighting activities (Citelum) in the Energy Services division.

These amounts are presented in a separate line, "Net income from discontinued operations", in fiscal year 2011 and fiscal years 2010 and 2009 presented for comparison purposes (see Note 25).

Furthermore, as the divestiture process for Water activities in Gabon and Pinellas incineration activities in the United States in the Environmental Services division was interrupted in the first and second semesters of 2011 respectively, these activities are reclassified in continuing operations.

Breakdown of Revenue (See Note 1.17)

(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Services rendered	22,659.1	22,161.5	21,514.2
Sales of goods	2,500.4	2,182.5	1,556.4
Revenue from operating financial assets	383.7	380.8	375.5
Construction	4,104.1	4,039.4	4,401.6
REVENUE	**29,647.3**	**28,764.2**	**27,847.7**

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

A breakdown of revenue by operating segment is presented in Note 42.

20 Operating income

Operating income is calculated as follows:

(€ million)	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009
Revenue	**29,647.3**	**28,764.2**	**27,847.7**
Cost of sales [(1)]	**(24,919.0)**	**(23,255.0)**	**(22,677.9)**
o/w:			
• impairment losses on goodwill, net of negative goodwill recognized in the Consolidated Income Statement	(502.8)	0.2	(0.9)
• impairment losses (excl. working capital) and provisions	(136.3)	(38.7)	(94.9)
• replacement costs	(399.5)	(364.0)	(360.9)
Selling costs [(1)]	**(595.1)**	**(574.8)**	**(539.9)**
General and administrative expenses [(1)]	**(3,176.0)**	**(3,139.5)**	**(3,021.1)**
• Research and development costs	(111.7)	(87.4)	(89.3)
Other operating revenue and expenses	**60.0**	**187.2**	**180.1**
o/w:			
• Capital gains (losses) on disposal of financial assets	*59.9*	*179.5*	*170.6*
• Other	0.1	7.7	9.5
OPERATING INCOME	**1,017.2**	**1,982.1**	**1,788.9**

(1) In 2009, 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. The impact of these reclassifications on Cost of sales, Selling costs and General and administrative expenses is €181.1 million, -€6.9 million and -€174.2 million, respectively, in 2009.

Breakdown of capital gains and losses on disposal

(€ million)	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009
Capital gains and losses on disposals of property, plant and equipment	25.4	27.3	20.4
Capital gains and losses on disposals of financial assets	59.9	179.5	170.6
Capital gains and losses on disposals recognized in operating income	**85.3**	**206.8**	**191.0**
Capital gains and losses on disposals recognized in financial income (loss)	**(2.3)**	**(2.7)**	**(1.1)**
Capital gains and losses on disposals of PP&E and financial assets	8.5	15.7	23.8
Capital gains and losses on disposals of discontinued operations	500.9	57.4	92.4
Capital gains and losses on disposals recognized in net income (loss) from discontinued operations	**509.4**	**73.1**	**116.2**
TOTAL CAPITAL GAINS AND LOSSES ON DISPOSALS IN THE CASH FLOWS STATEMENT	**592.4**	**277.2**	**306.1**

The capital gains or losses on disposals of discontinued operations are described in Note 25.

Breakdown of impairment losses on goodwill and non-current assets

The main impairment losses recognized as of December 31, 2011 break down as follows:

Operating segment	Country	Indication of loss in value	Discount rate	Assets impaired	Amount *(€ million)*
Energy Services	Italy	- Economic crisis - Non realization of the budget - New management reorganization, rationalization and restructuring plan	7.8%	Goodwill, intangible assets and PP&E	(242.8)
Environmental Services	Italy	- Uncertainty regarding the political environment, and in particular regional politics - Cessation of Group refinancing - Termination of Calabria contract - Decision to place the company in voluntary liquidation	7.8%	Goodwill, intangible assets and operating financial assets	(169.6)
Water	Italy	- Regulatory uncertainty - Request of the termination of the Calabria contract	8.5% (1)	Goodwill, intangible assets and concession intangible assets	(75.5)
Water	Portugal	- Economic and financial crisis		Intangible assets	(11.2)
Energy Services	Spain	- Regulatory change in the solar energy sector - Economic and financial crisis	8.4%	Goodwill and intangible assets	(20.4)
Sub-total	**Southern Europe**				**(519.5)**
Water	Morocco	Preliminary conclusions of the Audit Commission	9.1%	Goodwill, and intangible assets	(59.0)
Energy Services	United States	- Decrease in development potential	6.6%	Goodwill	(153.1)
Environmental Services	United States	- Economic context in the Gulf of Mexico	6.6%	PP&E	(26.3)
Environmental Services/ Energy Services	France	- Failure of client negotiations	6.6%	Concession intangible assets	(25.3)
Impairment losses					**(783.2)**

(1) The discount rate is the rate for the Southern Europe cash-generating unit comprising these two countries.

Breakdown of operating depreciation, amortization, provisions and impairment losses

Operating depreciation, amortization, provisions and impairment losses included in operating income in **2011** break down as follows:

(€ million)	Charge	Reversal	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009
OPERATING DEPRECIATION, AMORTIZATION AND PROVISIONS, NET	**(2,723.4)**	**1,022.5**	**(1,700.9)**	**(1,553.8)**	**(1,629.8)**
Depreciation and amortization	**(1,552.4)**	**2.9**	**(1,549.5)**	**(1,475.2)**	**(1,516.3)**
Property, plant and equipment	(1,054.9)	2.9	(1,052.0)	(1,021.5)	(1,085.7)
Intangible assets	(497.5)	-	(497.5)	(453.7)	(430.6)
Impairment losses	**(559.6)**	**239.8**	**(319.8)**	**(80.5)**	**(152.1)**
Property, plant and equipment	(112.7)	9.4	(103.3)	(19.5)	(5.6)
Intangible assets and operating financial assets	(221.0)	7.7	(213.3)	(25.5)	(74.9)
Inventories	(28.4)	41.7	13.3	(6.1)	1.1
Trade receivables	(184.7)	165.8	(18.9)	(34.4)	(58.8)
Other operating and non-operating receivables	(12.8)	15.2	2.4	5.0	(13.9)
Non-current and current operating provisions	**(611.4)**	**779.8**	**168.4**	**1.9**	**38.6**
Non-current operating provisions	(348.0)	337.0	(11.0)	(107.0)	(14.6)
Current operating provisions	(263.4)	442.8	179.4	108.9	53.2
IMPAIRMENT LOSSES AND IMPACT OF DISPOSALS ON GOODWILL AND NEGATIVE GOODWILL RECOGNIZED IN THE CONSOLIDATED INCOME STATEMENT			**(502.8)**	**0.2**	**(0.9)**
OPERATING DEPRECIATION, AMORTIZATION, PROVISIONS AND IMPAIRMENT LOSSES			**(2,203.7)**	**(1,553.6)**	**(1,630.7)**

Operating depreciation, amortization, charges to provisions and impairment losses in the Consolidated Cash Flow Statement include operating depreciation, amortization, provisions and impairment losses transferred to Net income from discontinued operations in the amount of €648.1 million in 2011, €367.6 million in 2010 and €284.7 million in 2009. Impairment losses on inventories and receivables are recorded in changes in working capital in the Consolidated Cash Flow Statement.

Recap: Before adjustment for the wholeTransportation business and Proxiserve activities held jointly by the Water and Energy Services divisions, Citelum activities in the Energy Services division and the suspension of the divestiture process for Water activities in Gabon and Pinellas incineration activities in the United States in the Environmental Services division, published Operating depreciation, amortization, provisions and impairment losses for the year ended December 31, 2010 and 2009 broke down as follows:

(€ million)	**Charge**	**Reversal**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
OPERATING DEPRECIATION, AMORTIZATION AND PROVISIONS, NET	**(2,773.8)**	**1,026.6**	**(1,747.2)**	**(1,820.9)**
Depreciation and amortization	**(1,731.5)**	**14.4**	**(1,717.1)**	**(1,748.9)**
Property, plant and equipment	(1,277.6)	14.4	(1,263.2)	(1,320.8)
Intangible assets	(453.9)	-	(453.9)	(428.1)
Impairment losses	**(262.1)**	**177.6**	**(84.5)**	**(161.6)**
Property, plant and equipment	(24.2)	4.4	(19.8)	(5.9)
Intangible assets and operating financial assets	(31.4)	2.1	(29.3)	(74.8)
Inventories	(44.5)	37.6	(6.9)	1.2
Trade receivables	(147.3)	114.8	(32.5)	(68.2)
Other operating and non-operating receivables	(14.7)	18.7	4.0	(13.9)
Non-current and current operating provisions	**(780.2)**	**834.6**	**54.4**	**89.6**
Non-current operating provisions	(442.0)	321.1	(120.9)	(7.3)
Current operating provisions	(338.2)	513.5	175.3	96.9
IMPAIRMENT LOSSES AND IMPACT OF DISPOSALS ON GOODWILL AND NEGATIVE GOODWILL RECOGNIZED IN THE CONSOLIDATED INCOME STATEMENT			**(25.9)**	**(6.3)**
OPERATING DEPRECIATION, AMORTIZATION, PROVISIONS AND IMPAIRMENT LOSSES			**(1,773.1)**	**(1,827.2)**

(€ million)	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Impairment losses on goodwill of the Transportation division “Sweden, Norway, Finland” CGU	(21.1)	
Other	(4.8)	(6.3)
IMPAIRMENT LOSSES ON GOODWILL AND NEGATIVE GOODWILL PRESENTED IN COST OF SALES IN THE CONSOLIDATED INCOME STATEMENT	**(25.9)**	**(6.3)**

Restructuring costs

(€ million)	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009
Restructuring costs	(6.2)	(16.8)	(33.6)
Net charge to restructuring provisions	(7.8)	(5.1)	11.7
RESTRUCTURING COSTS	**(14.0)**	**(21.9)**	**(21.9)**

Personnel costs

(€ million)	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009
Employee costs	(7,983.9)	(7,545.1)	(7,436.6)
Profit-sharing and incentive schemes	(154.0)	(152.4)	(140.4)
Share-based compensation (IFRS 2)	(1.6)	(3.2)	(9.6)
PERSONNEL COSTS	**(8,139.5)**	**(7,700.7)**	**(7,586.6)**

The IFRS 2 share-based compensation expense in respect of 2011 (€1.6 million) solely concerns share option plans granted in 2010, 2007 and 2006. In 2010, a new share purchase or subscription option plan was granted. The terms of this plan are set out in Note 31.

Research and development costs

Research and developments costs totaled €111.7 million, €87.4 million and €89.3 million in fiscal years 2011, 2010 and 2009 respectively.

21 Net finance costs

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

(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Finance income	113.1	92.7	92.1
Finance costs	(861.5)	(851.6)	(817.5)
NET FINANCE COSTS	**(748.4)**	**(758.9)**	**(725.4)**

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

Net finance costs total €748.4 million in 2011, compared to €758.9 million in 2010. This increase is due to the rise in the financing rate (defined as net finance costs excluding fair value adjustments to instruments not qualifying for hedge accounting, divided by average monthly net financial debt during the period, including the net finance costs of discontinued operations) from 5.09% in 2010 to 5.39% in 2011, which was mainly the result of:

- the increase in average low-yield cash investments;
- the increase in short-term rates on the floating portion of the debt;
- the cost of buying back the 2013 USD bond line.

(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Financial liabilities measured using the effective interest method	(948.5)	(938.4)	(903.5)
Commission on undrawn credit facilities	(10.0)	(6.4)	(4.6)
Expenses on gross debt	**(958.5)**	**(944.8)**	**(908.1)**
Assets at fair value through the Consolidated Income Statement (fair value option)*	**85.1**	**57.0**	**71.4**
Net gains and losses on derivative instruments, hedging relationships and other	**125.0**	**128.9**	**111.3**
NET FINANCE COSTS	**(748.4)**	**(758.9)**	**(725.4)**

* *Cash equivalents are valued at fair value through the Consolidated Income Statement.*

Net gains and losses on derivative instruments, hedging relationships and other mainly include the following amounts for fiscal year 2011:

- interest income on hedging relationships (fair value hedges and cash flow hedges) of €164.0 million, as a result of the fall in interest rates in fiscal year 2011;
- the unwinding of the discount on non-controlling interest put options in the amount of -€7.6 million;
- net gains and losses on derivatives not qualifying for hedge accounting of -€21.9 million, mainly on foreign currency derivatives.

In addition, the charge relating to the ineffective portion of net investment hedges and cash flow hedges was not material in 2011.

Interest income on instruments measured using the effective interest method (including interest income recorded in operating income and in other financial income and expenses) totals €400.9 million in 2011, compared to €401.1 million in 2010 and €412.6 million in 2009.

22 Other financial income and expenses

(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Net gains and losses on loans and receivables [(1)]	15.8	5.3	11.7
Net gains and losses on available-for-sale assets [(2)]	4.5	(1.4)	7.0
Assets and liabilities at fair value through the Consolidated Income Statement	0.0	(17.9)	(17.2)
Unwinding of the discount on provisions	(58.5)	(66.9)	(71.8)
Foreign exchange gains and losses	(8.4)	(0.1)	3.5
Other	(9.7)	(21.5)	(16.4)
OTHER FINANCIAL INCOME AND EXPENSES	**(56.3)**	**(102.5)**	**(83.2)**

(1) Including impairment losses of €7.4 million in 2011, compared to €13.4 million in 2010 and €11.8 million in 2009.

(2) Including dividends received of €4 million in 2011, compared to €6.0 million in 2010 and €8.0 million in 2009.

23 Income tax expense

Analysis of the income tax expense

The income tax expense breaks down as follows:

(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Current income tax expense	**(325.9)**	**(330.6)**	**(241.3)**
France	(63.7)	(73.7)	(36.8)
Other countries	(262.2)	(256.9)	(204.5)
Deferred tax expense (income)	**(213.1)**	**11.6**	**43.5**
France	(69.8)	(15.2)	7.6
Other countries	(143.3)	26.8	35.9
TOTAL INCOME TAX EXPENSE	**(539.0)**	**(319.0)**	**(197.8)**

A number of French subsidiaries elected to form a consolidated tax group with Veolia Environnement as the head company (five-year agreement, renewed in 2011). Veolia Environnement is liable to the French treasury department for the full income tax charge, calculated based on the group tax return. Any tax savings are recognized at the level of Veolia Environnement SA.

The U.S. tax group was reorganized in 2006. This reorganization is still being reviewed by the U.S. tax authorities (see Notes 13 and 36).

Moreover, within the framework of the Veolia Transport and Transdev combination, the French subsidiaries of the Transportation division left the Veolia Environnement tax group on January 1, 2010 and the American subsidiaries similarly left the US tax group in 2010.

The Group bears a net income tax expense of (€539) million in 2011, compared to (€319) million in 2010. The 2011 net income tax expense includes (€75) million in respect of revised forecasts in France and (€138) million relating to the estimated consequences of the proposed changes in scope of the US tax group.

Effective tax rate

	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009
Net income from continuing operations (a)	(314.2)	819.7	791.2
Share of net income of associates (b)	12.3	18.0	8.7
Income tax expense (c)	(539.0)	(319.0)	(197.8)
Net income from continuing operations before tax (d) = (a)-(b)-(c)	212.5	1,120.7	980.3
Effective tax rate (c) / (d)	**253.65%**	**28.46%**	**20.18%**
Theoretical tax rate (1)	**34.43%**	**34.43%**	**34.43%**
Net impairment losses on goodwill not deductible for tax purposes(2)	61.88%	0.26%	0.02%
Differences in tax rate (2)	(40.85%)	(9.49%)	(3.35%)
Capital gains and losses on disposals	(15.06%)	(1.81%)	(7.32%)
Dividends	17.04%	2.77%	4.77%
Taxation without basis	24.19%	1.43%	1.40%
Effect of tax projections (2)	187.49%	4.53%	(10.18%)
Permanent and other differences	(15.47%)	(3.66%)	0.41%
EFFECTIVE TAX RATE	**253.65%**	**28.46%**	**20.18%**

(1) The tax rate indicated is the statutory tax rate in France excluding the exceptional contribution applicable in 2011 and 2012.

(2) The main elements explaining the effective tax rate are as follows:

- *Differences in tax rate due to the presence of the Group in countries which have a different theoretical tax rate;*
- *Effect of tax projections which mainly include the tax group benefit and the impact of deferred tax assets not recognized;*
- *Net impairment losses on goodwill not deductible for tax purposes.*

Recap: the 2010 effective tax rate was mainly due to:

- the capitalization of only a small portion of tax losses for the year of the Veolia Environnement tax group;
- capitalization of fewer tax losses by the U.S. tax group than in fiscal year 2009;
- and despite a level of capital gains taxed at reduced rates which remains high.

Recap: The 2009 effective tax rate benefited from capital gains taxed at reduced rates and the additional capitalization of tax losses in the United States for €43 million.

24 Share of net income of associates

The share of net income of associates fell from €18.0 million in 2010 to €12.3 million in 2011 (see Note 9).

25 Assets classified as held for sale, discontinued operations and divestitures

Discontinued operations

In the Consolidated Income Statements presented for comparative purposes, the net income (loss) of operations sold or in the course of being sold was reclassified to "Net income (loss) from discontinued operations". This concerns the following operations:

- the whole Transportation business, in the process of divestiture (see Note 4, Veolia Transdev combination);
- Water activities in the Netherlands, divested in December 2010 and Environmental Services activities in Norway, divested in March 2011;
- German operations in the Energy Services division, divested in May and August 2011;
- household assistance services (Proxiserve) held jointly by the Water and Energy Services divisions, divested in December 2011 for an enterprise value of €118 million;
- urban lighting activities (Citelum) in the Energy Services division, in the course of being sold.

Furthermore, as the divestiture process for Water activities in Gabon and Pinellas incineration activities in the United States in the Environmental Services division was interrupted during the first and second semesters of 2011 respectively, these activities are reclassified in continuing operations.

Movements in **net income (loss) from discontinued operations** are as follows:

(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Income (loss) from discontinued operations	(503.3)	63.8	3.6
Capital gains and losses on disposals	500.9	(32.2)	92.4
Income tax expense	-	(2.3)	(70.4)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**(2.4)**	**29.3**	**25.6**

Net income (loss) from discontinued operations in **2011** breaks down by division as follows:

(€ million)	**Water**	**Energy Services**	**Environmental Services**	**Transportation**	**Total**
Income (loss) from discontinued operations	0.9	(5.2)	(0.3)	(498.7) (1)	(503.3)
Capital gains and losses on disposals	1.8	(6.1)	62.2	443.0	500.9
Income tax expense	-	-	-	-	-
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**2.7**	**(11.3)**	**61.9**	**(55.7)**	**(2.4)**

(1) Include impairment losses of €440 million on goodwill of the Transportation business (see Notes 4 and 5).

The main Consolidated Income Statement items for discontinued operations for the year ended **December 31, 2011** break down by division as follows:

(€ million)	**Water**	**Energy Services**	**Environmental Services**	**Transportation**	**Total**
Revenue	131.9	448.7	-	4,259.0	4,839.6
Operating income	4.8	6.5	-	(449.0) (1)	(437.7)
Financial items	(0.9)	(5.7)	(0.3)	(40.4)	(47.3)
Income tax expense	(3.2)	(6.3)	-	(9.8)	(19.3)
Share of net income of associates	0.2	0.3	-	0.5	1.0

NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**0.9**	**(5.2)**	**(0.3)**	**(498.7)**	**(503.3)**

(1) Include impairment losses of €440 million on goodwill of the Transportation business (see Notes 4 and 5).

Furthermore, the decision to interrupt the divestiture process for Water activities in Gabon and Pinellas incineration activities in the United States in the Environmental Services division led to the inclusion of the results of these activities in "Net income from continuing operations" in 2011. The main items included in net income (loss) from discontinued operations in 2010 and 2009 were as follows:

(€ million)	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Revenue	260.4	218.6
Operating income	29.4	9.4
Financial items	(4.0)	(4.5)
Income tax expense	(10.1)	(2.6)
Share of net income of associates	-	-
NET INCOME OF WATER ACTIVITIES IN GABON	**15.3**	**2.3**

(€ million)	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Revenue	25.0	35.4
Operating income	(2.0)	(8.8)
Financial items	(0.1)	(0.1)
Income tax expense	-	-
Share of net income of associates	-	-
NET LOSS OF PINELLAS INCINERATION ACTIVITIES	**(2.1)**	**(8.9)**

Net income (loss) from discontinued operations in **2010** breaks down by division as follows:

(€ million)	**Water**	**Energy Services**	**Environmental Services**	**Transportation**	**Total**
Income (loss) from discontinued operations	0.6	10.0	11.5	41.7	63.8
Capital gains and losses on disposals	(3.2)	(56.2)	56.5	(29.3)	(32.2)
Income tax expense	5.0	-	(7.3)	-	(2.3)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**2.4**	**(46.2)**	**60.7**	**12.4**	**29.3**

The main Consolidated Income Statement items for discontinued operations for the year ended **December 31, 2010** break down by division as follows:

(€ million)	**Water**	**Energy Services**	**Environmental Services**	**Transportation**	**Total**
Revenue	157.1	462.5	408.5	5,822.4	6,850.5
Operating income	12.7	18.3	23.5	106.5	161.0
Financial items	(10.6)	(2.7)	(3.7)	(44.5)	(61.5)
Income tax expense	(1.6)	(5.7)	(8.3)	(20.6)	(36.2)
Share of net income of associates	0.1	0.1	-	0.3	0.5
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**0.6**	**10.0**	**11.5**	**41.7**	**63.8**

Net income (expense) from discontinued operations in **2009** breaks down by division as follows:

(€ million)	**Water**	**Energy Services**	**Environmental Services**	**Transportation**	**Total**
Income (loss) from discontinued operations	3.0	11.5	8.5	(19.4)	3.6
Capital gains and losses on disposals			134.6	(42.2)	92.4
Income tax expense	-	-	(70.4)	-	(70.4)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**3.0**	**11.5**	**72.7**	**(61.6)**	**25.6**

The main Consolidated Income Statement items for discontinued operations for the year ended **December 31, 2009** break down by division as follows:

(€ million)	**Water**	**Energy Services**	**Environmental Services**	**Transportation**	**Total**
Revenue	154.1	414.5	432.8	6,108.4	7,109.8
Operating income	14.4	21.6	13.2	108.6	157.8
Financial items	(9.8)	(4.6)	(4.0)	(75.1)	(93.5)
Income tax expense	(1.8)	(5.7)	(0.8)	(42.7)	(51.0)
Share of net income of associates	0.2	0.2	0.1	(10.2)	(9.7)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**3.0**	**11.5**	**8.5**	**(19.4)**	**3.6**

Assets/liabilities classified as held for sale

Assets classified as held for sale and Liabilities directly associated with assets classified as held for sale are presented separately in the Group Consolidated Statement of Financial Position as follows:

(€ million)	**As of December 31, 2011**	**As of December 31, 2010**	**As of December 31, 2009**
Assets classified as held for sale	3,256.5	805.6	722.6
Liabilities directly associated with assets classified as held for sale	2,012.8	386.8	309.4

Assets classified as held for sale and Liabilities directly associated with assets classified as held for sale as of December 31, 2011 primarily concern the assets and liabilities of the Velia Transdev group (see Note 4), those of Citelum in the Energy Services division and those of Marine Services in the Environmental Services division, pursuant to the restructuring of the Group's activities announced on December 6, 2011.

Assets classified as held for sale and Liabilities directly associated with assets classified as held for sale as of December 31, 2010 primarily concerned Water division activities in Gabon and Environmental Services division activities in Norway, sold in 2011.

Assets classified as held for sale and Liabilities directly associated with assets classified as held for sale as of December 31, 2009, primarily concerned certain French subsidiaries held jointly with Suez Environnement, Renewable Energy activities, Transportation activities in the United Kingdom and Dalkia Usti businesses (Czech Republic).

In **2011**, the main asset and liability categories recorded in assets classified as held for sale, break down by division as follows:

(€ million)	**Energy Services**	**Environmental Services**	**Transportation**	**Total**
Assets				
Non-current assets	90.5	89.2	1,836.6	2,016.3
Current assets	226.0	20.8	809.5	1,056.3
Cash and cash equivalents	32.1		151.8	183.9
ASSETS CLASSIFIED AS HELD FOR SALE	**348.6**	**110.0**	**2,797.9**	**3,256.5**
Liabilities				
Non-current liabilities	14.8	-	633.5	648.3
Current liabilities	169.5	52.7	1,142.3	1,364.5
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	**184.3**	**52.7**	**1,775.8**	**2,012.8**

In **2010**, the main asset and liability categories recorded in assets classified as held for sale, break down by division as follows:

(€ million)	**Water**	**Energy Services**	**Environmental Services**	**Transportation**	**Total**
Assets					
Non-current assets	237.6	92.8	189.4	32.2	552.0
Current assets	85.8	13.5	97.7	25.8	222.8
Cash and cash equivalents	3.0	0.2	12.1	15.5	30.8
ASSETS CLASSIFIED AS HELD FOR SALE	**326.4**	**106.5**	**299.2**	**73.5**	**805.6**
Liabilities					
Non-current liabilities	124.4	1.1	14.8	9.9	150.2
Current liabilities	125.5	13.5	67.6	30.0	236.6
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	**249.9**	**14.6**	**82.4**	**39.9**	**386.8**

In **2009**, the main asset and liability categories recorded in assets classified as held for sale, break down by division as follows:

(€ million)	**Water**	**Energy Services**	**Environmental Services**	**Transportation**	**Renewable Energy**	**Total**
Assets						
Non-current assets	173.6	78.3	77.8	63.0	67.8	460.5
Current assets	102.1	10.8	37.4	20.2	66.0	236.5
Cash and cash equivalents	6.8	1.5	1.3	1.3	14.7	25.6
ASSETS CLASSIFIED AS HELD FOR SALE	**282.5**	**90.6**	**116.5**	**84.5**	**148.5**	**722.6**
Liabilities						
Non-current liabilities	43.2	12.5	3.7	7.1	17.7	84.2
Current liabilities	106.6	5.3	49.6	26.3	37.4	225.2
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	**149.8**	**17.8**	**53.3**	**33.4**	**55.1**	**309.4**

26 Net income for the year attributable to non-controlling interests

Net income attributable to non-controlling interests for the year ended December 31, 2011 is €173.2 million, compared to €290.5 million for the year ended December 31, 2010 and €257.8 million for the year ended December 31, 2009.

The decrease in net income attributable to non-controlling interests in Veolia Energy Services is mainly due to the impairments recognized in Italy and Spain in 2011 (see Note 20).

Net income for the year attributable to non-controlling interests breaks down by division as follows:

(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Water [(a)]	131.9	147.4	144.7
Environmental Services	35.1	16.5	4.7
Energy Services [(b)]	(5.6)	118.9	97.9
Transportation	7.6	2.1	6.6
Other	4.2	5.6	3.9
NON-CONTROLLING INTERESTS	**173.2**	**290.5**	**257.8**

(a) Including non-controlling interests in Germany (Berlin water services company and Stadtwerke of Braunschweig) of €96.4 million in 2009, €79.4 million in 2010 and €83.7 million in 2011.

(b) Including EDF's interest in Dalkia Holding of €63.1 million in 2009, €73.9 million in 2010 and -€38.9 million in 2011.

27 Earnings per share

Basic earnings per share is calculated by dividing net income attributable to owners of the parent company by the weighted average number of ordinary shares outstanding during the fiscal year.

Diluted earnings per share is calculated by dividing net income attributable to owners of the parent company by the weighted average number of ordinary shares outstanding during the fiscal year plus the weighted average number of ordinary shares that would be issued following the conversion into ordinary shares of all potentially dilutive ordinary shares.

Net income and the number of shares used to calculate basic and diluted earnings per share are presented below for all businesses.

	Year ended December 31, 2011	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Weighted average number of ordinary shares *(in million)*	**496.3**	**481.9**	**472.4**
Weighted average number of ordinary shares for the calculation of basic earnings per share	496.3	481.9	472.4
Theoretical number of additional shares resulting from the exercise of share purchase and subscription options			
Weighted average number of ordinary shares for the calculation of diluted earnings per share *(in million)*	**496.3**	**481.9**	**472.4**
Net income attributable to owners of the Company per share *(€ million)*			
Net income attributable to owners of the Company	(489.8)	558.5	559.0
Net income attributable to owners of the Company per share:			
Basic	(0.99)	1.16	1.18
Diluted	(0.99)	1.16	1.18
Net income (expense) from discontinued operations attributable to owners of the Company per share *(€ million)*			
Net income (expense) from discontinued operations attributable to owners of the Company	(6.9)	41.4	13.7
Net income (expense) from discontinued operations attributable to owners of the Company per share:			
Basic	(0.02)	0.09	0.03
Diluted	(0.02)	0.09	0.03
NET INCOME (EXPENSE) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO OWNERS OF THE COMPANY PER SHARE *(€ million)*			
Net income (expense) from continuing operations attributable to owners of the Company	(482.9)	517.1	545.3
Net income (expense) from continuing operations attributable to owners of the Company per share:			
Basic	(0.97)	1.07	1.15
Diluted	(0.97)	1.07	1.15

The only potentially dilutive instruments recognized by Veolia Environnement are the share subscription and purchase options presented in Note 31.

28 Additional information on the fair value of financial assets and liabilities (excluding derivatives)

Fair value measurement principles are presented in Note 1.26.

28.1 Financial assets

The following tables present the net carrying amount and fair value of Group financial assets as of December 31, 2011, 2010 and 2009, in accordance with the methods set-out in Note 1.26:

		As of December 31, 2011							
		Net carrying amount	Financial assets at fair value			Fair value	Method for determining fair value		
(€ million)	Note	Total	Available-for-sale assets	Loans and receivables	Assets designated at fair value through the Consolidated Income Statement	Total	Level 1	Level 2	Level 3
Non-consolidated investments	10	106.3	106.3	-	-	106.3	2.8	103.5	-
Non-current and current operating financial assets	11	5,445.3		5,445.3	-	5,389.6	-	5,389.6	-
Other non-current financial assets	12	736.5	42.3	694.2	-	736.5	-	736.5	-
Trade receivables	14	8,492.9	-	8,492.9	-	8,492.9	-	8,492.9	-
Other current operating receivables	14	804.8	-	804.8	-	804.8	-	804.8	-
Other current financial assets	12	114.6	11.8	102.8	-	114.6		114.6	-
Cash and cash equivalents	15	5,723.9	-	-	5,723.9	5,723.9	3,287.7	2,436.2	-
TOTAL	**-**	**21,424.3**	**160.4**	**15,540.0**	**5,723.9**	**21,368.6**	**3,290.5**	**18,078.1**	**-**

Level 2 cash and cash equivalents mainly consist of negotiable debt instruments and term deposits.

		As of December 31, 2010							
		Net carrying amount	Financial assets at fair value			Fair value	Method for determining fair value		
(€ million)	Note	Total	Available-for-sale assets	Loans and receivables	Assets designated at fair value through the Consolidated Income Statement	Total	Level 1	Level 2	Level 3
Non-consolidated investments	10	130.7	130.7	-	-	130.7	4.2	126.5	-
Non-current and current operating financial assets	11	5,628.6	-	5,628.6	-	5,653.6	-	5,653.6	-
Other non-current financial assets	12	773.1	58.4	714.7	-	773.1	-	773.1	-
Trade receivables	14	9,252.4	-	9,252.4	-	9,252.4	-	9,252.4	-
Other current operating receivables	14	1,109.6	-	1,109.6	-	1,109.6	-	1,109.6	-
Other current financial assets	12	132.3	29.2	103.1	-	132.3	-	132.3	-
Cash and cash equivalents	15	5,406.8	-	-	5,406.8	5,406.8	4,441.3	965.5	-
TOTAL		**22,433.5**	**218.3**	**16,808.4**	**5,406.8**	**22,458.5**	**4,445.5**	**18,013.0**	**-**

		As of December 31, 2009							
		Net carrying amount	**Financial assets at fair value**			**Fair value**	**Method for determining fair value**		
(€ million)	**Note**	**Total**	**Available-for-sale assets**	**Loans and receivables**	**Assets designated at fair value through the Consolidated Income Statement**	**Total**	**Level 1**	**Level 2**	**Level 3**
Non-consolidated investments	10	174.6	174.6	-	-	174.6	39.8	134.8	-
Non-current and current operating financial assets	11	5,651.8	-	5,651.8	-	5,656.6	-	5,656.6	-
Other non-current financial assets	12	753.9	52.6	701.3	-	753.9	-	753.9	-
Trade receivables	14	9,078.0	-	9,078.0	-	9,078.0	-	9,078.0	-
Other current operating receivables	14	1,101.2	-	1,101.2	-	1,101.2	-	1,101.2	-
Other current financial assets	12	217.7	53.8	163.9	-	217.7	-	217.7	-
Cash and cash equivalents	15	5,614.4	-	-	5,614.4	5,614.4	1,310.4	4,304.0	-
TOTAL		**22,591.6**	**281.0**	**16,696.2**	**5,614.4**	**22,596.4**	**1,350.2**	**21,246.2**	**-**

28.2 Financial liabilities

The following tables present the net carrying amount and fair value of financial liabilities by category, as defined in Note 1.26, as of December 31, 2011, 2010 and 2009:

		As of December 31, 2011								
		Net carrying amount	Financial liabilities at fair value			Fair value	Method for determining fair value			
(€ million)	Note	Total	Liabilities at amortized cost	Liabilities at fair value through the Consolidated Income Statement	Liabilities at fair value through the Consolidated Income Statement and held for trading	Total	Level 1	Level 2	Level 3
Borrowings and other financial liabilities									
• non-current bonds	18	13,076.2	13,076.2	-	-	13,859.9	13,391.6	468.3	-
• other non-current borrowings	18	3,630.5	3,630.5	-	-	3,559.3	-	3,559.3	-
• current borrowings	18	3,942.3	3,942.3	-	-	3,942.3	-	3,942.3	-
• bank overdrafts and other cash position items	15	440.2	440.2	-	-	440.2	-	440.2	-
Trade payables	14	5,140.1	5,140.1	-	-	5,140.1	-	5,140.1	-
Other operating payables	14	4,720.6	4,720.6	-	-	4,720.6	-	4,720.6	-
TOTAL		**30,949.9**	**30,949.9**	**-**	**-**	**31,662.4**	**13,391.6**	**18,270.8**	**-**

		As of December 31, 2010							
		Net carrying amount	Financial liabilities at fair value			Fair value	Method for determining fair value		
(€ million)	Note	Total	Liabilities at amortized cost	Liabilities at fair value through the Consolidated Income Statement	Liabilities at fair value through the Consolidated Income Statement and held for trading	Total	Level 1	Level 2	Level 3
Borrowings and other financial liabilities									
• non-current bonds	18	13,625.7	13,625.7	-	-	14,495.3	13,683.2	812.1	-
• other non-current borrowings	18	4,270.4	4,270.4	-	-	4,299.6	-	4,299.6	-
• current borrowings	18	2,827.1	2,827.1	-	-	2,827.1	-	2,827.1	-
• bank overdrafts and other cash position items	15	387.0	387.0	-	-	387.0	-	387.0	-
Trade payables	14	5,535.3	5,535.3	-	-	5,535.3	-	5,535.3	-
Other operating payables	14	5,332.0	5,332.0	-	-	5,332.0	-	5,332.0	-
TOTAL		**31,977.5**	**31,977.5**	**-**	**-**	**32,876.3**	**13,683.2**	**19,193.1**	**-**

		As of December 31, 2009							
		Net carrying amount	Financial liabilities at fair value			Fair value	Method for determining fair value		
(€ million)	Note	Total	Liabilities at amortized cost	Liabilities at fair value through the Consolidated Income Statement	Liabilities at fair value through the Consolidated Income Statement and held for trading	Total	Level 1	Level 2	Level 3
Borrowings and other financial liabilities									
• non-current bonds	18	13,264.5	13,264.5	-	-	13,810.5	13,321.2	489.3	-
• other non-current borrowings	18	4,382.8	4,382.8	-	-	4,385.3	-	4,385.3	-
• current borrowings	18	2,983.1	2,983.1	-	-	2,983.1	-	2,983.1	-
• bank overdrafts and other cash position items	15	454.9	454.9	-	-	454.9	-	454.9	-
Trade payables	14	5,311.0	5,311.0	-	-	5,311.0	-	5,311.0	-
Other operating payables	14	4,933.4	4,933.4	-	-	4,933.4	-	4,933.4	-
TOTAL		**31,329.7**	**31,329.7**	**-**	**-**	**31,878.2**	**13,321.2**	**18,557.0**	**-**

29 Financial risk management

Group objectives and organization

The Group is exposed to the following financial risks in the course of its operating and financial activities:

- Market risks presented in Note 29.1:
  - interest-rate risk, presented in Note 29.1.1 (interest-rate fair value hedges, cash flow hedges and derivatives not qualifying for hedge accounting),
  - foreign exchange risk, presented in Note 29.1.2 (hedges of a net investment in a foreign operation, hedges of balance sheet foreign exchange exposure by derivatives not qualifying for hedge accounting, embedded derivatives, overall foreign exchange risk exposure),
  - commodity risk, presented in Note 29.1.3 (fuel and electricity risks, greenhouse gas emission rights);
- Equity risk, presented in Note 29.2;
- Liquidity risk, presented in Note 29.3;
- Credit risk, presented in Note 29.4.

29.1 Market risk management

29.1.1 Management of interest rate risk

The financing structure of the Group exposes it naturally to the risk of interest rate fluctuations. As such, floating-rate debt impacts future financial results.

Short-term debt is primarily indexed to short-term indexes (Eonia for the treasury note program and Euribor/Libor for the main short-term credit lines). Medium and long-term debt comprises both fixed and floating-rate debt.

The Group manages a fixed/floating rate position in each currency in order to limit the impact of interest rate fluctuations on its net income and to optimize the cost of debt. For this purpose, it uses interest rate swap and swaption instruments.

These swaps may be classified as fair value hedges or cash flow hedges.

The following table shows the interest-rate exposure of gross debt (defined as the sum of non-current borrowings, current borrowings and bank overdrafts and other cash position items) before and after hedging.

(€ million)	As of December 31, 2011		As of December 31, 2010		As of December 31, 2009	
	Outstandings	% total debt	Outstandings	% total debt	Outstandings	% total debt
Fixed rate	15,358.0	75.1%	16,187.3	78.5%	15,971.5	77.0%
Floating rate	5,095.8	24.9%	4,437.5	21.5%	4,770.6	23.0%
Gross debt before hedging	**20,453.8**	**100%**	**20,624.8**	**100.0%**	**20,742.1**	**100.0%**
Fixed rate	11,104.6	52.7%	10,481.4	49.7%	10,808.8	51.3%
Floating rate	9,984.6	47.3%	10,628.8	50.3%	10,276.5	48.7%
Gross debt after hedging and fair value remeasurement of fixed-rate debt	**21,089.2**	**100%**	**21,110.2**	**100.0%**	**21,085.3**	**100.0%**
Fair value adjustments to (asset)/liability hedging derivatives	**(635.4)**		**(485.4)**		**(343.2)**	
GROSS DEBT AT AMORTIZED COST	**20,453.8**		**20,624.8**		**20,742.1**	

Total gross debt as of December 31, 2011 after hedging is 53% fixed-rate and 47% floating-rate. No caps are active as of December 31, 2011. Excluding inactive caps, the fixed-rate portion of gross debt is 59% and the floating-rate portion is 41%.

As of December 31, 2011, the Group has cash and cash equivalents of €5,723.9 million, the majority of which bears interest at floating rates.

Net financial debt totals €14,729.9 million and is 71% fixed-rate and 29% floating-rate.

Sensitivity of the consolidated income statement and equity

The Group manages its exposure to interest rate fluctuations based on floating-rate gross debt net of cash.

The breakdown of the Group's floating-rate debt by maturity as of December 31, 2011 is as follows:

(€ million)	Overnight and less than 1 year	1 to 5 years	More than 5 years	Total
Total assets (cash and cash equivalents)	5,723.9			5,723.9
Total floating-rate liabilities	(4,182.1)	(579.6)	(334.1)	(5,095.8)
Net floating-rate position before active hedging	**1,541.8**	**(579.6)**	**(334.1)**	**628.1**
Derivative instruments [(1)]	197.2	2,249.0	2,388.8	4,835.0
NET FLOATING-RATE POSITION AFTER ACTIVE MANAGEMENT AND HEDGING	**1,739.0**	**1,669.4**	**2,054.7**	**5,463.1**

(1) Financial instruments hedging debt excluding inactive caps of €1,290 million.

The analysis of the sensitivity of finance costs to interest rate risk covers financial assets and liabilities and the derivative portfolio as of December 31, 2011. Given the net debt structure of the Group and its derivative portfolio, a change in interest rates would impact the income statement via the cost of floating-rate debt (after hedging), the fair value of trading derivatives and Group investments.

The analysis of the sensitivity of equity to interest rate risk concerns the cash flow hedge reserve. This sensitivity corresponds to fair market value movements as a result of an instantaneous change in interest rates.

Assuming a constant net debt structure and management policy, an increase in the fair value of the effective portion of derivatives designated as cash flow hedges, following a 0.5% increase in interest rates at the year end, would generate an increase in fair value reserves in equity of €18 million. The impact on floating-rate debt and floating-rate payer swaps on fixed-rate debt would decrease net income by €20 million. A decrease in interest rates of 0.5% would have the opposite impact on net income and equity. All other variables have been assumed to be constant for the purpose of this analysis and the change in net income and equity is attributable to the change in interest rates, all other things being equal.

29.1.2 Management of foreign exchange risk

The Group's international activities generate significant foreign currency flows.

The Group's central treasury department manages foreign exchange risk centrally within limits set by the Chief Financial Officer.

Foreign exchange risk, as defined by IFRS 7, mainly results from:

(a) foreign currency-denominated purchases and sales of goods and services relating to operating activities and the related hedges (e.g. currency forwards). The Group has no significant exposure to foreign exchange transaction risk. The activities of the Group are performed by subsidiaries operating in their own country and their own currency. Exposure to foreign exchange risk is therefore naturally limited;

(b) foreign-currency denominated assets and liabilities including foreign currency-denominated loans/borrowings and related hedges (e.g. forex swaps). With many offices worldwide, Veolia organizes financing in local currencies. In the case of inter-company financing, these credit lines can generate foreign exchange risk. In order to limit the impact of this risk, Veolia Environnement has developed a policy which seeks to back foreign-currency financing and foreign currency derivatives with inter-company receivables denominated in the same currency.

The asset exposure hedging strategy primarily involves hedging certain net foreign investments and ensuring that Group companies do not have a material balance sheet foreign exchange position that could generate significant volatility in foreign exchange gains and losses (see Note 29.1.2.2);

(c) investments in foreign subsidiaries reflected by the translation of accounts impacting the translation reserves (see Note 29.1.2.3).

29.1.2.1 Translation risk

Due to its international presence, the translation of the income statements of the Group's foreign subsidiaries is sensitive to exchange rate fluctuations.

The following table summarizes the sensitivity of certain Group consolidated income statement aggregates to a 10% increase or decrease in foreign exchange rates against the euro, with regard to the translation of financial statements of foreign subsidiaries.

	Contribution to the consolidated financial statements							Sensitivity to an increase or decrease in the main currencies against the euro	
(€ million)	**EUR**	**GBP**	**USD**	**PLN**	**CZK**	**Other currencies**	**Total**	**+10 %**	**-10 %**
Revenue	15,859.9	2,571.0	2,710.2	571.7	1,234.3	6,700.2	29,647.3	(644.3)	787.5
Operating income	183.7	267.2	(37.4)	66.2	177.2	360.3	1,017.2	(43.0)	52.6

29.1.2.2 Foreign exchange risk with regard to the net finance cost

With many offices worldwide, Veolia organizes financing in local currencies.

The foreign currency debt borne by the parent company, Veolia Environnement SA, is generally hedged using either derivative instruments or assets in the same currency.

The following table shows the exposure to exchange rate fluctuations of the foreign currency net financial debt of the entities that bear the main foreign exchange risks. It also presents the sensitivity of these entities to a 10% increase or decrease in the parities of the corresponding foreign currencies.

	Net finance cost Foreign currency exposure *(in millions of currency)*						Sensitivity to an increase or decrease in the 4 main currencies against the euro *(€ million)*	
	GBP	**USD**	**PLN**	**CZK**	**Other currencies** *(in euros)*	**Total euro equivalent**	**+10 %**	**-10 %**
Veolia Environnement SA	(33.5)	(90.9)	(73.3)	(18.8)	(398.8)	**(527.4)**	(16.6)	9.8
Other Group subsidiaries	(28.3)	(25.6)	(0.2)	(4.2)	(169.9)	**(221.0)**	(5.8)	4.8
Total in foreign currency	**(61.8)**	**(116.5)**	**(73.5)**	**(23.0)**	**(568.7)**	**(748.4)**		
TOTAL EURO EQUIVALENT	**(70.9)**	**(90.7)**	**(17.2)**	**(0.9)**	**(568.7)**	**(748.4)**	**(22.4)**	**14.6**

29.1.2.3 Foreign exchange and translation risk in the Consolidated Statement of Financial Position

Due to its international presence, the Group's consolidated statement of financial position is exposed to exchange rate fluctuations. A fluctuation in the euro impacts the translation of subsidiary foreign currency denominated assets in the consolidated statement of financial position. The main currencies concerned are the U.S. dollar and the pound sterling.

For its most significant assets, the Group has issued debt in the relevant currencies.

The following table shows the net asset amounts for the main currencies:

	Contribution to the consolidated financial statements					Sensitivity to an increase or decrease in the 2 main currencies against the euro	
(€ million)	**EUR**	**USD**	**GBP**	**Other currencies**	**Total**	**+10 %**	**-10 %**
Assets excluding net financial debt by currency	11,442	2,327	3,112	7,773	24,654	992	(812)
Net financial debt by currency	7,704	1,631	1,905	3,489	14,729	556	(455)
Net assets by currency	3,738	696	1,207	4,284	9,925	436	(357)

29.1.3 Management of commodity risk

Fuel or electricity prices can be subject to significant fluctuations. Nonetheless, Veolia Environnement's activities have not been materially affected and should not be materially affected in the future by cost increases or the availability of fuel or other commodities. The long-term contracts entered into by Veolia Environnement generally include price review and/or indexation clauses which enable it to pass on the majority of any increases in commodity or fuel prices to the price of services sold to customers, even if this may be performed with a time delay.

Nonetheless, as part of supply management and cost optimization measures, certain Group subsidiaries may be required, depending on their activities, to contract forward purchases or sales of commodities and set-up derivatives to fix the cost of commodities supply, where the contracts do not offer adapted protection.

29.1.3.1 Fuel risks

In the Transportation division, a "fuel" hedging policy has been implemented in order to control trends in fuel prices. The Group uses firm fuel purchase contracts (deemed for its own use) or derivatives whose characteristics (notional amount, maturity) are defined in line with forecast fuel requirements (based on firm orders or highly probably forecast flows). The majority of these derivatives are swaps used to determine the forward purchase price of fuel.

These derivatives were analyzed in accordance with IAS 39 and classified as hedging instruments (cash flow hedges) (see Note 30).

29.1.3.2 Coal, gas and electricity risks

The Group has entered into long-term gas, coal, electricity and biomass purchase contracts in order to secure its supplies.

The majority of these commitments are reciprocal; the third parties concerned are obliged to deliver the quantities indicated in these contracts and the Group is obliged to take them.

These contracts are considered to fall outside the scope of IAS 39, except for certain specific transactions in gas, CO_2 and electricity. This is particularly the case in Germany, where electricity purchase instruments (and in parallel sales instruments) are not eligible for hedge accounting within the meaning of IAS 39 (see Note 37 on off-balance sheet commitments and Note 30.3.1 on electricity derivatives).

29.2 Management of equity risk

As of December 31, 2011, Veolia Environnement holds 14,237,927 of its own shares, of which 8,389,059 are allocated to external growth operations and 5,848,868 were acquired for allocation to employees under employee savings plans, with a market value of €120.6 million, based on a share price of €8.469 and a net carrying amount of €442.5 million deducted from equity.

As part of its cash management strategy, Veolia Environnement holds UCITS shares. These UCITS have the characteristics of monetary UCITS and are not subject to equity risk.

The Group is also exposed to equity risk through the plan assets of certain of its pension plans (see Note 31, Employee benefit obligation).

29.3 Management of liquidity risk

The operational management of liquidity and financing is managed by the Treasury and Financing Department. This management involves the centralization of major financing in order to optimize liquidity and cash.

The Group secures financing on international bond markets, international private placement markets, the treasury note market and the bank lending market (see Note 18, Non-current and current borrowings).

29.3.1 Maturity of financial liabilities

As of December 31, 2011, **undiscounted contractual flows on net financial debt** (nominal value) break down by maturity date as follows:

	As of December 31, 2011		Maturity of undiscounted contractual flows					
(€ million)	**Gross carrying amount**	**Total undiscounted contractual flows**	**2012**	**2013**	**2014**	**2015**	**2016**	**More than 5 years**
Bond issues [1]	13,767.0	13,165.6	687.0	1,048.6	1,276.3	1,137.8	914.7	8,101.2
Treasury notes	499.8	499.8	499.8	-	-	-	-	-
Finance lease obligations	523.2	587.5	88.6	84.2	54.3	47.6	45.6	267.2
Securitization	391.3	391.0	391.0					
Other borrowings	5,467.7	5,477.1	2,275.7	333.8	363.5	541.8	222.5	1,739.8
Bank overdrafts and other cash position items	440.2	440.2	440.2	-	-	-	-	-
Gross borrowings excluding the impact of amortized cost and hedging derivatives	**21,089.2**	**20,561.2**	**4,382.3**	**1,466.6**	**1,694.1**	**1,727.2**	**1,182.8**	**10,108.2**
Impact of amortized cost and derivatives hedging debt	(635.4)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Gross borrowings	**20,453.8**	**20,561.2**	**4,382.3**	**1,466.6**	**1,694.1**	**1,727.2**	**1,182.8**	**10,108.2**
Cash and cash equivalents	(5,723.9)	(5,723.9)	(5,723.9)	-	-	-	-	-
Net financial debt	**14,729.9**	**14,837.3**	**(1,341.6)**	**1,466.6**	**1,694.1**	**1,727.2**	**1,182.8**	**10,108.2**

(1) Excluding the impact of amortized cost and derivatives hedging debt.

As of December 31, 2011, the average maturity of net financial debt is 8.7 years.

Most trade payables have a maturity of less than one year (see Note 14).

As of December 31, 2011, **undiscounted contractual interest flows** on outstanding borrowings break down by maturity date as follows:

	As of December 31, 2011	Maturity of undiscounted contractual flows					
(€ million)	**Total flows**	**2011**	**2012**	**2013**	**2014**	**2015**	**More than 5 years**
Undiscounted contractual interest flows on outstanding borrowings	**7,053.1**	798.1	739.1	647.2	569.1	522.1	3,777.5

As of December 31, 2011, **undiscounted contractual interest flows on derivative outstandings** recorded in liabilities and assets break down by maturity date as follows:

(€ million)	As of December 31, 2011		Maturity of undiscounted contractual flows					
	Net carrying amount	**Total undiscounted contractual flows**	**2012**	**2013**	**2014**	**2015**	**2016**	**More than 5 years**
Interest-rate derivatives	**584.7**	**808.7**	**171.5**	**154.0**	**131.6**	**119.6**	**98.1**	**134.0**
Fair value hedges	654.3	1,003.9	182.2	164.2	140.5	131.7	110.5	274.8
Inflows	654.3	1,783.3	347.0	310.9	249.5	228.7	190.9	456.3
Outflows	0.0	(779.4)	(164.8)	(146.7)	(109.0)	(97.0)	(80.4)	(181.5)
Cash flow hedges	(53.2)	(179.7)	(8.2)	(8.0)	(7.9)	(11.1)	(11.4)	(133.1)
Inflows	56.6	133.7	26.7	26.6	26.5	17.7	5.0	31.2
Outflows	(109.8)	(313.4)	(34.9)	(34.6)	(34.4)	(28.8)	(16.4)	(164.3)
Derivatives not qualifying for hedge accounting	(16.4)	(15.5)	(2.5)	(2.3)	(1.0)	(1.0)	(1.0)	(7.7)
Inflows	5.1	7.5	1,7	1.4	0.4	0.4	0.4	3.2
Outflows	(21.5)	(23.0)	(4.2)	(3.7)	(1.4)	(1.4)	(1.4)	(10.9)
Foreign currency derivatives excluding net investment hedges	**(62.0)**	**45.9**	**29.1**	**8.6**	**2.5**	**1.9**	**1.8**	**2.0**
Fair value hedges	(5.9)	3.2	0.0	3.2	0.0	0.0	0.0	0.0
Inflows	6.0	41.9	0.0	41.9	0.0	0.0	0.0	0.0
Outflows	(11.9)	(38.7)	0.0	(38.7)	0.0	0.0	0.0	0.0
Cash flow hedges	(2.4)	10.5	1.5	1.6	1.7	1.8	1.9	2.0
Inflows	2.3	101.1	17.1	17.1	17.1	17.1	17.1	15.6
Outflows	(4.7)	(90.6)	(15.6)	(15.5)	(15.4)	(15.3)	(15.2)	(13.6)
Derivatives not qualifying for hedge accounting	(53.7)	32.2	27.6	3.7	0.8	0.1	0.0	0.0
Inflows	18.5	4,055.4	3,837.1	160.9	44.9	12.0	0.5	0.0
Outflows	(72.2)	(4,023.2)	(3,809.5)	(157.2)	(44.1)	(11.9)	(0.5)	0.0
Foreign currency derivatives hedging a net investment	**(18.5)**	**(14.0)**	**(0.6)**	**2.4**	**1.0**	**(0.1)**	**(0.1)**	**(16.6)**

In order to best reflect the economic reality of transactions, cash flows relating to derivatives recorded in assets and liabilities are presented net. Asset values are indicated as positive amounts and liabilities as negative amounts in the above table.

29.3.2 Net liquid asset positions

Net liquid assets of the Group as of December 31, 2011 break down as follows:

(€ million)	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
Veolia Environnement:			
Undrawn MT syndicated loan facility*	2,692.7	3,654.5	3,694.6
Undrawn MT bilateral credit lines	700.0	1,000.0	400.0
Undrawn ST bilateral credit lines	300.0	100.0	575.0
Letter of credit facility	483.0	467.7	
Cash and cash equivalents	4,283.3	3,680.8	4,091.2
Subsidiaries:			
Cash and cash equivalents	1,440.6	1,726.0	1,523.2
Total liquid assets	**9,899.6**	**10,629.0**	**10,284.0**
Current debts and bank overdrafts and other cash position items			
Current debts	**3,942.3**	**2,827.1**	**2,983.1**
Bank overdrafts and other cash position items	**440.2**	**387.0**	**454.9**
Total current debts and bank overdrafts and other cash position items	**4,382.5**	**3,214.1**	**3,438.0**
TOTAL LIQUID ASSETS NET OF CURRENT DEBTS AND BANK OVERDRAFTS AND OTHER CASH POSITION ITEMS	**5,517.1**	**7,414.9**	**6,846.0**

** *Maturing April 20, 2012.*

As of December 31, 2011, Veolia Environnement has total liquid assets of €9.9 billion, including cash and cash equivalents of €5.7 billion.

As of December 31, 2011, cash equivalents were primarily held by Veolia Environnement SA in the amount of €4,204 million, including non-dynamic monetary UCITS of €1,884 million, negotiable debt instruments (bank certificates of deposit and treasury notes with a maturity of less than three months) of €794 million, monetary notes of €219 million and term deposit accounts of €1,307 million.

Veolia Environnement signed two syndicated loan facilities on April 7, 2011: a 5-year €2.5 billion multi-currency loan facility and a 3-year €500 million loan facility available for drawdown in Polish zloty, Czech crown and Hungarian forint (this facility is drawn in a euro equivalent of €307.3 million as of December 31, 2011).

Undrawn credit lines total €1,000 million as of December 31, 2011.

The portion of the USD 1.25 billion U.S. letters of credit facility signed on November 22, 2010 that may be drawn in cash is capped at USD 625 million, i.e. half of the facility. As of December 31, 2011, the facility is drawn U.S$431.2 million in the form of letters of credit. The portion that may be drawn in cash is U.S$625 million (€483 million euro equivalent) and is recorded in the liquidity table.

Veolia Environnement may draw on the multi-currency syndicated loan facility and all credit lines at any time.

Undrawn credit lines mature as follows as of December 31, 2011:

	As of December 31, 2011	Maturity				
(€ million)	Total	2012	2013	2014	2015	2016
Undrawn syndicated loan facility	2,692.7	-	-	192.7	-	2,500.0
Undrawn credit lines	1,000.0	300.0	300.0	-	400.0	-
Letter of credit facility	483.0	-	-	-	483.0	-
TOTAL	4,175.7	300.0	300.0	192.7	883.0	2,500.0

29.3.3 Information on early debt repayment clauses

Veolia Environnement SA debt

Bank financing

The legal documentation for syndicated loans (particularly the syndicated loan facilities signed in April 2011 for a cumulative amount of €3 billion) and bilateral credit lines contracted by Veolia Environnement SA does not contain any financial covenants, i.e. obligations to comply with a debt coverage ratio or interest ratio or a minimum credit rating which, in the event of non-compliance, could lead to the early repayment of the relevant financing.

Bond financing

The private placement performed in the United States in 2003 is the only source of bond financing that contains financial covenants (debt coverage ratio < 5.3 and interest coverage ratio > 3.2).

The legal documentation for the other notes issued by the Company, in particular under its EMTN program (outstanding of €11.6 billion as of December 31, 2011) does not contain any financial covenants.

Subsidiary debt

The project financing borne by specific companies or the financing granted by multilateral development banks to the Group's subsidiaries may contain financial covenants that is a commitment to comply with a debt coverage ratio, finance cost coverage ratio or a minimum credit rating, where noncompliance could lead to the early call of the relevant financing.

As of December 31, 2011, two project financing agreements in Italy with outstandings of €71 million and €68 million, respectively, each contained one covenant that was not complied with. They were reclassified in current borrowings.

29.4 Management of credit risk

The Group is exposed to counterparty risk in various areas: its operating activities, cash investment activities and derivatives.

29.4.1 Counterparty risk relating to operating activities

Credit risk must be considered separately with respect to operating financial assets and operating receivables. Credit risk on operating financial assets is appraised via the rating of primarily public customers. Credit risk on other operating receivables is appraised through an analysis of risk dilution and late payments for private customers and exceptionally, for public customers, by a credit analysis.

Group customer credit risk analysis may be broken down into the following four categories (Public customers - Delegating authority, Private customers - Individuals, Public customers - Other and Private customers - Companies):

		As of December 31, 2011			Breakdown by customer type			
(€ million)	Note	Gross carrying amount	Impairment	Net carrying amount	Public customers – Delegating authority	Private customers – Individuals	Public customers – Other	Private customers – Companies
Non-current and current operating financial assets	11	5,493.5	(48.2)	5,445.3	4,435.2	-	136.2	873.9
Trade receivables	14	9,097.6	(604.7)	8,492.9	1,765.3	1,810.1	1,781.1	3,136.4
Other current operating receivables	14	870.7	(65.9)	804.8	180.0	177.3	129.2	318.3
Other non-current financial assets in loans and receivables	12	764.6	(70.4)	694.2	67.0	8.4	6.7	612.1 (1)
Current financial assets in loans and receivables	12	134.8	(32.0)	102.8	13.2	3.8	19.9	65.9
LOANS AND RECEIVABLES		**16,361.2**	**(821.2)**	**15,540.0**	**6,460.7**	**1,999.6**	**2,073.1**	**5,006.6**
Other non-current financial assets	12	64.0	(21.7)	42.3	0.7	1.0	1.4	39.2
Other current financial assets	12	11.9	(0.1)	11.8	0.1	2.2	-	9.5
TOTAL		**16,437.1**	**(843.0)**	**15,594.1**	**6,461.5**	**2,002.8**	**2,074.5**	**5,055.3**

(1) Of which Dalkia International and its subsidiaries in the amount of €389.7 million as of December 31, 2011.

The analysis of Group customer credit risk as of **December 31, 2010** is as follows:

		As of December 31, 2010			Breakdown by customer type			
(€ million)	Note	Gross carrying amount	Impairment	Net carrying amount	Public customers – Delegating authority	Private customers – Individuals	Public customers – Other	Private customers – Companies
Non-current and current operating financial assets	11	5,690.6	(62.0)	5,628.6	4,697.4	-	239.4	691.8
Trade receivables	14	9,852.8	(600.4)	9,252.4	2,015.7	2,196.6	1,922.2	3,117.9
Other current operating receivables	14	1,187.5	(77.9)	1,109.6	244.7	180.8	130.3	553.8
Other non-current financial assets in loans and receivables	12	787.0	(72.3)	714.7	53.0	8.1	19.0	634.6 (1)
Current financial assets in loans and receivables	12	134.8	(31.6)	103.2	26.4	4.5	3.2	69.1
LOANS AND RECEIVABLES		**17,652.7**	**(844.2)**	**16,808.5**	**7,037.2**	**2,390.0**	**2,314.1**	**5,067.2**
Other non-current financial assets	12	81.0	(22.6)	58.4	10.2	7.2	20.1	20.9
Other current financial assets	12	29.3	(0.2)	29.1	1.8	2.4	7.8	17.1
TOTAL		**17,763.0**	**(867.0)**	**16,896.0**	**7,049.2**	**2,399.6**	**2,342.0**	**5,105.2**

(1) Of which Dalkia International and its subsidiaries in the amount of €373.7 million as of December 31, 2010.

The analysis of Group customer credit risk as of **December 31, 2009** is as follows:

(€ million)	Note	As of December 31, 2009 Gross carrying amount	Impairment	Net carrying amount	Breakdown by customer type Public customers – Delegating authority	Private customers – Individuals	Public customers – Other	Private customers – Companies
Non-current and current operating financial assets	11	5,705.0	(53.2)	5,651.8	4,647.3	-	185.6	818.9
Trade receivables	14	9,638.3	(560.3)	9,078.0	2,202.8	1,685.8	1,672.9	3,516.5
Other current operating receivables	14	1,178.0	(76.8)	1,101.2	183.3	318.6	88.3	511.0
Other non-current financial assets in loans and receivables	12	774.8	(73.5)	701.3	59.0	4.1	19.3	618.9 (1)
Current financial assets in loans and receivables	12	195.8	(31.9)	163.9	27.9	5.1	3.8	127.1
LOANS AND RECEIVABLES		**17,491.9**	**(795.7)**	**16,696.2**	**7,120.3**	**2,013.6**	**1,969.9**	**5,592.4**
Other non-current financial assets	**12**	72.8	(20.2)	52.6	3.1	7.1	18.2	24.2
Other current financial assets	**12**	57.9	(4.1)	53.8	1.9	4.1	0.3	47.5
TOTAL		**17,622.6**	**(820.0)**	**16,802.6**	**7,125.3**	**2,024.8**	**1,988.4**	**5,664.1**

(1) Of which Dalkia International and its subsidiaries in the amount of €390.8 million as of December 31, 2009.

Assets past due and not impaired break down as follows:

(€ million)	Note	As of December 31, 2011 Gross carrying amount	Impairment	Net carrying amount	Assets not yet due	Assets past due but not impaired 0-6 months	6 months – 1 year	More than 1 year
Non-current and current operating financial assets	11	5,493.5	(48.2)	5,445.3	5,422.5	11.8	7.4	3.6
Trade receivables	14	9,097.6	(604.7)	8,492.9	6,230.9	1,478.8	344.7	438.5
Other current operating receivables	14	870.7	(65.9)	804.8	585.3	89.8	65.1	64.6
Other non-current financial assets in loans and receivables	12	764.6	(70.4)	694.2	694.2	-	-	-
Current financial assets in loans and receivables	12	134.8	(32.0)	102.8	66.4	23.0	10.8	2.6
LOANS AND RECEIVABLES		**16,361.2**	**(821.2)**	**15,540.0**	**12,999.2**	**1,603.4**	**428.0**	**509.4**
Other non-current financial assets	12	**64.0**	**(21.7)**	**42.3**	**42.3**	**-**	**-**	**-**
Other current financial assets	12	**11.9**	**(0.1)**	**11.8**	**5.2**	**0.1**	**0.2**	**6.3**

Assets past due over 6 months and not impaired (€944 million) mainly consist of trade receivables. They are stable on fiscal year 2010.

Payment delays in excess of 6 months are mainly concentrated in three countries where settlement periods are exceptionally long:

- In Italy, net "trade receivables" of all Group subsidiaries total €339 million as of December 31, 2011, compared to €277 million as of December 31, 2010, for receivables past due over six months. Furthermore, in Italy, trade receivables primarily consist of a multitude of user/private customers for which the credit risk is highly diluted and local authorities and state bodies for which the recovery period is long.
- In Spain, net "trade receivables" total €54.5 million as of December 31, 2011, compared to €53 million as of December 31, 2010, for receivables past due over six months. These receivables concern the Energy Services division.
- In Morocco, net "trade receivables" total €31.8 million as of December 31, 2011, compared to €33 million as of December 31, 2010 for receivables past due over six months.

Finally, in France, net trade receivables past due over 6 months total €188.1 million at the end of 2011 (€228 million at the end of 2010), representing 4.9% of customer outstandings (including €117.9 million past due over one year). The majority of this balance concerns amounts invoiced on behalf of local authorities and public bodies, receivables on local authorities and public bodies and VAT.

Financial assets maturity schedule as of December 31, 2010 and 2009:

		As of December 31, 2010				Assets past due but not impaired		
(€ million)	**Note**	**Gross carrying amount**	**Impairment**	**Net carrying amount**	**Assets not yet due**	**0-6 months**	**6 months – 1 year**	**More than 1 year**
Non-current and current operating financial assets	11	5,690.6	(62,0)	5,628.6	5,596.8	21.4	4.4	6.0
Trade receivables	14	9,852.8	(600.4)	9,252.4	6,956.5	1,555.2	287.3	453.4
Other current operating receivables	14	1,187.5	(77.9)	1,109.6	867.0	81.1	80.8	80.7
Other non-current financial assets in loans and receivables	12	787.0	(72.3)	714.7	714.7	-	-	-
Current financial assets in loans and receivables	12	134.8	(31.6)	103.2	77.7	14.3	6.9	4.3
LOANS AND RECEIVABLES		**17,652.7**	**(844.2)**	**16,808.5**	**14,212.7**	**1,672.0**	**379.4**	**544.4**
Other non-current financial assets	12	**81.0**	**(22.6)**	**58.4**	**58.4**	**-**	**-**	**-**
Other current financial assets	12	**29.3**	**(0.2)**	**29.1**	**15.8**	**-**	**1.8**	**11.5**

		As of December 31. 2009				Assets past due but not impaired		
(€ million)	**Note**	**Gross carrying amount**	**Impairment**	**Net carrying amount**	**Assets not yet due**	**0-6 months**	**6 months – 1 year**	**More than 1 year**
Non-current and current operating financial assets	11	5,705.0	(53.2)	5,651.8	5,623.7	13.7	7.4	7.0
Trade receivables	14	9,638.3	(560.3)	9,078.0	6,762.1	1,631.7	267.3	416.9
Other current operating receivables	14	1,178.0	(76.8)	1,101.2	747.2	87.3	171.3	95.4
Other non-current financial assets in loans and receivables	12	774.8	(73.5)	701.3	701.3	-	-	-
Current financial assets in loans and receivables	12	195.8	(31.9)	163.9	136.4	10.8	5.6	11.1
LOANS AND RECEIVABLES		**17,491.9**	**(795.7)**	**16,696.2**	**13,970.7**	**1,743.5**	**451.6**	**530.4**
Other non-current financial assets	12	**72.8**	**(20.2)**	**52.6**	**52.6**	**-**	**-**	**-**
Other current financial assets	12	**57.9**	**(4.1)**	**53.8**	**48.2**	**-**	**1.9**	**3.7**

29.4.2 Counterparty risk relating to investment and hedging activities

The Group is exposed to credit risk relating to the investment of its surplus cash and its use of derivative instruments in order to manage interest rate and currency risk. Credit risk corresponds to the loss that the Group may incur should a counterparty default on its contractual obligations. In the case of derivative financial instruments, this risk corresponds to the fair value of all the instruments contracted with a counterparty insofar as this value is positive.

The Group minimizes counterparty risk through internal control procedures limiting the choice of banking counterparties to leading banks and financial institutions (banks and financial institutions with a minimum Moody's. Standard & Poor's or Fitch's rating of A1/P1/F1 respectively for transactions with a term of less than one year and of A2/A/A respectively for transactions with a term of more than one year). Limits are determined for each counterparty based primarily on the rating awarded by the rating agencies and the size of their equity, and are reviewed monthly. In addition, new derivative transactions must be entered into with counterparties with whom the Group has an ISDA or FBF framework agreement.

Counterparty risk on financial transactions is monitored on an ongoing basis by the middle-office. The Group is not exposed to any risk as a result of material concentration.

As of December 31, 2011, Veolia Environnement SA outstandings exposed to credit risk total €4,283.3 million with regard to investments and €593.2 million with regard to derivative instruments (sum of the fair values of assets and liabilities). These counterparties are investment grade for 99.9% of the total exposure.

Veolia Environnement SA cash surpluses (€4.3 billion as of December 31, 2011) are managed with a profitability objective close to that of the money market, avoiding exposure to capital risk and maintaining a low level of volatility.

They were injected into the following types of investment:

- non-dynamic monetary UCITS (with the AMF Monetary classification of short-term or monetary) for €1,884 million;
- certificates of deposit with a maturity of less than three months or term deposits classified as cash equivalents with leading French banks with a short-term rating from Standard & Poor's. Moody's or Fitch of A1+/P1/F1, for €1,307 million;
- negotiable debt securities, commercial paper and treasury notes with a maturity of less than three months issued by top-rated companies and States for €794 million;
- monetary notes issued by leading French banks with a short-term rating from Standard & Poor's. Moody's or Fitch of A1+/P1/F1, for €219 million.

30 Derivatives

The Group uses derivatives to manage and reduce its exposure to fluctuations in interest rates, exchange rates and commodity prices (see Note 29, Financial risk Management).

The fair value of derivatives in the Consolidated Statement of Financial Position breaks down as follows:

		As of December 31, 2011		As of December 31, 2010		As of December 31, 2009	
(€ million)	**Notes**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest-rate derivatives	**30.1**	**716.0**	**131.3**	**560.6**	**86.8**	**355.0**	**76.6**
Fair value hedges		654.3	-	531.4	-	351.5	8.3
Cash flow hedges		56.6	109.8	26.7	63.5	-	59.6
Derivatives not qualifying for hedge accounting		5.1	21.5	2.5	23.3	3.5	8.7
Foreign currency derivatives	**30.2**	**38.4**	**118.9**	**32.4**	**126.0**	**58.6**	**103.9**
Net investment hedges		11.6	30.1	3.6	49.6	13.1	17.1
Fair value hedges		6.0	11.9	2.6	1.0	7.9	0.6

Cash flow hedges		2.3	4.7	9.6	1.3	8.8	0.3
Derivatives not qualifying for hedge accounting		18.5	72.2	16.6	74.1	28.8	85.9
Commodity derivatives	**30.3**	**36.5**	**46.7**	**62.7**	**34.0**	**63.9**	**43.6**
TOTAL DERIVATIVES		**790.9**	**296.9**	**655.7**	**246.8**	**477.5**	**224.1**
o/w non-current derivatives		**742.8**	**215.4**	**621.1**	**195.1**	**431.9**	**139.3**
o/w current derivatives		**48.1**	**81.5**	**34.6**	**51.7**	**45.6**	**84.8**

The fair value of derivatives recognized in the Consolidated Statement of Financial Position is determined (as described in Note 1.26) and breaks down as follows:

	As of December 31, 2011		Level 2 (%)		Level 3 (%)	
(€ million)	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest-rate derivatives	**716.0**	**131.3**	100%	100%	-	-
Foreign currency derivatives	**38.4**	**118.9**	100%	100%	-	-
Commodity derivatives	**36.5**	**46.7**	55.1%	66.8%	44.9%	33.2%
TOTAL DERIVATIVES	**790.9**	**296.9**	97.9%	94.8%	2.1%	5.2%

Derivatives valued using internal models integrating certain non-observable data are primarily electricity derivatives for which there are no quoted prices in an active market (primarily electricity purchase options with extremely long maturity) or observable market data (forward prices for component materials), in particular for distant maturities. In such cases, data is estimated by Veolia Environnement experts.

	As of December 31, 2010		Level 2 (%)		Level 3 (%)	
(€ million)	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest-rate derivatives	560.6	86.8	100%	100%	-	-
Foreign currency derivatives	32.4	126.0	100%	100%	-	-
Commodity derivatives	62.7	34.0	48.5%	61.5%	51.5%	38.5%
TOTAL DERIVATIVES	**655.7**	**246.8**	**95.1%**	**94.7%**	**4.9%**	**5.3%**

(€ million)	As of December 31, 2009		Level 2 (%)		Level 3 (%)	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest-rate derivatives	355.0	76.6	100%	100%	-	-
Foreign currency derivatives	58.6	103.9	100%	100%	-	-
Commodity derivatives	63.9	43.6	35.2%	84.2%	64.8%	15.8%
TOTAL DERIVATIVES	**477.5**	**224.1**	**91.3%**	**96.9%**	**8.7%**	**3.1%**

30.1 Interest-rate derivatives

The fair value of interest rate derivatives recognized in the Consolidated Statement of Financial Position breaks down as follows:

(€ million)	Note	As of December 31, 2011		As of December 31.,2010		As of December 31, 2009	
		Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest-rate derivatives		**716.0**	**131.3**	**560.6**	**86.8**	**355.0**	**76.6**
Fair value hedges	30.1.1	654.3	-	531.4	-	351.5	8.3
Cash flow hedges	30.1.2	56.6	109.8	26.7	63.5	-	59.6
Derivatives not qualifying for hedge accounting	30.1.3	5.1	21.5	2.5	23.3	3.5	8.7

30.1.1 Fair value hedges

The risk of volatility in the value of debt is hedged by fixed–rate receiver/floating-rate payer swaps which change bond issues to floating-rate debt (see Notes 29 and 18).

Fair value hedging swaps represent a notional outstanding amount of €5,582.3 million as of December 31, 2011, with a net fair value in the Consolidated Statement of Financial Position of €654.3 million, as follows:

Fixed-rate receiver / floating-rate payer swaps	Notional contract amount by maturity				Fair value of derivatives	
(€ million)	**Total**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total assets**	**Total liabilities**
As of December 31, 2011	**5,582.3**	**200.0**	**2,679.2**	**2,703.1**	**654.3**	
As of December 31, 2010	6,853.9	-	2,576.7	4,277.2	531.4	-
As of December 31, 2009	6,315.4	-	2,361.1	3,954.3	351.5	8.3

The movement in the nominal value of the fair value hedging portfolio is mainly due to:

- the early cancellation, for a total amount of €1,299 million, of certain swaps hedging the 2013, 2016, 2018 (USD) and 2037 (pound sterling) EMTN issues;
- the impact of exchange rate fluctuations on the nominal amount of swaps denominated in pound sterling and U.S. dollar of €28 million.

Despite the resilience of part of the portfolio, the appreciation of the fair value of floating-rate payer swaps was due to the slump in euro, pound sterling and U.S. dollar interest rates in 2011.

30.1.2 Cash flow hedges

Cash flow hedges comprise floating-rate receiver/fixed-rate payer swaps mainly on debt secured to finance BOT (Build Operate Transfer) contracts, to the extent the underlying assets generate fixed-rate flows.

Floating-rate receiver / fixed-rate payer swaps – purchase of caps	Notional contract amount by maturity				Fair value of derivatives	
(€ million)	Total	Less than 1 year	1 to 5 years	More than 5 years	Total assets	Total liabilities
As of December 31, 2011	**1,678.5**	**-**	**1,417.1**	**261.4**	56.6	109.8
As of December 31, 2010	850.4	193.7	342.0	314.7	26.7	63.5
As of December 31, 2009	997.2	230.9	202.1	564.2	-	59.6

€84.7 million, net of tax, was recorded directly in equity in respect of cash flow hedge interest-rate derivatives as of December 31, 2011.

Contractual flows on interest rate swaps are paid at the same time as contractual flows on floating-rate borrowings and the amount recorded in other comprehensive income is released to net income in the period in which interest flows on the debt impact the Consolidated Income Statement.

The increase in the cash-flow hedging portfolio is mainly due to:

- the set-up of new swaps in the amount of €700 million and primarily swaps hedging the inflation-indexed bond issue and the syndicated loan facility denominated in Polish zloty;
- the expiry or cancellation of operations in the amount of €190 million;
- the increase in the nominal of certain swaps hedging project financing in the Water division in the amount of €310 million.

The decrease in the fair value of fixed-rate payer swaps is mainly due to the decrease in euro interest rates which decreased the fair value of these swaps and the expiry on maturity of a certain number of transactions.

30.1.3 Interest-rate derivatives not qualifying for hedge accounting

A certain number of derivatives do not qualify as hedges under IAS 39. The Group does not, however, consider these transactions to be of a speculative nature and views them as necessary for the effective management of its exposure to interest rate risk.

	Notional amount as of December 31, 2011				Fair value of derivatives	
(€ million)	Total	Less than 1 year	1 to 5 years	More than 5 years	Total assets	Total liabilities
Fixed-rate receiver / floating-rate payer swaps	246.0	209.6	36.4	-	0.9	-
Floating-rate receiver / fixed-rate payer swaps	1,743.9	1,593.5	97.5	52.9	2.1	11.0
Floating-rate receiver / floating-rate payer swaps	250.0	-	250.0	-	1.7	-
Total firm financial instruments	**2,239.9**	**1,803.1**	**383.9**	**52.9**	**4.7**	**11.0**
Purchases of vanilla and structured caps	1,290.2	300.0	990.2	-	0.4	10.5
Sales of caps	-	-	-	-	-	-
Sales of swaptions	-	-	-	-	-	-
Total optional financial instruments	**1,290.2**	**300.0**	**990.2**	**-**	**0.4**	**10.5**
TOTAL INTEREST-RATE DERIVATIVES NOT QUALIFYING FOR HEDGE ACCOUNTING	**3,530.1**	**2,103.1**	**1,374.1**	**52.9**	**5.1**	**21.5**

The increase in the portfolio of interest rate derivatives not qualifying for hedge accounting between 2011 and 2010 is mainly due to:

- the set-up of new transactions in the amount of €1,710 million and primarily short-term swaps hedging cash investments in the amount of €1,260 million and new optional instruments in the amount of €450 million;
- partially offset by the expiry of approximately €170 million of financial instruments;

Recap: the breakdown as of **December 31, 2010 and 2009** is as follows:

	Notional amount as of December 31, 2010				Fair value of derivatives	
(€ million)	**Total**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total assets**	**Total liabilities**
Fixed-rate receiver / floating-rate payer swaps	358.6	293.7	56.9	8.0	2.5	-
Floating-rate receiver / fixed-rate payer swaps	431.7	247.7	128.1	55.9	-	10.7
Floating-rate receiver / floating-rate payer swaps	250.0	-	250.0	-	-	3.3
Total firm financial instruments	**1,040.3**	**541.4**	**435.0**	**63.9**	**2.5**	**14.0**
Purchases of vanilla and structured caps	952.4	30.0	722.4	200.0	-	9.3
Sales of caps	-	-	-	-	-	-
Sales of swaptions	-	-	-	-	-	-
Total optional financial instruments	**952.4**	**30.0**	**722.4**	**200.0**	**-**	**9.3**
TOTAL INTEREST-RATE DERIVATIVES NOT QUALIFYING FOR HEDGE ACCOUNTING	**1,992.7**	**571.4**	**1,157.4**	**263.9**	**2.5**	**23.3**

	Notional amount as of December 31, 2009				Fair value of derivatives	
(€ million)	**Total**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total assets**	**Total liabilities**
Fixed-rate receiver / floating-rate payer swaps	333.7	250.1	57.8	25.8	3.4	-
Floating-rate receiver / fixed-rate payer swaps	755.2	627.5	41.5	86.2	-	5.6
Floating-rate receiver / floating-rate payer swaps	200.0	-	-	200.0	-	1.4
Total firm financial instruments	**1,288.9**	**877.6**	**99.3**	**312.0**	**3.4**	**7.0**
Purchases of vanilla and structured caps	1,230.1	277.7	752.4	200.0	0.1	1.7
Sales of caps	-	-	-	-	-	-
Sales of swaptions	-	-	-	-	-	-
Total optional financial instruments	**1,230.1**	**277.7**	**752.4**	**200.0**	**0.1**	**1.7**
TOTAL INTEREST-RATE DERIVATIVES NOT QUALIFYING FOR HEDGE ACCOUNTING	**2,519.0**	**1.155.3**	**851.7**	**512.0**	**3.5**	**8.7**

30.2 Foreign currency derivatives

The fair value of foreign currency derivatives recognized in the Consolidated Statement of Financial Position breaks down as follows:

(€ million)	Note	As of December 31, 2011 Assets	As of December 31, 2011 Liabilities	As of December 31, 2010 Assets	As of December 31, 2010 Liabilities	As of December 31, 2009 Assets	As of December 31, 2009 Liabilities
FOREIGN CURRENCY DERIVATIVES		**38.4**	**118.9**	**32.4**	**126.0**	**58.6**	**103.9**
Net investment hedges	30.2.1	11.6	30.1	3.6	49.6	13.1	17.1
Fair value hedges	30.2.2	6.0	11.9	2.6	1.0	7.9	0.6
Cash flow hedges	30.2.3	2.3	4.7	9.6	1.3	8.8	0.3
Derivatives not qualifying for hedge accounting	30.2.4	18.5	47.9	16.6	47.6	28.8	67.4
Embedded derivatives			24.3	-	26.5	-	18.5

30.2.1 Hedge of a net investment in a foreign operation

Financial instruments designated as net investment hedges break down as follows:

Financial instrument	**Notional amount as of December 31, 2011 by currency and maturity**					**Fair value of derivatives**	
(€ million)	**Currency**	**Amount**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total assets**	**Total liabilities**
Currency payer swaps	CZK	195.2	195.2	-	-	-	0.2
	SEK	60.4	60.4	-	-	-	0.4
	HKD	255.5	255.5	-	-	0.3	4.8
	HUF	36.0	36.0	-	-	0.7	-
	ILS	19.6	19.6	-	-	0.1	-
	JPY	78.9	78.9	-	-	-	1.5
	PLN	246.5	246.5	-	-	4.3	-
	Other	17.2	17.2	-	-	-	-
Embedded derivatives (forward sale)	KRW	85.9	12.9	53.3	19.7	6.2	-
Cross currency swaps: fixed-rate payer / fixed-rate receiver	CNY	120.0	-	60.0	60.0	-	23.2
Total foreign currency derivatives		**1 115.2**	**922.2**	**113.3**	**79.7**	**11.6**	**30.1**
USD borrowings	USD	1,224.5	-	326.3	898.2	n/a	n/a
GBP borrowings	GBP	778.2	-	-	778.2	n/a	n/a
Syndicated loan facility	PLN	307.3	307.3	-	-	n/a	n/a
Total financing		**2,310.0**	**307.3**	**326.3**	**1,676.4**	n/a	n/a
TOTAL		**3,425.2**	**1,229.5**	**439.6**	**1,756.1**	n/a	n/a

The above currency swaps are short-term but are generally renewed at maturity, until financing of an appropriate term is secured in the currency of the related country.

Fair value movements compared with December 31, 2010 are mainly due to:

- the increase in the fair value of euro/Chinese renminbi yuan cross currency swaps for €18.9 million;
- the increase in the fair value of the Korean won embedded derivative for €7.8 million.

Inter-company loans and receivables forming part of a foreign investment (IAS 21) are nearly systematically hedged by foreign currency external financing or foreign currency derivatives (cross currency swaps. currency forwards) meeting IAS 39 criteria for hedge accounting. Foreign exchange gains and losses recorded in foreign exchange translation reserves in respect of hedging instruments are systematically offset by foreign exchange gains and losses recognized in foreign exchange translation reserves on loans forming part of the net investment, unless:

- the inter-company loan forming part of the net investment in a foreign operation is not hedged;
- the hedge is partially ineffective due to a difference between the nominal amount of the hedge and the amount of the hedged net asset;
- only the net assets of the foreign subsidiary (excluding the loan forming part of the net investment) are hedged.

Net foreign exchange losses recorded in foreign exchange translation reserves as of December 31, 2011 of €86.5 million mainly comprise:

- the impact of exchange rate fluctuations on hedges of Water division investments in China, Korea, the Czech Republic, Japan and the United States of +€7.4 million;
- the impact of exchange rate fluctuations on hedges of Veolia Environnement SA investments in the United States of -€19.9 million;
- the tax consequences of the review of the forecast tax schedule for the France tax group in the amount of -€85 million (see Note 13).

Recap: the breakdown as of **December 31, 2010 and 2009** is as follows:

Financial instrument	**Notional amount as of December 31, 2010 by currency and maturity**					**Fair value of derivatives**	
(€ million)	**Currency**	**Amount**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total assets**	**Total liabilities**
Currency payer swaps	CZK	199.2	199.2	-	-	-	1.6
	GBP	73.8	73.8	-	-	0.2	1.6
	HKD	218.2	218.2	-	-	3.1	0.3
	HUF	39.5	39.5	-	-	-	0.5
	ILS	29.5	29.5	-	-	0.2	0.3
	JPY	73.9	73.9	-	-	-	0.2
	PLN	85.8	85.8	-	-	-	1.4
	Other	17.0	17.0	-	-	0.1	-
Embedded derivatives (forward sale)	KRW	98.5	14.7	51.4	32.4	-	1.6
Cross currency swaps: fixed-rate payer / fixed-rate receiver	CNY	120.0	-	60.0	60.0	-	42.1
Total foreign currency derivatives		**955.4**	**751.6**	**111.4**	**92.4**	**3.6**	**49.6**
USD borrowings	USD	1,499.9	-	630.1	869.8	n/a	n/a
GBP borrowings	GBP	755.2	-	-	755.2	n/a	n/a
Syndicated loan facility	PLN	257.1	257.1	-	-	n/a	n/a
Total financing		**2,512.2**	**257.1**	**630.1**	**1,625.0**	**n/a**	**n/a**
TOTAL		**3,467.6**	**1,008.7**	**741.5**	**1,717.4**	**n/a**	**n/a**

Financial instrument	Notional amount as of December 31, 2009 by currency and maturity					Fair value of derivatives	
(€ million)	Currency	Amount	Less than 1 year	1 to 5 years	More than 5 years	Total assets	Total liabilities
Currency payer swaps	AED	3.7	3.7	-	-	-	-
	AUD	7.5	7.5	-	-	-	0.1
	GBP	67.0	67.0	-	-	2.4	-
	HKD	199.9	196.0	3.9	-	-	0.5
	HUF	86.9	86.9	-	-	-	0.5
	ILS	17.9	17.9	-	-	-	-
	JPY	60.3	60.3	-	-	0.6	-
	MXN	1.0	1.0	-	-	-	-
	PLN	5.8	5.8	-	-	-	0.5
Embedded derivatives (forward sale)	KRW	92.4	12.1	42.5	37.8	10.1	-
Cross currency swaps: fixed-rate payer / fixed-rate receiver	CNY	120.0	-	60.0	60.0	-	15.5
Total foreign currency derivatives		**662.4**	**458.2**	**106.4**	**97.8**	**13.1**	**17.1**
USD borrowings	USD	1,339.8	-	411.6	928.2	n/a	n/a
GBP borrowings	GBP	731.9	-	-	731.9	n/a	n/a
Syndicated loan facility	CZK	190.3	190.3	-	-	n/a	n/a
Syndicated loan facility	PLN	219.8	-	219.8	-	n/a	n/a
Total financing		**2,481.8**	**190.3**	**631.4**	**1,660.1**	**n/a**	**n/a**
TOTAL		**3,144.2**	**648.5**	**737.8**	**1,757.9**	**n/a**	**n/a**

30.2.2 Fair value hedges

Financial instruments designated as fair value hedges break down as follows:

Financial instrument	Notional amount as of December 31, 2011 by currency and maturity					Fair value of derivatives	
(€ million)	Currency	Amount	Less than 1 year	1 to 5 years	More than 5 years	Total assets	Total liabilities
Forward purchases	NOK	47.6	45.1	2.5	-	1.6	0.3
Forward purchases	USD	61.1	53.2	7.9	-	3.1	0.8
Forward purchases	GBP	20.7	19.5	1.2	-	0.7	0.5
Forward sales	AUD	176.7	176.7	-	-	-	2.9
Forward sales	HKD	67.8	44.5	23.3	-	-	3.5
Forward sales	KWD	13.3	6.6	6.7	-	-	1.5
Other currencies		8.2	3.3	4.9	-	0.6	2.4
TOTAL FOREIGN CURRENCY DERIVATIVES						**6.0**	**11.9**

The fair value hedges presented above mainly consist of foreign currency hedges in respect of construction contracts.

30.2.3 Cash flow hedges

Financial instruments designated as cash flow hedges break down as follows:

Financial instrument	Notional amount as of December 31, 2011 by currency and maturity					Fair value of derivatives	
(€ million)	Currency	Amount	Less than 1 year	1 to 5 years	More than 5 years	Total assets	Total liabilities
Forward purchases	CZK	39.5	36.4	3.1	-	0.7	2.4
Forward purchases	USD	4.8	4.8	-	-	0.6	0.7
Forward sales	USD	8.0	8.0	-	-	-	0.4
Forward sales	GBP	87.5	46.9	40.6	-	-	0.8
Other currencies		35.8	34.4	1.4	-	1.0	0.4
TOTAL FOREIGN CURRENCY DERIVATIVES						**2.3**	**4.7**

The cash flow hedges presented above mainly consist of forward purchases/sales of foreign currencies different from the functional currencies of the entities concerned, in connection with their own activities and particularly hedges entered into in respect of a Private Finance Initiative (PFI) in the United Kingdom.

30.2.4 Hedges of currency exposure in the Consolidated Statement of Financial Position by derivatives not qualifying for hedge accounting

Fair value	As of December 31, 2011						
(€ million)	Total	USD	GBP	NOK	HKD	KRW	Other
Forward purchases	2.8	0.2	0.1	3.0	-	-	(0.5)
Currency receiver swaps	2.0	1.8	0.1	-	-	-	0.1
Total currency swaps and forward purchases	**4.8**	**2.0**	**0.2**	**3.0**	**0.0**	**0.0**	**(0.4)**
Forward sales	(25.4)	(1.5)	(0.1)	-	(0.1)	(24.3)	0.6
Currency payer swaps	(30.2)	(3.7)	(20.5)	-	(8.5)		2.5
Total currency swaps and forward sales	**(55.6)**	**(5.2)**	**(20.6)**	**0.0**	**(8.6)**	**(24.3)**	**3.1**
Call options	0.0	-	-	-	-	-	-
Put options	(2.9)	-	-	-	-	(2.9)	-
Total currency options	**(2.9)**	-	-	-	-	**(2.9)**	-
TOTAL DERIVATIVES NOT QUALIFYING FOR HEDGE ACCOUNTING	**(53.7)**	**(3.2)**	**(20.4)**	**3.0**	**(8.6)**	**(27.2)**	**2.7**

Recap: Hedges as of **December 31, 2010 and 2009** are as follows:

Fair value	As of December 31, 2010						
(€ million)	Total	USD	GBP	NOK	SEK	KRW	Other
Forward purchases	(0.8)	(0.6)	(0.6)	-	-	0.1	0.3
Currency receiver swaps	3.0	1.4	1.8	0.1	0.1	-	(0.4)
Total currency swaps and forward purchases	**2.2**	**0.8**	**1.2**	**0.1**	**0.1**	**0.1**	**(0.1)**
Forward sales	(34.0)	0.7	-	(0.4)	(0.7)	(30.1)	(3.5)
Currency payer swaps	(25.1)	0.2	(12.5)	(4.5)	(2.4)	-	(5.9)
Total currency swaps and forward sales	**(59.1)**	**0.9**	**(12.5)**	**(4.9)**	**(3.1)**	**(30.1)**	**(9.4)**
Call options	0.0	-	-	-	-	-	-
Put options	(0.6)	-	-	-	-	(0.6)	-
Total currency options	**(0.6)**	**-**	**-**	**-**	**-**	**(0.6)**	**-**
TOTAL DERIVATIVES NOT QUALIFYING FOR HEDGE ACCOUNTING	**(57.5)**	**1.7**	**(11.3)**	**(4.8)**	**(3.0)**	**(30.6)**	**(9.5)**

Fair value	As of December 31, 2009						
(€ million)	**Total**	**USD**	**GBP**	**NOK**	**SEK**	**KRW**	**Other**
Forward purchases	(0.9)	(0.7)	(1.0)	-	-	-	0.8
Currency receiver swaps	10.3	8.2	0.2	0.1	0.1	-	1.7
Total currency swaps and forward purchases	**9.4**	**7.5**	**(0.8)**	**0.1**	**0.1**	**-**	**2.5**
Forward sales	(17.4)	2.0	(0.1)	0.1	-	(18.5)	(0.9)
Currency payer swaps	(49.1)	1.4	(17.6)	(11.1)	(11.4)	-	(10.4)
Total currency swaps and forward sales	**(66.5)**	**3.4**	**(17.7)**	**(11.0)**	**(11.4)**	**(18.5)**	**(11.3)**
Call options	-	-	-	-	-	-	-
Put options	-	-	-	-	-	-	-
Total currency options	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL DERIVATIVES NOT QUALIFYING FOR HEDGE ACCOUNTING	**(57.1)**	**10.9**	**(18.5)**	**(10.9)**	**(11.3)**	**(18.5)**	**(8.8)**

The above portfolio of foreign currency derivatives was mainly contracted by Veolia Environnement SA to hedge its foreign currency-denominated net debt (comprising foreign currency-denominated borrowings and foreign currency-denominated inter-company loans and borrowings).

30.3 Commodity derivatives

As of December 31, 2011, the fair value of commodity derivatives totals €36.5 million in assets and €46.7 million in liabilities. The €38.9 million decrease in fair value on December 31, 2010 is mainly due to the impact of:

- a €18.7 million decrease in the fair value of electricity instruments, mainly due to the expiry of profitable positions in 2011;
- a €24.8 million decrease in the fair value of gas transactions, due to the increase in the crude oil – gas price differential;
- a €5.7 million increase in the fair value of CO_2 transactions, due to the impact of a fall in the price of CO_2 on a portfolio of forward sales.

	As of December 31, 2011		As of December 31, 2010		As of December 31, 2009	
(€ million)	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Commodity derivatives	**36.5**	**46.7**	**62.7**	**34.0**	**63.9**	**43.6**
Electricity	22.2	21.6	42.2	22.9	53.1	18.3
Fuel	4.3	0.3	4.9	0.7	9.1	7.1
Gas	-	15.9	8.9	-	-	1.3
CO_2	8.9	3.0	0.7	0.5	0.8	0.4
Coal	1.1	4.6	6.0	8.4	0.9	15.5
Other	-	1.3	-	1.5	-	1.0

Pursuant to IAS 39, these derivatives break down as follows:

	As of December 31, 2011		As of December 31, 2010		As of December 31, 2009	
(€ million)	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Commodity derivatives	**36.5**	**46.7**	**62.7**	**34.0**	**63.9**	**43.6**
Fair value hedges	-	1.3	-	0.5	-	0.3
Cash flow hedges	12.4	20.6	20.1	10.4	10.0	23.9
Derivatives not qualifying for hedge accounting	24.1	24.8	42.6	23.1	53.9	19.4

Material contract notional amounts (electricity – see Note 1.23) are as follows:

30.3.1 Electricity

(€ million)	Notional contract amounts as of December 31, 2011 by maturity			
	Total	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Electricity purchase instruments:				
• in Gwh	11,420	774	2,293	8,353
• in € million	734	43	147	544
Electricity sales instruments:				
• in Gwh	831	831	-	-
• in € million	58	58	-	-

Electricity purchase instruments cover the period 2012 to 2025 and have a market value of -€11 million, based on valuation assumptions at the year end. Sales instruments maturing in 2012 have a net market value of €12 million. These transactions are recorded in the Consolidated Statement of Financial Position at fair value based on the quoted price of commodities with similar maturities and using internal models integrating non-observable data in the absence of a liquid market.

A 10% increase or decrease in the price of electricity (all other things being equal) would have an impact on net income of + €5.6 million and -€5.8 million, respectively.

(€ million)	Notional contract amounts as of December 31, 2010 by maturity			
	Total	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Electricity purchase instruments:				
• in Gwh	11,186	700	2,100	8,386
• in € million	770.2	41.1	139.7	589.4
Electricity sales instruments:				
• in Gwh	1,512	735	777	-
• in € million	110.8	55.2	55.6	-

(€ million)	Notional contract amounts as of December 31, 2009 by maturity			
	Total	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Electricity purchase instruments:				
• in Gwh	13,196	1,052	2,934	9,210
• in € million	696.0	55.2	158.4	482.4
Electricity sales instruments:				
• in Gwh	3,051	1,110	1,941	-
• in € million	215.2	72.3	142.9	-

30.3.2 Greenhouse gas emission rights

Greenhouse gas emission instruments are recorded in assets in the amount of €8.9 million and in liabilities in the amount of €3 million. Primarily these amounts concern forward purchases and sales designated as cash flow hedges. Other transactions not qualifying for hedge accounting relate to contracts swapping greenhouse gas emission rights (EUA) for Carbon Emission certificates, maturing at the end of 2012. These transactions not qualifying for hedge accounting are recorded in assets in the amount of €2 million and in liabilities in the amount of €1.7 million. The impact of these transactions on the Consolidated Income Statement in 2011 is nil.

31 Employee benefit obligation

Share based compensation

Veolia Environnement share purchase and subscription option plans

Veolia Environnement has implemented several standard fixed share purchase and subscription option plans, as well as a variable plan for management.

Outstanding option plans at the end of 2011 were as follows:

	N°8	N°7	N°6	N°5	N°4
	2010	**2007**	**2006**	**2004**	**2003**
Grant date	09/28/2010	07/17/2007	03/28/2006	12/24/2004	03/24/2003
Number of options granted	2,462,800	2,490,400	4,044,900	3,341,600	5,192,635
Number of options not exercised	2,369,200	562,350*	3,286,799	3,062,914	0
Plan term	8 years	8 years	8 years	8 years	8 years
Vesting conditions	4 years service plus performance conditions	4 years service plus performance conditions	4 years service	3 years service plus performance conditions for certain plans	3 years service
Vesting method	After 4 years	After 4 years	After 4 years	By tranches of 1/3 over 3 years	By tranches of 1/3 over 3 years
Strike price (in euros)	22.50	57.05	44.03**	24.32**	22.14**

* *Given the performance criteria, the number of options effectively exercisable was reduced by 1,742,650 in 2008.*

** *Strike price adjusted to take account of transactions impacting the share capital of the Company (issue of share subscription warrants on December 17, 2001 and share capital increases with retention of preferential subscription rights on August 2, 2002 and July 10, 2007). The initial strike prices for plans no.4, no.5 and no.6 were €22.50. €24.72 and €44.75, respectively.*

2011

The Group did not grant any share options in 2011.

2010

In 2010, the Group granted 2,462,800 share options to members of the Executive Committee (excluding the Chief Executive Officer) and three employee groups. The first group comprises Veolia Environnement Group key management, including members of the Executive Committee. The second group comprises other Group management members and the third one includes high-performing executive and non-executive employees. The estimated fair value of each option granted in 2010 is €1.86. This value was calculated using the Black and Scholes model, based on the following underlying assumptions: share price of €19.72, volatility of 26.6% based on share prices over a 6-year period in line with the estimated maturity of the plan, expected annual yield of 6.14%, risk-free interest rate of 1.97% and estimated exercise maturity of six years.

2008 and 2009

The Group did not grant any share options in 2008 or 2009.

2007

In 2007, the Group granted 2.490.400 share options to two employee groups. The first group comprises Veolia Environnement Group management, including members of the Executive Committee. The second group comprises senior managers of Veolia Environnement Group companies and employees recognized for their excellent performance in 2006. The estimated fair value of each option granted in 2007 was €13.91. This value was calculated using the Black and Scholes model based on the following underlying assumptions: share price of €57.26, historical volatility of 21.75%, expected dividend yield of 2%, risk-free interest rate of 4.59% and estimated exercise maturity of 6 years.

In 2007, the Group granted 333.700 Free Shares to employees recognized for their excellent performance in 2006. In France, rights vest after two years, followed by a two year lock-in period and are subject to performance conditions. Outside France, rights vest after four years subject to performance conditions. The estimated fair value of each free share granted in 2007 was €57.26, net of dividends not received during the vesting period and. for shares granted to French employees, a discount for non-transferability.

Finally, in 2007 the Group granted 205,200 stock appreciation rights (SAR) on ordinary shares to three employee groups: firstly, Veolia Environnement Group management, secondly senior managers of Veolia Environnement Group companies and thirdly employees recognized for their excellent performance in 2006. Rights vest after four years subject to performance conditions. As of December 31, 2010, the estimated fair value of each option granted in 2007 is €0.03. This value was calculated using the Black and Scholes model based on the following underlying assumptions: share price of €21.86, historical volatility of 32.38%, expected dividend yield of 5.48%, risk-free interest rate of 1.12%, estimated exercise maturity of two years, subscription price of €57.20.

The performance condition determining the number of options granted under the three 2007 plans (share options. free shares and SAR) was the increase in net earnings per share between December 31, 2006 and December 31, 2008. This was taken into account in the calculation of the number of options vested and the compensation expense.

2006

In 2006, the Group granted 4.044.900 share options to three employee groups. The first group comprises Veolia Environnement Group management, including members of the Executive Committee. The second group comprises senior management of Veolia Environnement Group companies. The third group comprises Group employees recognized for their excellent performance. The estimated fair value of each option granted in 2006 was €10.01. This value was calculated using the Black and Scholes model based on the following underlying assumptions: share price of €44.75, historical volatility of 22.6%, expected dividend yield of 1.92%, risk-free interest rate 3.69% and estimated exercise maturity of 6 years.

Information on share purchase and subscription options granted since 2001 is presented below, with a breakdown of movements in 2007, 2008, 2009, 2010 and 2011 (share option plans excluding free share plans and SAR plans (settled in cash):

	Number of options	**Weighted average strike price** *(in euros)*
As of December 31, 2006	**16,800,258**	**33.67**
Granted	2,490,400	57.05
Adjustment for share capital increase of July 10, 2007	228,525	33.79
Exercised	(4,046,076)	30.20
Cancelled	(51,934)	49.70
Expired	-	
As of December 31, 2007	**15,421,173**	**37.71**
Granted	-	-
Exercised	(886,095)	28.36
Cancelled	(242,056)	46.78
Expired	(1,804.495)*	56.17
As of December 31, 2008	**12,488,527**	**35.53**
Granted	-	-
Exercised	(31,011)	25.06
Cancelled	(148,418)	46.05
Expired	(1,382,525)	40.59
As of December 31, 2009	**10,926,573**	**34.78**
Granted	2,462,800	22.50
Exercised	(71,113)	29.46
Cancelled	(310,576)	45.43
Expired	(1,895,041)	36.65
As of December 31, 2010	**11,112,643**	**31.48**
Granted	-	-
Exercised	(64,197)	22.14
Cancelled	(287,140)	38.30
Expired	(1,480,043)	22.14
As of December 31, 2011	**9,281,263**	**31.48**

* *Including 1,742,650 due to failure to meet performance conditions.*

The average share price at the time of option exercise in 2011 was €22.15.

Details of Veolia Environnement share purchase and subscription options outstanding as of December 31, 2011 are as follows:

Strike price	**Number of options outstanding**	**Weighted average strike price** *(in euros)*	**Average residual term** *(in years)*	**Number of options vested**
20-25	5,432,114	23.53	3.61	3,062,914
40-45	3,286,799	44.03	2.35	3,286,799
55-60	562,350	57.05	3.54	562,350

As of December 31, 2011, 6,912,063 options can be exercised.

Employees' savings plans

Veolia Environnement has set-up standard and leveraged savings plans which enable a large number of employees of Veolia Environnement and its subsidiaries to subscribe for Veolia Environnement shares. Shares subscribed by employees under these plans are subject to certain restrictions regarding their sale or transfer by employees.

Shares subscribed by Veolia Environnement employees in 2010 and 2009:

	2010	2009
Number of shares	855,335	624,387
Subscription price	€17.74	€21.28
Amount subscribed *(€ million)*	15.2	13.3

In 2010, a compensation expense of €8.2 million was recorded in accordance with IFRS 2 on share-based payments. This compensation includes a discount for non-transferability applied to the standard plan of €1.2 million.

In 2009, in the absence of a discount for plan subscribers, the expense recognized for the savings plan totaled €5.1 million and corresponds to the contribution valued as of July 3, the transaction closing date, less a non-transferability discount for the standard plan of €915.000.

Veolia Group applies the recommendations of the CNC (communiqué of December 21, 2004 on Company Savings Plans and supplementary notice of February 2, 2007). The discount for non-transferability was determined by calculating the difference between the value of a five-year forward sale of shares and the spot purchase of the same number of shares, financed by a loan.

The following assumptions were adopted in 2010 and 2009:

	2010	2009
Risk-free interest rate	1.81 %	2.76%
Interest rate for calculating the carrying cost	5.74 %	6.9%
Notional cost of non-transferability of shares (as a percentage of the spot rate of the shares at the grant date)	17 %	17.9%

Pension plans and other post-employment benefits

a - Description of plans

In accordance with the regulatory environment and collective agreements, the Group has established defined benefit and defined contribution pension plans (company or multi-employer) in favor of employees and other post-employment benefits.

In certain subsidiaries, supplementary defined contribution plans were set up. Expenses incurred by the Group under these plans total €70 million for 2011 (excluding the Transportation business), €98 million for 2010 and €91 million for 2009.

Certain Group companies have established defined benefit pension plans and/or offer other post-employment benefits (mainly retirement termination payments). The largest defined benefit pension plans are located in the United Kingdom, with a pension obligation as of December 31, 2011 (excluding the Transportation business) of €1,178 million (and plan assets of €1,057 million) and in France with a pension obligation as of December 31, 2011 of €466 million (and plan assets of €119 million).

In the United Kingdom pension obligations relate to several plans and mainly final salary defined-benefit plans that are funded through an independent pension fund. Most of these plans are closed to new entrants. The duration of these plans is 18 years.

In France, approximately 75% of the liabilities relate to retirement indemnities (legally required payments) paid in a lump sum. These indemnities represent a number of months' salary based on Group seniority and are legally required by the applicable collective-bargaining agreement to be paid at the time the employee retires. The duration of these plans is approximately 13 years. A portion of these liabilities is financed through insurers' funds.

Under collective agreements, certain Group companies participate in multi-employer defined benefit pension plans. However, as these plans are unable to provide a consistent and reliable basis for the allocation of the obligation, assets and costs between the different participating entities, they are recorded as defined contribution plans in accordance with IAS 19. The main multi-employer plans are located in Germany, the Netherlands and Sweden and concern approximately 4,600 employees in 2011 (excluding the Transportation business). The corresponding expense recorded in the consolidated income statement is equal to annual contributions and totals approximately €13 million in 2011 and €29 million in 2010 and 2009. Multi-employer plans in Sweden and the Netherlands are funded by capitalization; German multi-employer plans are funded by redistribution.

The Group also offers post-employment benefits and notably health insurance plans in the United States.

b - Obligations in respect of defined benefit pension plans and other post-employment benefits

The following tables present obligations in respect of defined benefit pension plans and other post-employment benefits.

NB: these tables exclude, by definition, defined contribution pension plans (as the obligation is limited to the annual contribution expensed in the year and the plans do not. therefore. result in the recording of a provision based on actuarial valuations) and multi-employer defined benefit pension plans which are accounted for as defined contribution pension plans.

b-1 Change in the Defined Benefit Obligation (DBO)

Change in the defined-benefit obligation	As of December 31, Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)			Health insurance coverage of retirees		
(€ million)	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**
Defined benefit obligation at beginning of year	**2,062.7**	**1,770.1**	**1,522.0**	**53.2**	**41.5**	**41.7**
Restatement of the defined benefit obligation of the Transportation business. in the course of divestiture	(172.1)			(37.6)		
Defined benefit obligation at beginning of year	**1,890.6**	**1,770.1**	**1,522.0**	**15.6**	**41.5**	**41.7**
Current service cost	49.3	57.1	51.3	0.9	1.5	0.6
Interest cost	86.9	92.9	89.4	0.6	2.3	2.4
Plan participants' contributions	4.3	5.4	5.7	-	-	-
Benefit obligation assumed on acquisition of subsidiaries *	3.4	64.7	5.1	2.4	-	-
Benefit obligation transferred on divestiture of subsidiaries **	(20.6)	(14.5)	(14.3)	-	(1.8)	-
Curtailments	(8.8)	(3.6)	(9.3)	-	-	-
Liquidations ***	(23.0)	(10.3)	(1.1)	(5.6)	-	(2.6)
Actuarial losses (gains)	3.1	106.2	142.6	1.8	3.8	1.3
Benefits paid	(79.2)	(86.6)	(78.8)	(1.6)	(3.3)	(2.8)
Plan amendments	10.1	10.6	3.3	-	3.8	-
Other (incl. changes in consolidation scope and foreign exchange translation)	41.2	70.7	54.2	-0.1	5.4	0.9
(A) DEFINED BENEFIT OBLIGATION AT END OF YEAR	**1,957.3**	**2,062.7**	**1,770.1**	**14.0**	**53.2**	**41.5**

* *In 2010, primarily concerns the DBO assumed by the Group following the Phoenix contract win in the United States in the amount of €56.8 million.*

** *In 2011, this line includes the decrease in the DBO associated with the divestiture of Proxiserve (Energy Services division) of €12.8 million.*

*** *Primarily, in 2011, the early termination of the management agreement between the City of Indianapolis and Veolia led to a reduction in the DBO (liquidation) of €15.0 million.*

Other changes in the defined benefit obligation for pension plans and other post-employment benefits (excluding health insurance coverage of retirees) primarily concern the impact of foreign exchange translation (€38 million in 2011, €67 million in 2010 and €60 million in 2009).

b-2 Change in plan assets

Change in plan assets	As of December 31, Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)			Health insurance coverage of retirees		
(€ million)	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**
Fair value of plan assets at beginning of year	**1,290.3**	**1,101.9**	**901.1**	**-**	**-**	**-**
Restatement of the fair value of plan assets of the Transportation business. in the course of divestiture	71.3					
Fair value of plan assets at beginning of year	**1,219.0**	**1,101.9**	**901.1**	**-**	**-**	**-**
Expected return on plan assets	66.7	67.4	58.6	-	-	-
Actuarial gains (losses)	(16.5)	35.6	79.2	-	-	-
Group contributions **	37.5	58.4	63.4	-	-	-
Plan participants' contributions	4.3	5.4	5.7	-	-	-
Plan assets acquired on acquisition of subsidiaries *	0.2	38.5	4.1	-	-	-
Plan assets transferred on divestiture of subsidiaries	(2.7)	(6.7)	(2.4)	-	-	-
Liquidations	(13.6)	(8.4)	(0.9)	-	-	-
Benefits paid	(48.2)	(52.8)	(50.5)	-	-	-
Other (incl. changes in consolidation scope and foreign exchange translation)	35.1	51.0	43.6	-	-	-
(B) FAIR VALUE OF PLAN ASSETS AT END OF YEAR	**1,281.8**	**1,290.3**	**1,101.9**	**-**	**-**	**-**

* *In 2010, primarily concerns plan assets acquired by the Group following the Phoenix contract win in the United States in the amount of €38.4 million.*

** *Group contributions in 2009 include exceptional contributions of €7 million in the United Kingdom.*

Other changes in plan assets primarily concern the impact of foreign exchange translation (€34 million in 2011, €48 million in 2010 and €51 million in 2009).

The Group plans to make contributions of €36 million to defined benefit plans in 2012.

Group pension plan assets (excluding the Transportation business) were invested as follows as of December 31, 2011, 2010 and 2009:

	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
Shares	47%	47%	46%
Bonds and debt instruments	43%	45%	41%
Insurance risk-free funds	9%	5%	13%
Liquid assets	0%	2%	0%
Other	1%	1%	0%

Group assets in France are primarily invested with insurance companies and the expected long-term return on these assets is directly linked to past rates of return. Assets in the United Kingdom are primarily invested in shares and bonds via a trust and expected long-term rates of return are based on long-term market performance statistics.

The actual return on plan assets (expected return on plan assets + actuarial gains/losses) was €50.2 million at the end of 2011 (excluding the Transportation business), compared to €103.0 million at the end of December 2010 and €137.8 million at the end of December 2009.

The expected return on plan assets in the United Kingdom (representing the vast majority of Group plan assets) is determined individually for each plan based on market expectations and depends in particular on the investment strategy of each division. The expected return on plan assets in 2012 is €63 million.

b-3 Change in funding status and the provision

	As of December 31,					
	Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)			Health insurance coverage of retirees		
(€ million)	2011	2010	2009	2011	2010	2009
Funding status = (B) – (A)	**(675.5)**	**(772.4)**	**(668.2)**	**(14.0)**	**(53.2)**	**(41.5)**
Unrecognized past service cost	79.9	93.3	88.4	-	2.9	0.6
Other	-	-	-	-	-	-
NET OBLIGATION	**(595.6)**	**(679.1)**	**(579.8)**	**(14.0)**	**(50.3)**	**(40.8)**
Provisions	(606.1)	(686.2)	(594.2)	(14.0)	(50.3)	(40.8)
Prepaid benefits	10.5	7.1	14.4	-	-	-

Fiscal year 2011 is presented excluding the Transportation business.

Provisions for post-employment benefits total €620.1 million (excluding the Transportation business),compared to €736.5 million in 2010 (of which €128.2 million for Transportation business). In 2011, this amount includes in particular provisions of €1.6 million reclassified in the consolidated statement of financial position in Liabilities directly associated with assets held for sale (i.e. an amount of €618.5 million recorded in the consolidated statement of financial position).

Excluding the Transportation business, the defined benefit obligation (DBO) is €343.2 million for unfunded defined benefit pension plans and other post-employment benefits (excluding health insurance coverage of retirees) and €1.641.1 million for partially or fully funded plans as of December 31, 2011 compared to €409.9 million and €1.652.8 million at the end of 2010 and €347 million and €1.423 million at the end of 2009.

b-4 Change in reimbursement rights

Change in repayment entitlement *(€ million)*	2011	2010	2009
Fair value of repayment entitlement at beginning of year	**24.2**	**22.4**	**22.3**
Restatement of the fair value of the repayment entitlement of the Transportation business in the course of divestiture	19.2		
Fair value of repayment entitlement at beginning of year	**5.0**	**22.4**	**22.3**
Expected return on repayment entitlement	0.3	0.9	0.9
Actuarial gains (losses)	(0.8)	1.4	0.9
Repayment entitlement acquired on acquisition of subsidiaries	-	0.8	-
Repayments	(0.7)	(1.4)	(1.9)
Other (incl. new repayment entitlements)	-	0.1	0.2
FAIR VALUE OF REPAYMENT ENTITLEMENT AT END OF YEAR	**3.8**	**24.2**	**22.4**

The market value of repayment entitlement recorded in assets as of December 31, 2011 is €3.8 million. Reimbursement rights concern the portion of employee rights to post-employment benefits corresponding to periods during which the employee was employed by a previous employer or where the operating contract stipulates that employee entitlement to post-employment benefits is assumed by a third party.

b-5 Impact on the consolidated income statement

The net benefit cost is presented excluding the Transportation business in 2011 and breaks down as follows:

	As of December 31,					
	Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)			Health insurance coverage of retirees		
(€ million)	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**
Current service cost	49.3	57.1	51.3	0.9	1.5	0.6
Interest cost	86.9	92.9	89.4	0.6	2.3	2.4
Expected return on plan assets	(66.7)	(67.4)	(58.6)	-	-	-
Expected return on repayment entitlement	(0.3)	-	-	-	(0.9)	(0.9)
Past service costs recognized in the year	10.6	11.1	10.2	-	1.5	0.4
Curtailments / liquidations	(15.4)	(3.0)	(9.5)	(5.6)	-	(2.6)
Other (1)	2.0	(0.9)	(12.3)		-	-
NET BENEFIT COST	**66.4**	**89.8**	**70.5**	**(4.1)**	**4.4**	**(0.1)**

(1) In 2009, the "Other" heading primarily includes provision charges and reversals for employee benefit obligations relating to contract wins and losses.

These costs are recorded in full in operating income, except for interest costs and the expected return on plan assets which are recorded in net finance costs.

The net benefit cost of the Transportation business for fiscal years 2009 and 2010 breaks down as follows:

	As of December 31,			
	Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)		Health insurance coverage of retirees	
(€ million)	**2010**	**2009**	**2010**	**2009**
Current service cost	5.9	5.1	0.5	0.4
Interest cost	5.9	4.3	1.7	1.6
Expected return on plan assets	(2.6)	(0.9)	-	-
Expected return on repayment entitlement	-	-	(0.9)	(0.9)
Past service costs recognized in the year	0.7	0.3	1.5	0.4
Curtailments / liquidations	(0.4)	(0.9)	-	-
Other (1)	0.2	(12.3)	-	-
NET BENEFIT COST	**9.7**	**(4.4)**	**2 .8**	**1.5**

(1) In 2009, the "Other" heading primarily includes provision charges and reversals for employee benefit obligations relating to contract wins and losses.

c - Actuarial assumptions

Actuarial assumptions used for calculation purposes vary depending on the country in which the plan is implemented.

Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)

The benefit obligation in respect of pension plans as of December 31, 2011 (excluding the Transportation business), 2010 and 2009 is based on the following average assumptions:

	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
Discount rate	4.54%	4.76%	5.23%
Expected rate of salary increase	3.58%	3.44%	3.66%

As of December 31, 2011, 2010 and 2009, the discount rates in the main regions with regard to post-employment commitments are as follows:

	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
United Kingdom	4.70%	5.10%	5.50%
Euro zone	4.70%	4.60%	5.25%

Expected returns on plan assets in 2011, 2010 and 2009, as defined at the start of each year to determine the amount recorded in the income statement, are as follows:

	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
Expected return on plan assets	5.7%	5.9%	6.5%
Average residual active life expectancy (in years)	12.2	12.9	13.0

In the United Kingdom, where the vast majority of plan assets are located, the expected return, as defined at the start of 2011, was 6.1%.

The actual return on plan assets in 2011, 2010 and 2009 was 4.0%, 8.6% and 13.8%, respectively.

Sensitivity of the benefit obligation and the current service cost to rate changes

The Group benefit obligation (excluding the Transportation business) is especially sensitive to discount and inflation rates. A 1% increase in the discount rate would decrease the benefit obligation by €262 million and the current service cost of the next year by €7 million. A 1% decrease in the discount rate would increase the benefit obligation by €311 million and the current service cost of the next year by €9 million. Conversely, a 1% increase in the inflation rate would increase the benefit obligation by €246 million and the current service cost of the next year by €9 million. A 1% decrease in the inflation rate would decrease the benefit obligation by €215 million and the current service cost by €7 million.

A 1% increase in the expected rate of return assumption would generate additional income of €12.3 million.

Health insurance coverage of retirees (excluding the Transportation business)

Additional assumptions concerning health insurance plans are as follows:

Average rate of increase in health insurance costs	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
Assumed rate of increase in health costs in the coming year	5.36%	5.6%	4.9%
Target rate of increase in costs	3.7%	3.9%	3.5%
Year long-term rate is expected to stabilize	2019	2020	2019

In 2011, health insurance plans for retired employees are primarily concentrated in the United States (in prior years these plans included health insurance plans for retired employees in France in the Transportation business).

Assumptions concerning the growth in health insurance costs have little impact on the defined benefit obligation and the current service cost.

Amounts for the current and four prior periods are as follows:

Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)	2011 (*)	2010	2009	2008	2007
Benefit obligation at year end	(1,957.3)	(2,062.7)	(1,770.1)	(1,522.0)	(1,733.4)
Fair value of plan assets at year end	1,281.8	1,290.3	1,101.9	901.1	1,242.7
Funding status	**(675.5)**	**(772.4)**	**(668.2)**	**(620.9)**	**(490.7)**
Actuarial gains (losses) / experience adjustments on obligations	(20.0)	0.3	(11.7)	8.8	(0.7)
% of the benefit obligation	*1.02%*	*(0.02%)*	*0.66%*	*(0.58%)*	*0.04%*
Actuarial gains (losses) / experience adjustments on plan assets	(16.5)	35.6	79.2	(219.6)	(5.6)

Health insurance coverage of retirees	2011	2010	2009	2008	2007
Benefit obligation at year end	(14.0)	(53.2)	(41.5)	(41.7)	(41.0)
Fair value of plan assets at year end	-	-	-	-	-
Funding status	**(14.0)**	**(53.2)**	**(41.5)**	**(41.7)**	**(41.0)**
Actuarial gains (losses) / experience adjustments on obligations	(0.2)	0.7	0.5	1.9	1.9
% of the benefit obligation	*1.4%*	*(1.25%)*	*(1.20%)*	*(4.56%)*	*(4.63%)*
Actuarial gains (losses) / experience adjustments on plan assets	-	-	-	-	-

(*) Amounts for fiscal year 2011 exclude the Transportation business.

The cumulative amounts of actuarial gains and losses on obligations and plan assets recognized in other comprehensive income and the change in the asset ceiling are as follows:

	2011	2010	2009
Cumulative amounts as of January 1	**(320.5)**	**(247.5)**	**(185.8)**
Change in the period	(12.4)	(73.0)	(61.7)
CUMULATIVE AMOUNTS AS OF DECEMBER 31	**(332.9)**	**(320.5)**	**(247.5)**

32 Main acquisitions

32.1 Acquisitions in 2011

Acquisitions in 2011 with related cash flows of more than €100 million are detailed below.

Acquisitions in 2011 with related net cash flows of less than €100 million represent business combination costs of €42.4 million. These acquisitions contributed €49.8 million to Group revenue in 2011.

These transactions were recognized in accordance with the standard on business combinations (IFRS 3 revised).

Under IFRS 3 revised, the Group has a period of 12 months commencing the acquisition date during which to finalize the accounting recognition of the business combination considered. Asset and liability fair values adopted at the year-end may, therefore, change.

In general, goodwill balances are justified by synergies with existing operations in the Group and future developments.

Acquisition of SPEC in the Energy Services division (in Poland)

On October 11, 2011, Dalkia Polska acquired an 85% controlling stake in Stołeczne Przedsiębiorstwo Energetyki Cieplnej S.A. (SPEC), the owner and operator of the urban heating network of the City of Warsaw and its subsidiary Finpol.

SPEC and its subsidiary are below Dalkia International in the organizational structure and are proportionately consolidated at Group level in the amount of 75.81%.

This acquisition forms part of the development of the Dalkia business model in Continental Europe and the Dalkia group's strategy. The acquisition of the Warsaw network should create significant value for Dalkia, thanks to its operational, employee-related and regulatory know-how and its experience in Poland.

The acquisition was recognized in accordance with the standard on business combinations (IFRS 3 revised).

The appraisal process to recognize the acquired assets and liabilities at fair value is still in progress at the year end and will be finalized in 2012. Procedures are primarily being concentrated on the heating network of the City of Warsaw, based on an external appraisal.

The provisional fair values of assets and liabilities at the year-end are as follows:

(€ million)	**Net carrying amount (proportionate share)**	**Acquisition method (proportionate share)**	**Provisional fair value as of December 31, 2011 (proportionate share)**
ASSETS (+)			
Non-current assets			
Other intangible assets	0.7	2.0	2.7
Property. plant and equipment	187.9	131.1	319.0
Deferred tax assets	9.5	2.6	12.1
Current assets			-
Inventories and work-in-progress	4.9	-	4.9
Operating receivables	16.8	-	16.8
Other current operating assets	0.2	-	0.2
Cash and cash equivalents	22.9	-	22.9
LIABILITIES (-)			
Non-controlling interests	**(27.6)**	**(14.6)**	**(42.2)**
Non-current liabilities			
Non-current provisions	(19.0)	4.7	(14.3)
Deferred tax liabilities	(1.2)	(25.3)	(26.5)
Current liabilities			
Operating liabilities	(29.7)	(18.1)	(47.8)
Current provisions	(8.9)	-	(8.9)
NET ASSETS ACQUIRED	**156.5**	**82.4**	**238.9**
Net assets. proportionate share			**238.9**
Residual goodwill			**10.7**
Consideration transferred (cost of the business combination)			**249.6**
Acquisition cash flows (1)			**226.7**
Cash outflow			249.6
Cash inflow			22.9

(1) Net cash flows totalled €299.0 million (100%).

Acquisition costs of €0.7 million were recorded in operating income.

SPEC contributed €77.1 million to revenue in 2011. Had it been consolidated from January 1, 2011, it would have contributed €260.9 million to Group revenue in 2011.

In addition, the Group granted a put option over the residual 15% stake held by employees at a price of PLN 100 per share. Employees may exercise this option up until 2014. The liability relating to this commitment was recognized in borrowings through equity.

32.2 Acquisitions in 2010

The fair values of assets and liabilities acquired recognized at the 2010 year-end in the non-definitive opening balance sheets of fiscal year 2010 acquisitions as of December 31, 2010 (United Utilities in the Water division, New World Resources Energy in the Energy Services division and companies previously held jointly with Suez Environnement in the Water division) were not materially changed during the 12-month period following their acquisition dates.

33 Construction contracts

As described in Note 1.22. Veolia Group recognizes its construction contracts under the percentage of completion method. At each period-end, a statement per contract compares the amount of costs incurred, plus profits (including any provisions for losses to completion) with intermediary billings: "Construction contracts in progress / Assets" therefore represents contracts for which the costs incurred and profits recognized exceed amounts billed.

(€ million)	**As of December 31, 2011**	**As of December 31, 2010**	**As of December 31, 2009**
Construction contracts in progress / Assets (A)	622.4	500.0	358.7
Construction contracts in progress / Liabilities (B)	294.1	238.1	292.4
Construction contracts in progress / net (A) – (B)	**328.3**	**261.9**	**66.3**
Costs incurred plus income and losses recognized to date (C)	5,798.1	5,757.4	5,413.7
Amounts billed (D)	5,469.8	5,495.5	5,347.4
Construction contracts in progress / net (C) – (D)	**328.3**	**261.9**	**66.3**
Customer advances	**88.4**	**55.0**	**36.8**

34 Operating leases

The Group enters into operating leases mainly for transportation equipment and buildings.

Future minimum lease payments under operating leases amount to €2,686.7 million as of December 31, 2011, compared to €3,108.1 million as of December 31, 2010 and €2,753.7 million as of December 31, 2009.

As of December 31, 2011, future minimum lease payments under these contracts were as follows:

(€ million)	**Operating lease**
2012	583.9
2013 & 2014	817.8
2015 & 2016	529.9
2017 and thereafter	755.1
TOTAL FUTURE MINIMUM LEASE PAYMENTS	**2,686.7**

Total future minimum lease payments amount to €2,686.7 million including €864.2 million in respect of the Veolia Transdev group, reclassified in discontinued operations, as of December 31, 2011 (see Note 4).

Lease payments for the period

(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Minimum lease payments expensed in the year	640.2	732.7	630.9
Contingent rent expensed in the year	19.2	18.7	18.7
TOTAL LEASE PAYMENTS FOR THE YEAR	**659.4**	**751.4**	**649.6**
Including total lease payments for the year for the Veolia Transdev group	165.8	262.9	308.1

Lease payments for the year concerning the Veolia Transdev group are recognized in net income from discontinued operations following the Group's decision to withdraw from this business (see Note 4).

Sub-lease revenue is not material.

Assets leased under operating leases

The value of assets concerned by operating leases within the Group is not material.

35 Proportionately consolidated companies

Summarized financial information in respect of proportionately consolidated companies is set out below (Group share):

(€ million)	**As of December 31, 2011**	**As of December 31, 2010**	**As of December 31, 2009**
Non-current assets	8,154.4	8,421.2	8,188.4
Current assets	3,848.3	4,021.6	3,984.1
TOTAL ASSETS	**12,002.7**	**12,442.8**	**12,172.5**
Equity attributable to owners of the Company	2,794.4	3,256.5	3,128.1
Equity attributable to non-controlling interests	1,008.5	1,065.3	915.1
Non-current liabilities	3,161.7	3,295.2	3,295.8
Current liabilities	5,038.1	4,825.8	4,833.4
TOTAL EQUITY AND LIABILITIES	**12,002.7**	**12,442.8**	**12,172.4**

(€ million)	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Income Statement data			
Revenue	5,665.6	5,767.6	5,520.3
Operating income	201.0	710.7	636.8
Net income for the year	(108.8)	311.6	326.5
Financing data			
Operating cash flows	779.5	671.1	819.8
Investing cash flows	(583.5)	(193.7)	(644.9)
Financing cash flows	(363.4)	(213.5)	(316.1)

The most material proportionately consolidated entities are as follows:

- The assets and liabilities of the Veolia Transdev group, proportionately consolidated from March 3, 2011, were reclassified in discontinued operations as of December 31, 2011 (see Note 4) and are not included in the above figures;
- BWB (Berlin water services company) in the Water division in Germany is 50% consolidated and contributed revenue of €596 million, operating income of €205.1 million, net assets of €2,656.9, million and net financial debt of €1,464.2 million;
- Dalkia International is 75.81% consolidated and contributed revenue of €2,691.4 million, an operating loss of €141.7 million and net assets of €2,162.4 million;
- The Proactiva Group in South America is 50% consolidated and contributed revenue of €236.1 million, operating income of €32.5 million and net assets of €169.2 million;
- The Shenzhen, Tianjin Shibei and Pudong contracts in the Water division in China are 25%, 49% and 50% consolidated respectively and contributed €166.6 million, €61.6 million and €81.1 million respectively to revenue and €417.3 million, €285.7 million and €198.8 million respectively to net assets;
- In North Africa and the Middle East. Azalyia and its subsidiaries consolidated 51%, contributed revenue of €287.9 million, an operating loss of €36.5 million, net assets of €441.4 million and net financial debt of €312.9 million. The Group's partner, Mubadala, announced its intention to withdraw in June 2012. Control remains joint as of December 31, 2011.

36 Tax audit

In the normal course of their business, the Group entities in France and abroad are subjected to regular tax audits. Revised assessments and identified uncertain tax positions in respect of which a revised assessment has not yet been issued are adequately provided, and provision amounts are regularly reviewed in accordance with IAS 37 criteria.

The tax authorities have also carried out various tax audits in respect of both consolidated tax groups and individual entities. To date, none of these reviews have led to material liabilities to the tax authorities in excess of amounts estimated during the review of tax risks. Certain audits are closed (Veolia Eau-Compagnie Générale des Eaux. Compagnie des Eaux et de l'Ozone, Dalkia France, Sade). These companies received revised tax assessments which did not indicate risks greater than those already provided in the Group accounts.

In Italy, in the Energy Services division, Siram received revised tax assessments in respect of fiscal years 2004 and 2005. Litigation proceedings were initiated with respect to these tax assessments. The liabilities arising from this litigation have been anticipated and provided for in accordance with IAS 37.

On March 10, 2010, Veolia Environnement through its subsidiary Venao received notices of proposed adjustments ("NOPAs") from the U.S. Internal Revenue Service (IRS) relating to a number of tax positions concerning its U.S. subsidiaries, including primarily tax losses resulting from the reorganization of the former US Filter (Worthless Stock Deduction), in the amount of USD4.5 billion (tax base). They also relate to certain other issues relating to tax losses for the 2004, 2005 and 2006 tax years, in an aggregate amount of a similar order of magnitude as the Worthless Stock Deduction. The NOPAs are preliminary assessments that do not reflect a definitive audit position and are subject to change. These NOPA's were received following the request by the Group for a pre-filing agreement from the Internal Revenue Service (I.R.S) in order to validate the amount of tax losses as of December 31, 2006, following the reorganization of Water division activities ("Worthless Stock Deduction").

During 2010 and 2011, the Group continued to discuss these NOPAs with the IRS with a view to resolving or narrowing the issues and the issuance of a formal assessment notice for any unresolved issues, which could be appealed within the IRS or in court. As of December 31, 2011 and 2010, the remaining NOPAs, before any penalties, relate to the Worthless Stock Deduction for U.S. $4.5 billion (tax base) as well as other issues for an estimated aggregate amount of U.S. $0.7 billion (tax base). As the NOPAs are still subject to the continuing IRS audit process, there is no requirement at this time for any payment of taxes. Based on information available to the Company, Veolia Environnement has not recorded any provisions in its consolidated financial statements in respect of the NOPAs and had recorded a deferred tax asset relating to these tax losses.

Furthermore, a new audit was initiated by the US tax authorities in respect of fiscal years 2007 and 2008 for all the Group's US entities. As of December 31, 2011, this audit is still ongoing. No major risks have been identified to date.

37 Off-balance sheet commitments and collateral

Commitments given

Off-balance sheet commitments given break down as follows:

(€ million)	As of December 31, 2009	As of December 31, 2010	As of December 31, 2011	Maturity		
				Less than 1 year	1 to 5 years	More than 5 years
Commitments relating to operating activities	**7,321.0**	**8,259.5**	**9,404.8**	**3,731.8**	**3,200.3**	**2,472.7**
Operational guarantees including performance bonds	7,158.9	8,149.3	8,999.0	3,543.0	3,036.7	2,419.3
Purchase commitments	162.1	110.2	405.8	188.8	163.6	53.4
Commitments relating to the consolidation scope	**861.1**	**772.0**	**885.0**	**400.9**	**276.1**	**208.0**
Vendor warranties	421.0	469.4	731.6	310.0	218.4	203.2
Purchase commitment	263.0	192.9	83.4	27.2	56.0	0.2
Sale commitment	6.5	3.7	2.5	2.2	0.3	-
Other commitments relating to the consolidation scope	170.6	106.0	67.5	61.5	1.4	4.6
Financing commitments	**945.1**	**904.1**	**493.3**	**209.2**	**214.0**	**70.1**
Letters of credit	604.5	486.4	321.4	143.7	168.5	9.2
Debt guarantees	340.6	417.7	171.9	65.5	45.5	60.9
TOTAL COMMITMENTS GIVEN	**9,127.2**	**9,935.6**	**10,783.1**	**4,341.9**	**3,690.4**	**2,750.8**

In addition to commitments given, Veolia Environnement has also granted commitments of unlimited amount concerning:

- a joint and several performance bond in respect of a shareholders' agreement entered into on the acquisition of a municipal company in Germany, in the Water division;
- operational performance bonds, in respect of a construction contract and operating contracts for waste processing in Hong Kong, in the Water and Environmental Services divisions.

These commitments are limited to the duration of the related contracts and were approved in advance by the Board of Directors of Veolia Environnement.

Commitments given relating to operating activities

Operational guarantees: operational or operating guarantees encompass all commitments not relating to the financing of operations, required in respect of contracts and markets and more generally the operations and activities of Group companies. Such guarantees include bid bonds accompanying tender offers, advance payment bonds and completion or performance bonds given on the signature of contracts or concession arrangements.

The major commitments primarily include:

- Commitments related to site rehabilitation:

Pursuant to environmental texts and legislation concerning the operation of waste storage facilities, the Group is obliged to provide financial guarantees to local authorities/government agencies. These guarantees notably encompass the rehabilitation and supervision of the site during 30 years or more, depending on national legislation (currently 60 years in the United Kingdom), following its operation.

In this context, performance bonds and letters of credit are issued to local authorities and other public bodies.

Depending on the contract, these guarantees cover the costs necessary for the rehabilitation of all or part of the site and the supervision of the site during 30 years.

These guarantees are quantified in accordance with legal or contractually-defined procedures. These guarantees, which are given in their total amount from the start of operations, expire at the end of the commitment (termination of rehabilitation work and site supervision).

Therefore, the amount of our commitment for the rehabilitation and supervision of waste storage facilities is in general different from the amount of the provision recorded in the Group accounts (see Note 1.13).

Provisions calculated by the Group are based on different valuations (based on internal policies regarding site security and designed for optimal environmental protection), which take into account the progressive nature of the obligation: operation of the storage facility results in progressive damage to the site and, as such, a related liability is recognized as the facility is operated.

If the amount of the commitment is less than the provision at the balance sheet date, an off-balance sheet commitment is not disclosed. Conversely, if the amount of the commitment is greater than the provision, an off-balance sheet commitment is disclosed in the amount not provided.

- Commitments related to engineering and construction activities:

Total commitments given in respect of construction activities in the Water division (Veolia Water Solutions & Technologies) amount to €3,205.4 million as of December 31, 2011, compared to €3,024.6 million as of December 31, 2010 and €2,823.6 million as of December 31, 2009.

Total commitments received (see below) in respect of these same activities amount to €679.1 million as of December 31, 2011, compared to €740.3 million as of December 31, 2010 and €757.2 million as of December 31, 2009.

Commitments given and received in respect of the three principal contracts account for approximately 53% of total commitments.

- Commitments given in respect of concession contracts:

Pursuant to public service contracts with a public entity, the Group may be called on/obliged to invest in infrastructures that will then be operated and remunerated in accordance with contractual terms and conditions.

The contractual commitment may concern both the financing of installations and infrastructures to be used in operations and also the maintenance and replacement of infrastructures necessary to operations.

An analysis of the accounting treatment of these commitments is presented in Notes 1.21, 1.14 and 17.

Expenditure relating to the replacement or restoration of installations is monitored and recognized through any timing differences between the total contractual commitment over the contract term and its realization, in accordance with IAS 37 on Provisions.

Expenditure relating to the construction, maintenance and restoration of concession assets is reviewed with respect to IFRIC 12 and detailed in Note 1.20.

- Firm commodity purchase commitments:

As part of supply management and cost optimization, certain Group subsidiaries may be required, depending on their activities, to set-up derivatives to fix the cost of commodity supplies where the contracts do not offer appropriate protection (see Note 29.1.3) or contract forward purchases or sales of commodities.

Firm commodity purchase commitments mainly concern:

- gas in the Energy Services division (mainly in France) and in the Water division (commitments mature in less than 5 years);
- electricity in the Water division (purchase commitments mature in less than 3 years due to poor liquidity in the electricity market);

  With regard to both gas and electricity, the number of contracts signed enables the Group to significantly reduce political and counterparty risk;

- coal, biomass in the Energy Services division in Central European countries.

Commitments given relating to the consolidation scope

Vendor warranties: these include warranties linked to the sale in 2004 of Water activities in the United States in the amount of €268.6 million and an agreement containing representations and warrantees related to Veolia Transport, signed by Veolia Environnement and Caisse des dépôts et consignations in connection with the March 3, 2011 combination of their respective subsidiaries, Veolia Transport and Transdev, for €328.8 million.

Purchase commitments: these include commitments given by Group companies to purchase shares in other companies or to invest. As of December 31, 2011, these commitments mainly concern the Water division (€58.9 million).

Agreements with EDF: Veolia Environnement granted EDF a call option covering all of its Dalkia shares in the event an EDF competitor takes control of the company.

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

Financing commitments given

Debt guarantees: these relate to guarantees given to financial institutions in connection with the financial debts of non-consolidated companies, equity associates, or the non-consolidated portion of financial debts of proportionately consolidated companies when the commitment covers the entire amount.

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

Commitments given break down by division as follows:

(€ million)	**As of December 31. 2011**	**As of December 31. 2010**	**As of December 31. 2009**
Water	7,044.1	6,541.1	6,036.4
Environmental Services	625.1	797.0	831.1
Energy Services	1,086.9	838.2	700.3
Transportation	316.0	405.2	533.2
Proactiva	78.6	51.7	45.2
Holding companies	1,524.8	1,241.2	942.0
Other	107.6	61.2	39.0
TOTAL	**10,783.1**	**9,935.6**	**9,127.2**

Commitments on lease contracts entered into by the Group are analyzed in Notes 18 and 34.

Collateral guaranteeing borrowings

As of December 31, 2011, the Group has given €547 million of collateral guarantees in support of borrowings. The breakdown by type of asset is as follows (€ million):

Type of pledge / mortgage *(€ million)* *(€ million)*	**Amount pledged (a)**	**Total consolidated statement of financial position amount (b)**	**Corresponding % (a)/(b)**
Intangible assets	8	1,281	0.6%
Property. plant and equipment	168	8,488	2.0%
Financial assets *	301		
TOTAL NON-CURRENT ASSETS	**477**		
Current assets	70	**21,949**	**0.3%**
TOTAL ASSETS	**547**		

* *As a majority of financial assets pledged as collateral are shares of consolidated subsidiaries and other financial assets, the ratio is not significant.*

The breakdown by maturity is as follows:

				Maturity		
(€ million)	**As of December 31, 2009**	**As of December 31, 2010**	**As of December 31, 2011**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Intangible assets	**5**	**7**	8	**1**	**2**	**5**
Property. plant and equipment	**151**	**156**	**168**	**106**	**28**	**34**
Mortgage pledge	37	44	29	3	9	17
Other PP&E pledge (1)	114	112	139	103	19	17
Financial assets (2)	**504**	**336**	**301**	**18**	**115**	**168**
Current assets	**39**	**20**	**70**	**51**	**1**	**18**
Pledges on receivables	39	20	55	37	1	17
Pledges on inventories	0	-	15	14	-	1
TOTAL	**699**	**519**	**547**	**176**	**146**	**225**

(1) Mainly equipment and traveling systems.

(2) Including non-consolidated investments of €155 million and other financial assets (primarily operating financial assets) of €146 million as of December 31, 2011.

Collateral of the Veolia Transdev group (presented in discontinued operations as of December 31, 2011, see Note 4) included in Group collateral presented above, breaks down as follows:

				Maturity		
(€ million)	**As of December 31, 2009**	**As of December 31, 2010**	**As of December 31, 2011**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**-**
Property. plant and equipment	**54**	**47**	**112**	**101**	**6**	**5**
Mortgage pledge	3	2	1	-	1	-
Other PP&E pledge (1)	51	45	111	101	5	5
Financial assets	**6**	**6**	**-**	**-**	**-**	**-**
Current assets	**-**	**-**	**23**	**23**	**-**	**-**
Pledges on receivables	-	-	23	23	-	-
Pledges on inventories	-	-	-	-	-	-
TOTAL	**60**	**53**	**135**	**124**	**6**	**5**

(1) Mainly equipment and traveling systems.

Commitments received

Off-balance sheet commitments received break down as follows:

(€ million)	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
Guarantees received	**1,862.0**	**1,861.6**	**1,756.3**
Operational guarantees	1,119.7	1,108.7	1,007.0
Guarantees relating to the consolidation scope	258.4	120.4	223.3
Financing guarantees	483.9	632.5	526.0

The commitments notably consist of commitments received from our partners in respect of construction contracts.

The change in 2011 was mainly due to:

- an agreement containing representations and warrantees related to Veolia Transdev, signed by Veolia Environnement and Caisse des dépôts et consignations in connection with the March 3, 2011 combination of their respective subsidiaries, Veolia Transport and Transdev, for €185.0 million;
- the expiry of vendor warranties relating to an acquisition in the Environmental Services division;
- partial terminations in the Veolia Water Solutions & Technologies' Construction business and
- the cancellation of the guarantee received from the British Treasury for a credit line repaid at the start of the year.

In addition, the Group has undrawn medium and short-term credit lines and syndicated loan facilities in the amount of €4.2 billion (see Note 29.3.2).

38 Contingent assets and liabilities

In accordance with IAS 37 criteria, management does not consider it appropriate to record an additional provision or recognize deferred income in respect of these legal or arbitration proceedings as of December 31, 2011, due to the uncertain nature of their outcome.

The main contingent assets and liabilities relating to legal or arbitration proceedings are presented below:

Water - Aquiris

Since 2008, Aquiris, a 99% subsidiary of the Company, holds a concession pursuant to which it is responsible for operating the Brussels-North wastewater treatment plant. As a result of extensive obstruction of the plant's security chambers following the arrival of abnormal and extraordinary quantities of rubble and other solid waste through the public sewer lines. Aquiris decided to suspend operation of the plant from December 8 to December 19, 2009 due to significant safety risks to persons and to the plant. This suspension permitted a partial return to normal, but has resulted in several disputes regarding liability for the disruption and the possible environmental consequences of the suspension in wastewater treatment services. An expert's report on the causes of the disruption was delivered on January 13, 2011. The report concludes, in error according to Aquiris, that there was no legitimate reason to suspend operations at the station.

In addition, during the course of 2010, Aquiris instituted legal proceedings against SBGE, the grantor authority, with a view to showing that the Brussels-North treatment plant is faced with sizing issues that are attributable to the grantor authority. Aquiris is claiming compensation for its loss of business and requesting confirmation that the significant upgrade costs that will be required should be borne by the grantor authority. Aquiris and the SBGE asked a panel of experts to render a technical opinion concerning these matters, and their "remède" report was made public on December 8, 2011. The experts confirm in particular that certain structures are under-sized and make a series of technical recommendations, with a variable breakdown of cost between the parties depending on the remedy. Aquiris and SBGE have commenced negotiations based on these recommendations.

At this point, the Company is unable to assess whether the outcome of these negotations is likely to have a material impact on its financial position or results.

Water - Berliner Wasserbetriebe A.ö.R

In March 2010, the German Federal Cartel Office (FCO) launched an administrative investigation into Berliner Wasserbetriebe A.ö.R (BWB), a subsidiary of Veolia Wasser GmbH and the City of Berlin, suspected of abusing its dominant position in water distribution, allegedly characterized according to the FCO by excessive billing of users. On completing this inquiry, the FOC addressed for comment, on December 5, 2011, a statement of objections (draft decision) to BWB, demanding a reduction in prices. BWB and Veolia Wasser GmbH (as third party) addressed their comments to the FCO at the end of January 2012. A final decision is expected from the FCO in March 2012. Concomitantly, BWB contested in March 2011 the jurisdiction of the FCO before the administrative court, which declared it lacked jurisdiction to hear the proceedings. An appeal has been lodged before the Dusseldorf regional high court.

At this point, the Company is unable to assess whether these actions are likely to have a material impact on its financial position or results.

Water – European Commission investigation

On January 18, 2012, following unannounced inspections carried out in April 2010, the European Commission opened investigative proceedings aimed at determining whether behavior in the French water and wastewater markets has been coordinated, in conjunction with the French Water trade association. the *Fédération Professionnelle des Entreprises de l'Eau* (FP2E) and in particular with respect to price components invoiced to customers, The opening of these proceedings in no way suggests the results of the investigation are a foregone conclusion. Depending on the results of the investigation, the European Commission will consider either closing the case or sending the companies concerned and the FP2E a statement of objections. In the latter case, Veolia will use all means of defense at its disposal.

At this point, the Company is unable to assess whether these proceedings will be likely to have a material impact on its financial position or results.

Environmental Services – TEC / VSAT

On April 16, 2008, Termo Energia Calabria S.p.a. (TEC), a company specialized in waste incineration and a 98.76% subsidiary of Veolia Servizi Ambientali Tecnitalia S.p.a. (VSAT), which is in turn a subsidiary of Veolia Propreté, filed a claim with the administrative court of the region of Calabria in Italy for the payment of subsidies in an updated amount of €26.9 million, allegedly owed under a concession agreement entered into on October 17, 2000 with the region of Calabria. On August 11, 2008, the administrative court ordered the region to respond to this claim. At the end of November 2008, the region announced its refusal to pay the subsidies claimed. On March 12, 2009, TEC asked the court to decide on the merits of the refusal to pay the subsidies. The administrative court, by judgment dated February 28, 2011, declared void the refusal to pay the subsidies and referred the case to the Region which must comply with the judgment. The Region filed an appeal to the Council of State asking for a stay of execution of the decision. The appel hearing of December 13, 2011 before the Council did not enable a final decision to be reached. The Council of State will issue a pronouncement directly on the facts – confirming or canceling the judgment handed down by the court of first instance which required the Region to decide again on the request for payment of the POR funds (European Development funds) by the Commissioner will be issued at the hearing to be held on April 24, 2012.

In addition, on May 16, 2008, TEC filed a claim with an Italian arbitration tribunal against the Extraordinary Commissioner of Calabria seeking reimbursement of €62.2 million for various additional operating fees and costs incurred since 2005 and claiming breach of the price indexation provision included in the concession agreement ("Management Arbitration"). The arbitration proceedings began and, on October 24, 2008, the Extraordinary Commissioner of Calabria filed a counterclaim against TEC seeking the termination of the concession agreement and the payment of the sum of €62.3 million as compensation for construction delays. The arbitration award, which was filed on July 26, 2010 with the Arbitration Chamber of Rome, awards a total amount of €27 million to TEC (excluding gate fees and statutory interest) and fully dismisses the counterclaim of the Extraordinary Commissioner of Calabria as well as his application for termination of the concession agreement. On September 17, 2010, this decision was held to be enforceable by the Civil Court of Rome. The State and the Extraordinary Commissioner of Calabria filed an appeal against this decision with the Court of Appeal of Rome, which in a decision dated June 23, 2011, rejected the request for a stay of execution of the arbitral award and called the parties for a hearing on January 14, 2014, for the Court of Appeal of Rome to decide on the claim for nullity of the Extraordinary Commissioner of Calabria.

Following the signature of a master settlement agreement with Termomeccanica Ecologia S.p.a. (see below) on June 30, 2011, TEC substituted for Termomeccanica Ecologia S.p.a. in the arbitration proceedings relating to the construction of the first incinerator (TEC) under the aforementioned concession arrangement ("Construction Arbitration"). These arbitration proceedings followed the same course as the Management Arbitration and TEC was awarded an amount of €28 million (excluding statutory interest). The provisional execution of these two arbitral awards was launched on October 27, 2011. The total amount of these two awards, including interest, increased by 50% (i.e. €94 million) was placed in an escrow account with the Bank of Italy on December 12, 2011. A decision authorizing provisional payment is scheduled for May 2012, pending the appeal hearing in January 2014.

In addition, VSAT has been accused of manipulating the software that monitors carbon monoxide emissions in its incineration facilities in Falascaia (Tuscany), Vercelli (Piedmont) and Brindisi (Puglia). In the criminal cases pending before the Vercelli and Lucca's courts, the respective Public Prosecutor's Offices decided that there were no grounds for prosecution of the directors appointed by Veolia Propreté after the acquisition of VSAT.

For all of these reasons, in early 2009 Veolia Propreté decided to initiate negotiations with the Italian company Termomeccanica Ecologia S.p.a. pursuant to the seller's representations and warranties granted by Termomeccanica Ecologia S.p.a. in the agreement for the sale of VSAT to Veolia Propreté in 2007. In light of the repeated refusal of Termomeccanica Ecologia S.p.a. to compensate VSAT pursuant to its warranties, on May 19, 2009, Veolia Propreté and Veolia Servizi Ambientali S.p.a., the parent companies of VSAT, filed a request for arbitration with the International Chamber of Commerce (ICC). The arbitration tribunal was formed in August 2009 and set a schedule calling for a final hearing at the end of December 2011 and an award at the end of April 2012 at the earliest.

The discussions opened with Termomeccanica Ecologia S.p.a. led to the signature of a master settlement agreement on June 30, 2011, which was completed on July 8, 2011.

The main consequences of this agreement are:

- The purchase of minority shareholdings representing 25% of the share capital of VSAT, increasing the investment held by Veolia Servizi Ambientali S.p.a. (Italian holding wholly owned by Veolia Propreté) to 100%;
- The termination of office of the Administrator by decision of the Genoa Court of Appeals dated June 30, 2011;
- The mutual waiver of the request for arbitration by the International Chamber of Commerce (ICC);
- The termination of the share purchase agreement, the shareholders' agreement and the industrial agreement signed in 2007 with Termomeccanica Ecologia S.p.a.

Furthermore, following an order issued by the Public Prosecutor's Office of Lucca on July 1, 2010, operations at the Falascaia facility were suspended on the alleged grounds of an improper administrative operating authorization and discharges of polluted wastewater. Despite the decision of the Public Prosecutor's Office of Lucca of October 19, 2011, lifting the closure order on the plant, the operating authorization for the Falascaia plant was cancelled by the Province of Lucca on November 10, 2011. Termo Energia Versilia S.p.a. (TEV), a 98.99% subsidiary of VSAT and holder of the authorization, filed an appeal before the Florence Administrative Court on January 23, 2012 against the cancellation decision.

As at December 28, 2011, TEC gave formal notice to the Extraordinary Commissioner of Calabria (the concession authority) in order to claim its rights and to protect itself from the uncertainty surrounding the position of Extraordinary Commissioner of Calabria beyond December 31, 2011. This formal notice reminded of all amounts due by the Commissioner under the two arbitration awards won by TEC, the subsidies granted for the construction of TEC1, all claimable post-arbitration amounts and the remaining amount to be paid under the settlement plan by November 30, 2011, for a total aggregate amount of €139.8 million. TEC demanded payment of these amounts by January 31, 2012, or the concession contract would be automatically terminated for breach by the concession authority, with retroactive effect.

This formal notice has not been challenged to date. The Commissionner requested in a meeting held on January 13, 2012 that the continuity of public service be ensured. On January 31, 2012, TEC sent a letter to the Commissionner of Calabria formalizing the contract termination and proposing a transitional continuity of public service under « prorogatio », on the basis of reimbursement of incurred costs, without calling the termination of the concession contract into question. In his letter dated February 9, 2012, the Commissioner announced the implementation of the prorogatio and advised of the payment of €2.5 million for this purpose.

Finally, on February 10, 2012, a "*Concordato Preventivo"* proposal for TEC was filed with the La Spezia Civil Court. This procedure consists in the proposed payment in full of all preferred creditors and the partial payment of other creditors (in full and final settlement). All amounts payable to creditors are currently frozen. The presentation of the case before the court is expected in March 2012. After its review by the judge, the court should convene the ordinary creditors to vote on the "*Concordato Preventivo"* proposal for TEC in the fall of 2012. If the creditors approve the proposal, the court should homologate the *Concordato* in the spring of 2013.

Transportation - Société Nationale Maritime Corse Méditerranée (SNCM)

Corsica Ferries brought a number of legal proceedings against SNCM, including several before the administrative courts. Corsica Ferries' request for the invalidation of the decision of June 7, 2007 awarding the contract for marine service to Corsica to the SNCM/CMN group for the 2007- 2013 period was denied by a judgment of the Bastia administrative court on January 24, 2008. Corsica Ferries appealed this decision to the Marseille administrative court of appeal. In an order dated November 7, 2011, the latter cancelled the judgment of the Bastia administrative court, instructing the concession authority to either negotiate a voluntary agreement for the termination of the public service delegation agreement from September 1, 2012 or seize the Bastia administrative court within six months of the notification (i.e. before May 7, 2012) to take the appropriate measures. Contrary to the concession authority, SNCM appealed this order on January 5, 2012.

Veolia Transport's acquisition of an interest in SNCM from Compagnie Générale Maritime et Financière was conditioned, in particular, on the concession authority continuing the public service delegation agreement. In the absence of an appeal by the concession authority, Veolia Transport notified Compagnie Générale Maritime et Financière on January 13, 2012 of its decision to exercise the cancellation clause in the privatization Memorandum of Understanding of May 16, 2006. On January 25, 2012, Compagnie Générale Maritime et Financière contested the exercise of the cancellation clause in the privatization Memorandum of Understanding of May 16, 2006. In the absence of a reaction from Compagnie Générale Maritime et Financière to a proposal for the out-of-court settlement of the dispute, Veolia Transport informed the latter on February 7, 2012 of its intention to submit the case to the competent legal authority. On February 17, 2012, the French competition authority recommended to the concession authority to assess precisely its needs in terms of marine service to Corsica in order to limit the scope of the public service delegation, as the case may be, to the minimum necessary.

Furthermore, Veolia Transport's acquisition of an interest in SNCM was also conditioned on the absence of any European Commission decision declaring the privatization conditions or state aids paid in application of the Commission decision of July 9, 2003 (in turn cancelled by a decision of the Court of First Instance on June 15, 2003) incompatible with the provisions of the Treaty on the Functioning of the European Union regarding state aids. The European Commission ruled on July 8, 2008 that the amounts paid by the French government in connection with the privatization process did not constitute state aids and authorized the aids paid pursuant to its decision of July 9, 2003. Corsica Ferries and the STIM d'Orbigny (Stef Tfe group) each appealed the Commission's decision before the European Court of First Instance, with STIM d'Orbigny later withdrawing its appeal on October 7, 2009. The French State and SNCM were granted leave to intervene in support of the conclusions of the Commission in the appeal filed by Corsica Ferries (T-565/08). SNCM filed its brief on September 28, 2009, to which Corsica Ferries replied on November 26, 2009. The Court of the European Union held audience on December 7, 2011. The Company considers that there is a risk of full or partial cancellation of the Commission's decision. The maximum risk for the total amount of aids is estimated at €275 million, excluding moratorium interest.

Finally, in an action brought before the Competition Council, Corsica Ferries contended that SNCM and CMN had formed an unjustified grouping that constituted an anti-competitive cartel, that this grouping constituted an abuse of a dominant position and, lastly, that presenting a bid requesting excessive subsides, suggesting the existence of cross-subsidies, constituted an abuse of a dominant position. On April 6, 2007, the Competition Council dismissed the two claims concerning the grouping. Proceedings on the merits and the investigation of the French Competition Authority (formerly, the Competition Council) on the claim of excessive subsidies are underway. The investigation is also focusing on the performance terms of this agreement delegating a public service (monitoring the application of the guaranteed receipts clause and the corresponding changes in the amount of subsidies received by the parties being awarded the contract). As of this date, no complaint has been served.

Class action before the Federal Court of the District of New York

On December 27, 2011 and January 13, 2012, U.S. law firms filed a request for recognition of a class action before the Federal Court of the Southern District of New York, against the Company and certain of its past and present managers. The plaintiffs, two individuals claiming to hold ADR (*American Depositary Receipts*), seek to represent all holders of the Company's ADR who acquired them between April 27, 2007 and August 4, 2011. The action is based on the allegation that certain financial communications of the Company during the period April 27, 2007 to August 4, 2011 were misleading and constituted alleged violations of Article 10(b) of the *US Securities Exchange Act* of 1934 and other federal laws on financial instruments. The Company considers the action to be unfounded and will seek to obtain its dismissal.

At this point, and given both the weakness of the action and the existence of an appropriate level of assurance, the Company believes this action will not have a significant impact on its financial position and results.

39 Greenhouse gas emission rights

The process governing the grant and valuation of these rights is presented in Note 1.24, Greenhouse gas emission rights.

The position in 2011 is as follows:

Volume (in thousands of metric tons)	**As of January 1, 2011**	**Changes in consolidation scope**	**Granted**	**Purchased / sold / cancelled**	**Used**	**As of December 31, 2011**
TOTAL	**3,063**	-	12,913	(2,812)	(10,418)	2,746

Similarly to 2009 and 2010, the Group entered into new swaps of EUA II and CER in order to benefit from market opportunities.

At the end of 2007 and during 2008, the Group entered into allowance loan transactions (EUA II and CER) effective in 2008 with surrender in 2012:

- The EUA II loan was unwound early during the first quarter of 2011. The residual commission received in respect of this loan was recognized in the Income Statement during the year;
- The CER allowance loan will be surrendered as planned in 2012. The commission received in this respect continues to be recognized in the Income Statement on a straight-line basis over the loan term.

Phase II rights granted free of charge for fiscal year 2012 are estimated at €93 million. Future allocations were measured using the spot price as of December 31, 2011 (€6.94).

40 Related party transactions

40.1 “Related party” concept

The Group identifies related parties in accordance with the provisions of paragraph 9 of IAS 24 revised, *Related Party Disclosures*.

40.2 Compensation and related benefits of key management personnel

Group Executive Committee members and directors represent the key management personnel of the Group.

On August 4, 2011, the following appointments were made to the Executive Committee:

- Denis Gasquet, Senior Executive Vice-President of Veolia Environment and Chief Operating Officer, was appointed head of a team tasked with implementing the Convergence Plan and the Company transformation project;
- Jérôme Le Conte was appointed Executive Vice-President in charge of the Environmental Services division, to replace Denis Gasquet;
- Franck Lacroix was appointed Executive Vice-President in charge of the Energy Services division;
- Jean-Marie Lambert was appointed Executive Vice-President in charge of Human Resources.

The following table summarizes amounts due by the Group in respect of compensation and other benefits granted to key management personnel.

(€ million)	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
Short-term benefits. excluding employer contributions [(a)]	6.9	6.1	4.7
Employer contributions	2.4	2.2	2.0
Post-employment benefits [(b)]	1.4	1.1	1.1
Other long-term benefits [(c)]	-	-	-
Share-based payments	0.1	0.2	0.6
Contract termination payments		-	-
TOTAL	**10.8**	**9.6**	**8.4**

(a) Fixed and variable compensation, employee benefits and directors’ fees. Variable compensation comprises amounts due in respect of the prior fiscal year and paid during the next fiscal year. The change in “short-term benefits excluding employer contributions” is mainly due to the variable compensation paid in 2010 on the 2009 results strongly marked by the financial crisis.

(b) Current service cost.

(c) Other compensation vested but payable in the long-term.

As of December 31, 2011, total pension obligations in respect of members of the Executive Committee amount to €32.7 million, compared to €27.1 million as of December 31, 2010.

With the exception of the Chairman and Chief Executive Officer, the members of the Board of Directors receive no compensation other than directors’ fees from the Company and. if applicable, from controlled companies. The total gross amount of directors’ fees (before withholding tax) paid by the Company and controlled companies to directors and the censor was €870,661 million in 2011 (excluding the Chairman and the Chief Executive Officer), €797,261 in 2010 (excluding the Chairman of the Board and the Chief Executive Officer) and €771,795 in 2009 (excluding the Chairman and Chief Executive Officer).

Chapter 15 of the Registration Document contains detailed disclosures on the various compensation and benefits paid to key management personnel of the Group.

40.3 Transactions with other related parties

40.3.1 Relations with proportionately consolidated companies and equity associates

- The Group granted a loan of €1,526.4 million to Dalkia International and its subsidiaries Siram and Dalkia Poland, which are proportionately consolidated at 75.81%. The non-group portion of this loan is recorded in assets in the Group consolidated statement of financial position in the amount of €389.7 million (see Note 12, Other non-current financial assets).
- In December 2009, the Group sold its investment in Compagnie Méridionale de Navigation (CMN) which was consolidated using the equity method.
- In addition, given the Group's businesses, operating flows between companies are generally limited to companies operating in the same country. As such, the level of operating transactions between the Group and proportionately consolidated companies is not material.

However, certain contractual agreements within the Water division, particularly in Asia and Central Europe, impose the existence of a holding company (generally equity accounted or proportionately consolidated) and companies carrying the operating contract (generally fully consolidated). These complex legal arrangements generate "asset supply" flows between the companies generally jointly controlled or subject to significant influence and the companies controlled by the Group. Assets are generally supplied for a specific remuneration that may or may not include the maintenance of the installations in good working order or the technical improvement of the installations.

40.3.2 Relations with other related parties

Caisse des Dépôts et Consignations (9.21% shareholding as of December 31, 2011)

The Chief Executive Officer of Caisse des dépôts et consignation, considered as a related party, sits on the Board of Directors of Veolia Environnement.

The financing agreements between the two groups bear interest at market conditions.

On May 4, 2010, the Caisse des dépôts et consignations and Veolia Environnement concluded their agreement on the Transdev-Veolia Transport combination by the creation of a 50/50 joint venture combining Transdev and Veolia Transport.

This combination was effectively completed on March 3, 2011. From this date and in accordance with IAS/IFRS, Veolia Environnement through its reduced 50% stake exercises joint control together with Caisse des dépôts et consignations over Veolia Transdev, which is proportionately consolidated (see Note 4).

The combination gave rise on the same date to contract amendments and agreements resulting from the shareholders' agreement between Veolia Environnement and Caisse des dépôts et consignations. All these relations are subject to normal market terms and conditions.

This shareholders' agreement determines in particular the financing policy of the new entity and the terms and conditions of the call option granted to Caisse des dépôts et consignations over all shares in Veolia Transdev and its subsidiaries held by Veolia Environnement, exercisable in the event of a change in control of this latter (see Note 37, Off-balance sheet commitments and collateral).

Two reciprocal agreements were also signed under which Veolia Environnement and Caisse des dépôts et consignations made customary representations and warranties for this type of transaction (regarding, for example: title to shares, accuracy and completeness of financial statements, ownership of assets, condition and maintenance of rolling stock, validity of and compliance with contracts, insurance, human resources, and regulatory, environmental and tax compliance) in addition to other representations and warranties relating to specific issues raised during the "due diligence" process that preceded the combination transaction. The amounts that are potentially payable by Veolia Environnement and by the Caisse des dépôts et consignations under these agreements are included under off-balance-sheet commitments given or received by Veolia Environnment (see note 37 "Off-balance -sheet commitments").

Finally, in the context of the Group's plans to relocate its headquarters, Veolia Environnement and Icade (a subsidiary of the Caisse des dépôts) signed an exclusive partnership agreement in June 2011 covering the preliminary phases of this project and aimed at determining the location of the new headquarters, as well as the service providers to be retained for the project. This agreement is subject to conditions which are customary for this type of contract.

Electricité de France (3.96% shareholding as of December 31. 2011)

On November 25, 2009, Mr. Proglio was appointed Chairman and Chief Executive Officer of EDF Group by ministerial decree; he also acted as Chairman of the Veolia Environnement Board of Directors from November 27, 2009 (publication date of the decree) to December 12, 2010, after which he remained a director of the Company.

EDF Group has a 3.96% shareholding in Veolia Environnement, a 34% shareholding in Dalkia and a 25% shareholding in Dalkia International. In accordance with Decree 97-07, EDF purchases electricity produced in France by Dalkia cogeneration power plants at market conditions. Electricity sold by Dalkia to EDF in 2009, 2010 and 2011 totaled €568.7 million, €559.7 million and €624.4 million, respectively.

There are under certain conditions cross call options between Veolia Environnement and EDF covering all subsidiary shares held by each party and exercisable in the event of the takeover of either party (see Note 37, Off-balance sheet commitments).

Relations with BNP Paribas, Lazard, Groupama, ENI and Saint-Gobain

These Groups and Veolia Environnement have common directors.

Any business relations, including financing and advisory relations, between these groups and Veolia are at market conditions.

Relations with Soficot

Soficot provides services for the benefit of Veolia Environnement and the Group. The Chairman of the company is Serge Michel who is a member of the Veolia Environnement's Board of Directors. The remuneration of these services is at market conditions.

41 Consolidated employees

Consolidated employees* break down as follows:

By division	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
Water	79,684	78,746	80,239
Environmental Services	71,365	77,974	80,693
Energy Services	46,752	44,204	44,748
Transportation	51,833	77,759	78,094
Proactiva	5,639	5,683	5,400
Other	3,127	2,677	1,826
CONSOLIDATED EMPLOYEES*	**258,400**	**287,043**	**291,000**

By company	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
Fully consolidated companies	158,667	235,941	240,657
Proportionately consolidated companies	99,733	51,102	50,343
CONSOLIDATED EMPLOYEES*	**258,400**	**287,043**	**291,000**

* *Consolidated employees equal the average number of full-time equivalent employees. Employees of proportionately consolidated companies are included according to their percentage of consolidation. Employees of equity associates are not included.*

The decrease in the average number of employees in 2011 was primarily due to the changes in the scope of consolidation, and, in particular, the change in consolidation method of the Transportation business (from full consolidation to proportionate consolidation), (see Note 4).

The decrease in the average number of employees in 2010 was primarily due to the changes in the scope of consolidation which occurred in 2009, and, in particular, the change in consolidation method of some companies in the Water division and the Environmental Services division (from full consolidation to proportionate consolidation) and the sale of Facilities Management activities in the United Kingdom in the Energy Services division.

The decrease in the average number of employees in 2009 was primarily due to the divestiture of VPNM in the Environmental Services division and the sale of Freight activities in the Transportation division.

42 Reporting by operating segment

Since January 1, 2009, the Group has identified and presented segment reporting in accordance with IFRS 8, *Operating segments*.

Financial reporting by operating segment is governed by the same rules as those used for the condensed consolidated financial statements and described in the Accounting Policies note to the Financial Statements.

This information is based on the internal organization of the Group's activities and corresponds to the Group's four business segments, that is, Water, Environmental Services, Energy Services and Transportation.

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

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

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

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

Pursuant to IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, the income statements of:

- the whole Transportation business in the course of divestiture (see Note 4);
- Water activities in the Netherlands, divested in December 2010 and Environmental Services activities in Norway, divested in March 2011;
- German operations in the Energy Services division, divested in May and August 2011;
- household assistance services (Proxiserve) held jointly by the Water and Energy Services divisions, divested in December 2011;
- urban lighting activities (Citelum) in the Energy Services division;

were reclassified to "Net income (loss) from discontinued operations" for the year ended December 31, 2011 and 2010 and 2009.

Furthermore, as the divestiture process for Water activities in Gabon and Pinellas incineration activities in the United States in the Environmental Services division was interrupted in the first and second semesters of 2011 respectively, these activities are reclassified in continuing operations.

These amounts are presented in a separate line, "Net income from discontinued operations", for fiscal year 2011 and fiscal years 2010 and 2009 presented for comparison purposes (see Note 25).

Reporting by operating segment

Revenue by segment *(€ million)*	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Water	12,617.1	12,250.3	12,401.8
Environmental Services	9,740.2	9,337.8	8,763.6
Energy Services	7,290.0	7,176.1	6,682.3
Transportation	-	-	-
REVENUE AS PER THE CONSOLIDATED INCOME STATEMENT	**29,647.3**	**28,764.2**	**27,847.7**

The breakdown of revenue from transactions with non-Group customers does not identify any single non-Group customer representing 10% or more of Group revenue.

Inter-segment revenue *(€ million)*	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Water	58.5	66.1	67.6
Environmental Services	90.4	78.0	93.5
Energy Services	58.6	61.5	53.9
Transportation	1.7	5.5	4.7
INTER-SEGMENT REVENUE	**209.2**	**211.1**	**219.7**

Operating cash flow before changes in working capital by segment *(€ million)*	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Water	1,444.1	1,514.2	1,554.9
Environmental Services	1,173.8	1,283.9	1,176.1
Energy Services	604.4	676.9	621.6
Transportation	170.8	315.6	311.5
Total operating segments	**3,393.1**	**3,790.6**	**3,664.1**
Unallocated operating cash flow before changes in working capital	(40.2)	(71.9)	(104.7)
OPERATING CASH FLOW BEFORE CHANGES IN WORKING CAPITAL AS PER THE CONSOLIDATED CASH FLOW STATEMENT	**3,352.9**	**3,718.7**	**3,559.4**

Operating income by segment *(€ million)*	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Water	860.5	1,046.1	1,149.9
Environmental Services	359.6	585.8	422.7
Energy Services	(37.2)	529.3	382.7
Transportation	-	-	-
Total operating segments	**1,182.9**	**2,161.2**	**1,955.3**
Unallocated operating income	(165.7)	(179.1)	(166.4)
OPERATING INCOME AS PER THE CONSOLIDATED INCOME STATEMENT	**1,017.2**	**1,982.1**	**1,788.9**

Adjusted operating cash flow by segment *(€ million)*	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Water	1,462.4	1,525.6	1,570.3
Environmental Services	1,197.3	1,271.8	1,148.9
Energy Services	597.6	658.0	578.7
Transportation	-	-	-
Holding companies	(105.0)	(140.8)	(142.0)
ADJUSTED OPERATING CASH FLOW BY SEGMENT	**3,152.3**	**3,314.6**	**3,155.9**

Adjusted operating cash flow reconciles to operating income as follows:

Year ended December 31, 2011 *(€ million)*	**Adjusted OP CF**	**Net operating provisions**	**Net depreciation and amortization**	**Impairment losses on goodwill and negative goodwill**	**Capital gains (losses) on disposal of non-current assets**	**Other**	**OP INCOME**
Water	1,462.4	19.3	(565.5)	(58.6)	22.1	(19.2)	860.5
Environmental Services	1,197.3	(106.6)	(710.9)	(78.1)	55.4	2.5	359.6
Energy Services	597.6	(37.5)	(236.3)	(366.1)	7.8	(2.7)	(37.2)
Transportation	-	-	-	-	-	-	-
Holding companies	(105.0)	(23.4)	(36.8)	-	-	(0.5)	(165.7)
TOTAL	**3,152.3**	**(148.2)**	**(1,549.5)**	**(502.8)**	**85.3**	**(19.9)**	**1,017.2**

Year ended December 31. 2010 *(€ million)*	**Adjusted OP CF**	**Net operating provisions**	**Net depreciation and amortization**	**Impairment losses on goodwill and negative goodwill**	**Capital gains (losses) on disposal of non-current assets**	**Other**	**OP INCOME**
Water	1,525.6	(15.0)	(512.4)	0.4	65.4	(17.9)	1,046.1
Environmental Services	1,271.8	(20.4)	(706.6)	(0.2)	41.8	(0.6)	585.8
Energy Services	658.0	(5.8)	(226.9)	-	99.6	4.4	529.3
Transportation	-	-	-	-	-	-	-
Holding companies	(140.8)	(1.9)	(29.3)	-	-	(7.1)	(179.1)
TOTAL	**3,314.6**	**(43.1)**	**(1,475.2)**	**0.2**	**206.8**	**(21.2)**	**1,982.1**

Year ended December 31. 2009 *(€ million)*	**Adjusted OP CF**	**Net operating provisions**	**Net depreciation and amortization**	**Impairment losses on goodwill and negative goodwill**	**Capital gains (losses) on disposal of non-current assets**	**Other**	**OP INCOME**
Water	1,570.3	40.6	(493.1)	-	25.1	7.0	1,149.9
Environmental Services	1,148.9	(54.1)	(791.9)	-	122.5	(2.7)	422.7
Energy Services	578.7	(20.1)	(218.4)	(0.9)	43.4	-	382.7
Transportation		-	-	-	-	-	-
Holding companies	(142.0)	(8.3)	(12.9)	-		(3.2)	(166.4)
TOTAL	**3,155.9**	**(41.9)**	**(1,516.3)**	**(0.9)**	**191.0**	**1.1**	**1,788.9**

Net charge to operating depreciation. amortization and provisions by segment [1] *(€ million)*	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Water	(511.9)	(548.2)	(468.9)
Environmental Services	(845.2)	(716.3)	(859.9)
Energy Services	(257.7)	(234.3)	(253.1)
Transportation	-	-	-
Total operating segments	**(1,614.8)**	**(1,498.8)**	**(1,581.9)**
Unallocated net charge to operating depreciation. amortization and provisions [2]	(86.1)	(55.0)	(47.9)
NET CHARGE TO OPERATING DEPRECIATION. AMORTIZATION AND PROVISIONS	**(1,700.9)**	**(1,553.8)**	**(1,629.8)**

(1) Including movements in working capital provisions.

(2) Including Proactiva. Artelia and Renewable Energy activities.

Industrial investments by segment *(€ million)*	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Water	655	711	589
Environmental Services	823	647	626
Energy Services	549	355	416
Transportation	209	339	445
Unallocated industrial investments	65	55	56
INDUSTRIAL INVESTMENTS [(1)]	**2,301**	**2,107**	**2,132**

(1) In accordance with IFRS 8, industrial investments presented in segment reporting include investments financed by finance lease in the amount of €43 million. This industrial investment is presented net of such financing in industrial investments in the consolidated cash flow statement.

Assets by segment as of December 31, 2011 *(€ million)*	**Water**	**Environmental Services**	**Energy Services**	**Transportation**	**Unallocated amounts [(1)]**	**Total assets in the Consolidated Statement of Financial Position**
Goodwill. net	2,368.3	2,653.2	743.8	-	30.6	5,795.9
Intangible assets and Property. plant and equipment. net	6,600.9	4,247.5	3,154.4	-	395.4	14,398.2
Operating financial assets	4,089.5	748.6	502.8	-	104.4	5,445.3
Working capital assets. including DTA	6,489.1	2,785.7	3,779.9	-	657.6	13,712.3
Total segment assets	**19,547.8**	**10,435.0**	**8,180.9**	**-**	**1,188.0**	**39,351.7**
Investments in associates	174.6	37.0	99.7	-	13.9	325.2
Other unallocated amounts					10,728.7	10,728.7
TOTAL ASSETS	**19,722.4**	**10,472.0**	**8,280.6**	**-**	**11,930.6**	**50,405.6**

(1) Including the Transportation business transferred to Assets classified as held for sale (see Note 4) Proactiva, Artelia and Renewable Energy activities.

Assets by segment as of December 31, 2010 *(€ million)*	**Water**	**Environmental Services**	**Energy Services**	**Transportation**	**Unallocated amounts [(1)]**	**Total assets in the Consolidated Statement of Financial Position**
Goodwill. net	2,408.0	2,691.1	1,161.6	549.0	30.5	6,840.2
Intangible assets and Property, plant and equipment, net	6,332.2	4,228.3	2,679.6	1,767.8	365.8	15,373.7
Operating financial assets	4,087.0	745.2	598.4	106.9	91.1	5,628.6
Working capital assets. including DTA	6,318.1	2,748.5	4,043.8	1,348.4	910.1	15,368.9
Total segment assets	**19,145.3**	**10,413.1**	**8,483.4**	**3,772.1**	**1,397.5**	**43,211.4**
Investments in associates	173.5	45.4	90.0	2.3	0.5	311.7
Other unallocated amounts					7,904.2	7,904.2
TOTAL ASSETS	**19,318.8**	**10,458.5**	**8,573.4**	**3,774.4**	**9,302.2**	**51,427.3**

(1) Including Proactiva, Artelia and Renewable Energy activities.

Assets by segment as of December 31, 2009 *(€ million)*	**Water**	**Environmental Services**	**Energy Services**	**Transportation**	**Unallocated amounts** [(1)]	**Total assets in the Consolidated Statement of Financial Position**
Goodwill. net	2,253.3	2,678.4	1,147.9	537.6	7.4	6,624.6
Intangible assets and Property, plant and equipment, net	5,836.5	4,164.6	2,492.4	1,669.8	278.5	14,441.8
Operating financial assets	4,059.1	754.5	654.4	105.4	78.4	5,651.8
Working capital assets. including DTA	6,504.3	2,713.4	3,590.5	1,269.4	729.7	14,807.3
Total segment assets	**18,653.2**	**10,310.9**	**7,885.2**	**3,582.2**	**1,094.0**	**41,525.5**
Investments in associates	148.1	62.0	55.3	2.9	0.2	268.5
Other unallocated amounts					7,960.7	7,960.7
TOTAL ASSETS	**18,801.3**	**10,372.9**	**7,940.5**	**3,585.1**	**9,054.9**	**49,754.7**

(1) Including Proactiva, Artelia and Renewable Energy activities.

Liabilities by segment as of December 31, 2011 *(€ million)*	**Water**	**Environmental Services**	**Energy Services**	**Transportation**	**Unallocated amounts** [(1)]	**Total liabilities in the Consolidated Statement of Financial Position**
Provisions for contingencies and losses	874.7	1,081.8	509.2	-	216.2	2,681.9
Working capital liabilities including DTL	7,904.1	2,897.0	3,263.0	-	425.6	14,489.7
Other segment liabilities						
Total segment liabilities	**8,778.8**	**3,978.8**	**3,772.2**	**-**	**641.8**	**17,171.6**
Other unallocated liabilities					33,234.0	33,234.0
TOTAL LIABILITIES	**8,778.8**	**3,978.8**	**3,772.2**	**-**	**33,875.8**	**50,405.6**

(1) Including the Transportation business transferred to Liabilities directly associated with assets classified as held for sale (see Note 4) Proactiva, Artelia and Renewable Energy activities.

Liabilities by segment as of December 31, 2010 *(€ million)*	**Water**	**Environmental Services**	**Energy Services**	**Transportation**	**Unallocated amounts** [(1)]	**Total liabilities in the Consolidated Statement of Financial Position**
Provisions for contingencies and losses	879.4	1,075.6	526.9	359.0	162.9	3,003.8
Working capital liabilities including DTL	7,734.6	2,743.1	3,291.4	1,677.9	428.3	15,875.3
Other segment liabilities						
Total segment liabilities	**8,614.0**	**3,818.7**	**3,818.3**	**2,036.9**	**591.2**	**18,879.1**
Other unallocated liabilities					32,548.2	32,548.2
TOTAL LIABILITIES	**8,614.0**	**3,818.7**	**3,818.3**	**2,036.9**	**33,139.4**	**51,427.3**

(1) Including Proactiva, Artelia and Renewable Energy activities.

Liabilities by segment as of December 31, 2009 *(€ million)*	Water	Environmental Services	Energy Services	Transportation	Unallocated amounts [1]	Total liabilities in the Consolidated Statement of Financial Position
Provisions for contingencies and losses	997.3	985.9	494.6	367.3	195.2	3,040.3
Working capital liabilities including DTL	7,670.0	2,617.1	2,878.2	1,558.4	304.4	15,028.1
Other segment liabilities						
Total segment liabilities	**8,667.3**	**3,603.0**	**3,372.8**	**1,925.7**	**499.6**	**18,068.4**
Other unallocated liabilities					31,686.3	31,686.3
TOTAL LIABILITIES	**8,667.3**	**3,603.0**	**3,372.8**	**1,925.7**	**32,185.9**	**49,754.7**

(1) Including Proactiva, Artelia and Renewable Energy activities.

Reporting by geographical area

Year ended December 31, 2011 *(€ million)*	France	Germany	United Kingdom	Central and Eastern Europe	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	Total
REVENUE	**11,459.4**	**2,739.0**	**2,631.8**	**2,789.9**	**2,745.7**	**2,287.3**	**993.0**	**1,911.7**	**479.5**	**1,610.0**	**29,647.3**

Year ended December 31, 2010 *(€ million)*	France	Germany	United Kingdom	Central and Eastern Europe	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	Total
REVENUE	**11,321.9**	**2,541.5**	**2,366.9**	**2,619.1**	**2,807.2**	**2,305.8**	**909.7**	**1,664.5**	**664.8**	**1,562.8**	**28,764.2**

Year ended December 31, 2009 *(€ million)*	France	Germany	United Kingdom	Central and Eastern Europe	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	Total
REVENUE	**11,110.3**	**2,385.4**	**2,428.3**	**2,439.6**	**2,531.4**	**2,135.5**	**739.4**	**1,435.9**	**995.0**	**1,649.9**	**27,847.7**

Breakdown of non-current assets (excluding deferred tax assets and non-current derivatives) by geographical area

As of December 31, 2011 *(€ million)*	France	Germany	United Kingdom	Central and Eastern Europe	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	Total
TOTAL	**6,572.9**	**4,385.6**	**3,803.0**	**2,856.3**	**1,527.6**	**2,379.1**	**471.7**	**3,340.0**	**322.5**	**791.7**	**26,450.4**

As of December 31, 2010 *(€ million)*	France	Germany	United Kingdom	Central and Eastern Europe	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	Total
TOTAL	**7,651.5**	**4,595.3**	**3,505.2**	**2,817.7**	**2,358.9**	**2,869.1**	**569.2**	**3,129.5**	**341.0**	**847.3**	**28,684.7**

As of December 31, 2009 *(€ million)*	France	Germany	United Kingdom	Central and Eastern Europe	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	Total
TOTAL	**7,518.0**	**4,701.6**	**3,282.0**	**2,539.1**	**2,604.6**	**2,618.7**	**419.3**	**2,644.1**	**264.0**	**947.2**	**27,538.6**

43 Subsequent events

On January 9, 2012, Veolia Environnement SA sent a notice of early redemption to all holders of the U.S. private placement performed in January 2003. Early redemption was effectively performed on February 9, for a euro-equivalent of €350.2 million.

On February 10, 2012, the company Termo Energia Calabria (TEC), a subsidiary of the Environmental Services division specializing in waste incineration in Calabria, filed a request for voluntary arrangement with its creditors (“concordato preventivo”) with the court of Spezia in Italy.

On February 28, 2012, the company entered into exclusive negotiation with an investor regarding the progressive withdrawal from Veolia Transdev.

44 Main companies included in the 2011 consolidated financial statements

In 2011, Veolia Environnement Group consolidated or accounted for a total of 2,836 companies, of which the main companies are:

Company and address	French company registration number (Siret)	Consolidation Method	% control	% interest
Veolia Environnement SA 36-38, avenue Kléber – 75116 Paris	40 321 003 200 047	FC	100.00	100.00
Société d'Environnement et de Services de l'Est SAS 75 avenue Oehmichen BP 21100 Technoland 25461 ETUPES Cedex 2, rue Annette-Bloch – 25200 Montbéliard	44 459 092 100 052	FC	100.00	85.44
EOLFI SA et ses filiales 25, place de la Madeleine – 75008 Paris	477 951 644 00020	FC	71.49	71.49
PROACTIVA Medio Ambiete SA Calle Cardenal Marcelo Spinola 8 – 3A 28016 Madrid (Espagne)		PC	50.00	50.00
Thermal North America Inc. 99 summer street; suite 900 Boston Massachusetts 02110 (États-Unis)		FC	100.00	100.00
RIDGELINE ENERGY HOLDING INC The Nemours Building 1007 Orange Street Suite 1414 Wilmington,DL 19801 (États-Unis)		FC	100.00	71.49
WATER				
Veolia Eau – Compagnie Générale des Eaux 52, rue d'Anjou – 75008 Paris	57 202 552 600 029	FC	100.00	100.00
Veolia Water 52, rue d'Anjou – 75008 Paris	42 134 504 200 012020	FC	100.00	100.00
Including the following companies in France:				
Compagnie des Eaux et de l'Ozone 52, rue d'Anjou – 75008 Paris	77 566 736 301 597	FC	100.00	100.00
Société Française de Distribution d'Eau 7, rue Tronson-du-Coudray – 75008 Paris	54 205 494 500 382	FC	99.56	99.56
Compagnie Fermière de Services Publics 3, rue Marcel-Sembat – Immeuble CAP 44 44100 Nantes	57 575 016 100 342	FC	99.87	99.87
Compagnie Méditerranéenne d'Exploitation des Services d'Eau – CMESE 12, boulevard René-Cassin – 06100 Nice	78 015 329 200 112	FC	99.72	99.72
Société des Eaux de Melun Zone Industrielle – 198/398, rue Foch 77000 Vaux Le Pénil	78 575 105 800 047	FC	99.29	99.29
Société des Eaux de Marseille 25, rue Edouard-Delanglade 13000 Marseille	5 780 615 000 017	FC	97.74	97.74
Sade-Compagnie Générale de Travaux d'Hydraulique (CGTH-SADE) et ses filiales 28, rue de la Baume – 75008 Paris	56 207 750 300 018	FC	99.33	99.33
Veolia Water Solutions & Technologies et ses filiales l'Aquarène 1, place Montgolfier 94417 St Maurice Cedex	41 498 621 600 037	FC	100.00	100.00
OTV France l'Aquarène – 1 place Montgolfier 94417 St Maurice Cedex	433 998 473 000 14	FC	100.00	100.00

Company and address	French company registration number (Siret)	Consolidation Method	% control	% interest
Société Internationale de Dessalement (SIDEM) 20-22 rue de Clichy – 75009 Paris	342 500 956 000 20	FC	100.00	100.00
Including the following foreign companies:				
Veolia Water UK PLC et ses filiales Kings Place – 5th Floor – 90 York Way London N19AG (Grande-Bretagne)		FC	100.00	100.00
Veolia Water Central Ltd Tamblin Way – Hatfield Hertfordshire AL109EZ (Grande-Bretagne)		FC	100.00	100.00
Veolia Water North America et ses filiales 101 W. Washington Street, Suite 1400E Indianapolis, IN 46204 (États-Unis)		FC	100.00	100.00
Veolia Wasser GmbH et ses filiales Lindencorso Unter den linden 21 10 117 Berlin (Allemagne)		FC	100.00	100.00
Berliner Wasserbetriebe Anstalt des Offentlichen Rechts Neue Jüdenstrasse 1 10179 Berlin (Allemagne)		PC	49.90	24.95
BraunschweFCer Versorgungs- AG &Co.KG Taubenstrasse 7 38 106 BraunschweFC (Allemagne)		FC	74.90	74.90
Aquiris SA Avenue de Vilvorde-450 1130 Bruxelles (Belgique)		FC	99.00	99.00
Apa Nova Bucuresti Srl Strada Aristide Demetriade nr 2, Sector 1 Bucarest (Roumanie)		FC	73.69	73.69
Veolia Voda et ses filiales 52, rue d'Anjou – 75 008 Paris	434 934 809 00016	FC	75.21	75.21
Prazske Vodovody A Kanalizace a.s. 11 Parizska 11 000 Prague 1 (République tchèque)		FC	100.00	75.21
Severoceske Vodovody A Kanalizace a.s. 1 689 Pritkovska 41 550 Teplice (République tchèque)		FC	50.10	37.68
Shenzhen Water (Group) Co. Ltd et ses filiales Water Building, N°1019 Shennan Zhong Road 518031 SHENZHEN, GuangDong (Chine)		PC	45.00	25.00
Shanghai Pudong Veolia Water Corporation Ltd No. 703 Pujian Road, Pudong New District 200127 SHANGHAI (Chine)		PC	50.00	50.00
Changzhou CGE Water Co Ltd No.12 Juqian Road, CHANGZHOU MunicPCality, Jiangsu Province 213000 (Chine)		PC	49.00	24.99
Kunming CGE Water Supply Co Ltd No.6 Siyuan Road, Kunming MunicPCality, Yunnan Province 650231 (Chine)		PC	49.00	24.99
Veolia Water Korea Investment Co Ltd et ses filiales 10F Yeonsei Jaeden Severance Bldg.84-11, Namdaemunno 5-ga Jung-gu, Seoul, 100-753 (Corée du Sud)		FC	100.00	100.00
Veolia Water Australia et ses filiales Level 4, Bay Center, 65 Pirrama Road, Pyrmont NSW 2009 (Australie)		FC	100.00	100.00
Société d'Énergie et d'Eau du Gabon Avenue Felix Eboué – BP 2082 – Libreville (Gabon)		FC	51.00	41.08
AZALIYA 52, rue d'Anjou 75008 Paris	505 190 801 00017	PC	51.00	51.00
Veolia Water Middle East North Africa (Veolia Water MENA) et ses filiales 52, rue d'Anjou – 75 008 Paris	403 105 919 0001900027	PC	80.55	41.08
Amendis 23, rue Carnot – 90 000 Tanger (Maroc)		PC	100.00	31.22

Company and address	French company registration number (Siret)	Consolidation Method	% control	% interest
REDAL SA 6 Zankat Al Hoceima, BP 161 – 10 000 Rabat (Maroc)		PC	100.00	31.91
Lanzhou Veolia Water (Group) Co LTD No. 2 Hua Gong Street, XFCu District, LANZHOU, Gansu Province (Chine)		PC	45.00	22.95
Sharqiyah Desalination Co. SAOC PO Box 685, PC 114 Jibroo, Sultanate of Oman	1 011 277	PC	55.00	28.05
Biothane Systems International Holdings B.V. Thanthofdreef 21 – PO BOX 5068 2623 EW Delft (Pays-Bas)	27267973	FC	100.00	100.00
Tianjin Jinbin Veolia Water Co No2 Xinxiang Road, Bridge 4 Jin Tang Expressway, Dongli District Tianjin MunicPCality (Chine)		PC	49.00	49.00
Changle Veolia Water Supply Co Ltd (N° 2 Water Plant) Pan Ye Village, Hang Cheng Jie Dao, Changle MunicPCality, Fujian Province (Chine)		PC	49.00	49.00
Veolia Water – Veolia Environmental Service Ltd (Hong Kong) 6th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong		FC	100.00	100.00
Sofiyska Voda AD 4 Kuzman Shapkarev street, Sredetz MinicPCality, Sofia (Bulgarie)		FC	77.10	57.98
ENVIRONMENTAL SERVICESs				
Veolia Propreté Parc des Fontaines – 163/169, avenue Georges-Clémenceau 92000 Nanterre	57 222 103 400 778	FC	100.00	100.00
Société d'Assainissement Rationnel et de Pompage (SARP) et ses filiales 52 avenue des Champs-Pierreux 92000 Nanterre	77 573 481 700 353387	FC	99.56	99.56
SARP Industries et ses filiales 427, route du Hazay – Zone Portuaire Limay-Porcheville – 78520 Limay	30 377 298 200 029	FC	100.00	99.85
Routière de l'Est Parisien 26 avenue des Champs Pierreux 92000 NANTERRE	61 200 696 500 026	FC	100.00	100.00
ONYX Auvergne Rhône-Alpes 105 avenue du 8 mai 1945 69140 Rillieux-La-Pape	30 259 089 800 169524	FC	100.00	99.99
Onyx Est ZI de la Hardt – Route de Haspelschiedt 57 230 Bitche	30 520 541 100 070	FC	95.00	95.00
Paul Grandjouan SACO Avenue Lotz-Cossé 44 200 Nantes	86 780 051 800 450	FC	100.00	100.00
OTUS 26, avenue des Champs-Pierreux 92000 NANTERRE	62 205 759 400 336	FC	100.00	100.00
Bartin Recycling Group et ses filiales 15 rue Albert et Paul Thouvenin 18100 VIERZON	48 141 629 500 014	FC	100.00	100.00
Including the following foreign companies:				
Veolia ES Holding Plc et ses filiales 8th floor – 210 Pentonville Road LONDON - N19JY (Royaume-Uni)		FC	100.00	100.00
Veolia Environmental Services North America Corp. 200 East Randolph Street – Suite 7900 Chicago –IL 60601 (États-Unis)		FC	100.00	100.00
Veolia ES Solid Waste, Inc One Honey Creed Corporate Center – 125 South 84th Street – Suite 200 WI 53214 Milwaukee (États-Unis)		FC	100.00	100.00

Company and address	French company registration number (Siret)	Consolidation Method	% control	% interest
VES Technical Solutions LLC Butterfield Center 700 East Butterfield Road, #201 60148 LOMBARD (États-Unis)		FC	100.00	100.00
Veolia ES Industrial Services, Inc. 2525 South Blvd, Suite 410 LEAGUE CITY 77573 Texas (Etats-Unis)		FC	100.00	100.00
Veolia ES Canada Services Industriels Inc. 1705, 3ème avenue H1B 5M9 Montreal – Québec (Canada)		FC	100.00	100.00
Veolia Environmental Services Australia Pty Ltd Level 4, Bay Center – 65 Pirrama Road – P.O. Box H126 –NSW 2009 – Pyrmont (Australie)		FC	100.00	100.00
Veolia Environmental Services Asia Pte Ltd 5 Loyang Way 1-WMX Technologies Building 508706 Singapore		FC	100.00	100.00
Veolia Environnmental Services China LTD 12/F., The Lee Gardens – 33 Hysan Avenue Causeway Bay - HONG-KONG		FC	100.00	100.00
Veolia Umweltservice GmbH Pet Recycling et ses filiales Hammerbrookstrasse 69 20097 Hamburg (Allemagne)		FC	100.00	100.00
Marius Pedersen/Veolia Miljservice HoldingA/S Danemark et ses filiales Ørbaekvej 851 - 5863 FERRITSLEV (Danemark)		FC	65.00	65.00
Veolia Servizi Ambientali SpA (et ses filiales) Via di Monte Brianzo, 56 – 00186 Roma – (Italie)		FC	100.00	100.00
ENERGY SERVICES				
Dalkia – Saint-André 37, avenue du Mal-de-Lattre-de-TassFCny 59350 St André les Lille	40 321 129 500 023	FC	66.00	66.00
Dalkia France 37, avenue du Mal-de-Lattre-de-TassFCny 59350 St André les Lille	45 650 053 700 018	FC	99.93	65.96
Dalkia Investissement 37, avenue du Mal-de-Lattre-de-TassFCny 59350 St André les Lille	40 443 498 700 073	PC	50.00	33.00
Dalkia International 37, avenue du Mal-de-Lattre-de-TassFCny 59350 St André les Lille	43 353 956 600 011	PC	75.81	50.03
Citelum et ses filiales 37, rue de Lyon – 75012 Paris	38 964 385 900 019066	FC	100.00	65.96
Including the following foreign companies:				
Dalkia PLC et ses filiales Elizabeth House – 56-60 London Road Staines TW18 4BQ (Grande-Bretagne)		PC	75.81	50.03
Dalkia NV et ses filiales 52, quai Fernand-Demets 1070 – Anderlecht (Belgique)		PC	75.81	50.03
Siram SPA et ses filiales Via Bisceglie, 95 – 20152 Milano (Italie)		PC	75.81	50.03
Dalkia Espana et ses Filiales Cl Juan FCnacio Luca De tgna, 4 28 027 Madrid (Espagne)		PC	75.81	50.03
Dalkia SGPS SA et ses Filiales Estrada de Paço d'Arcos 2770 – 129 Paco d'Arços (Portugal)		PC	75.81	50.03
Dalkia Limitada et ses filiales Rua Funchal 418 – 14 andar, Vila Olimpia -60 Sao Paulo SP (Brésil)		PC	75.81	50.03

Company and address	French company registration number (Siret)	Consolidation Method	% control	% interest
Dalkia Polska et ses filiales Ul Mysia 5 – 00 496 Varsovie (Pologne)		PC	75.81	30.02
Zespol Elektrocieplownl w Lodzi et sa filiale Ul.Jadzi. Andrzejewskiej Street 90-975 Lodz (Pologne)		PC	75.81	27.64
Dalkia Term SA et ses filiales ul. Ostrobramska 75C 04-175 WARSZAMA UL B.Czecha 36 – 04 - 555 Warszawa (Pologne)		PC	75.81	30.02
SPEC SA et sa filiale UI Stefana Batorego 2 02-591 Warszawa (Pologne)		PC	75.81	25.51
Dalkia AB et ses filiales Hälsingegatan 47 – 113 31 Stockholm (Suède)		PC	75.81	50.03
UAB Vilnius Energija Joconiu St. 13 – 02300 VILNIUS (Lituanie)		PC	75.81	44.47
Dalkia Energia Zrt. et ses filiales Budafoki út 91-93 – H-1117 Budapest (Hongrie)		PC	75.81	50.02
Dalkia a.s et ses filiales Einsteinova 25 - 851 01 BRATISLAVA SLOVAQUIE Kutlíkova 17 – Technopol 851 02 Bratislava 5 (Slovaquie)		PC	75.81	50.03
Dalkia Ceska Republika et ses filiales 28.Rijna 3123/152 709 74 Ostrava (République tchèque)		PC	75.81	36.56
TRANSPORTATION				
Veolia Transdev 36, avenue Kleber 75116 Paris	521 477 851 00013	PC	50.00	50.00
Société européenne pour le développement des transports public - Transdev 9, rue Maurice Mallet 92445 Issy-les-Moulineaux	542 104 377 00610	PC	50.00	50.00
Veolia Transport Parc des Fontaines 163/169, avenue Georges-Clémenceau 92000 Nanterre	383 607 090 00016	PC	50.00	50.00
Société Nationale Maritime Corse-Méditerranée (SNCM) 61, boulevard des Dames – 13002 Marseille	775 558 463 00011	PC	50.00	33.00
CFTI (Compagnie Française de Transport Interurbain) Parc des Fontaines 163/169, avenue Georges-Clémenceau 92000 Nanterre	552 022 063 01075	PC	50.00	49.97
Veolia Transport Urbain Parc des Fontaines 163/169, avenue Georges-Clémenceau 92000 Nanterre	344 379 060 00082	PC	50.00	50.00
VT Eurolines 163/169, avenue Georges-Clémenceau 92000 Nanterre	434 009 254 00021	PC	50.00	50.00
Including the following foreign companies:				
Veolia Transportation Inc. 720 E Butterfield Road Suite 309 Lombard 60148 IL (États-Unis)		PC	50.00	50.00
Super Shuttle International Inc., et ses filiales 14500 N. NorthsFCht boulevard, Suite 329 Scottsdale, AZ 85260 (États-Unis)		PC	50.00	50.00
Veolia Transport Australasia Level 12, 114 William Street Melbourne, Victoria 3000 (Australie)		PC	50.00	50.00
Veolia Transport Sweden Holding AB Englundavägen 9, Box 1820 SE-171 24 Solna (Suède)		PC	50.00	50.00

Company and address	French company registration number (Siret)	Consolidation Method	% control	% interest
Connexxion holding NV, et ses filiales Laapersveld 75 1213 VB Hilversum (Pays-Bas)		PC	50.00	25.00
Transdev PLC, et ses filiales 401 King Street Hammersmith London, W6 9NJ (Royaume-Uni)		PC	50.00	50.00
Transdev ParticPCações SGPS SA, et ses filiales Avenida D. Afonso Henriques, 1462 – 1º 4450-013 Matosinhos (Portugal)		PC	50.00	50.00
Veolia Transport Nederland Holding BV et ses filiales Mastbosstraat 12 – Postbus 3306 4800 GT Breda (Pays-Bas)		PC	50.00	50.00
Veolia Transport Belgium nv et ses filiales Groenendaallaan 387 2030 Antwerpen (Belgique)		PC	50.00	50.00
Veolia Transport Central Europe GmbH et ses filiales Georgenstrasse 22 10117 Berlin (Allemagne)		PC	50.00	32.50
Veolia Verkehr GmbH et ses filiales Georgenstrasse 22 10117 Berlin (Allemagne)		PC	50.00	50.00
Veolia Transport Ceska Republica a.s. Krizikova 148/34 18600 PRAGUE 8 REPUBLIQUE TCHEQUEK Hutim 664/7 198 00 Praha 9 (Tchéquie)		PC	50.00	32.50

Consolidation method:
FC : Full Consolidation – PC: Proportionate Consolidation – EA: Equity Associate

45 Audit fees

Audit fees incurred by the Group during fiscal years 2011, 2010 and 2009 total €52.6 million, €50.1 million and €50.2 million, respectively, including €41.8 million in 2011, €40.5 million in 2010 and €40.2 million in 2009 in respect of the statutory audit of the accounts and €10.8 million in 2011, €9.6 million in 2010 and €10.0 million in 2009 in respect of services falling within the scope of diligences directly related to the audit engagement.

Auditors' report on the consolidated financial statements

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures.

This report also includes information relating to the specific verification of information given in the Group's management report.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

Year ended December 31, 2011

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended December 31, 2011, on:

- the audit of the accompanying consolidated financial statements of Veolia Environnement;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

1 Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2011 and of the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the note 1.1.5 of the consolidated financial statements which sets out the correction of error related to a series of accounting irregularities identified during the second quarter of the year and whose effects were apprehended in its accounts by your company in accordance with IAS 8 “Accounting policies, changes in accounting estimates and errors”.

2 Justification of our assessments

The accounting estimates used in the preparation of the financial statements as of December 31, 2011 were made in a context of the sovereign debt crisis in certain countries of the Eurozone. This crisis is accompanied by an economic and liquidity crisis, which make it difficult to assess economic prospects. Such in the context in which we made our own assessments and we bring to your attention the following matters in accordance with the requirements of article L.823-9 of the French Commercial Code (Code de commerce):

Management's significant judgments and estimations are disclosed in note 2 to the consolidated financial statements, which are based on uncertain scenario, realities could be different from those estimates.

These judgments and estimates relate principally to:

- Goodwill and other intangible assets with an indefinite useful life which are subjected to regular annual impairment tests, or when a triggering event occurs as described in the notes 1-11 and 5 to the consolidated financial statements. We have analysed the implementation procedures for these tests and the assumptions used to compute futures cash flows and have verified that the information disclosed in the notes 5 and 7 to the financial statements is appropriate.

- The classification as assets and liabilities available for sale and the impairment on Veolia Transdev as describe in the notes 1.5.3, 4 and 25 to the consolidated financial statements. We have analyzed the classification criteria and the valuation and have verified that the information disclosed in the notes 4 and 25 to the financial statements is appropriate.

- Fixed assets and other intangible assets with a definite useful life (notes 1-11, 1-20, 6, 7 and 8), financial assets (notes 11 and 12), income taxes (notes 1-19, 13 and 23), provisions and post-employment benefits (notes 1-13, 1-15, 17 and 31) and financial instruments (notes 1-14, 1-26, 28, 29 and 30). Our works consisted in assessing the financial information and assumptions underlying these judgments and estimates, reviewing, on a test basis, the calculations made by the company and verifying that the information disclosed in the notes to the consolidated financial statements is appropriate.

The financial statements and the notes set out the correction of error during the year as mentioned in the first part of this report. According to IAS 8 "Accounting policies, changes in accounting estimates and errors", the comparative information relating to the year ended December 31, 2010, and December 31, 2009 presented in the consolidated financial statements, has been restated to take into account retrospectively those corrections. Consequently, the comparative financial information differs from the consolidated financial statements published for the year ended December 31, 2010, and December 31, 2009. We have examined the proper restatement of the consolidated financial statements for year ended December 31, 2010 and year ended December 31, 2009 and the information disclosed in the note 1.1.5 to the consolidated financial statement.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3 Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

The Auditors

French original signed by

Paris-La Défense, March 16, 2012

KPMG Audit		ERNST & YOUNG et Autres	
A division of KPMG S.A.			
Jay Nirsimloo	Baudouin Griton	Pierre Hurstel	Nicolas Pfeuty

20.2 Company Financial Statements

Balance Sheet as of December 31, 2011

Assets

(in € thousands)	31/12/2011 GROSS	31/12/2011 AMORT. & PROV.	31/12/2011 NET	31/12/2010 NET
SHARE CAPITAL SUBSCRIBED BUT NOT CALLED	-	-	-	-
NON-CURRENT ASSETS				
Intangible assets				
Preliminary expenses	-	-	-	-
Research & development expenditure	-	-	-	-
Concessions, patents, licenses, trademarks, processes, software, rights and similar	1,299	995	304	579
Purchased goodwill [1]	-	-		-
Other intangibles	-	-		-
Intangible assets under construction	1,986	-	1,986	8,805
Property, plant and equipment				
Land	-	-		-
Buildings	-	-		-
Industrial and technical plant	-	-		-
Other plant and equipment	360	248	112	150
PP&E under construction	-	-	-	71
Payments on account - PP&E	-	-	-	-
Long-term loans and investments [2]				
Equity investments	16,055,314	1,661,459	14,393,856	16,041,713
Loans to equity investments	7,445,363	-	7,445,363	7,544,238
Long-term portfolio investments (TIAP)	-	-	-	-
Other long-term investment securities	52,268	-	52,268	52,827
Loans	99,904	-	99,904	420,354
Other long-term loans and investments	300,127	226,892	73,235	180,284
TOTAL (I)	**23,956,622**	**1,889,593**	**22,067,028**	**24,249,022**

(in € thousands)	31/12/2011 GROSS	31/12/2011 AMORT. & PROV.	31/12/2011 NET	31/12/2010 NET
CURRENT ASSETS				
Inventories and work-in-progress				
Raw materials & supplies	-	-	-	-
Work in process - goods and services	-	-	-	-
Semi-finished and finished goods	-	-	-	-
Bought-in goods	-	-	-	-
Payments on account – inventories	1,774	-	1,774	1,836
Receivables (3)				
Trade receivables				
Trade receivables and related accounts	230,434	-	230,434	261,302
Other receivables	1,614,400	106,589	1,507,811	913,642
Miscellaneous receivables				
Share capital subscribed and called but not paid in	-	-	-	-
Marketable securities				
Treasury shares	134,115	83,295	50,819	127,618
Other securities	3,548,375	-	3,548,375	3,259,411
Treasury instruments - Assets	210,251	-	210,251	228,313
Cash at bank and in hand	661,311	-	661,311	40,404
Prepayments (4)	14,359	-	14,359	15,364
TOTAL (II)	**6,415,017**	**189,884**	**6,225,133**	**4,847,891**
ACCRUED INCOME AND DEFERRED CHARGES				
Deferred charges **(III)**	34,748	-	34,748	29,313
Bond redemption premiums **(IV)**	113,186	-	113,186	129,611
Unrealized foreign exchange losses **(V)**	211,377	-	211,377	207,734
GRAND TOTAL (I+II+III+IV+V)	**30,730,949**	**2,079,477**	**28,651,472**	**29,463,570**
(1) Of which leasehold rights			-	-
(2) Portion due in less than one year			128,229	436,717
(3) Portion due in more than one year			112,833	101,878
(4) Portion due in more than one year			7,017	9,178

Equity and liabilities

(in € thousands)	**2011**	**2010**
SHAREHOLDERS' EQUITY:		
Share capital (of which paid in: 2,598,264,800)	2,598,265	2,495,632
Additional paid-in capital	9,608,895	9,327,631
Revaluation reserves	-	-
Equity accounting revaluation reserve	-	-
Reserves:		
Reserve required by law	239,251	211,544
Reserves required under the bylaws or contractually	-	-
Special long-term capital gains reserve	-	-
Other reserves	343,226	343,226
Retained earnings	86,449	146,813
Net income (loss) for the period	(1,417,507)	554,135
SUB-TOTAL: Shareholders' equity	**11,458,578**	**13,078,981**
INVESTMENT SUBSIDIES	-	-
Tax-driven provisions	442	332
TOTAL (I)	**11,459,021**	**13,079,313**
EQUITY EQUIVALENTS		
Proceeds from issues of equity equivalent securities	-	-
Subordinated loans	-	-
Other	-	-
TOTAL (I B)	**-**	**-**
PROVISIONS		
Provision for contingencies	143,833	172,757
Provisions for losses	36,307	9,789
TOTAL (II)	**180,140**	**182,546**

(in € thousands)	**2011**	**2010**
LIABILITIES [1]		
Convertible bonds	-	-
Other bonds	13,048,795	13,145,437
Bank borrowings [2]	364,664	502,143
Other borrowings [3]	2,874,211	1,812,762
Payments received on account for work-in-progress		-
Operating liabilities		
Trade payables and related accounts	85,262	103,112
Tax and employee-related liabilities	106,966	88,432
Other operating liabilities	-	-
Other liabilities		
Amounts payable in respect of PP&E and related accounts	2,863	17,640
Tax liabilities (income tax)	-	-
Other miscellaneous liabilities	89,504	120,063
Treasury instruments - Liabilities	207,259	213,979
DEFERRED INCOME AND MISCELLANEOUS		
Deferred income	155,558	106,130
TOTAL (III)	**16,935,083**	**16,109,697**
UNREALIZED FOREIGN EXCHANGE GAINS **(IV)**	**77,228**	**92,014**
GRAND TOTAL (I+II+III+IV+V)	**28,651,472**	**29,463,570**
[1] Portion due in more than one year	12,360,939	13,336,227
Portion due in less than one year	4,418,585	2,667,341
[2] Of which overdrafts and current bank facilities	13,505	93,270
[3] Of which equity equivalent loans	-	-

Income Statement for the Year ended December, 31 2011

(in € thousands)	**2011**	**2010**
OPERATING REVENUE [1]		
Sales of bought-in goods	-	-
Sales of own goods and services	243,996	206,145
NET SALES	243,996	206,145
Of which export sales		
Changes in inventory of own production of goods and services	-	-
Own production capitalized	8,835	13,466
Operating subsidies	-	21
Write-back of provisions (depreciation and amortization) and expense reclassifications	3,227	9,738
Other revenue	228,067	206,446
TOTAL (I)	**484,125**	**435,816**
OPERATING EXPENSES [2]		
Purchases of bought-in goods	-	-
Change in inventories of bought-in goods	-	-
Purchases of raw materials and other supplies	-	-
Change in inventories of raw materials and other supplies	-	-
Other purchases and external charges [*]	206,544	226,084
Duties and taxes other than income tax	10,510	9,429
Wages and salaries	110,067	69,498
Social security contributions	39,477	35,068
Depreciation, amortization and charges to provisions		
On non-current assets: depreciation and amortization	8,457	5,954
On non-current assets: charges to provisions	-	-
On current assets: charges to provisions	-	-
For contingencies and losses: charges to provisions	6,886	11,010
Other charges	243,376	221,521
TOTAL (II)	**625,317**	**578,565**
1. OPERATING LOSS (I – II)	**(141,193)**	**(142,749)**
JOINT VENTURE OPERATIONS		
Profits transferred in or losses transferred out **(III)**	-	-
Profits transferred out or losses transferred in **(IV)**	-	-
[*] Of which: Equipment finance lease installments	-	-
Real estate finance lease installments	-	-
[1] Of which income relating to prior periods	-	-
[2] Of which expenses relating to prior periods	-	-

(in € thousands)	**2011**	**2010**
FINANCIAL INCOME [3]		
Financial income from equity investments	957,711	1,078,424
Financial income from other securities and long-term receivables	9,470	3,338
Other interest and similar income	292,426	283,072
Write-back of provisions and expense reclassifications	514,223	223,988
Foreign exchange gains	2,189,025	1,794,839
Net proceeds from sales of marketable securities	33,758	18,420
TOTAL (V)	**3,996,612**	**3,402,079**
FINANCIAL EXPENSES		
Amortization and charges to provisions for financial items	2,105,752	246,750
Interest and similar expenses [4]	746,821	752,963
Foreign exchange losses	2,198,029	1,809,357
Net expenses on sales of marketable securities	-	-
TOTAL (VI)	**5,050,603**	**2,809,069**
2. NET FINANCIAL INCOME (EXPENSE) (V–VI)	**(1,053,990)**	**593,010**
3. NET INCOME/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAX (I-II+III-IV+V-VI)	**(1,195,183)**	**450,261**
EXCEPTIONAL INCOME		
Exceptional income from non-capital transactions	102	156
Exceptional income from capital transactions	706,086	78,865
Write-back of provisions and expense reclassifications	-	-
TOTAL (VII)	**706,189**	**79,021**
EXCEPTIONAL EXPENSES		
Exceptional expenses on non-capital transactions	4	1,677
Exceptional expenses on capital transactions	1,062,954	109,854
Exceptional depreciation, amortization and charges to provisions	21,598	110
TOTAL (VIII)	**1,084,555**	**111,641**
[3] Of which income from related parties	1,848,831	1,791,172
[4] Of which interest charged by related parties	29,907	32,844

(in € thousands)	**2011**	**2010**
4. NET EXCEPTIONAL ITEMS (VII–VIII)	**(378,367)**	**(32,620)**
STATUTORY EMPLOYEE PROFIT-SHARING (IX)	-	-
INCOME TAX EXPENSE (X)	156,043	136,495
TOTAL INCOME (I+III+V+VII)	**5,186,925**	**3,916,916**
TOTAL EXPENSES (II+IV+VI+VIII+IX-X)	**6,604,432**	**3,362,781**
NET INCOME / (LOSS)	**(1,417,507)**	**554,135**

Proposed appropriation of 2011 net income

(in euros)	**2011**
2011 accounting net loss	(1,417,507,019)
Prior year retained earnings	86,448,788
2011 Retained deficit after reducing prior year retained earnings to zero	(1,331,058,231)
Proposed appropriation and distribution	
"Additional paid-in capital" after reducing the 2011 retained deficit to zero by offset	8,277,836,857
Distributable amounts after reducing the 2011 retained deficit to zero	
Additional paid-in capital	8,277,836,857
Other reserves	343,226,042
Total	**8,621,062,899**
Proposed distribution	
Dividend payment (€0.70 x 505,415,033 shares) (1) by deduction from the following accounts	353,790,523
Other reserves	343,226,042
Additional paid-in capital	10,564,481
Shareholders' equity accounts after appropriation and distribution of the dividend	
Share capital	2,598,264,800
Additional paid-in capital	8,267,272,376
Reserve required by law	239,250,761
Other reserves	0
2011 Retained earnings/deficit	0
Total (2)	**11,104,787,937**

(1) The total dividend distribution presented in the above table is calculated based on 519,652,960 shares outstanding as of December 31, 2011, including 14,237,927 treasury shares, and may change depending on movements in the number of shares conferring entitlement to dividends up to the ex-dividend date. Consequently, amounts deducted from "Additional paid-in capital" and "Other reserves" may change depending on the definitive dividend amount paid.

(2) After appropriation of the net loss and distribution of the proposed dividend for 2011, the shareholders' equity of the Company shall be €11,104,787,937, including distributable amounts of €8,267,272,376 recorded in "Additional paid-in capital".

Statement of source and application of funds

(in € thousands)	**2011**	**2010**
SOURCE OF FUNDS:		
Operating cash before changes in working capital	554,030	612,466
Disposals or decreases in non-current assets:		
Disposals of intangible assets and PP&E	15,654	40,911
Disposals of equity investments	32,444	39
Repayment of financial receivables (long-term advances)	1,797,317	151,677
Repayment of other long-term loans and investments	22,452	259,709
Increase in shareholders' equity	1,170	30,341
New borrowings	434,834	33,110
TOTAL SOURCE OF FUNDS	**2,857,901**	**1,128,253**
APPLICATION OF FUNDS:		
Dividend distribution (excluding withholding tax) (1)	204,067	500,680
Acquisitions or purchases of non-current assets:		
Intangible assets and PP&E	8,763	13,466
Long-term loans and investments:		
Equity investments	29,968	135,953
Long-term financial receivables	1,678,602	760,401
Other long-term loans and investments	77,668	397,648
Decrease in shareholders' equity	-	-
Principal payments on borrowings	583,130	277,392
TOTAL APPLICATION OF FUNDS	**2,582,198**	**2,085,540**
Increase / decrease in working capital requirements (2)	275,703	(957,287)
TOTAL	**2,857,901**	**1,128,253**

(1) Dividends paid in 2011 in respect of fiscal year 2010: €586,793 thousand, including dividends of €203,327 thousand paid in cash (excluding registration fees) and dividends of €383,465 thousand paid in shares.

(2) Working capital is relatively stable in 2011. In 2010, the change in working capital requirements was mainly due to an increase in financial resources (current accounts received from subsidiaries and treasury notes issued) and a decrease in financial investments.

Notes to the Company Financial Statements

1 Major events of the period

1.1 Company financing

1.1.1 Share capital increase resulting from the payment of the dividend for fiscal year 2011 in shares

Pursuant to the decision of the combined general shareholders' meeting of May 17, 2011 in the fifth resolution, to offer shareholders the option of receiving payment of the dividend for fiscal year 2010 in new Veolia Environnement shares, the Board of Directors, meeting on the same day, sub delegated to the Chairman of the Board, the necessary powers to perform the share capital increase resulting from the exercise of this option. The option exercise period was set from May 23 to June 7, 2011 inclusive.

At the end of the option exercise period and based on a certificate of deposit prepared by Société Générale, the Chairman of the Board duly noted on June 15, 2011, the performance of a share capital increase of €383,465,301.

This led to the issue of 20,462,396 new shares with a par value of €5 each, representing an increase in the share capital of the Company of €102,311,980 and the recognition of additional paid-in capital of €281,153,321. The expenses relating to this transaction were deducted from additional paid-in capital for a net of tax amount of €743,957.

1.1.2 Exercise of share subscription options

The successive exercise of share options during 2011 led to the creation of 64,197 new shares with a par value of €5 each, representing a share capital increase of €0.3 million and additional paid-in capital of €0.9 million. The share options exercised solely concerned the plan granted in 2003.

1.1.3 Partial buyback of bond lines

In 2011, Veolia Environnement performed a partial buyback of USD 210 million of its 2013 US-dollar 5.25% bond line maturing in June 2013 and of €56 million of its EUR 4.875% bond line maturing in May 2013. These buybacks reduced the outstandings on these bond lines to USD 490 million and €500 million, respectively.

1.1.4 Maturity of certain bond issues and syndicated loan facilities

Veolia Environnement signed two new syndicated loan facilities in April 2011: a 5-year €2.5 billion multi-currency loan facility and a 3-year €500 million loan facility available for drawdown in Polish zloty, Czech crown and Hungarian forint. Both facilities include two one-year extension options. These two syndicated loan facilities replace the €4 billion multi-currency syndicated loan facility secured in April 2005 and maturing in April 2012.

This transaction extends the maturity of Veolia Environnement's main loan facility from April 2012 to April 2016 while providing a specific financing facility for the Company's activities in Eastern Europe.

Draw-downs of PLN 1,039.4 million (€262.5 million) and €84 million on the €4 billion multi-currency syndicated loan facility were repaid on April 20, 2011.

The new €500 million syndicated loan facility was drawn in the amount of PLN 1,370 million (€314.8 million) on April 20, 2011.

1.2 Subsidiary financing

1.2.1 Veolia participation VT2, Veolia Transport and Veolia Transdev

Veolia Environnement transferred its shares in Veolia Transport and Veolia Participation VT2 to Veolia Transdev with effect from March 3, 2011:

- The 17,309,580 Veolia Transport shares transferred by Veolia Environnement were valued at €653 million (gross carrying amount of €998 million, net of impairments of €345 million at the end of December 2010);
- The 38,005,969 Veolia Participation VT2 shares transferred by Veolia Environnement were valued at €38 million;
- Veolia Environnement received 59,100,006 Veolia Transdev shares with a value of €691 million in consideration for these contributions.

The Veolia Transport share transfer generated a capital loss of €345 million, recognized in exceptional items. Provisions for equity instruments were written-back in the same amount to offset this capital loss, with the write-back recorded in net financial income.

1.2.2 Veolia Environnement Services RE

On October 10, 2011, Veolia Environnement subscribed to a share capital increase performed by Veolia Environnement Services RE in the amount of €20 million.

1.2.3 Vigie 9 AS Formerly Veolia PPP Finance

On June 30, 2011, Veolia PPP Finance changed its name to Vigie 9 AS.

On July 1, 2011, Veolia Environnement, the sole shareholder, reduced the share capital of Vigie 9 AS by €32.4 million by redeeming 3,358,715 shares.

1.3 Other major events

1.3.1 Treasury Shares

In 2011, due to the fall in its share price, Veolia Environnement recorded a charge to the treasury share impairment provision of €181.7 million, based on the average share price in December 2011 of €8.69, compared to €21.45 in December 2010.

The gross value of the 14,237,927 treasury shares held as of December 31, 2011 is €433.9 million, provided €310.2 million, representing a net carrying amount of €123.7 million.

1.3.2 Organization

During the first half of 2011, the main key executives of the Group's French subsidiaries were transferred to Veolia Environnement, triggering an increase in employee numbers and personnel costs. In return, Veolia Environnement invoices beneficiary entities for the services rendered by executives placed at their disposal.

2 Accounting principles and methods

2.1 Basis of preparation

The company financial statements for the year ended December 31, 2011 are prepared and presented in accordance with legislative and regulatory provisions applicable in France.

Amounts recorded in the accounts are valued on a historical cost basis.

The accounting period ends on December 31, 2011 and has a duration of 12 months.

2.2 Main accounting policies

Non-current assets: On initial recognition in the accounts, non-current assets are recorded at acquisition cost if acquired for valuable consideration, at market value if acquired for nil consideration or at production cost if produced by the company.

Intangible assets: In the course of major IT projects, the company incurs project costs which it capitalizes when they satisfy certain criteria. These costs are not amortized prior to asset commissioning. At this date, capitalized project costs are transferred at their net carrying amount to Veolia Environnement Technologies France, which is then responsible for providing the corresponding service.

Property, plant and equipment: Depreciation is calculated over the expected period of use. More specifically, fixtures and fittings and installations are depreciated on a straight-line basis over periods of six to ten years. Furniture and office equipment is depreciated on a straight-line basis over periods of between five and ten years. Finally, vehicles are depreciated on a straight-line basis over five years.

Equity investments: This heading records the acquisition cost of securities held by Veolia Environnement in companies over which it exercises control or significant influence, directly or indirectly.

At the date of entry into company assets, the net carrying amount of “Equity investments” is their acquisition cost. The company has elected to capitalize costs relating to the acquisition of equity investments. At all other dates, equity investments are measured at their value in use to the company, determined based on criteria encompassing profitability, growth perspectives, net assets and the stock market value of securities held, where applicable. Where the net carrying amount of an equity investment exceeds its value in use, an impairment provision is recorded in the amount of the difference.

Pursuant to the change in tax regime applicable to equity investment acquisition costs introduced by Article 21 of the 2007 Finance Act and completed by Article 209 of the French General Tax Code and based on Opinion no. 2007-C of June 15, 2007 issued by the Urgent Issues Taskforce of the French National Accounting Institute (Conseil National de la Comptabilité), Veolia Environnement recognizes the tax deferral of security acquisition costs over a period of five years in the accelerated depreciation account since January 1, 2007.

Other long-term loans and investments: Treasury shares are recorded in long-term investment securities when earmarked for external growth operations. They are recognized at acquisition cost and an impairment provision is recorded if their market value is less than their net carrying amount.

Term accounts not classified as cash equivalents are recorded in Other long-term loans and investments.

Marketable securities: Marketable securities comprise treasury shares held in respect of Group Savings Plans and share option plans and other highly liquid investment securities. Treasury shares are classified as marketable securities when purchased for presentation to employees under share option plans and employee savings plans benefiting certain employees. Marketable securities are recognized at acquisition cost and an impairment provision is recorded if their market value is less than their net carrying amount.

Cash at bank and in hand: Term accounts classified as cash equivalents are recorded in Cash at bank and in hand.

Foreign currency-denominated transactions: During the year, foreign currency-denominated transactions are translated into euro at the daily exchange rate.

Liabilities, receivables and cash balances denominated in currencies other than the euro are recorded in the balance sheet at their euro equivalent determined using year-end exchange rates. Gains and losses resulting from the translation of foreign currency liabilities and receivables and related hedge transactions at year-end exchange rates are recorded in Unrealized foreign exchange gains and losses.

In accordance with Article 342-7 of the French General Chart of Accounts, unrealized foreign exchange gains and losses on foreign currency cash accounts are recognized directly in foreign exchange gains and losses. Similarly, foreign exchange gains and losses on subsidiary current accounts equivalent in nature to cash accounts are recognized directly in foreign exchange gains and losses.

Pursuant to Articles 372.2 and 342.6.I of the 1999 French General Chart of Accounts, Veolia Environnement applies hedge accounting to clearly identified and documented matching structural foreign exchange positions, which seek to perfectly hedge the consequences of currency fluctuations. Foreign exchange gains and losses arising on components of this matching exposure are recognized in order to offset the hedged item.

This approach is also applied to equity investments denominated in a foreign currency, hedged by borrowings or currency derivatives.

Other liabilities, receivables and currency derivatives not forming part of matching hedge relationships are included in the overall foreign exchange position per currency, as provided in Article 346 III of the French General Chart of Accounts.

Contingency provisions are recorded in respect of all unrealized foreign exchange losses identified on matching foreign exchange positions and overall foreign exchange positions by currency, in the amount of the total net loss.

Recognition of financial transactions: Financial transactions (loans, borrowings, derivatives, etc.) are recognized at the value date, with the exception of cash pooling transactions with subsidiaries which are recognized at the trade date.

Inflation-linked bond issue: the issue premium is fixed on issue and amortized on a time apportioned basis over the bond term. The redemption premium, equal to the difference between the redemption value and the nominal value is revalued based on the inflation ratio observed at each balance sheet date.

Derivatives: Veolia Environnement manages its market risks resulting from fluctuations in interest rates and foreign exchange rates using derivatives and notably interest rate swaps, interest rate option contracts (caps and floors), currency forwards, currency swaps and currency options. These instruments are primarily used for hedging purposes.

The notional amounts of instruments are recorded in specific off-balance sheet accounts.

Interest-rate derivatives: Income and expenses relating to the use of these instruments are recognized in the Income statement to match income and expenses on the hedged transactions. Certain transactions satisfying the criteria laid down in the Veolia Environnement hedging policy are not recognized as hedges for accounting purposes.

These transactions are recognized as follows:

- Unrealized losses, calculated for each instrument traded over-the-counter (OTC), are provided in full;
- Unrealized gains on OTC instruments are recognized in income on the unwinding of the transaction only;
- Unrealized gains and losses on instruments traded on organized markets are recognized directly in profit or loss.

Currency derivatives: Firm currency financial instruments are valued by comparison with the closing exchange rate defined by the European Central Bank. The difference between the spot rate of the instrument and the closing rate is recognized in unrealized foreign exchange gains and losses and the difference between the forward rate and the spot rate of the instrument is recorded in a specific financial instruments account entitled “premium/discount”. This distinguishes the interest rate impact from the currency impact.

Currency derivatives hedge either an overall foreign exchange position or an identified structural foreign exchange position.

Valuation of provisions for contingencies and losses: These provisions are valued at the best estimate of the outflow of resources necessary to settle the obligation. When valuing a single obligation in the presence of several valuation assumptions concerning the outflow of resources necessary, the best estimate is the most probable assumption.

Valuation of provisions for incentive schemes:

Under the current agreement, the unit amount of incentive payments is based on:

- The rate of growth in Group adjusted operating income;
- The decrease in the rate of workplace accidents, consolidated at Group level;
- The extent of rollout of the environmental management system;
- The decrease in energy consumption at the Kléber site.

Based on the observed growth rate and other criteria, the level of incentive payments is determined using a contractually defined chart. The total amount of incentive payments provided is equal to the individual amount determined above multiplied by the number of beneficiaries communicated by the Human Resources Department.

Valuation of provisions for bonuses: This provision is determined based on the amount of bonuses awarded in the previous year multiplied by an estimated percentage increase and changes in employee numbers.

Concept of Income from ordinary activities and Exceptional items: Items concerning the ordinary activities of the company, even if exceptional in amount or frequency, are included in Income from ordinary activities. Only those items that do not concern the ordinary activities of the company are recognized in exceptional items.

Valuation of employee-related commitments: Pursuant to Article L 123-13 of the French Commercial Code, Veolia Environnement has elected not to recognize a provision for retirement benefits and other employee commitments. This information is presented in off-balance sheet commitments in the notes to the financial statements.

3 Balance sheet assets

3.1 Non-current assets

Movements in gross values:

(in € thousands)	Opening balance	Additions	Disposals	Closing balance	Note
Intangible assets	10,104	8,835	15,654	3,285	3.1.1
Property, plant and equipment	431	-	71	360	
Long-term loans and investments					
Equity investments	16,412,640	711,037	1,068,363	16,055,314	3.1.2
Loans to equity investments	7,544,238	1,594,896	1,693,767	7,445,363	3.1.3
Other long-term investment securities	52,827	20,328	20,887	52,268	3.1.4
Loans	420,354	99,905	420,353	99,905	3.1.5
Other long-term loans and investments	300,129	-	2	300,127	3.1.6
Total	**24,740,719**	**2,435,000**	**3,219,097**	**23,956,622**	

Movements in depreciation, amortization and non-current asset provisions

(in € thousands)	Opening balance	Addition/ Charge	Utilization/ Write-back	Closing balance	Note
Amortization of intangible assets	719	276	-	995	
Depreciation of property, plant and equipment	209	39	-	248	
Equity investment impairment provisions	370,977	1,638,105	347,573	1,661,459	3.1.7
Treasury share impairment provisions	119,845	107,046	-	226,891	3.1.7
Total	**491,701**	**1,745,466**	**347,573**	**1,889,593**	
Nature of charges and write-backs:					
Operating		315	-		
Financial		1,745,151	347,573		3.1.7
Exceptional		-	-		
Total		**1,745,466**	**347,573**		

Intangible assets

Intangible asset additions concern the capitalization of a migration project towards new IT applications. On commissioning, these IT applications are transferred to Veolia Environnement Technologies France at net carrying amount.

Long-term loans and investments

a) ***Equity investments:*** Equity investments total €16,055.3 million as of December 31, 2011.

The **increase** in equity investments breaks down as follows:

(in € thousands)	**Amount**
Acquisition of Veolia Transdev shares	691,000
Veolia Environnement Services RE share capital increase	20,000
Acquisition of Vigie 44 shares	37
Total	**711,037**

The **decrease** in equity investments breaks down as follows:

(in € thousands)	**Amount**
Divestiture of Veolia Transport	997,913
Divestiture of VT 2	38,006
Veolia PPP Finance share capital reduction	32,384
Other divestitures	60
Total	**1,068,363**

b) ***Loans to equity investments:*** This heading totals €7,445.4 million as of December 31, 2011.

(in € thousands)	Opening balance	Increase	Decrease	Foreign exchange translation	Closing balance
Veolia Eau (Compagnie Générale des Eaux)	2,404,293	15,386	(65,614)	20,735	2,374,800
Veolia Propreté	2,269,503	24,977	(177,098)	(2,410)	2,114,473
Veolia Transport	1,403,656	-	(1,417,329)	13,673	-
Dalkia International	1,021,630	215,216	(1,188)	(21,595)	1,214,064
Collex PTY Ltd	163,672	21	(14,337)	-	149,357
Veolia Environnement Technologies France	125,550	37,117	(550)	-	162,117
Artelia	75,839	21,800	-	-	97,639
Veolia Environnement CSP	24,642	5,318	(542)	-	29,418
Veolia Environnement Industries	16,808	99	(92)	-	16,815
Campus Veolia Environnement	16,747	-	(1,781)	-	14,966
Veolia PPP Finance	15,043	-	(15,043)	-	-
Centre d'Analyses Environnementales	5,500	-	(200)	-	5,300
Veolia Environnement Ingénierie (formerly Vigie 32)	1,350	-	-	-	1,350
Veolia Transdev	-	902,735	-	-	902,735
Dalkia Holding	-	251,606	-	(4,531)	247,075
Veolia Water Solutions et Technologies	-	67,499	-	290	67,789
Veolia Environnement Campus VE Centre Est	-	11,667	-	-	11,667
Veolia Environnement Campus Nord	-	11,001	-	-	11,001
Association Vecteur Pyrénées	-	6,951	-	-	6,951
Veolia Environnement France Régions	-	5,545	-	-	5,545
Sade	-	4,576	-	493	5,069
Veolia Environnement Recherche et Innovation	-	4,000	-	-	4,000
Veolia Environnement Campus VE Sud Ouest	-	2,725	-	-	2,725
Total	**7,544,238**	**1,588,241**	**(1,693,774)**	**6,655**	**7,445,363**

c) ***Other long-term investment securities***

Other long-term investments securities total €52.2 million as of December 31, 2011.

This heading comprises subordinated shares issued as part of a securitization program launched in 2002 and renewed in June 2007 of €48.7 million (including accrued interest) and shares in the Demeter venture capital mutual fund of €3.5 million. Veolia Environnement was recognized as a qualified investor in the Demeter mutual fund, within the meaning of Article L.411-2 of the French Monetary and Financial Code.

d) ***Loans***

Loans total €99.9 million as of December 31, 2011 and include a guarantee deposit in respect of subsidiary financing arrangements of GBP 18.5 million, or €22.1 million euro-equivalent (including accrued interest) and term accounts not classified as cash equivalents of €77.8 million (including accrued interest).

e) ***Other long-term loans and investments***

Other long-term loans and investments total €300.1 million as of December 2011 and primarily consist of 8,389,059 treasury shares held by Veolia Environnement with a gross value of €299.8 million.

f) ***Financial impairment provisions***

Charges to financial impairment provisions of €1,745.1 million were recognized in 2011, as follows:

- Treasury shares: €107 million;
- Veolia Eau - Compagnie Générale des Eaux shares: €1,065.8 million;
- Veolia Transdev shares: €441 million;
- Veolia Environnement Energie et Valorisation shares: €119.7 million;
- Veolia Environnement Technologies France shares: €11.5 million.

Write-backs of financial impairment provisions totaled €347.6 million, as follows:

- Veolia Transport: €344.9 million. See Note 1.2.1 above for further details;
- Campus Veolia Environnement: €2.3 million;
- Centre d'Analyses Environnementales: €0.2 million.

3.2 Trade receivables

Trade receivables total €230.4 million as of December 31, 2011 and primarily concern services billed internally to Veolia Environnement group subsidiaries.

3.3 Other receivables

Other receivables total €1,614.4 million and comprise the following balances:

(in € thousands)	**2011**	**2010**
Current accounts with Group subsidiaries	**1,435,034**	**700,673**
Other receivables	**157,339**	**124,692**
Income tax credit	57,465	36,048
"C" shares relating to the securitization program *	43,290	47,641
Financial receivables on derivatives	33,158	36,987
Receivables on non-current asset disposals	16,654	2
Accrued interest on current accounts	6,772	4,014

(*) "C" shares carried by Veolia Environnement in respect of the receivables securitization program total €43.3 million.

A liability of the same amount is recognized to these companies.

3.4 Marketable Securities

3.4.1 Treasury Shares

Veolia Environnement holds 14,237,927 treasury shares purchased under share purchase programs, including 8,389,059 shares recorded in "Other long-term loans and investments" (see Note 3.1.6 above).

The remaining 5,848,868 shares recorded in marketable securities and earmarked for an Employee Savings Plan, have a gross carrying amount of €134.1 million and a net carrying amount of €50.8 million at the end of 2011.

The impairment provision of €83.2 million represents the difference between the purchase cost of the Veolia Environnement shares and the average stock market price during the twenty trading days preceding December 31, 2011. A charge to provisions of €74.6 million and a provision write-back of €0.15 million were recorded in fiscal year 2011.

3.4.2 Other Securities

Other securities total €3,548.4 million as of December 31, 2011 and break down as follows:

- Treasury note: €794.8 million;
- Mutual fund investments (SICAV): €1,883.8 million;
- Certificates of deposit: €650 million;
- Monetary notes: €203.6 million;
- Accrued interest on other portfolio securities: €15.5 million.

3.4.3 Treasury instruments

Treasury instruments total €210.2 million as of December 31, 2011 and break down as follows:

- Interest-rate derivative spreads: €115.7 million;
- Interest rate derivatives: €10.9 million;
- Currency derivatives: €74.8 million;
- Premium/discount: €8.8 million.

3.5 Cash at bank and in hand

Liquid assets total €661.3 million as of December 31, 2011 and include term accounts classified as cash equivalents and related accrued interest in the amount of €578.5 million.

3.6 Prepaid Expenses

Prepaid expenses total €14.4 million and include swap balancing cash adjustments of €9.2 million, operating prepaid expenses of €3.8 million and particularly insurance costs and supplier rebates and interest paid in advance on treasury notes of €1.4 million.

3.7 Accrued income and deferred charges

3.7.1 Deferred charges: bond issue costs

Bond issue costs are spread on a straight-line basis over the bond term. Net deferred charges as of December 31, 2011 total €23.1 million.

Other deferred charges total €11.6 million and mainly comprise credit line issue costs, amortized on a straight-line basis over the repayment term. The set-up of three new credit facilities generated expenses of €13.5 million in 2011. Expenses pre-dating 2011 were amortized in full following early repayment in 2011.

3.7.2 Bond redemption premiums

Unamortized bond redemption premiums total €113.2 million and are amortized on a straight-line basis over the bond term.

3.8 Foreign exchange gains and losses

Foreign exchange gains and losses result from hedges of matching foreign exchange structural positions and overall foreign exchange positions by currency.

(in € thousands)	**Unrealized foreign exchange losses**	**Unrealized foreign exchange gains**	**Note**
Foreign exchange hedges of structural foreign exchange positions	115,778	51,345	3.8.1
Overall foreign exchange position	95,599	25,883	
Total	**211,377**	**77,228**	

The following tables present the foreign exchange positions for the main currencies determined at the balance sheet date.

3.8.1 Unrealized foreign exchange gains and losses on matching foreign exchange positions (in € thousands)

Unrealized foreign exchange gains and losses detailed below include not only unrealized gains and losses, but also realized gains and losses neutralized by the application of matching foreign exchange position rules.

Account heading concerned by the foreign exchange gain/loss *(in € thousands)*	**Unrealized foreign exchange losses**	**Unrealized foreign exchange gains**	**Total net unrealized foreign exchange loss**	**Provision for contingencies**
Loans	5,660	13,569		
Borrowings	28,212	-		
Currency derivatives	1,348	9,427		
Total CZK	**35,220**	**22,996**	**12,224**	**12,224**
Borrowings	143,891	-		
Currency derivatives	12,671	53,008		
Total USD on matching positions (*)	**156,563**	**53,008**	**103,554**	**-**
Grand total	**191,782**	**76,004**	**115,778**	**12,224**

(*) A provision was not booked in respect of the U.S. dollar net unrealized foreign exchange loss on matching positions, as it corresponds to a hedge of securities.

Account heading concerned by the foreign exchange gain/loss *(in € thousands)*	**Unrealized foreign exchange losses**	**Unrealized foreign exchange gains**	**Total net unrealized foreign exchange gain**
Loans	-	-	
Borrowings	8,948	47,190	
Currency derivatives	54,875	16,632	
Total PLN	**63,823**	**63,823**	**0**
Loans	-	-	
Borrowings	54,212	192,157	
Current accounts	46,641	-	
Currency derivatives	389,525	298,356	
Total GBP	**490,378**	**490,512**	**(134)**
Loans	36,225	55,552	
Borrowings	85,304	95,863	
Short-term investments	-	265	
Current accounts	5	21,636	
Currency derivatives	1,927	1,356	
Total USD on matching positions	**123,461**	**174,672**	**(51,211)**
Grand total	**677,662**	**729,007**	**(51,345)**

3.6.2 Unrealized foreign exchange gains and losses on overall foreign exchange positions excluding matching foreign exchange positions (in € thousands)

Account heading concerned by the foreign exchange gain/loss	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Total net unrealized foreign exchange loss	Provision for contingencies
Loans	-	-		
Currency derivatives	-	-		
Total AED	**-**	**-**	**-**	**121**
Loans	-	-		
Currency derivatives	1	-		
Total BGN	**1**	**-**	**1**	**1**
Loans	-	1,184		
Borrowings	-	-		
Currency derivatives	1,866	-		
Total CAD	**1,866**	**1,184**	**682**	**737**
Loans	5,309	-		
Currency derivatives	-	106		
Total CZK	**5,309**	**106**	**5,203**	**5,203**
Loans	-	-		
Currency derivatives	-	-		
Total DKK	**-**	**-**	**-**	**3**
Loans	7,590	-		
Borrowings	-	2,295		
Currency derivatives	-	4,680		
Operations	-	-		
Total GBP	**7,590**	**6,975**	**615**	**7,241**
Loans	-	-		
Currency derivatives	-	-		
Operations	-	-		
Total HKD	**-**	**-**	**-**	**9,211**
Loans	5,770	-		
Currency derivatives	-	2,076		
Operations	-	-		
Total HUF	**5,770**	**2,076**	**3,694**	**5,691**
Loans	-	-		
Currency derivatives	-	-		
Operations	-	-		
Total ILS	**-**	**-**	**-**	**621**
Loans	-	-		
Currency derivatives	-	-		
Operations	-	-		
Total JPY	**-**	**-**	**-**	**2,316**
Loans	-	-		
Currency derivatives	-	-		
Operations	-	-		
Total MXN	**-**	**-**	**-**	**9**
Loans	-	-		
Currency derivatives	-	-		
Operations	-	-		
Total NOK	**-**	**-**	**-**	**7**
Loans	-	-		
Currency derivatives	26	-		
Total OMR	**26**	**-**	**26**	**27**

Account heading concerned by the foreign exchange gain/loss	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Total net unrealized foreign exchange loss	Provision for contingencies
Loans	20,487	-		
Borrowings	-	4,613		
Currency derivatives	-	7,973		
Total PLN	**20,487**	**12,584**	**7,903**	**16,095**
Loans	-	-		
Currency derivatives	56	-		
Total QAR	**56**	**-**	**56**	**56**
Loans	-	456		
Currency derivatives	1,322	-		
Total SEK	**1,322**	**456**	**866**	**1,322**
Loans	-	-		
Currency derivatives	-	-		
Total SGD	**-**	**-**	**-**	**106**
Loans	-	11		
Currency derivatives	37	-		
Total TRY	**37**	**11**	**26**	**26**
Loans	-	-		
Currency derivatives	26	-		
Total TWD	**26**	**-**	**26**	**26**
Loans	3,092	-		
Treasury notes	-	799		
Borrowings	70,784	-		
Currency derivatives	3,063	-		
Operations	2	-		
Total USD	**76,941**	**799**	**76,142**	**76,140**
Loans	229	-		
Currency derivatives	130	-		
Total ZAR	**358**		**358**	**358**
Grand total	**119,789**	**24,191**	**95,598**	**125,317**

Contingency provisions for foreign exchange risk are determined based on the overall foreign exchange position and year of maturity.

Account heading concerned by the foreign exchange gain/loss	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Total net unrealized foreign exchange gain
Loans	-	300	
Currency derivatives	279	-	
Total AED	**279**	**300**	**21**
Loans	-	3,213	
Currency derivatives	-	66	
Total AUD	**-**	**3,279**	**3,279**
Loans	-	2,326	
Currency derivatives	1,934	-	
Borrowings	-	-	
Total BHB	**1,934**	**2,326**	**392**
Loans	1,326	-	
Operations		15	
Currency derivatives	-	1,798	
Total CHF	**1,326**	**1,813**	**486**
Loans	-	-	
Currency derivatives	-	1	
Total CNY	**-**	**1**	**1**
Currency derivatives	-	19	
Total DKK	**-**	**19**	**19**
Operations		10	
Total GBP		**10**	**10**
Loans	-	15,519	
Currency derivatives	10,018	-	
Operations	-	2	
Total HKD	**10,018**	**15,521**	**5,502**
Loans	414	-	
Currency derivatives	-	1,146	
Operations	-	-	
Total ILS	**414**	**1,146**	**732**
Loans	-	16,484	
Currency derivatives	2,316	-	
Operations	-	-	
Total JPY	**2,316**	**16,484**	**14,168**
Loans	-	-	
Currency derivatives	-	11	
Operations	-	-	
Total KWD	**-**	**11**	**11**
Loans	-	35	
Currency derivatives	-	19	
Total LVL	**-**	**54**	**54**
Loans	900	-	
Currency derivatives	-	920	
Operations	-	-	
Total MXN	**900**	**920**	**20**

Account heading concerned by the foreign exchange gain/loss	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Total net unrealized foreign exchange gain
Loans	-	464	
Currency derivatives	-	10	
Operations	-	-	
Total NOK	**-**	**474**	**474**
Currency derivatives	-	22	
Operations	**-**	**-**	
Total NZD	**-**	**22**	**22**
Loans	-	205	
Currency derivatives	-	170	
Operations	-	-	
Total RON	**-**	**375**	**375**
Loans	296	-	
Currency derivatives	-	316	
Operations	**-**	**-**	
Total RUB	**296**	**316**	**20**
Loans	-	400	
Currency derivatives	106	-	
Operations	-	-	
Total SGD	**106**	**400**	**294**
Grand total	**17,589**	**43,472**	**25,883**

4 Balance sheet equity and liabilities

4.1 Share capital and reserves

(in € thousands)	Opening balance	Increase	Decrease	Closing balance
Share capital	2,495,632	102,633	-	2,598,265
Additional paid-in capital	5,195,955	281,264	-	5,477,219
Additional paid-in capital (2003 share capital reduction)	3,443,099	-	-	3,443,099
Additional paid-in capital in respect of contributions	3,971	-	-	3,971
Additional paid-in capital in respect of bonds convertible into shares	681,881	-	-	681,881
Additional paid-in capital in respect of share subscription warrants	2,725	-	-	2,725
Reserve required by law	211,544	27,707	-	239,251
Special long-term capital gains reserve	-	-	-	-
Frozen reserves	-	-	-	-
Other reserves	343,226	-	-	343,226
Retained earnings	146,813	-	60,364	86,449
Prior year net income	-	-	-	-
TOTAL BEFORE NET LOSS FOR THE YEAR	**12,524,846**	**411,604**	**60,364**	**12,876,086**
Net loss for the year	-	(1,417,507)	-	(1,417,507)
TOTAL AFTER NET LOSS FOR THE YEAR	**12,524,846**	**(1,005,903)**	**60,364**	**11,458,578**

The share capital comprises 519,652,960 shares of €5 par value each, compared with 499,126,367 shares of €5 par value each as of December 31, 2010.

As stipulated in Article L. 225-210 of the French Commercial Code (Code de Commerce), Veolia Environnement has frozen reserves of an amount at least equal to treasury shares held. These frozen reserves are not recorded in a separate balance sheet account as authorized by the same article. Note that issue, contribution and merger additional paid-in capital, with the exception of revaluation gains and losses, all constitute reserves targeted by this obligation.

The €411.6 million increase in shareholders' equity as of December 31, 2011 breaks down as follows:

(in € thousands)	Share capital	Additional paid-in capital	Reserve required by law	Total
Share capital increase following payment in 2011 of the 2010 dividend in shares (net of issue costs)	102,312	280,402	-	382,714
Share options exercised in 2011	321	862	-	1,183
Transfer to the Reserve required by law	-	-	27,707	27,707
TOTAL	**102,633**	**281,264**	**27,707**	**411,604**

4.2 Provisions for contingencies and losses

Movements in provisions for contingencies and losses:

(in € thousands)	**Opening balance**	**Charge**	**Utilization**	**Write-back**	**Closing balance**
Provision for foreign exchange risk	157,583	137,577	157,583	-	137,577
Provisions for other contingencies	15,174	-	8,917	-	6,257
Provisions for losses (1)	9,789	28,374	1,300	556	36,307
Total	**182,546**	**165,951**	**167,800**	**556**	**180,141**
Nature of charges and write-backs:					
• Operating		6,886	1,300	556	
• Financial		137,577	166,500	-	
• Exceptional		21,488	-	-	
Total		**165,951**	**167,800**	**556**	

(1) As of December 31, 2011, loss provisions include a contingency provision covering corporate patronage tax credits for fiscal years 2005 to 2011 of €29 million, and a provision covering out-of-court settlement compensation of €6.7 million.

4.3 Bond issues

(in € thousands)	**Opening balance**	**Increase**	**Decrease**	**Foreign exchange translation**	**Closing balance**
Other bond issues	12,817,723	28,928	189,203	48,218	12,705,666
Accrued interest on other bond issues	327,714	343,131	327,714	-	343,131
Total	**13,145,437**	**372,059**	**516,917**	**48,218**	**13,048,797**

The €189.2 million decrease breaks down as follows:

- The buyback of €133 million (USD 210 million) of the USD 5.25% bond line maturing in June 2013;
- The buyback of €56 million of the EUR 4.875% bond line maturing in May 2013.

4.4 Bank and other borrowings

Bank and other borrowings total €3,238.8 million and break down as follows:

(in € thousands)	**2011**	**2010**
Current accounts with Group subsidiaries	2,201,256	1,217,833
Treasury note outstandings	501,224	502,045
Syndicated loan facilities	351,158	407,976
Borrowings from subsidiaries	158,160	70,457
Tax group current accounts	13,571	23,323
Bank accounts in overdraft	13,505	93,270
Total	**3,238,875**	**2,314,904**

4.5 Operating liabilities

4.5.1 Tax and employee-related liabilities: €106.9 million

This heading includes:

- Accrued expenses (performance bonuses, employee departures and related social security contributions): €42.5 million;
- Social welfare organizations: €15.9 million;
- VAT: €48.6 million.

4.6 Miscellaneous liabilities

4.6.1 Treasury instruments - liabilities : €207.2 million

This heading includes:

- Interest-rate derivative spreads: €4.7 million;
- Currency derivatives: €194.7 million;
- Premium/discount: €7.8 million.

4.6.2 Deferred income: €155.6 million

Deferred income mainly concerns financial instruments:

- Balancing cash adjustments on derivatives of €149.3 million;
- Interest received in advance on certificates of deposit of €0.9 million and bond issue premiums of €0.8 million.

5 Receivables and debt maturity analysis

(in € thousands)	**Amount**	**Falling due in one year**	**Falling due in more than one year**
Non-current assets			
Loans to equity investments	7,445,363	50,474	7,394,890
Other long-term investment securities	52,268	-	52,268
Loans	99,904	77,757	22,148
Other long-term loans and investments	300,127	-	300,127
Current assets			
Payments on account – inventories	1,774	1,774	-
Trade receivables and related accounts	230,434	230,434	-
Group and associates	1,435,034	1,435,034	-
Other receivables	179,366	66,533	112,833
Marketable securities	3,892,740	3,876,997	15,740
Cash at bank and in hand	661,311	661,311	-
Prepayments	14,359	7,344	7,017
Total receivables	**14,312,680**	**6,407,656**	7,905,024

(in € thousands)	**Amount**	**Falling due in one year**	**Falling due in one to five years**	**Falling due after five years**
Liabilities				
Bonds issues	13,048,795	1,014,193	5,706,153	6,328,449
Other borrowings	852,382	545,070	307,312	-
Group and associates	2,214,827	2,214,827	-	-
Bank overdrafts	13,505	13,505	-	-
Group loans	158,160	147,647	10,513	-
Miscellaneous liabilities	-	-	-	-
Other	647,413	486,165	84,368	76,880
Total liabilities	**16,935,082**	**4,421,407**	**6,108,346**	**6,405,329**

6 Income Statement

6.1 Net loss from ordinary activities

The net loss from ordinary activities before tax is €1,195.2 million.

6.1.1 Operating income

(in € million)	**2011**	**2010**	**Note**
Sales of services and other	243,996	206,145	Note 1
Own production capitalized	8,835	13,466	Note 2
Operating subsidies	-	21	
Write-back of provisions, depreciation and amortization	3,227	9,738	
Other revenue	228,067	206,446	Note 3
Total	**484,125**	**435,816**	

Note 1: Sales of services rose €38.9 million primarily due to the €38 million increase in employees made available to subsidiaries following the organizational change in 2011 (see Note 1.3.2 above). Other services billed to Group subsidiaries (overheads, brand costs, advertising, etc.) remained relatively stable.

Note 2: Own production capitalized reflects major IT project costs billed to a Group subsidiary (see Note 3.1.1. above).

Note 3: Other revenue includes indemnities in full and final settlement of repair and maintenance work (see Note 7.2 below).

6.1.2 Operating expenses

(in € million)	**2011**	**2010**	**Note**
Other purchases and external charges	206,544	226,084	
Taxes other than income tax	10,510	9,429	
Personnel costs (wages, salaries and social security contributions)	149,544	104,566	Note 1
Depreciation, amortization and charges to provisions	15,343	16,964	
Other expenses	243,376	221,521	Note 2
Total	**625,317**	**578,565**	

Note 1: The increase in personnel costs is mainly due to the transfer of the Group's main key executives to Veolia Environnement. These costs are rebilled to the Group subsidiaries to which these executives are seconded.

Note 2: Other expenses include €242.3 million in 2011 and €220.2 million in 2010 in respect of indemnities paid in respect of repair and maintenance work.

6.1.3 Financial income and expenses

(in € million)	**2011**	**2010**	**Note**
Expenses on long-term borrowings	**(695)**	**(717)**	
Income from other securities and long-term receivables	**9**	**3**	
Foreign exchange gains and losses	**(9)**	**(15)**	
Other financial income and expenses	241	247	
Amortization and charges to provisions for financial items	(2,106)	(247)	Note 1
Investment income	958	1,078	
Net gain/loss on sales of marketable securities	34	18	
Write-back of provisions and expense reclassifications	514	224	Note 2
Other financial income and expenses	**(359)**	**1,321**	
Net financial income (expense)	**(1,054)**	**593**	

Note 1: Financial charges include charges to equity investment impairment provisions of €1,819.7 million, as follows:

- Treasury shares (financial assets and marketable securities): €181.7 million in 2011 compared to €25.4 million in 2010;
- Equity investments: €1,638 million in 2011 compared to €22.2 million in 2010.

Note 2: Provision write-backs in 2011 include write-backs of provisions for foreign exchange losses of €157 million and the write-back of an equity investment provision in the amount of €345 million in respect of the Veolia Transdev combination described in Note 1.2.1 above.

6.2 Exceptional items

Exceptional items represent a net expense of €378.4 million and mainly comprise a loss of €344.9 million on the transfer of Veolia Transport shares to Veolia Transdev. Provisions for equity instruments were written-back in the same amount to offset this capital loss, with the write-back recorded in net financial income.

6.3 Income tax and the consolidated tax group

Within the framework of a tax group agreement, Veolia Environnement forms a tax group with those subsidiaries at least 95% owned that have elected to adopt this regime. Veolia Environnement is liable for the full income tax charge due by the resulting tax group. It is also liable for the minimum income tax charge payable by tax group companies.

The income tax expense is allocated to the different entities comprising the tax group according to the "neutrality" method. Each subsidiary bears the tax charge to which it would have been liable if it were not a member of the tax group. The parent company records its own tax charge and the tax saving or additional charge resulting from application of the tax group regime.

The tax group election came into force on January 1, 2001 for a period of five years and benefits from tacit renewal failing explicit termination by Veolia Environnement at the end of this five-year period.

The application of the tax group regime in 2011 is reflected in the Veolia Environnement financial statements by a tax saving in respect of the subsidiaries of €147 million. The share of the group tax credit benefiting Veolia Environnement is €2.3 million for 2011.

In addition, offsetting Group losses, a tax expense of €0.4 million concerns share capital increase costs deducted from corresponding additional paid-in capital and another additional tax expense of €1.1 million concerns withholding tax paid to the Australian, Slovakian and Czech States.

Finally, corrections to prior year tax expenses and tax audits generated tax income of €10.3 million.

6.4 Net loss for the period

Veolia Environnement reported a net loss of €1,417.5 million for 2011.

7 Other information

7.1 Off-balance sheet commitments

Commitments given by Veolia Environnement total €2,714,5 million as of December 31, 2011 (including counter-guarantees) and primarily consist of financing and performance guarantees given on behalf of subsidiaries (in € thousands):

(in € thousands)	Amount	Note
Commitments given		
Discounted notes not yet matured	-	
Endorsements and guarantees	2,677,858	Note 1
Equipment finance lease commitments	-	
Real estate finance lease commitments	-	
Pension obligations and related benefits	36,660	Note 2
Total	**2,714,518**	**Note 3**
Commitments received		
Endorsements and guarantees	185,000	

Note 1 – Main endorsements and guarantees

Operational guarantees include guarantees granted by Veolia Environnement to insurance companies guaranteeing up to a maximum total amount of USD 1,055 million, to enable such insurance companies to issue surety bonds at the request of U.S. subsidiaries in the course of their activities (operating guarantees, site restoration guarantees, etc.). As of December 31, 2011, drawn outstandings guaranteed by Veolia Environnement represented a euro equivalent of €275.2 million.

Veolia Environnement also guarantees a group syndicated credit line of a maximum amount of USD 1.5 billion, covering the issue of letters of credit to U.S. subsidiaries for the purpose of their activities. As of December 31, 2011, total outstandings guaranteed by Veolia Environnement in respect of this credit line represented a euro equivalent of €336.2 million.

Note 2 - Pension obligations and related benefits

A break down of obligations, net of plan assets, is presented below (in € thousands):

Pension obligations pursuant to Article 14 of the Collective Agreement	17,078
Collective insurance contract in favor of Group executives (A)	11,925
Insurance company contract in favor of Executive Committee members	7,657
Total (B)	**36,660**

(A) Net of payments of €32.5 million in respect of fiscal years 2006 to 2011. No payments were made in respect of 2011.

(B) Of which commitments to executives: €7.7 million.

Note 3 – Other commitments given

In addition to commitments given of €2,714,5 million, Veolia Environnement also granted commitments of unlimited amount concerning:

- A joint and several performance bond granted by certain subsidiaries in the Water division, in respect of a shareholders' agreement entered into on the acquisition of a municipal company in Germany;
- Operational performance bonds granted by subsidiaries in the Water and Environmental Services divisions, in respect of a construction contract and operating contracts for waste processing in Hong Kong.

These commitments are limited to the duration of the related contracts and were approved in advance by the Board of Directors of Veolia Environnement.

7.2 Specific contractual commitments

The financial management of maintenance and repair costs for installations provided by delegating authorities, for the majority of French subsidiaries, was mutualized and centralized until December 31, 2003 within Veolia Environnement and, partially, since January 1, 2004 within Veolia Eau (Compagnie Générale des Eaux).

Therefore, Veolia Environnement, as an active partner of all water and heating subsidiaries, has undertaken to repay all maintenance and repair costs resulting from contractual obligations to local authorities under public service delegation contracts. In return, the subsidiaries pay an indemnity in full and final settlement to Veolia Environnement, the amount of which is approved annually by the Supervisory Board of each subsidiary benefiting from this guarantee.

7.3 Derivative financial instruments and counterparty risk

Veolia Environnement is exposed to the following financial risks in the course of its business:

Market risks

- Interest rate risk (interest rate hedges, cash flow hedges)

  The financing structure of Veolia Environnement exposes it naturally to the risk of interest rate fluctuations. As such, floating-rate debt impacts future financial results in line with changes in interest rates. Veolia Environnement manages a fixed/floating rate position in each currency in order to limit the impact of interest rate fluctuations on its net income and to optimize the cost of debt. For this purpose, it uses interest rate swap and swaption instruments.

- Foreign exchange risk (hedges of balance sheet foreign exchange exposure and overall foreign exchange risk exposure)

  Foreign exchange risk is primarily managed using foreign-currency denominated financial assets and liabilities including foreign currency denominated loans/borrowings and related hedges (e.g. currency swaps). With many offices worldwide, Veolia organizes financing in local currencies. In the case of inter-company financing, these credit lines can generate foreign exchange risk. To limit the impact of this risk, Veolia Environnement has developed a policy which seeks to back foreign-currency financing and foreign currency derivatives with inter-company receivables denominated in the same currency.

Equity risk: As of December 31, 2011, Veolia Environnement held 14,237,927 treasury shares, of which 8,389,059 were allocated to external growth operations and 5,848,868 were acquired for allocation to employees under employee savings plans. As part of its cash management strategy, Veolia Environnement holds UCITS shares. These UCITS have the characteristics of monetary UCITS and are not subject to equity risk.

Liquidity risk: Liquidity management involves the centralization of financing in order to optimize liquidity and cash. Veolia Environnement secures financing on international bond markets, international private placement markets, the treasury note market and the bank lending market.

Credit risk: Veolia Environnement is exposed to credit risk on the investment of its surplus cash and on its use of derivative instruments to manage interest rate and foreign exchange risk. Credit risk reflects the loss that Veolia Environnement may incur should a counterparty default on its contractual obligations. Veolia Environnement minimizes counterparty risk through internal control procedures limiting the choice of counterparties to leading banks and financial institutions. Veolia Environnement does not expect the default of any counterparties which could have a material impact on transaction positions or results.

As of December 31, 2011, the main derivative products held primarily comprised:

- Caps and floors;
- Interest rate swaps;
- Trading swaps;
- Cross currency swaps;
- Forward purchases of currency;
- Forward sales of currency;
- Currency options.

The following table presents the net carrying amount of derivatives at the balance sheet date:

(in € thousands)	**Asset**	**Liability**
Accrued interest on swaps	115,675	4,701
Interest rate option premiums	10,950	-
Currency derivatives	74,804	194,739
Equity derivatives	-	-
Premium/discount*	8,821	7,819
Prepayments	9,177	-
Deferred income	-	149,337
Total	**219,427**	**356,595**

(*) The premium/discount represents the difference between the spot rate and the forward rate of the instruments. It is amortized over the term of the financial instrument.

The fair value of derivatives at the balance sheet date is presented below:

(in € thousands)	**Asset**	**Liability**
Interest rate derivatives	**791,795**	**128,131**
Hedging derivatives	789,835	117,239
Derivatives not qualifying for hedge accounting (trading)	1,960	10,892
Currency derivatives	**71,886**	**197,407**
Hedging derivatives	71,886	197,407
Derivatives not qualifying for hedge accounting (trading)	-	-
Total	**863,681**	**325,538**

The notional amounts of interest-rate swaps globally designated as interest rate hedges at the balance sheet date are presented in the following table:

(in € thousands)		Foreign currency amount	€ equivalent
Swaps hedging debt			
Fixed-rate payer/floating-rate receiver swaps	EUR	1,658,987	1,658,987
Fixed-rate payer/floating-rate receiver swaps	CZK	-	-
Fixed-rate payer/floating-rate receiver swaps	GBP	-	-
Fixed-rate payer/floating-rate receiver swaps	USD	-	-
Fixed-rate payer/floating-rate receiver swaps	PLN	650,000	145,805
Floating-rate payer/fixed-rate receiver swaps	EUR	4,862,168	4,862,168
Floating-rate payer/fixed-rate receiver swaps	CZK	-	-
Floating-rate payer/fixed-rate receiver swaps	GBP	200,000	239,435
Floating-rate payer/fixed-rate receiver swaps	USD	844,200	652,446
Floating-rate payer/fixed-rate receiver swaps	PLN	-	-
Total			**7,558,840**
Trading swaps			
Fixed-rate receiver/floating-rate payer swaps	EUR	259,650	259,650
Fixed-rate receiver/floating-rate payer swaps	CZK	220,128	8,536
Fixed-rate payer/floating-rate receiver swaps	EUR	1,399,360	1,399,360
Fixed-rate payer/floating-rate receiver swaps	CZK	220,128	8,536
Total			**1,676,082**
Caps hedging short-term debt			
Caps dominated in foreign currency	USD	350,000	270,500
Caps denominated in euro	GBP	100,000	119,717
Trading caps			
Caps dominated in foreign currency	USD	-	-
Caps denominated in euro	EUR	900,000	900,000
Total			**1,290,218**

The notional amounts of cross currency swaps, currency swaps and currency forwards at the balance sheet date are presented in the following table:

(in € thousands)	**Purchases**	**Sales**
Currency hedging instruments:		
Cross currency swaps:		
CNY	120,000	120,000
Total	**120,000**	**120,000**
Currency forwards:		
AED	-	12,905
AUD	15,960	214,691
CAD	84,558	176,980
CHF	26,880	51,026
CNY	19,227	19,227
CZK	113,141	255,570
GBP	1,600,268	1,398,348
HKD	109,669	891,107
HUF	28,036	119,811
ILS	-	105,464
JPY	2,661	139,232
NOK	156,392	177,291
PLN	529,471	129,258
SEK	35,088	146,512
USD	624,556	701,637
Other currencies	72,404	299,458
Total	**3,418,312**	**4,838,515**

7.4 Average workforce

	Salaried employees	**Employees at the disposal of the company**
Executives	621	11
Supervisors and technicians	21	5
Administrative employees	31	-
Workers	-	-
Total	**673**	**16**

7.5 Management compensation

Compensation granted to members of (in euros)	Amount
Management bodies	2,479,403

The above amount only includes compensation borne by the company. Compensation paid by other entities is, therefore, excluded.

7.6 Specific information on individual training entitlement

Entitlement to individual training vested since the introduction of this measure up to December 31, 2011 represents 57,029 cumulative training hours. A training request has not yet been received in respect of 55,061 hours.

7.7 Deferred tax

Deferred tax liability (in € thousands)	Amount
Tax-driven provisions:	
Accelerated depreciation	442
Provisions for price increase	-
Provisions for exchange rate fluctuations	-
Other:	
Investment subsidy	-
Income temporarily non-taxable	-
Income deferred for accounting but not tax purposes	-
Unrealized foreign exchange losses	211,377
Total	**211,819**

Deferred tax asset	Amount
Provisions not deductible in the year recorded:	
Provisions for paid leave	-
Statutory employee profit-sharing	-
Provisions for contingencies and losses	-
Other non-deductible provisions	273,883
Other:	
Taxed income not recognized	141,034
Difference between the NCA/tax value of treasury shares	72,168
Amortization of option premiums	9,791
Unrealized foreign exchange gains	77,228
Total	**574,104**
Tax losses carried forward	2,535,170
Long-term capital losses	-

If the company were taxed separately, the impact of these timing differences on the financial statements would generate a theoretical net tax receivable of €997,321 thousand.

7.8 Related party transactions

Related parties are companies over which Veolia Environnement exercises:

- Direct or indirect control through one or more intermediaries;
- Significant influence;
- Joint control.

The main transactions with related parties and amounts due to or from related parties are as follows:

(in € thousands)	**2011**	**2010**
Equity investments net of provisions	14,393,779	16,041,635
Loans to equity investments	7,445,358	7,544,235
Other receivables	1,485,722	825,736
Trade receivables	228,074	257,128
Borrowings	2,347,810	1,310,716
Other liabilities	38,031	85,480
Operating income	468,961	407,870
Operating expenses	346,499	317,288
Financial income (1)	1,848,831	1,791,172
Financial expenses (1)	2,414,922	395,894
Exceptional income	706,068	78,863
Exceptional expenses	1,049,582	98,940

(1) Financial income and expenses include foreign exchange gains and losses on transactions with related parties provided in accordance with the overall foreign exchange position per currency principle.

7.9 Audit fees

Audit fees billed in respect of the statutory audit of the accounts and services falling within the scope of related diligences are presented in the Veolia Environnement Group annual financial report.

7.10 Share-based payments

Veolia Environnement has implemented several standard fixed share purchase and subscription option plans, as well as a variable plan for management.

Veolia Environnement did not grant any share options in 2011. Current option plans as of December 31, 2011 were as follows:

	N°8 2010	**N°7 2007**	**N°6 2006**	**N°5 2004**	**N°4 2003**
Grant date	09/28/2010	07/17/2007	03/28/2006	12/24/2004	03/24/2003
Number of options granted	2,462,800	2,490,400	4,044,900	3,341,600	5,192,635
Number of options not exercised	2,369,200	592,900*	3,286,799	3,062,914	0
Plan term	8 years	8 years	8 years	8 years	8 years
Vesting conditions	4 years service plus performance conditions	4 years service plus performance conditions	4 years service	3 years service plus performance conditions for certain plans	3 years service
Vesting method	After 4 years	After 4 years	After 4 years	By tranches of 1/3 over 3 years	By tranches of 1/3 over 3 years
Strike price (in euros)	22.50	57.05	44.03**	24.32**	22.14**

* *Given the performance criteria, the number of options effectively exercisable was reduced by 1,742,650 in 2008.*

** *Strike price adjusted to take account of transactions impacting the share capital of the Company (issue of share subscription warrants on December 17, 2001 and share capital increases with retention of preferential subscription rights on August 2, 2002 and July 10, 2008). The initial strike prices for plans no.4, no.5 and no.6 were €22.50, €24.72 and €44.75, respectively.*

7.11 Subsequent events

On January 9, 2012, Veolia Environnement SA sent a notice of early redemption to all holders of the U.S. private placement performed in January 2003. Early redemption was effectively performed on February 9, for a euro-equivalent of € 350.2 million.

On February 28, 2012, the company entered into exclusive negotiation with an investor regarding the progressive withdrawal from Veolia Transdev.

7.12 Subsidiaries and equity investments

Investments:

Investments within the meaning of Article L. 233-7 of the French Commercial Code (crossing of investment thresholds laid down by law):

Subsidiaries and equity investments

Company	Number of shares held	Share capital (2)	Share-holders' equity other than share capital (*) (2)	% share capital held	Carrying amount of shares held: GROSS (2)	Carrying amount of shares held: NET (2)	Loans and advances granted by the company (gross) (**) (2)	Guarantees provided by the company (2)	2010 revenue (2)	2011 revenue (2)	2010 net income (2)	2011 net income (2)	Dividends recorded in the last fiscal year (2)	Year end
Veolia Eau -Compagnie Générale des Eaux[1] 52 rue d'Anjou 75008 Paris	214,187,289	2,207,287	1,468,955	99.99%	8,300,000	7,234,200	3,199,676	-	3,639,996	2,585,254	383,135	839,368	400,530	Dec. 31, 2011
Veolia Environnement Europe Services	31,500,999	3,150,100	84,331	100.00%	3,150,100	3,150,100	(678,070)	-	2,107	72,882	63,396	71,843	57,311	Dec. 31, 2011
Veolia Propreté[1] 163-169 av. G. Clemenceau, 92000 Nanterre	8,966,811	143,473	1,132,592	100.00%	1,929,892	1,929,892	2,138,911	-	558,103	595,468	70,955	(111,905)	123,024	Dec. 31, 2011
Veolia Environnement North America Operations INC(3),	240	1,987,927 (4)	890,920	15.83%	872,992	872,992	(160,372)	-	-	-	49,192	41,798	30,268	Dec. 31, 2011
Veolia Transdev	59,101,646	1,182,037	-	49.99%	691,016	250,000	902,735	-	0	15 689	(5)	(548,372)	-	Dec. 31, 2011
Veolia Energie (Dalkia)[1], 37 av. Mal. de Lattre de Tassigny 59350 Saint-André-Lez-Lille cedex	42,069,294	968,869	365,658	65.99%	641,342	641,342	1,489,083	-	106,098	68,242	79,402	83,253	112,325	Dec. 31, 2011
Veolia Environnement Energie et Valorisation	13,703,700	137,037	315	100.00%	137,037	17,337	-	-	652	117	447	108	685	Dec. 31, 2011
Proactiva Medio Ambiente SA, Torre Puerta de Europa, Paseo de la Castellana, Madrid	4,710	56,520	20,308	50.00%	119,733	119,733	-	-	18,272	18,499	8,406	8,819	3,393	Dec. 31, 2011
EOLFI	102,331	14,314	57,373	71.49%	80,143	80,143	(1,651)	-	9,050	2,946	(3,744)	442	-	Dec. 31, 2011
Veolia Environnement Services-Ré	4,100,000	41,000	(19,396)	100.00%	41,000	41,000	(121,520)	-	39,581	49,782	(4,134)	(13,727)	-	Dec. 31, 2011
CODEVE	3,000,000	3,000	33,149	100.00%	38,000	38,000	-	-	21,386	25,248	(1,306)	141	-	Dec. 31, 2011
Campus Veolia Environnement	2,395,200	26,130	(12,495)	91.66%	23,952	13,635	24,271	-	31,091	34,083	(2,377)	(4,486)	-	Dec. 31, 2011
Veolia Environnement Technologies France	1,919,478	11,517	(82,077)	100.00%	11,532	-	205,852	-	46,309	70,546	(35,635)	(32,615)	-	Dec. 31, 2011
Veolia Environnement CSP	2,122	21	(30,923)	100.00%	9,537	1	33,097	-	15,729	23,606	(15,466)	(14,914)	-	Dec. 31, 2011
VIGIE 9 AS	120,341	1,203	123	100.00%	2,620	1,349	(1,311)	-	194	292	(252)	123	-	Dec. 31, 2011
VIGIE 14 AS	3,700	349	(6)	100.00%	2,179	346	-345	-	5	-	(11)	2	-	Dec. 31, 2011
Veolia Environnement Industries	33,334	500	1,642	100.00%	1,113	1,113	21,484	-	6,317	7,784	(1,073)	1,051	-	Dec. 31, 2011
SASLT 65	60,000	2,081	(1,723)	19.41%	300	-	-	-	4,624	4,447	(136)	123	-	June 30, 2011
VIGIE 3 AS	41,829	251	10,877	100.00%	266	266	(38)	-	-	-	10,818	7,837	-	Dec. 31, 2011

Company	Number of shares held	Share capital (2)	Share-holders' equity other than share capital (*) (2)	% share capital held	Carrying amount of shares held GROSS (2)	Carrying amount of shares held NET (2)	Loans and advances granted by the company (gross) (**) (2)	Guarantees provided by the company (2)	2010 revenue (2)	2011 revenue (2)	2010 net income (2)	2011 net income (2)	Dividends recorded in the last fiscal year (2)	Year end
Centre d'Analyses Environnementales	22,500	250	(115)	90.00%	225	225	2,989	-	13,652	14,918	(152)	87	-	Dec. 31, 2011
Artelia Ambiente S.A.	9,996	50	4,943	99.96%	50	50	97,639	-	5,356	16,596	(384)	1,620	-	Dec. 31, 2011
VIGIE 1	3,815	38	(20)	99.87%	38	38	(22)	-	-	-	(1)	(1)	-	Dec. 31, 2011
VIGIE 2	3,815	38	(4,128)	99.87%	38	-	7,007	-	-	-	(266)	(788)	-	Dec. 31, 2011
SIG 41	2,494	38	(17)	99.76%	38	38	(24)	-	-	-	(1)	(1)	-	Dec. 31, 2011
Veolia Environnement Compétition	3,700	37	237	100.00%	37	37	2,696	-	831	962	455	279	340	Dec. 31, 2011
VIGIE 23 AS	3,700	37	(2)	100.00%	37	37	261	-	-	-	(2)	1	-	Dec. 31, 2011
VIGIE 28 AS	3,700	37	(3)	100.00%	37	37	(36)	-	-	-	(1)	(1)	-	Dec. 31, 2011
VE Conseil Aménagement	3,700	37	16	100.00%	37	37	-	-	-	2,397	(1)	20	-	Dec. 31, 2011
VE Ingenierie Conseil	3,700	37	0	100.00%	37	37	-	-	-	2,317	(1)	2	-	Dec. 31, 2011
VIGIE 33	3,694	37	(4)	100.00%	37	37	(36)	-	-	-	(1)	(1)	-	Dec. 31, 2011
VIGIE 34	3,694	37	(4)	100.00%	37	37	(36)	-	-	-	(1)	(1)	-	Dec. 31, 2011
Veolia Environnement France Régions	3,700	37	(1,104)	100.00%	37	-	5,545	-	230	8,356	(1)	(1,103)	-	Dec. 31, 2011
VIGIE 37 AS	3,700	37	(1)	100.00%	37	37	-	-	-	-	-	(1)	-	Dec. 31, 2011
VIGIE 38 AS	3,700	37	(1)	100.00%	37	37	-	-	-	-	-	(1)	-	Dec. 31, 2011
VIGIE 39 AS	3,700	37	(1)	100.00%	37	37	-	-	-	-	-	(1)	-	Dec. 31, 2011
VIGIE 40 AS	3,700	37	(1)	100.00%	37	37	-	-	-	-	-	(1)	-	Dec. 31, 2011
VIGIE 41 AS	3,700	37	(1)	100.00%	37	37	-	-	-	-	-	(1)	-	Dec. 31, 2011
VIGIE 42 AS	3,700	37	(1)	100.00%	37	37	-	-	-	-	-	(1)	-	Dec. 31, 2011
VIGIE 43 AS	3,700	37	(1)	100.00%	37	37	-	-	-	-	-	(1)	-	Dec. 31, 2011
G.I.E GECIR.	5	-	386	5.00%	35	35	-	-	18,061	9,656	729	386	-	Dec. 31, 2011
GIE KLEBER	2	-	-	33,33%	-	-	-	-	26 888	26 210	0	-163		Bilan au 31 déc. 2011
Sud Développement	150	873	458	2.61%	23	23	-	-	186	n/a	1	n/a	-	Dec. 31, 2011
Veolia Environnement Participations VT 1	999	1	-	99.99%	1	1	-	-	-	-	-	-	-	Dec. 31, 2011
Veolia Eau d'Ile de France	100	100	11,532	1.00%	1	1	-	-	-	382,626	-	1,153	-	Dec. 31, 2011
FNM10	100	1	-	100.00%	1	1	-	-	-	-	-	-	-	Dec. 31, 2011
SLOVEO AS	1	33	1,083	1.00%	0.30	0.30	-	-	10,368	9,806	739	215	6.6	Dec. 31, 2011

Company	Number of shares held	Share capital (2)	Share-holders' equity other than share capital (*) (2)	% share capital held	Carrying amount of shares held		Loans and advances granted by the company (gross) (**) (2)	Guarantees provided by the company (2)	2010 revenue (2)	2011 revenue (2)	2010 net income (2)	2011 net income (2)	Dividends recorded in the last fiscal year (2)	Year end
					GROSS (2)	NET (2)								
Other subsidiaries and equity investments (less than 1% of share capital)														
Veolia Environnement UK (1)	866,733	705,754 (5)	32,923	0.15%	1,387	1,387	-	-	290	643	100,405	43,903	-	Dec. 31, 2011
VIGEO	1,300	17,495	(10,230)	0.74%	130	52	-	-	6,567	n/a	(173)	n/a	-	Dec. 31, 2011
CLIG3	1	38	(28)	0.04%	0.02	0.02	-	-	-	-	(2)	(4)	-	Dec. 31, 2011
VE EST	1	2,100	2,250	-	0.01	0.01	(2,337)	-	2,514	2,077	2,478	2,033	-	Dec. 31, 2011
VESTALIA	1	37	1,889	0.03%	0.01	0.01	-	-	86,200	93,892	1,709	1,741	-	Dec. 31, 2011
Eco Environnement Ingénierie (E.E.I.)	1	90	(835)	0.01%	0.01	0.01	-	-	331	1,392	(350)	(207)	-	Dec. 31, 2011

(*) Including net income for the year.

(**) Including partner current accounts.

(1) Company which is primarily a holding company. The "Revenue" column includes operating revenue and financial income.

(2) In € thousands.

(3) The main activity of this company consists in being the head company of the US consolidated tax group.

(4) i.e. USD 2,574,667,527 at December 31, 2011 exchange rates.

(5) i.e. GBP 589.516.726 at December 31, 2011 exchange rates.

Auditors’ report on the statutory financial statements

This is a free translation into English of the statutory auditors' report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors’ assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

Year ended December 31, 2011

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended December 31, 2011, on:

- the audit of the accompanying financial statements of Veolia Environnement;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1 Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; 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 involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2011 and of the results of its operations for the year then ended in accordance with French accounting principles.

2 Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code ("Code de commerce") relating to the justification of our assessments, we bring to your attention the following matters:

As mentioned in note 2.2 to the financial statements in respect of the accounting principles for financial investments, your company recognizes provisions for impairment when the net carrying amount of a financial investment exceeds its value in use. The value in use for the investment is determined on criteria that include profitability and growth potential, net assets and the stock market value of the securities. Based on the current information available, we performed our assessment of the methods used by your company, and review, through audit sampling, their application.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3 Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L.225-102-1 of the French Commercial Code ("Code de commerce") relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders has been properly disclosed in the management report.

The Auditors

French original signed by

Paris-La Défense, March 16, 2012

KPMG Audit
A division of KPMG S.A.

Jay Nirsimloo

Baudouin Griton

ERNST & YOUNG et Autres

Pierre Hurstel

Nicolas Pfeuty

Parent Company results for the last five years

(in € thousands)	**2011**	**2010**	**2009**	**2008**	**2007**
Share capital at the end of the fiscal year:					
Share capital	2,598,265	2,495,632	2,468,152	2,362,883	2,358,814
Number of shares issued	519,652,960	499,126,367	493,630,374	472,576,666	471,762,756
Transactions and results for the fiscal year:					
Operating income	484,125	435,816	422,532	384,331	356,655
Income before tax, depreciation, amortization and provisions	53,064	451,096	523,449	310,813	427,594
Income tax expense	(156,043)	(136,495)	(192,089)	(186,923)	(165,504)
Income after tax, depreciation, amortization and provisions	(1,417,507)	554,135	541,669	152,854	491,255
Amount of distributed income	353,791[(a)]	586,793	579,539	553,692	553,460
Earnings per share (in euros):					
Income after tax, but before depreciation, amortization and provisions	0.4	1.18	1.45	1.05	1.26
Income after tax, depreciation, amortization and provisions	(2.73)	1.11	1.1	0.32	1.04
Dividend per share	0.70	1.21	1.21	1.21	1.21
Personnel:					
Number of employees (annual average)	673	546	481	416	337
Total payroll	110,067	69,498	61,604	53,415	43,217
Welfare benefits paid (Social Security, benevolent works, etc.)	39,477	35,068	41,632	26,354	20,430

(a) The total dividend distribution presented in the above table is calculated based on 519,652,960 shares outstanding as of December 31, 2011, including 14,237,927 treasury shares held as of this date, and may change depending on movements in the number of shares conferring entitlement to dividends up to the ex-dividend date.

Other specific information

Supplier payment periods

Trade payables at the year-end break down as follows (in € thousands):

	2011	2010
Total trade payables	23,983	18,188
Breakdown by due date		
- Amounts not yet due:	13,095	11,072
- Amounts past due:		
• 0 to 30 days	7,847	2,848
• 31 to 60 days	1,372	707
• more than 60 days	1,669	3,561

All amounts not yet due, fall due in 45 days from the end of the month, or less. Therefore, pursuant to the French Law on the Modernization of the Economy (LME), Veolia Environnement complies with the new payment period obligations.

As of December 31, 2011, amounts past due more than 60 days include inter-company trade payables of €0.9 million.

Information concerning expenses not deductible for tax purposes

Pursuant to Article 223 quarter of the French General Tax Code (Code Général des Impôts), we inform you that expenses covered by Article 39-4 of this Code total €873,008.21 (excess depreciation on vehicles and excess directors' fees).

20.3 Dividend policy

20.3.1 Dividends paid during the last five fiscal years

(in euros)	**2006 dividend**	**2007 dividend**	**2008 dividend**	**2009 dividend**	**2010 dividend**
Gross Dividend Per Share	1.05	1.21	1.21	1.21	1.21
Net Dividend Per Share	1.05*	1.21*	1.21*	1.21*	1.21*
Tax Credit	n/a	n/a	n/a	n/a	n/a
Amount of Dividends Paid (without tax credit)	**419,701,966**	**553,459,872**	**553,824,460**	**579,538,650**	**586,792,691**

n/a: not applicable.

* *Individual shareholders are eligible for a 40% tax reduction on such dividends (or, on options, a flat withholding tax for the dividend distributedin 2009, 2010 and 2011 for the fiscal years 2008, 2009 and 2010 respectively).*

A dividend payment of €1.21 per share for each of the Company's outstanding shares carrying dividend rights as of January 1, 2011 was approved at the combined general shareholders' meeting of May 17, 2011. The right to this dividend was detached from the share on May 23, 2011 (ex-dividend date) and was paid as of June 17, 2011.

As of December 31, 2010, the Company's capital was composed of 499,126,367 shares, including 14,338,903 treasury shares. The total distribution amount was adjusted based on the total number of new shares created following the exercise of share subscription and purchase options and the number of treasury shares held by Veolia Environnement on the date of payment. Treasury shares do not enjoy dividend rights.

Pursuant to the fifth resolution adopted by the combined general shareholders' meeting held on May 17, 2011, which offered shareholders an option to receive payment of the dividend for the 2010 fiscal year either in cash, in accordance with the terms described above, or in Veolia Environnement shares, the Board of Directors on that same date sub-delegated to the Chairman all powers to pay the dividend in shares and to carry out the capital increase ensuing from exercise of that option. The option period during which shareholders could choose between a payment of the dividend in cash or shares lasted from May 23 to June 7, 2011 inclusive.

At the end of this option period and on the basis of a depositary's certificate issued by Société Générale, the Chairman certified on June 15, 2011 that a capital increase for cash for a total amount of €383,465,301.04 had been carried out. This resulted in the issuance of 20,462,396 new shares with a par value of €5 each, thereby increasing the Company's stated capital by €102,311,980.

It will be proposed that the general shareholders' meeting of May 16, 2012 vote to retain the distribution of a dividend of €0.7 per share for 2011, payable in cash or Veolia Environnement shares. If the shareholders' meeting approves this proposal and if this option is exercised, these new shares will be issued at a price equal of the average opening price on the Euronext Paris regulated market during the 20 trading days prior to the general shareholders meeting of May 16, 2012, less the amount of the dividend that may be approved pursuant to the fourth resolution voted by the combined general shareholders' meeting, rounded to the next upper euro cent. The shares issued will carry dividend rights as of January 1, 2012.

Shareholders may opt for the payment of the dividend in cash or in new shares between May 22, 2012 and June 6, 2012 inclusive, by sending their request to the financial intermediaries authorized to pay the dividend or, in the case of shareholders registered in pure registered accounts held by the Company, to its agent (Société Générale, Securities and Stock Transactions Department, 32 Rue du Champ-de-Tir, B.P. 81236, Nantes Cedex 3). When this option period expires, shareholders who have not opted for payment in shares will receive a dividend in cash as of June 18, 2012. On that same date, shares will be delivered to shareholders who have opted for the payment of the dividend in shares.

For individual shareholders who are French tax residents, dividends, whether paid in cash or in shares, are automatically included in total income, which is taxed on a progressive scale. As of December 31, 2011 they qualify for both an unlimited 40% reduction of the gross amount thereof and for a fixed annual reduction (€1,525 for single, divorced or widowed taxpayers and €3,050 for married couples filing jointly).. All Veolia Environnement shares are eligible for this treatment.

Individual French tax residents may however choose for these dividends to be subject to a flat withholding tax on the gross amount of dividends, without deduction of any applicable charges or expenses or any reduction (Article 117 *quater* of the General Tax Code). As of December 31, 2011, the applicable base rate is 21%, which represents an overall tax rate of 34.5% when social security contributions tax rate of 13.5% are included. This option must be exercised by the taxpayer with the paying establishment prior to the payment of dividends and is irrevocable. If the option has been exercised at least once during a given year, dividends received by the taxpayer during such year (i.e., those for which the option was exercised but also for any remaining balance for which the option has not been exercised) are no longer eligible for the reduction.

It is taxpayers' responsibility to evaluate, with the help of their own tax advisers, their interest in opting for this flat withholding tax given their particular circumstances.

Since January 1, 2008, the social security contributions required to be paid on dividends distributed to shareholders have been withheld by the paying establishment.

20.3.2 Dividend policy

The Company's dividend policy is determined by the Board of Directors, which may consider a number of factors, such as the Company's net income and financial position, as well as the dividends paid by other French and international companies within the same sector.

20.3.3 Period during which dividend payments must be claimed

Dividends that are not claimed within five years from the date on which they are made available for payment revert to the French government.

20.4 Litigation

The most significant litigation involving the Company or its subsidiaries is described below. In addition, tax audits and disputes are described in note 36 to the consolidated financial statements (see Chapter 20.1 above).

Other than as described below, there are no other current or threatened legal, governmental or arbitration proceedings involving the Company or its subsidiaries which during the past twelve months have had or may in the future have a material adverse effect on the financial condition or profitability of the Company or the Group.

The consolidated total amount that Veolia Environnement has booked as reserves for all litigation (see Chapter 20, § 20.1, note 17 to the consolidated financial statements), including reserves for labor and tax litigation, includes a large number of disputes involving individual amounts that are not significant. These reserves include all losses deemed probable in connection with all types of litigation likely to arise in the conduct of Veolia Environnement's business. The largest individual reserve booked for litigation, other than tax and labor litigation, in our financial statements as of December 31, 2011 was €6.3 million.

Water

Aquiris

Since 2008, Aquiris, a 99% subsidiary of the Company, holds a concession pursuant to which it is responsible for operating the Brussels-North wastewater treatment plant. As a result of extensive obstruction of the plant's security chambers following the arrival of abnormal and extraordinary quantities of rubble and other solid waste through the public sewer lines. Aquiris decided to suspend operation of the plant from December 8 to December 19, 2009 due to significant safety risks to persons and to the plant. This suspension permitted a partial return to normal, but has resulted in several disputes regarding liability for the disruption and the possible environmental consequences of the suspension in wastewater treatment services. An expert's report on the causes of the disruption was delivered on January 13, 2011. The report concludes, in error according to Aquiris, that there was no legitimate reason to suspend operations at the station.

In addition, during the course of 2010, Aquiris instituted legal proceedings against SBGE, the grantor authority, with a view to showing that the Brussels-North treatment plant is faced with sizing issues that are attributable to the grantor authority. Aquiris is claiming compensation for its loss of business and requesting confirmation that the significant upgrade costs that will be required should be borne by the grantor authority. Aquiris and the SBGE asked a panel of experts to render a technical opinion concerning these matters, and their "remedies" report was made public on December 8, 2011. The experts concluded in particular that when the contractual performance parameters were not reached, it was notably because of the characteristics of the wastewater received by Aquiris (40% of the time off-spec). They also confirmed that certain structures are under-sized and made a series of technical recommendations, with a variable breakdown of cost between the parties depending on the remedy. Following this report, Aquiris and SBGE have commenced negotiations on the final acceptance of the plant and a possible modification of the concession contract. Pending the conclusion of these negotiations, Aquiris still has to contend with additional costs. Failing amicable settlement, the proceedings initiated by Aquiris against SBGE would go on. At this point, the Company is unable to assess whether the outcome of these negotiations is likely to have a material impact on its financial position or results.

Lastly, on June 17, 2009, the company SA Ondernemingen Jan de Nul ("Jan de Nul"), whom Aquiris entrusted with the design and construction of the Brussels-North wastewater treatment plant, introduced a claim against Aquiris for compensation of the increase in metal prices, that Jan de Nul was unable to obtain from the Brussels Capital-Region, the grantor authority. On December 8, 2011, Aquiris was ordered in the first instance to pay Jan de Nul €5 million plus legal costs and interests as from the writ of summons (June 17, 2009). Aquiris appealed this judgment of first instance on March 9, 2012.

Berliner Wasserbetriebe A.ö.R

In March 2010, the German Federal Cartel Office (FCO) launched an administrative investigation into Berliner Wasserbetriebe A.ö.R (BWB), a subsidiary of Veolia Wasser GmbH and the City of Berlin, suspected of abusing its dominant position in water distribution, allegedly characterized according to the FCO by excessive billing of users. On completing this inquiry, the FCO addressed for comment, on December 5, 2011, a statement of objections (draft decision) to BWB, demanding a reduction in prices. BWB and Veolia Wasser GmbH (as third party) addressed their comments to the FCO at the end of January 2012. A revised statement of objection (second draft decision) is expected from the FCO in March or April 2012, and a final decision before summer 2012. Concomitantly, BWB contested in March 2011 the jurisdiction of the FCO before the administrative court, which declared it lacked jurisdiction to hear the proceedings. An appeal has been lodged before the Düsseldorf regional high court. The decision of the high court is pending.

At this point, the Company is unable to assess whether these actions are likely to have a material impact on its financial position or results.

European Commission investigation

On January 18, 2012, following unannounced inspections carried out in April 2010, the European Commission opened investigative proceedings aimed at determining whether behavior in the French water and wastewater markets has been coordinated, in conjunction with the French water trade association, the Fédération Professionnelle des Entreprises de l'Eau (FP2E), and in particular with respect to price components invoiced to customers. The opening of these proceedings in no way suggests the results of the investigation are a foregone conclusion. Depending on the results of the investigation, the European Commission will consider either closing the case or sending the companies concerned and the FP2E a statement of objections. In the latter case, Veolia will use all means of defense at its disposal.

At this point, the Company is unable to assess whether these proceedings will be likely to have a material impact on its financial position or results.

Veolia Water North America Operating Services

Atlanta

In June 2006, Veolia Water North America Operating Services, LLC ("VWNAOS") initiated legal proceedings against the City of Atlanta (the "City"), a former municipal customer, alleging, among other things, unpaid invoices for services performed, withheld retainage, the call of a $9.5 million letter of credit, and breach of contract. The City filed counterclaims alleging VWNAOS failed to fulfil certain of its obligations under their contract and for alleged damage to City-owned property. After discovery and various procedural and legal issues were addressed by the Court, trial of the matter commenced in United States District Court in Atlanta before Judge Thomas W. Thrash, Jr. on October 4, 2010. The case was tried before the Judge without a jury. The last day of testimony was October 18, 2010, and the parties thereafter submitted proposed findings of fact and conclusions of law to the Judge. Closing arguments took place on December 22, 2010.

At trial, the City asserted damages against VWNAOS totalling $25.1 million. The City has acknowledged offsets (including the $9.5 million letter of credit it seized and various unpaid invoices) of $11.1 million, for a total amount allegedly due to the City from VWNAOS of $14 million, plus interest and attorney's fees. On the other hand, VWNAOS asserted damages totalling $30.8 million (plus interest from December 10, 2010 until paid). This amount consists of unpaid invoices in the amount of $17.8 million (including interest through December 10, 2010), and the $9.5 million letter of credit, plus interest on the letter of credit of $3.2 million. On June 3, 2011, the trial court issued an Order and Judgment, resulting in a net verdict of approximately $5 million in favor of VWNAOS. The court awarded VWNAOS $15,192,788.52 in damages and awarded the City $10,184,343.53 in damages. On July 1, 2011, VWNAOS filed a motion with the trial court challenging, as being contrary to applicable law, certain rulings in the Order and Judgment awarding damages in favor of the City and failing to award prejudgment interest to VWNAOS. On the same date, the City filed a motion with the trial court seeking a reduction in the amount awarded to VWNAOS asserting that the trial court miscalculated certain amounts the City had improperly deducted from VWNAOS' invoices and also seeking an as yet unstated amount for attorney's fees allegedly due to the City under the contract between the parties. The City also requested prejudgment interest on the amounts awarded in its favor. On August 26, 2011, the trial court denied the motions of both parties, except that it granted the requests for prejudgment interest. As a result, the trial court entered an Amended Judgment in favor of VWNAOS in the net amount of $10,001,991.58. Both sides have appealed the case to the United States Court of Appeals for the 11th Circuit.

While the outcome of this dispute cannot be determined with certainty, the Company does not believe its ultimate resolution will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

Indianapolis

In April 2008, two subsidiaries of the Company, Veolia Water North America Operating Services and Veolia Water Indianapolis, LLC (VWI), were named as defendants in two potential class actions filed before the Indiana state courts, which have since been consolidated. The plaintiffs allege that the meter-reading practices used by VWI for Indianapolis customers were inconsistent with VWI's contract with the local water authority and with Indiana consumer protection law. The plaintiffs claim that VWI billed customers on the basis of estimates of water usage, rather than actual usage, more frequently than the contract permitted, resulting in overcharges that, although later credited to the customers, deprived the customers of their money for a period of time. The plaintiffs also contend that the methods used by VWI to estimate water consumption were inappropriate and violated applicable laws. The plaintiffs are seeking certification of a class of similarly situated residential water customers. VWI believes that its billing and meter reading practices complied with its contract and with relevant laws and regulations, and that the claims of the plaintiffs are without merit. It intends to defend its interests vigorously.

On January 13, 2009, the court granted a motion to dismiss filed by Veolia Water North America Operating Services and VWI, but granted the plaintiffs leave to refile their complaint. On January 23, 2009, the plaintiffs filed an amended complaint against Veolia Water North America Operating Services and VWI, and also named the water authority of the City of Indianapolis as a defendant. Mediation was conducted on April 6, 2010, but was not successful. Motions for summary judgment by the City and the Veolia entities thereafter were granted in part and denied in part. A motion for reconsideration by the Veolia entities was granted, leaving only a breach of contract claim against the Veolia entities and the City.

On September 23, 2011, the City and the Veolia entities each moved to dismiss the case for lack of jurisdiction on the grounds that plaintiffs had failed to exhaust their administrative remedies by not first raising the matter before the Indiana Utility Regulatory Commission. The court conducted a hearing on the motions on December 20, 2011. On February 1, 2012, the court issued an order granting defendants' motions to dismiss for lack of subject matter jurisdiction. Plaintiffs have filed a notice of appeal.

Although at this stage of the proceedings it is not possible to estimate its potential financial consequences, the Company believes that this lawsuit will not significantly affect its financial position, results of operations or liquidity.

WASCO and Aqua Alliance Inc.

Several current and former indirect subsidiaries of Veolia Eau in the United States [(1)] are defendants in lawsuits in the United States in which the plaintiffs seek recovery for personal injuries and other damages allegedly due to exposure to asbestos, silica and other potentially hazardous substances. With respect to the lawsuits against Veolia Eau's former subsidiaries, certain of Veolia Eau's current subsidiaries retain liability and in certain cases manage the defense of the lawsuits. In addition, in certain instances, the acquirers of the former subsidiaries benefit from indemnification obligations provided by Veolia Eau or Veolia Environnement in respect of these lawsuits. These lawsuits typically allege that the plaintiffs' injuries resulted from the use of products manufactured or sold by Veolia Eau's current or former subsidiaries or

---

(1) Subsidiaries of the Aqua Alliance group or of WASCO (formerly Water Applications & Systems Corporation and United States FIlter Corporation), the parent company of the former U.S. Filter group, most of whose businesses were sold to various buyers in 2003 and 2004.

their predecessors. There are generally numerous other defendants, in addition to Veolia Eau's current or former subsidiaries, which are accused of having contributed to the injuries alleged. Reserves have been booked for the possible liability of current subsidiaries in these cases, based on the nexus between the injuries claimed and the products manufactured or sold by these subsidiaries or their predecessors, the extent of the injuries allegedly sustained by the plaintiffs, the involvement of other defendants and the settlement history in similar cases. These reserves are booked at the time such liability becomes probable and can be reasonably assessed, and do not include reserves for possible liability in lawsuits that have not been initiated.

As of the date this Registration Document was filed, a number of such claims have been resolved either through settlement or dismissal. To date, none of the claims has resulted in a finding of liability.

During the five-year period ended December 31, 2011, the average annual costs that the Company has incurred with respect to these claims, including amounts paid to plaintiffs, legal fees and expenses, have been approximately USD324,000, after reimbursements by insurance companies. Although it is possible that these expenses may increase in the future, the Company currently has no reason to believe that any material increase is likely to occur, nor does it expect these claims to have a material adverse effect on its business, financial position, results of operations or liquidity.

Energy

Prodith – Elvya

On September 3, 1970, a concession agreement was concluded between Prodith, a subsidiary of Dalkia France, and the Lyon metropolitan authority (Communauté Urbaine de Lyon) which called for the construction and operation, for an initial 30-year period, of a public heating and cooling system service on behalf of the Lyon metropolitan authority. Following the decision of the Lyon metropolitan authority to terminate the agreement early on January 21, 2003 and the disagreement between the parties concerning the compensation owed to Prodith, Prodith brought an action before the Lyon administrative court seeking a judgment ordering the Lyon metropolitan authority to pay it €47.8 million.

In a judgment issued on May 16, 2007, the Lyon administrative court denied Prodith's claims for compensation on the grounds that the concession agreement and the amendments thereto were void because the Lyon metropolitan authority lacked the power to sign the agreement in 1970. Prodith appealed that judgment.

In a decision dated October 22, 2009, the Lyon administrative court of appeal reversed the judgment of the administrative court but nevertheless held that the agreement was void due to the Lyon metropolitan authority's lack of power to sign it and, on those grounds, found that the Lyon metropolitan authority was not contractually liable. With regard to the consequences of this invalidity, the Court denied Prodith's claims for compensation on tort grounds, considering that the company had not proved that it had suffered a loss because it had generated profits during the performance of the agreement, and it denied Prodith's claim for lost profits on the grounds that the agreement had been performed for its full term. However, the Court confirmed Prodith's property rights to the land on which the Lafayette thermal power plant is located. On December 22, 2009, Prodith appealed the decision of October 22, 2009 to the French Supreme Court. In light of very recent case law, Prodith withdrew its appeal on June 30, 2010, and this withdrawal was formally accepted on July 22, 2010.

Following the early termination of the agreement with Prodith, the Lyon metropolitan authority initiated a competitive bid procedure to award the contract for providing a public heating and cooling system service. At the conclusion of this procedure, the contract was awarded to Dalkia France, which was replaced by its subsidiary, Elvya. That contract was signed on July 23, 2004.

In a judgment dated December 15, 2005, the Lyon administrative court invalidated the decision empowering the president of the Lyon metropolitan authority to sign the agreement with Dalkia France on the grounds that there had been no prior consultation of the Lyon metropolitan authority's joint committee (comité mixte paritaire) and that the principle requiring bidders to be treated equally had been breached as a result of a late change in the bid package. The court held that the nature of the defects affecting the decision to sign the agreement delegating this public service necessarily invalidated the agreement. In a decision dated February 8, 2007, the Lyon administrative court of appeal affirmed this judgment and gave the parties a period of 18 months to attempt to rescind the agreement in an amicable manner.

Because no amicable resolution was reached, on June 25, 2007, the Lyon metropolitan authority brought an action before the Lyon administrative court requesting a rescission of the agreement and a finding on compensation. Elvya claimed compensation in the amount of €68.8 million. In a judgment dated October 22, 2009, the court rescinded the agreement and held that, on the grounds of the metropolitan authority's tortuous conduct, Elvya was entitled to be compensated for its necessary expenditures, the amount of which was to be determined by a panel of experts. The court also held that the tortious liability of the Lyon metropolitan authority would be reduced by 50% on the grounds that Dalkia France could not have been unaware of the irregularities in the competitive bid procedure.

In 2009, a competitor of Elvya initiated proceedings before the administrative Court of Lyon seeking the liability of the Lyon metropolitan authority for irregularities in the competitive bid procedure and therefore claiming compensation in the amount of €7.7 million. The Lyon metropolitan authority considers that this claim is without merit and that, in any event, the Group should bear half of any potential compensation amount. The administrative Court of Lyon informed the Group of this claim in September 2011.

At this point, the Company considers that these disputes should not have a significant impact on its financial position, results of operations or liquidity.

Dalkia Solar Italia

In March 2010, Dalkia Solar Italia ("DSI"), Siram and Dalkia España signed an Engineering, Procurement and Construction ("EPC") contract for 39 photovoltaic fields in Puglia (southern Italy) with several special purpose companies ("SPVs") owned by Global Solar Fund (the "client"). Notwithstanding a delay in the performance of the works in respect of the timing scheduled in the EPC, all the photovoltaic fields were completed before the end of 2010, enabling the SPVs to obtain the regulatory tariff from the relevant authorities. The client, however, stopped paying DSI's invoices and delivery was refused by DSI so that DSI would remain the owner of the assets until payment is made. On February 3, 2011, the SPVs announced the termination of the contract and claimed that penalties (for termination and delays) for a total amount of €41.3 million were also due. DSI, for its part, has suspended all payments to the photovoltaic panel suppliers, which are associated with the client.

In order to prevent the possible drawdown by the client of the performance bonds that were provided in connection with the construction contract for the project, DSI sought injunctive relief before the Court of Milan. DSI also sought to secure the receivables under the EPC by petitioning the court to put the photovoltaic fields owned by the SPVs in escrow pending resolution of the litigation. These two actions were rejected at the first hearings. However, DSI did obtain the right to receive six weeks' prior notice before any payment under the performance bonds can be made. On October 14, 2011, the appeal against the decision to reject the escrow of the fields was rejected.

Following a demand made on August 23, 2011 by the client and the SPV to drawdown of one of the performance bond (in the amount of €12 million), DSI instituted a second proceeding before the Court in Milan for injunctive relief, similar to that initially sought, seeking the suspension of drawdowns under the bank guarantee. On January 27, 2012, the Court in Milan decided to close the proceedings due to the parties' inaction, following the signature of a global settlement (detailed below).

On July 25, 2011, DSI, Siram and Dalkia España filed a request for arbitration before the International Chamber of Commerce (ICC) to obtain payment of the balance due under the EPC contract (approximately €95 million), , plus interest and other, additional costs and ancillary indemnities, from the SPVs. On October 12, 2011, the SPVs filed their answer and counterclaims with the ICC.

On January 12, 2012, a global settlement was signed, whose "closing" should be finalized within 90 days (i.e. by mid-April). It provides notably:

i. that the proceedings and request for arbitration be dropped;
ii. the escrow of the performance bonds; and
iii. two proposals for financing which would allow payment of the sums due to the contractors in the medium-to-long term.

At this point, the Company considers that, on the basis of the terms and conditions of the abovementioned settlement agreement, such disputes with the client should not have a significant impact on its financial position, results of operations or liquidity.

Environmental Services

On April 16, 2008, Termo Energia Calabria S.p.a. (TEC), a company specialized in waste incineration and a 98.76% subsidiary of Veolia Servizi Ambientali Tecnitalia S.p.a. (VSAT), which is in turn a subsidiary of Veolia Propreté, filed a claim with the administrative court of the region of Calabria in Italy for the payment of subsidies in an updated amount of €26.9 million, allegedly owed under a concession agreement entered into on October 17, 2000 with the region of Calabria. On August 11, 2008, the administrative court ordered the region to respond to this claim. At the end of November 2008, the region announced its refusal to pay the subsidies claimed. On March 12, 2009, TEC asked the court to decide on the merits of the refusal to pay the subsidies. The administrative court, by judgment dated February 28, 2011, declared void the refusal to pay the subsidies and referred the case to the Region which must comply with the judgment. The Region filed an appeal asking for a stay of execution of the decision. The appeal hearing of December 13, 2011 did not enable a final decision to be reached. A pronouncement directly on the facts – confirming or canceling the judgment handed down by the court of first instance which required the Region to decide again on the request for payment of the POR funds (European Development funds) by the Commissioner – will be issued at the hearing to be held on April 24, 2012.

In addition, on May 16, 2008, TEC filed a claim with an Italian arbitration tribunal against the Extraordinary Commissioner of Calabria seeking reimbursement of €62.2 million for various additional operating fees and costs incurred since 2005 and claiming breach of the price indexation provision included in the concession agreement ("Management Arbitration"). The arbitration proceedings began and, on October 24, 2008, the Extraordinary Commissioner of Calabria filed a counterclaim against TEC seeking the termination of the concession agreement and the payment of the sum of €62.3 million as compensation for construction delays. The arbitration award, which was filed on July 26, 2010 with the Arbitration Chamber of Rome, awards a total amount of €27 million to TEC (excluding gate fees and statutory interest) and fully dismisses the counterclaim of the Extraordinary Commissioner of Calabria as well as his application for termination of the concession agreement. On September 17, 2010, this decision was held to be enforceable by the Civil Court of Rome. The State and the Extraordinary Commissioner of Calabria filed an appeal against this decision with the Court of Appeal of Rome, which in a decision dated June 23, 2011, rejected the request for a stay of execution of the arbitral award and called the parties for a hearing on January 14, 2014, for the Court of Appeal of Rome to decide on the claim for nullity of the Extraordinary Commissioner of Calabria.

Following the signature of a master settlement agreement with Termomeccanica Ecologia S.p.a. (see below) on June 30, 2011, TEC substituted for Termomeccanica Ecologia S.p.a. in the arbitration proceedings relating to the construction of the first incinerator (TEC1) under the aforementioned concession arrangement ("Construction Arbitration"). These arbitration proceedings followed the same course as the Management Arbitration and TEC was awarded an amount of €28 million (excluding statutory interest). The provisional execution of these two arbitral awards was launched on October 27, 2011. The total amount of these two awards, including interest, increased by 50% (i.e. €94 million) was placed in an escrow account with the Bank of Italy on December 12, 2011. A decision authorizing provisional payment is scheduled for May 2012, pending the appeal hearing in January 2014.

In addition, VSAT has been accused of manipulating the software that monitors carbon monoxide emissions in its incineration facilities in Falascaia (Tuscany), Vercelli (Piedmont) and Brindisi (Puglia). In the criminal cases pending before the Vercelli and Lucca's courts, the respective Public Prosecutor's Offices decided that there were no grounds for prosecution of the directors appointed by Veolia Propreté after the acquisition of VSAT.

For all of these reasons, in early 2009 Veolia Propreté decided to initiate negotiations with the Italian company Termomeccanica Ecologia S.p.a. pursuant to the seller's representations and warranties granted by Termomeccanica Ecologia S.p.a. in the agreement for the sale of VSAT to Veolia Propreté in 2007. In light of the repeated refusal of Termomeccanica Ecologia S.p.a. to compensate VSAT pursuant to its warranties, on May 19, 2009, Veolia Propreté and Veolia Servizi Ambientali S.p.a., the parent companies of VSAT, filed a request for arbitration with the International Chamber of Commerce (ICC). The arbitration tribunal was formed in August 2009 and set a schedule calling for a final hearing at the end of December 2011 and an award at the end of April 2012 at the earliest.

The discussions opened with Termomeccanica Ecologia S.p.a. led to the signature of a master settlement agreement on June 30, 2011, which was completed on July 8, 2011.

The main consequences of this agreement are:

- The purchase of minority shareholdings representing 25% of the share capital of VSAT, increasing the investment held by Veolia Servizi Ambientali S.p.a. (Italian holding wholly owned by Veolia Propreté) to 100%;
- The termination of office of the Administrator by decision of the Genoa Court of Appeals dated June 30, 2011;
- The mutual waiver of the request for arbitration by the International Chamber of Commerce (ICC);
- The termination of the share purchase agreement, the shareholders' agreement and the industrial agreement signed in 2007 with Termomeccanica Ecologia S.p.a.

Furthermore, following an order issued by the Public Prosecutor's Office of Lucca on July 1, 2010, operations at the Falascaia facility were suspended on the alleged grounds of an improper administrative operating authorization and discharges of polluted wastewater. Despite the decision of the Public Prosecutor's Office of Lucca of October 19, 2011, lifting the closure order on the plant, the operating authorization for the Falascaia plant was cancelled by the Province of Lucca on November 10, 2011. Termo Energia Versilia S.p.a. (TEV), a 98.99% subsidiary of VSAT and holder of the authorization, filed an appeal before the Florence Administrative Court on January 23, 2012 against the cancellation decision.

As at December 28, 2011, TEC gave formal notice to the Extraordinary Commissioner of Calabria (the concession authority) in order to claim its rights and to protect itself from the uncertainty surrounding the position of Extraordinary Commissioner of Calabria beyond December 31, 2011. This formal notice reminded of all amounts due by the Commissioner under the two arbitration awards won by TEC, the subsidies granted for the construction of TEC1, all claimed post-arbitration amounts and the remaining amount to be paid under the settlement plan by November 30, 2011, for a total aggregate amount of €139.8 million. TEC demanded payment of these amounts by January 31, 2012, or the concession contract would be automatically terminated for breach by the concession authority, with retroactive effect.

The Commissioner requested in a meeting held on January 13, 2012 that the continuity of public service be ensured. On January 31, 2012, TEC sent a letter to the Commissioner of Calabria formalizing the contract termination and proposing a transitional continuity of public service under « prorogatio », on the basis of reimbursement of incurred costs, without calling the termination of the concession contract into question. In his letter dated February 9, 2012, the Commissioner announced the implementation of the prorogatio and advised of the payment of €2.5 million for this purpose. In a letter dated March 8, 2012, the Commissioner challenged the termination of the concession contract.

Finally, on February 10, 2012, a "Concordato Preventivo" proposal for TEC was filed with the La Spezia Civil Court. This procedure consists in the proposed payment in full of all preferred creditors and the partial payment of other creditors (in full and final settlement). All amounts payable to creditors are currently frozen. The case was presented before the court on February 23, 2012. After its review by the judge, the court should convene the ordinary creditors to vote on the "Concordato Preventivo" proposal for TEC in the fall of 2012. If the creditors approve the proposal, the court should homologate the Concordato in the spring of 2013.

Transport

DGCCRF – Veolia Transport

In 1998, the DGCCRF (a French administrative body with jurisdiction over competition matters) conducted an inspection and seized evidence on the premises of the Company's transportation subsidiary Connex (now Veolia Transport) and other companies in the public transportation market, for the purpose of obtaining proof relating to possible anti-competitive practices in this market. In September 2003, the French Competition Council served notice of two grievances on Veolia Transport alleging possible collusion among operators between 1994 and 1999 which may have limited competition at the local and national level in the public passenger transportation market for urban, inter-urban and school services. In September 2004, the Competition Council served Veolia Transport with notice of additional grievances alleging the existence of an anticompetitive agreement at the European Union level. On July 5, 2005, the Competition Council issued a decision in which it partially validated the claims of the competition authorities, and ordered Veolia Transport to pay a fine of approximately €5 million, which the Company paid. The Paris Court of Appeals affirmed the decision of the Competition Council on February 7, 2006 and on March 7, 2006, Veolia Transport filed an appeal with the French Supreme Court. The French Supreme Court found in favor of certain arguments made by Veolia Transport and, in its decision dated October 9, 2007, reversed the decision of the Court of Appeals of Paris and remanded the case to a different panel of the same court. On October 8, 2009, Veolia Transport brought the case before this new panel of the appellate court. In a decision rendered on June 15, 2010, and notwithstanding the French Supreme Court's decision, the Paris Court of Appeals upheld the principle and amount of a €5 million fine. Veolia Transport has therefore filed another appeal with the French Supreme Court. On November 15, 2011, the French Supreme Court reversed a second time the decision of the Court of Appeals of Paris, on the grounds that the same formation of the Court should not have been both judge of the advisability of the investigations and judge on the merits of the case, without infringing the principle of impartiality provided by the European Convention on Human Rights, and remanded the case to a different panel of the same court. Veolia Transdev is about to apply to this new panel of the appellate court.

HarzElbeExpress Rail Accident in Germany

A serious head-on collision occurred on Saturday, January 29, 2011 between a HarzElbeExpress passenger train operated by Veolia Verkehr Sachsen Anhalt GmbH, a Veolia Transdev subsidiary, and a freight train, near Hordorf and Magdeburg in Saxony-Anhalt (Germany). Around fifty people were aboard the HarzElbeExpress train.

The disaster claimed the lives of ten people, including the driver of the passenger train and a member of the railway staff. 23 injuries have been reported. In December 2011, criminal proceedings for manslaughter, endangerment of rail traffic and physical harm through negligence were instituted against the driver of the freight train, who allegedly disregarded railway signalling. The results of the investigation exonerate the Company of any liability, and the financial consequences should be limited given the insurance policies held by the Group.

Société Nationale Maritime Corse Méditerranée (SNCM)

Corsica Ferries brought a number of legal proceedings against SNCM, including several before the administrative courts. Corsica Ferries' request for the invalidation of the decision of June 7, 2007 awarding the contract for marine service to Corsica to the SNCM/CMN group for the 2007-2013 period was denied by a judgment of the Bastia administrative court on January 24, 2008. Corsica Ferries appealed this decision to the Marseille administrative court of appeal. In an order dated November 7, 2011, the latter cancelled the judgment of the Bastia administrative court, instructing the concession authority to either negotiate a voluntary agreement for the termination of the public service delegation agreement from September 1, 2012 or seize the Bastia administrative court within six months of the notification (i.e. before May 7, 2012) to take the appropriate measures. Contrary to the concession authority, SNCM appealed this order on January 5, 2012.

Veolia Transport's acquisition of an interest in SNCM from Compagnie Générale Maritime et Financière was conditioned, in particular, on the concession authority continuing the public service delegation agreement. In the absence of an appeal by the concession authority, Veolia Transport notified Compagnie Générale Maritime et Financière on January 13, 2012 of its decision to exercise the cancellation clause in the privatization Memorandum of Understanding of May 16, 2006. On January 25, 2012, Compagnie Générale Maritime et Financière contested the exercise of the cancellation clause in the privatization Memorandum of Understanding of May 16, 2006. In the absence of a reaction from Compagnie Générale Maritime et Financière to a proposal for the out-of-court settlement of the dispute, Veolia Transport informed the latter on February 7, 2012 of its intention to submit the case to the competent legal authority. On February 17, 2012, the French competition authority recommended to the concession authority to assess precisely its needs in terms of marine service to Corsica in order to limit the scope of the public service delegation, as the case may be, to the minimum necessary.

Furthermore, Veolia Transport's acquisition of an interest in SNCM was also conditioned on the absence of any European Commission decision declaring the privatization conditions or aids paid in application of the Commission decision of July 9, 2003 (in turn cancelled by a decision of the Court of First Instance on June 15, 2005) incompatible with the provisions of the Treaty on the Functioning of the European Union regarding state aids. The European Commission ruled on July 8, 2008 that the amounts paid by the French government in connection with the privatization process did not constitute state aids and authorized the aids paid pursuant to its decision of July 9, 2003. Corsica Ferries and the STIM d'Orbigny (Stef Tfe group) each appealed the Commission's decision before the European Court of First Instance, with STIM d'Orbigny later withdrawing its appeal on October 7, 2009. The French State and SNCM were granted leave to intervene in support of the conclusions of the Commission in the appeal filed by Corsica Ferries (T-565/08). SNCM filed its brief on September 28, 2009, to which Corsica Ferries replied on November 26, 2009. The Court of the European Union held audience on December 7, 2011. The Company considers that there is a risk of full or partial cancellation of the Commission's decision. The maximum risk for the total amount of aids is estimated at €275 million, excluding moratorium interest.

Finally, in an action brought before the Competition Council, Corsica Ferries contended that SNCM and CMN had formed an unjustified grouping that constituted an anti-competitive cartel, that this grouping constituted an abuse of a dominant position and, lastly, that presenting a bid requesting excessive subsidies, suggesting the existence of cross-subsidies, constituted an abuse of a dominant position. On April 6, 2007, the Competition Council dismissed the two claims concerning the grouping. Proceedings on the merits and the investigation of the French Competition Authority (formerly, the Competition Council) on the claim of excessive subsidies are underway. The investigation is also focusing on the performance terms of this agreement delegating a public service (monitoring the application of the guaranteed receipts clause and the corresponding changes in the amount of subsidies received by the parties being awarded the contract). As of this date, no complaint has been served.

Veolia Environnement

On December 27, 2011 and January 13, 2012, U.S. law firms filed purported class action complaints in the United States Federal District Court for the Southern District of New York, against the Company and certain of its current and former officers. The plaintiffs seek to represent holders of the Company's ADRs (American Depositary Receipts) who acquired them between April 27, 2007 and August 4, 2011. The complaint alleges that certain financial communications of the Company during the period from April 27, 2007 to August 4, 2011 were misleading, purportedly resulting in violations of Section 10(b) of the US Securities Exchange Act of 1934 and other federal securities laws. The Company considers the complaint to be without merit and intends seek its dismissal.

At this point, given the absence of any reasonable basis for relief in the complaint and the level of the Company's insurance coverage, the Company does not believe that this action will have a material impact on its financial position or results of operations.

20.5 Material changes in financial position or commercial situation

There has been no material change in the financial position or commercial situation of the Company since the close of its 2011 fiscal year. The events or circumstances that could reasonably be expected to have a material effect on the Company's outlook for the current fiscal year are described in Chapter 6, Chapter 9 and Chapter 12 above and were communicated by the Company during the presentation of its 2010 annual results on March 1, 2012.

21. Complementary information concerning the share capital and the provisions of the Articles of Association

21.1 Information concerning the share capital

21.1.1 Share capital

At December 31, 2011, Veolia Environnement's share capital amounted to €2,598,264,800 divided into 519,652,960 fully paid-up shares, all in the same class, with a par value of €5 each (see the table that sets out the changes in capital, in Section 21.1.6 below).

As of the filing date of this registration document, the Company's share capital is still the same.

21.1.2 Market for the Company's securities

The Company's shares have been admitted to trading on the NYSE Euronext Paris Regulated market (Compartment A) since July 20, 2000, under ISIN code FR 0000124141-VIE, Reuters code VIE. PA and Bloomberg code VIE. FP. Veolia Environnement securities are eligible for the *Service de règlement différé* (deferred settlement service or "SRD"). Company shares have also been listed on the New York Stock Exchange in the form of American Depositary Receipts (ADR) under the symbol "VE",and bloomberg's codes "VE UN" and "VE UP" since October 5, 2001.

Company shares have been included in the CAC 40, the main share index published by NYSE Euronext, since August 8, 2001.

The tables below describe the highest and lowest listed prices and the volume of Veolia Environnement securities traded on the Euronext Paris Regulated market and the New York Stock Exchange over the past eighteen months.

Euronext Paris

Year (month/quarter)	Share Price *(in €)*		Trading Volume *(in number of securities)*
	Highest	Lowest	
2011			
Fourth Quarter	11.64	7.80	227,958,489
December	9.95	7.80	70,932,769
November	10.42	8.015	97,292,618
October	11.64	10.02	59,733,102
Third Quarter	19.885	9.381	261,674,593
September	11.80	9.381	76,640,978
August	15.965	9.70	130,267,696
July	19.885	15.54	54,765,919
Second Quarter	22.805	18.63	111,321,252
June	21.155	18.63	39,886,806
May	22.805	20.115	40,959,980
April	22.795	21.21	30,474,466
First Quarter	24.30	20.155	115,971,385
March	24.005	20.155	52,281,746
February	24.30	22.505	30,866,432
January	23.585	21.555	32,823,207
2010			
Fourth Quarter	22.675	18.775	105,469,859
December	22.675	19.98	33,726,990
November	22.59	20.145	39,380,763
October	21.19	18.775	32,362,106
Third Quarter	21.98	17.965	124,641,683
September	20.43	18.19	49,979,237
August	21.98	17.965	39,795,791
July	20.86	18.74	34,866,655

Source : Bloomberg.

New York Stock Exchange

Year (month/quarter)	Price *(in USD)*		Trading Volume
2011	**Highest**	**Lowest**	*(in number of securities)*
Fourth quarter	16.00	10.15	20,988,543
December	12.92	10.15	7,559,430
November	14.44	10.89	6,823,872
October	16.00	13.21	6,605,241
Third quarter	28.80	13.02	23,574,345
September	16.84	13.02	8,417,499
August	22.20	13.69	10,551,793
July	28.80	22.16	4,605,053
Second quarter	33.85	26.49	7,696,853
June	30.31	26.49	3,007,365
May	33.85	28.57	2,878,960
April	33.83	30.16	1,810,528
First quarter	33.24	27.91	7,763,415
March	33.15	27.98	3,588,439
February	33.24	30.68	1,984,469
January	31.77	27.90	2,190,507
2010			
Fourth quarter	30.81	25.75	7,858,011
December	29.88	26.3	2,804,780
November	30.81	26.26	2,706,019
October	29.52	25.75	2,347,212
Third quarter	28.84	23.13	7,436,651
September	27.2	23.73	2,262,499
August	28.84	23.13	2,685,117
July	27.26	23.34	2,489,035

Source: Bloomberg.

21.1.3 Purchase of treasury shares by the Company[1]

21.1.3.1 Repurchase plan in effect on the filing date of this registration document (plan authorized by the combined general meeting on May 17, 2011)

During the combined general meeting on May 17, 2011, the Company's shareholders authorized a share repurchase plan that allows the Company to purchase, sell or transfer its shares at any time, except during a public offer, within the limits authorized by the provisions of the law and regulations in force, and by any means, on regulated markets, on multilateral trading systems, with systematic internalizers or over the counter, including through block sales or purchases (with no limit as to the proportion of the share repurchase plan that may be implemented by this method), via public purchase, or exchange offers, or by the use of options or other financial futures that are traded on regulated markets, on multilateral trading systems, with systematic internalizers or over the counter or by the delivery of shares following the issue of securities that grant access to the Company's capital by means of conversion, exchange, redemption, exercise of warrants or in any other way, either directly or indirectly via the intermediary of an investment services provider.

The share purchases may be for a number of shares such that the number of shares that the Company purchases throughout the term of the repurchase plan does not exceed at any time whatsoever 10% of the shares that make up the Company capital and such that the number of shares that the Company holds at any given time does not exceed 10% of the shares that make up the Company's capital.

This authorization allows the Company to trade in its own securities with the following objectives: (i) implementing all Company stock option plans or any similar plan, (ii) awarding free shares, (iii) awarding or selling shares to employees in respect of their association with the benefits of the Company's expansion or the implementation of any company savings plan, (iv) delivering shares when rights are exercised that are attached to securities that grant access to the capital via redemption, conversion, exchange, presentation of a warrant or in any other way, (v) delivering shares within the scope of external growth transactions, mergers, spin-offs or contributions; (vi) stimulating the secondary market for or the liquidity of Veolia Environnement shares through an investment services provider, within the scope of a liquidity contract that complies with the ethics charter recognized by the AMF, or, lastly, (vii) cancelling all or part of the shares thus repurchased.

The maximum purchase price under the program renewed at the general meeting on May 17, 2011 at €40 per share, and the maximum amount that the Company may allocate to the share repurchase plan was set at €1 billion. The general meeting granted full powers to the Board of Directors, with the option of sub-delegation under the conditions laid down by law, in order to decide on and implement this authorization.

The authorization described above, which is in force on the filing date of this registration document, will expire at the latest within eighteen months from the time of the combined general meeting on May 17, 2011, i.e. on November 17, 2012, unless a new plan is authorized at the general meeting on May 16, 2012.

(1) This paragraph contains the information that must be included in the plan description, pursuant to Article 241-2 of the Autorité des marchés financiers General Regulations and the information required pursuant to the provisions of Article L. 225-211 of the French Commercial Code.

21.1.3.2 Summary of transactions completed by Veolia Environnement on its own securities during the 2011 fiscal year

Percentage of capital held as treasury shares at December 31, 2011	2.74%
Number of treasury shares held at December 31, 2011	14,237,927
Carrying value of the portfolio at December 31, 2011 *	€433,896,767
Market value of the portfolio at December 31, 2011 **	€120,581,004
Number of shares cancelled over the last 24 months	0

* *Carrying value excluding provisions.*
** *On the basis of the closing price at December 31, 2011, i.e. €8.469.*

The table below details the transactions performed by the Company on its own shares during the 2011 fiscal year as part of the plans authorized by the combined general meetings on May 7, 2010 and May 17, 2011:

	Total gross flows at December 31, 2011		**Net positions at December 31, 2011**			
	Purchases	**Sales/ Transfers**	**Net long positions**		**Net short positions**	
			Call options purchased	Forward purchases	Call options sold	Forward sales
Number of securities	none	100,976	none	none	none	none
Average price of transactions (*in euros*)	NA	21.92				
Average exercise price *(in euros)*			NA	NA	NA	NA
Amounts *(in euros)*	NA	2,213,615	NA	NA	NA	NA

N/A: not applicable.

21.1.3.3 Objectives of transactions performed during the 2011 fiscal year and allocation of the treasury shares held

The transactions involving Veolia Environnement securities performed during the 2011 financial year arose from a share transfer as part of the share incentive plan (SIP) implemented by Veolia Environnement in favor of its UK employees, corresponding to shares subscribed by employees within the context of the plan and shares allocated as part of Veolia Environnement's employer matching contributions. The completion of this transfer of 100,976 treasury shares was recorded on April 5, 2011.

At December 31, 2011, Veolia Environnement held a total of 14,237,927 treasury shares, representing 2.74% of the Company's capital, and no shares were held directly or indirectly by subsidiaries of Veolia Environnement. On this date, the portfolio of treasury shares was allocated as follows:

- 5,848,868 shares were allocated to cover stock option programs or other share award programs to Group employees;
- 8,389,059 shares were allocated to external growth transactions.

21.1.3.4 Description of the program submitted for the authorization of the general meeting of May 16, 2012

The authorization for share repurchases described in paragraph 21.1.3.1 above will expire at the latest on November 17, 2012, unless the combined general meeting of May 16, 2012 approves the resolution adopted in accordance with the provisions of Articles L. 225-209 et seq. of the French Commercial Code set out below.

This resolution, with registration to the report by the Board of Directors, authorizes the Company to implement a new plan to repurchase shares under the following conditions:

- This authorization would be intended to allow the Company to trade in its own securities with the following objectives: (i) implementing all Company stock option plans within the scope of the provisions of Articles L.225-177 et seq. of the French Commercial Code or any similar plan; (ii) awarding or selling shares to employees in respect of their association with the benefits of the Company's expansion and the implementation of any company or group savings plan (or equivalent plan) under the conditions provided for by law, in particular Articles L.3332-1 et seq. of the French Labor Code; (iii) awarding free shares within the scope of the provisions of Articles L. 225-197-1 et seq. of the French Commercial Code; (iv) in general, honoring commitments relating to stock option programs or other share programs awarded to issuer's or affiliated company's employees; (v) delivering shares when rights are exercised that are attached to securities that grant access to the capital via redemption, conversion, exchange, presentation of a warrant or in any other way; (vi) cancelling all or part of the shares thus repurchased, pursuant to the twenty-second resolution adopted by the combined general meeting on May 16, 2012, or to any resolution of the same nature that may follow said resolution during the period of validity of the present authorization; (vii) delivering shares (as exchange, payment or otherwise) within the scope of external growth transactions, mergers, spin-offs or contributions; (viii) stimulating the secondary market for or the liquidity of Veolia Environnement shares through an investment services provider, within the scope of a liquidity contract that complies with the ethics charter recognized by the AMF.

  This program is also intended to enable the implementation of all market practices that shall come to be permitted by the AMF and, in general, the completion of all other transactions that comply with the regulations in force. In such a case, the Company will inform its shareholders by way of press release.

- Purchases of Company shares may be for a number of shares such that:
  - the number of shares that the Company purchases throughout the term of the share repurchase plan, at any time whatsoever, does not exceed 10% of the shares that make up the Company's capital, i.e. approximately 51,965,296 shares as of the filing date of this document (this percentage will apply to the capital, as adjusted in light of transactions that affect it after this general meeting), it being specified that (i) the number of shares acquired with a view to being retained and subsequently delivered as part of a merger, spin-off, or contribution cannot exceed 5% of its share capital; and (ii) when shares are repurchased in order to encourage liquidity under the conditions defined by the AMF General Regulations, the number of shares taken into account to calculate the 10% limit provided for in the first paragraph corresponds to the number of shares purchased, less the number of shares resold during the authorization period;
  - the number of shares that the Company holds at any given time whatsoever does not exceed 10% of the shares that make up the Company's capital on the date in question.
- Shares may be sold, bought or transferred at any time, within the limits authorized by the legal and regulatory provisions in force, but not during a public offer, and by any method, on regulated markets, multilateral trading systems, with systematic internalizers or over the counter, including by block purchases or sales (with no limit as to the proportion of the share repurchase plan that may be implemented by this method), by public offers to purchase or exchange shares, or through the use of options or other financial futures traded on regulated markets, multilateral trading systems, with systematic internalizers or concluded over the counter or through delivery of shares following the issue of securities that grant access to the Company's capital through conversion, exchange, redemption, exercise of a warrant or otherwise. Transactions may be conducted either directly or indirectly through an investment services provider.

- The maximum purchase price of the shares under this resolution will be €22.50 per share (or the counter-value of said amount on the same date in any other currency); said maximum price is only applicable to acquisitions decided as from the date of the combined general meeting of May 16, 2012 and not to future transactions concluded pursuant to an authorization granted by a previous general meeting that provides for acquisitions of shares subsequent to the date of said meeting.

The general meeting delegates to the Board of Directors, in the event of a change in the par value of shares, a capital increase via capitalization of reserves, award of bonus shares, division or regrouping of securities, distribution of reserves or of any other assets, redemption of capital or any other transaction concerning the shareholders' equity, the power to adjust the maximum aforementioned purchase price in order to take into account the impact on the share value of said transactions.

The total amount allocated to the share repurchase plan authorized above may not exceed €1 billion.

This authorization would cancel, as from the day of the combined general meeting of May 16, 2012, any prior authorization granted to the Board of Directors to trade in the Company's shares and if applicable for the value of any unused portion of any prior authorization. Said authorization is granted for a period of eighteen months from the date of said combined general meeting.

The general meeting would grant full powers to the Board of Directors, including the option of sub-delegation under the conditions provided for by law, to decide on and implement this authorization, to specify, if necessary, the terms thereof and decide on the conditions thereof, to carry out the purchase plan, and, in particular, to place all stock market orders, enter into all agreements, allocate or reallocate the shares acquired to the desired objectives under the applicable statutory and regulatory provisions, determine the terms and conditions under which, if applicable, the rights of holders of securities or options will be protected, in compliance with the statutory, regulatory and contractual provisions, make all declarations to the AMF and to all competent authorities, carry out all other formalities and, in general, do what is necessary.

21.1.4 Capital authorized but not issued

21.1.4.1 Authorizations adopted at the general meetings on May 17, 2011

Status of the authorizations adopted by the combined general meeting on May 17, 2011(1)

Relevant securities	**Duration of the authorization and expiration date**	**Maximum authorization** *(in cash or as a percentage of share capital)*
Share buyback program Except during a takeover period (Resolution 14)	18 months November 17, 2012	€40 per share, up to a maximum amount of €1 billion; the Company cannot hold more than 10% of its share capital
Share issues reserved to members of employee savings plans Capital increase by issuing shares or securities that provide access to capital (Resolution 15)	26 months July 17, 2013	2% of the share capital as of the date of the general shareholders' meeting held on May 17, 2011
Share issues reserved to employees, while cancelling preferential subscription rights (*) Capital increase reserved to one category of beneficiaries (Resolution 16)	18 months November 17, 2012	0.2% of the share capital as of the date of the general shareholders' meeting held on May 17, 2011

(*) Capital increase in favor of a company held by a credit institution acting at Veolia Environnement's request to set up a structured share offering for employees and corporate officers of affiliates that have their principal offices in countries in which employees, for regulatory or other reasons, cannot benefit from traditional employee shareholding plans (share issues reserved to employees, members of employee savings plans).

(1) Only authorizations that are still in force as of the date of filing of this registration document are listed.

21.1.4.2 Authorizations voted upon at the combined general meeting on May 16, 2012

Concerned Securities/Transactions	Term of authorization and expiration date	Upper limits for use of the authorizations *(in million euros and/or percentage)*
Share repurchase program Use excluded during any tender offer period (resolution 13)	18 months November 16, 2013	€22,50 per share, up to a limit of 1 billion euros; the Company may not hold more than 10% of its share capital
Issuances with preferential subscription rights (PSR) (*) Issuance of all types of securities (resolution 14)	26 months July 16, 2014	1.3 billion euros (nominal value) representing approx. 50% of the capital on the date of the general meeting (counting towards the global nominal amount limit of 1.3 billion euros (hereinafter, the "global cap"))
Issuances without preferential subscription rights (PSR) (*) Issuance of all types of securities by a public offering (resolution 15)	26 months July 16, 2014	260 million euros (nominal value) representing approx. 10% of the capital on the date of the general meeting (counting towards the global cap)
Issuances without preferential subscription rights (PSR) (*) Issuance of all types of securities, by way of private placement (resolution 16)	26 months July 16, 2014	260 million euros (nominal value) representing approx. 10% of the capital on the date of the general meeting (counting towards the nominal upper limit of 260 million euros for capital increases without PSR and towards the global cap)
Issuances of securities as payment for contributions in kind (*) (resolution 17)	26 months July 16, 2014	260 million euros (nominal value) representing approx. 10% of the capital on the date of the general meeting (counting towards the nominal upper limit of 260 million euros for capital increases without PSR and towards the global cap)
Increase in capital through the capitalization of premiums, reserves, profits or other items (*) (resolution 18)	26 months July 16, 2014	400 million euros (nominal value) representing approx. 15.4% of the capital on the date of the general meeting (this nominal maximum amount counts towards the global cap)
Increase in the number of securities in the event of capital increases with or without preferential subscription rights (green shoe option) (*) (resolution 19)	26 months July 16, 2014	Expansion by no more than 15% of a capital increase made with or without PSR (additional issuance counting towards the upper limit of the relevant resolution with or without PSR and towards the global cap, and where applicable, towards the nominal upper limit of 260 million euros for capital increases without PSR)
Share issues reserved to members of employee savings plans Capital increase by issuing shares or securities that provide access to capital (Resolution 20)	26 months July 16, 2014	52 million euros (nominal value) representing approx. 2 % of the capital at the day of the general meeting
Share issues reserved to employees without preferential rights (**) Capital increase reserved to one category of beneficiaries (Resolution 21)	18 months November 16, 2013	5 million euros (nominal value) representing approx. 0,2 % of the capital at the day of the general meeting
Cancellation of treasury shares (resolution 22)	26 months July 16, 2014	10% of the share capitalwithin any 24-month period

(*) *The nominal total amount of capital increases that may be carried out pursuant to this resolution will count towards the global cap of 1.3 billion euros set forth in the 14th resolution of the combined general meeting of May 16, 2012.*

(**) *Increase in capital in favor of a company owned by a credit institution acting at the request of Veolia Environnement in order to set up a structured offering of shares to employees and corporate officers of affiliated companies having their registered office in countries where, for regulatory reasons or otherwise, employees may not participate in usual employees' shareholding schemes (issuances reserved for employees, members of savings plans).*

21.1.5 Other securities that grant access to the capital

Potential dilutive effect of options and stock warrants[(1)]

At December 31, 2011, the Company had granted a total of 12,339,700 subscription options that grant the right to subscribe to 9,281,263 Company shares after adjustments and exercise (cf. chapter 17, section 17.3.3 above).

On December 12, 2007, the Company's Chairman and Chief Executive Officer, with the authorization of the Board of Directors, acting pursuant to the eleventh resolution adopted by the combined general meeting on May 10, 2007, decided to grant the Sequoia Plus Deutschland 2007 company savings plan ("FCPE"), free of charge, 52,747 Veolia Environment stock warrants (BSA) attached to the to shares sub-scribed for by this FCPE within the scope of the implementation of the leveraged, low-risk package for the capital increase that was reserved for employees and completed in 2007. These BSAs were granted in exchange for a 20% discount on the shares subscribed for by FCPE Sequoia Plus Deutschland 2007, in the name and on behalf of the beneficiaries of the companies that are members of the international group savings plan and based in Germany, to take into account the local tax constraints within this country. Each stock warrant grants the right to subscribe for one Veolia Environnement share at the price of €60.23. The warrants can be exercised at any time until December 31, 2012 inclusive. After midnight on December 31, 2012, the non-exercised BSAs will be cancelled.

At December 31, 2011, the Company had 519,652,960 shares. On this date, if all the BSAs (51,020) and all the subscription options (plans 5 to 8) had been exercised, 9,332,283 new shares would have been created, representing a dilution ratio of 1.80%.

---

(1) As the performance conditions were not met, the awardees of free shares under plan no. 1 lost all their rights (cf. chapter 17, section 17.4 above).

21.1.6 Table of changes in capital at December 31, 2011

The table below shows the changes in the Veolia Environnement share capital since the start of the 2005 fiscal year:

Meeting date	Transaction	Number of shares issued	Par value of the shares *(in euros)*	Nominal amount of the capital increase *(in euros)*	Issue or contribution premium *(in euros)*	Total amount of the capital	Total number of shares
6/21/2000 (recorded by the Board of Directors on 9/15/2005)	Exercise of stock options	94,772	5	473,860	1,875,890.52	2,032,583,775	406,516,755
5/12/2005 (recorded by the Chairman and Chief Executive Officer on 12/6/2005)	Capital increase reserved for employees (Group Savings Plan)	1,281,928	5	6,409,640	29,625,356.08	2,038,993,415	407,798,683
6/21/2000 4/25/2002 5/12/2004 (recorded by the Board of Directors on 3/9/2006)	Exercise of stock warrants and of stock options	73,923	5	369,615	1,456,335	2,039,363,030	407,872,606
6/21/2000 4/25/2002 5/12/2004 (recorded by the Board of Directors on 9/14/2006)	Exercise of stock warrants and of stock options	991,894	5	4,959,470	29,011,377	2,044,322,500	408,864,500
5/11/2006 (recorded by the Chairman and Chief Executive Officer on 12/15/2006)	Capital increase reserved for employees (Group Savings Plan)	1,931,340	5	9,656,700	62,807,177	2,053,979,200	410,795,840
6/21/2000 4/25/2002 5/12/2004 5/12/2005 (recorded by the Board of Directors on 3/7/2007)	Exercise of stock options	1,830,710	5	9,153,550	52,109,661	2,063,132,750	412,626,550
6/21/2000 4/25/2002 (recorded by the Board of Directors on 6/10/2007)	Exercise of stock options	2,722,082	5	13,610,410	68,869,237.01	2,076,743,160	415,348,632
6/21/2000 4/25/2002 (recorded by the Chairman and Chief Executive Officer on 7/10/2007)	Exercise of stock options	179,688	5	898,440	4,229,969	2,077,641,600	415,528,320
5/11/2006 (recorded by the Chairman and Chief Executive Officer on 7/10/2007)	Capital increase in cash with maintenance of preferential subscription rights	51,941,040	5	259,705,200	2,321,764,488	2,337,346,800	467,469,360
5/10/2006 (recorded by the Chairman and Chief Executive Officer on 12/12/2007)	Capital increase reserved for employees (Group Savings Plan)	3,061,675	5	15,308,375	132,948,611.80	2,352,655,175	470,531,035
5/10/2006 (recorded by the Chairman and Chief Executive Officer on 12/12/2007)	Capital increase reserved for a category of beneficiaries	188,771	5	943,855	8,151,131.78	2,353,599,030	470,719,806
6/21/2000 4/25/2002 12/05/2004 (recorded by the Board of Directors on 3/6/2008)	Exercise of stock options	1,042,950	5	5,214,750	26,877,494.36	2,358,813,780	471,762,756
6/21/2000 4/25/2002 5/12/2004 (recorded by the Board of Directors on 8/6/2008)	Exercise of stock options	773,693	5	3,868,465	17,875,554.98	2,362,682,245	472,536,449

Meeting date	Transaction	Number of shares issued	Par value of the shares *(in euros)*	Nominal amount of the capital increase *(in euros)*	Issue or contribution premium *(in euros)*	Total amount of the capital	Total number of shares
8/6/08 (recorded by the Board of Directors)	Correction of a clerical error: cancellation of a share	-1	5	-5	-21.18	2,362,682,240	472,536,448
4/25/2002 5/12/2004 (recorded by the Board of Directors on 3/5/2009)	Exercise of stock options	40,218	5	201,090	707,064.28	2,362,883,330	472,576,666
5/7/2009 (recorded by the Chairman and Chief Executive Officer on 6/4/2009)	Capital increase consequent on the payment of the dividend in shares	20,111,683	5	100,558,415	222,435,213.98	2,463,441,745	492,688,349
5/7/2009 (recorded by the Chairman and Chief Executive Officer on 8/5/2009)	Capital increase reserved for employees (Group saving plans)	911,014	5	4,555,070	14,831,307.92	2,467,996,815	493,599,363
6/21/2000 4/25/2002 5/12/2004 (recorded by the Board of Directors on 3/4/2010)	Exercise of stock options	31,011	5	155,055	508,755	2,468,151,870	493,630,374
5/7/2010 (recorded by the Chairman on 6/7/2010)	Capital increase consequent on the payment of the dividend in shares	3,732,018	5	18,660,090	60,607,972.32	2,486,811,960	497,362,392
5/7/2010 (recorded by the Chairman and Chief Executive Officer on 12/15/2010)	Capital increase reserved for employees (Group saving plans)	1,692,862	5	8,464,310	21,567,061.88	2,495,276,270	499,055,254*
06/21/2000 04/25/2002 05/12/2004 (recorded by the Chairman and Chief Executive Officer on 01/26/2011)	Exercise of stock options	71,113	5	355,565	1,239,807.13	2,495,631,835	499,126,367
05/17/2011 (recorded by the Chairman and Chief Executive officer on 06/15/2011)	Capital Increase related to the payment of the dividend in shares	20,462,396	5	102,311,980	281,153,321.04	2,597,943,815	519,588,763
04/25/2002 (recorded by the Board of Directors' meeting dated 08/03/2011)	Exercise of stock options	64,197	5	320,985	862,347.57	2,598,264,800	519,652,960*

na : not applicable.

* *See Chapter 21, Section 21.1.1 above.*

21.1.7 Non-equity securities

EMTN program

In June 2001, a Euro Medium Term Note (EMTN) program was implemented for a maximum amount of €4 billion.

On June 26, 2002, this limit was raised to €8 billion, to €12 billion on June 9, 2006, and to €16 billion on July 13, 2009.

The main issuances that make up the outstanding amounts of this program at December 31, 2011 are as follows:

Issue date	Nominal issue amount	Complementary issuances		Nominal amount outstanding at December 31, 2009	Yield	Maturity
February 1, 2002	€1 billion		}	€671 million	5.875%	February 1, 2012
July 1, 2010		€(329 million)				
May 28, 2003	€1 billion		}	€500 million	4.875%	May 28, 2013
July 1, 2010		€(444 million)				
November and December 2011		€(56 million)				
May 28, 2003	€750 million			€750 million	5.375%	May 28, 2018
November 25, 2003	€700 million			€700 million	6.125%	November 25, 2033
May 26, 2005	USD 50 million			USD 50 million	4.685%	June 30, 2015
June 17, 2005	€600 million		}	€875 million	1.75 % + inflation rate in the euro zone (excluding tobacco)	June 17, 2015
April 1, 2008		€275 million				
December 12, 2005	€900 million			€900 million	4%	February 12, 2016
December 12, 2005	€600 million			€600 million	4.375%	December 11, 2020
November 24, 2006	€1 billion		}	€1.140 billion	4.375%	January 16, 2017
March 14, 2008		€140 million				
May 24, 2007	€1 billion			€1 billion	5.125 %	May 24, 2022
October 29, 2007	GBP 500 million		}	GBP 650 million	6.125 %	October 29, 2037
January 7, 2008		GBP 150 million				
April 24, 2009	€1.250 billion			€1.250 billion	5.25 %	April 24, 2014
April 24, 2009	€750 million			€750 million	6.75 %	April 24, 2019
June 29, 2009	€250 million			€250 million	5.70 %	June 29, 2017
July 1, 2010	€834 million			€834 million	4.247 %	January 6, 2021

During the last quarter 2011, the Company proceeded on the secondary market to the partial buyback of its Euro 4.875% bond line maturing in May 2013 for an amount of €56 million. These buybacks bring remaining outstanding amounts on these bond issues to €500 million.

At December 31, 2011, the nominal amount outstanding on the EMTN program was €11,037 million, €10,366 million of which will mature in more than one year.

US Private placement (USPP)

In 2003 the Company issued bonds that were privately placed with investors located primarily in the United States, broken down as follows:

Tranches	Nominal amount of the issuance	Rate	Maturity
Tranche A	€33 million	fixed rate of 5.84%	January 30, 2013
Tranche B	GBP 7 million	fixed rate of 6.22%	January 30, 2013
Tranche C	USD 147 million	fixed rate of 5.78%	January 30, 2013
Tranche D	USD 125 million	fixed rate of 6.02%	January 30, 2015
Tranche E	USD 85 million	fixed rate of 6.31%	January 30, 2018

At December 31, 2011, the nominal outstanding amount of this loan was €317 million, all of which will mature in more than one year. It was redeemed early in full on February 9, 2012 for a euro-equivalent of €350.2 million.

Public issue on the US market

On May 28, 2008 Veolia Environnement issued bonds registered with the US Securities and Exchange Commission for an amount of USD 1.8 billion, at a fixed rate and in three tranches:

Issue date	Nominal amount of the issuance	Complementary issuances	Amount outstanding at December 31, 2010	Rate	Maturity
May 21, 2008	USD 700 million				
October, November and December 2011		USD (210) million	USD 490 million	5.25 %	June 3, 2013
May 21, 2008	USD 700 million		USD 700 million	6.00 %	June 1, 2018
May 21, 2008	USD 400 million		USD 400 million	6.75 %	June 1, 2038

During the last quarter 2011, the Company proceeded on the secondary market to the partial buyback of its USD 5.25% bond line maturing in June 2013 for an amount of USD 210 million. These buybacks bring remaining outstanding amounts on these bond issues to USD 490 million.

At December 31, 2011 the nominal outstanding amount of this loan was USD 1,590 million, i.e. €1,229 million, all of which will mature in more than one year.

Commercial paper

At December 31, 2011 the outstanding amount of the commercial paper issued by the Company was €500 million.

21.2 Provisions of the articles of association

Please refer to the information set out in Chapter 5, Section 5.1.2 (General information concerning the Company).

21.2.1 Corporate purpose

Pursuant to article 3 of the Company's Articles of Association, Veolia Environnement's corporate purpose, directly and indirectly, in France and in all other countries, involves:

- conducting all service activities, for private, professional and public customers, that are related to the environment, in particular, water, wastewater, energy, transportation and waste management;
- the acquisition, use and exploitation of all patents, licenses, trademarks and models that are directly or indirectly related to corporate activities;
- the acquisition of all participating interests, in the form of subscriptions, purchases, contributions, exchanges or by any other means, and the acquisition of shares, bonds and all other securities in existing or future enterprises, groupings or companies, and the option of disposing of such interests;
- in general, all commercial, industrial, financial or non-trading transactions, whether in personal or real property, that are directly or indirectly related to the aforementioned corporate purpose, and, in particular, the issue of all guarantees, first-demand guarantees, sureties and other security interests, in particular for the benefit of all groupings, enterprises or companies in which the Company holds a participating interest within the scope of its business activities, as well as the financing or refinancing of its business activities.

21.2.2 Fiscal year

The Company's fiscal year starts on January 1 and closes on December 31 of each calendar year.

21.2.3 Profit allocation under the Articles of Association

Each share grants entitlement to an amount of the profit in proportion to the percentage of the capital that such share represents.

The distributable profit is made up of the net profit for the fiscal year, minus any deferred losses and the various deductions provided for by law, plus the deferred profit.

The general meeting may decide to distribute amounts drawn from the reserves of which it may freely dispose, by expressly stating the reserve items from which the amounts are drawn.

After approving the financial statements and recording the existence of amounts that are eligible for distribution (including the distributable profit and the amounts drawn from reserves referred to above, if any), the general meeting may decide to distribute all or part of such amounts to the shareholders as dividends, to allocate them to reserve items, or to carry them forward.

The general meeting has the option of granting the shareholders, for all or part of the dividends paid out or interim dividends, an option of payment in cash or payment in shares under the conditions laid down by the law. Furthermore, the general meeting may decide, for all or part of the dividend, interim dividends, distributed reserves or premiums, or for any capital reduction, that such distribution or such capital reduction will be carried out in kind by delivery of Company assets.

The Board of Directors has the option of distributing interim dividends prior to the approval of the annual financial statements, under the conditions provided for by law.

21.2.4 Changes to the Articles of Association, the capital and the rights attached to shares

All changes to the Articles of Association, the capital or the voting rights attached to the securities that make up the capital are subject to the requirements of the law, as the Articles of Association do not contain any specific provisions.

21.2.5 General meetings

21.2.5.1 Convening notices to meetings

General meetings are convened and deliberate under the conditions provided for by law. Meetings are held at the Company's registered office or at any another location stated in the convening notice. Shareholder's decisions are taken in ordinary, extraordinary, special or combined meetings, depending on the nature of the decisions that shareholders are called upon to make.

21.2.5.2 Attendance at meetings

Conditions

All shareholders, regardless of the number of shares they hold, are entitled to attend meetings in accordance with the laws and regulations in force, either by attending them in person, by being represented at them, by voting by post, or by giving proxy to the Chairman of the meeting.

In accordance with Article R.225-85 of the French Commercial Code, only shareholders must provide proof of ownership through the securities being registered in the accounts in their name, or in the name of the intermediary registered as acting on their behalf, no later than the third day business day prior to the meeting at midnight, Paris time, either in the registered securities accounts, or in bearer securities accounts held by their authorized intermediary.

With regard to registered shareholders, this accounting recognition in the registered securities accounts three business days prior to the meeting is sufficient for them to be able to attend.

With regard to holders of bearer securities, it is the responsibility of the authorized intermediaries that hold the bearer securities accounts to justify their position as a shareholder on their client's behalf to the centralizing establishment of the assembly appointed by Veolia Environnement, through providing evidence of a participation certificate which they annex to the single postal voting form or proxy form or to the admission card request drawn up in the name of the shareholder or on behalf of the shareholder represented by the registered intermediary.

Procedures

Shareholders wishing to attend the general meeting in person must apply for an admission card:

- registered shareholders should apply directly to the centralizing institution of the meeting appointed by Veolia Environnement (hereinafter "the centralizing institution");
- holders of bearer securities should apply to their financial intermediary.

If a holder of bearer securities wishing to attend the meeting in person has not received their admission card by midnight, Paris time, of the third business day preceding the meeting, they must submit a request to their financial intermediary to issue them with a participation certificate enabling them to provide evidence of their position as a shareholder three days prior to the meeting in order to be admitted.

A notice of the meeting, including a single postal voting or proxy or admission card request form, is automatically sent to all registered shareholders. Holders of bearer securities must contact the financial intermediary with whom their shares are registered in order to obtain the postal voting or proxy or admission card request form.

Remote voting

Shareholders who are unable to attend the general meeting in person may choose from one of the following three options:

- give a written proxy to another shareholder, to their spouse or their partner or any other natural or legal person of their choice;
- give a proxy to the Chairman of the meeting;
- vote by post.

Votes made by post or by proxy can only be taken into account if the forms, duly filled in and signed, (and accompanied by the participation certificate for bearer securities) are received by the centralizing institution no later than the third business day prior to the meeting at midnight, Paris time.

In accordance with the provisions of Article R.225-79 of the French Commercial Code, notification of the appointment and dismissal of a proxy holder may also be made by electronic means.

Only notifications of appointment to or dismissal from positions duly signed, completed and received no later than three days before the date of the meeting may be taken into account.

In accordance with the provisions of Article R.225-85 of the French Commercial Code, any shareholder that has already voted by post, or sent a proxy or an admission card request is no longer able to choose another method of participation in the meeting, but may nonetheless sell all or part of their shares. However, if the sale takes place more than three days before the meeting, the Company invalidates or changes accordingly, as appropriate, the remote vote, the proxy, the admission card or the participation certificate. To this end, the authorized intermediary holding the account notifies the Company or its proxy holder of the sale and communicates the necessary information to it. No sale or any other transaction made later than three days before the meeting, regardless of the method used, is notified by the authorized intermediary holding the account or taken into consideration by the Company, notwithstanding any contrary agreement. It is noted that if a shareholder does not name a proxy holder in a proxy form, the Chairman of the general meeting shall register a vote in favor of adopting draft resolutions submitted or approved by the Board of Directors, and shall register a vote against the adoption of all other draft resolutions. In order to issue any other vote, the shareholder must choose a proxy holder who agrees to vote as directed by the shareholder.

Under the terms of article 22 paragraph 4 of the Company’s Articles of Association, the Board of Directors may decide that shareholders may participate in the general meeting via videoconference or by means of telecommunication or electronically, including via the internet, under the conditions provided for by the applicable regulations at the time of use. In this case, these shareholders are regarded as being present when calculating the quorum and the majority of the meeting. This option has not yet been used by the Company at the filing date of this reference document.

21.2.5.3 Key powers and quorum required for general meetings

Ordinary General Meeting

The ordinary general meeting is called to take all decisions which do not make changes to the Articles of Association. It is held at least once a year, within six months of the close of each financial year, in order to present its observations on the accounts of this financial year. It may only proceed, when it is convened for the first time, if the shareholders present, represented or having voted remotely hold at least one fifth of the shares with voting rights. When it is convened for the second time, no quorum is required. The deliberations of the ordinary general meeting are taken by a majority of the votes of the shareholders present, represented or having voted remotely.

Extraordinary General Meeting

The extraordinary general meeting is the only meeting authorized to make changes to the provisions of the Articles of Association. It may not, however, increase the commitments of shareholders, subject to transactions resulting from a grouping together of shares, duly and properly carried out. It may only proceed, when it is convened for the first time, if the shareholders present, represented or having voted remotely hold at least one quarter, and, when it is convened for the second time, one fifth of the shares with voting rights. The deliberations of the extraordinary general meeting are taken by a majority of two-thirds of the votes of the shareholders present, represented or having voted remotely.

21.2.5.4 Shareholders' rights

Inclusion of points or draft resolutions on the agenda

Requests for the inclusion of points or draft resolutions on the agenda must reach the Company's registered office (Veolia Environnement, General Secretariat, 36/38, avenue Kléber, 75116 Paris) by registered letter with acknowledgement of receipt or by e-mail at the following address: AGveoliaenvironnement.ve@veolia.com, no later than twenty days after the publication of the notice of the meeting in the "Bulletin des Annonces Légales et Obligatoires" (BALO).

The request for the inclusion of a point on the agenda must be justified. The request for the inclusion of draft resolutions must be accompanied by the text of draft resolutions, which may be accompanied by a brief explanatory statement. Such requests from shareholders must be accompanied by a certificate justifying their status as shareholders, either in the registered securities accounts or in the bearer securities accounts held by a financial intermediary, as well as the percentage of capital required by the regulations. Examination of the point or draft resolution proposed in line with the regulations is subject to the submission, by the authors of the request, of a new certificate evidencing the accounting recognition of the securities in the same accounts no later than the third business day prior to the meeting at midnight, Paris time.

Written questions

In accordance with the provisions of Article R.225-84 of the French Commercial Code, any shareholder wishing to ask written questions must address them to the Chairman of the Board of Directors, via the Company's registered office (Veolia Environnement, General Secretariat, 36/38, avenue Kléber, 75116 Paris) by registered letter with acknowledgement of receipt, no later than four business days before the meeting; in order to be taken into account, it is imperative that these questions are accompanied by a share registration certificate. It is understood that the answers to the written questions may be published directly on the Company's website at the following address: www.finance.veolia.com, under the General Meeting section.

Consultation of the documents made available

Documents and information relating to general meetings are made available to shareholders in accordance with the laws and regulations in force and, in particular, the information referred to in Article R.225-73-1 of the French Commercial Code is published on the Company's website at the following address: www.finance.veolia.com, under the General Meeting section, no later than twenty-one days before the meeting.

Voting rights

The voting rights attached to shares are proportional to the percentage of share capital that such shares represent, and each share carries the right to cast one vote. There are no double voting rights.

The voting right attached to shares subject to beneficial ownership is exercised by the income beneficiary in ordinary general meetings and by the bare title owner in extraordinary general meetings.

21.2.6 Identification of shareholders

When shares are fully paid up, they may be in registered or bearer form, at the discretion of the shareholder, subject to provisions of the laws and regulations in force and the Company's Articles of Association. Until the shares are fully paid up, they must be in registered form.

Company shares are registered in an account under the conditions and in accordance with the terms provided for by the law and regulations in force. However, when the owner of the shares does not reside in France or French Overseas Territories, within the meaning of Article 102 of the French Civil Code, any intermediary may be registered on behalf of such owner, in accordance with the provisions of Article L.228-1 of the French Commercial Code.

Furthermore, the Company's Articles of Association provide that the Company may seek to identify all holders of securities that grant an immediate or deferred right to vote in its meetings, in accordance with the procedures set forth in Articles L.228-2 et seq. of the French Commercial Code. Pursuant to these provisions, the Company reviews its share ownership four times per year on average.

Failure by the holders of securities or their intermediaries to comply with their data disclosure obligations set forth in Articles L.228-2 et seq. of the French Commercial Code causes, under the conditions provided for by law, will result in the temporary deprival of voting rights and, under certain circumstances, the suspension of the dividend attached to the shares.

21.2.7 Threshold exceeding

In addition to thresholds provided by the law and the regulations in force, the Company's Articles of Association provide that all individuals or legal entities, acting alone or in concert with others, that enter into possession or that no longer hold, either directly or indirectly, a fraction of the capital, voting rights or securities that grants future access to the Company's capital equal to or more than 1% or any multiple of 1%, must inform the Company, by registered letter with return receipt requested, within fifteen days of exceeding one of such thresholds, of their identity, the identity of the person(s) with whom they are acting in concert, as well as the total number of shares, voting rights and securities that grant future access to the capital they hold on their own, directly or indirectly, or in concert with others.

Failure to comply with the above provisions will be penalized by the deprival of voting rights for the shares that exceed the threshold that should have been declared, for all shareholders' meetings that are held until the expiration of a two-year period following the date on which the aforementioned notice is brought into compliance, if the application of this penalty is requested by one or more shareholders who together hold at least 1% of the Company's capital. This request is recorded in the minutes of the general meeting.

22 Significant contracts

Impact of a change in control of Veolia Environnement[1]

In many countries, including France, not only can local authorities terminate contracts entered into with subsidiaries of the Veolia Environnement Group (see chapter 4, § 4.1.2 above), but a change of control of Veolia Environnement could also affect certain contracts of the Group that include change of control clauses.

This is the case for several contracts concluded with public and private clients particularly abroad, (including the water contract in Berlin), which allow for a specific termination rights in favor of the clients and/or the financial partners associated with the client, in the event of a change of control of Veolia Environnement.

Furthermore, under the partnership agreements with EDF signed in December 2000, if a competitor of EDF takes over the Company, EDF has the right to purchase all of the Dalkia shares held by the Company. The same applies to the agreements signed with Caisse des depôts et consignations on May 4, 2010, pursuant to which Veolia Environnement granted to Caisse des depôts et consignations the right to purchase all of the Veolia Transdev shares held by the Company in the event of a change in control of the Company (see chapter 20, § 20.1, notes 37 and 40.3 of the consolidated financial statements).

Finally, the stock-option plans implemented by the Company which are currently in force (see chapter 17, § 17.3.1 above) provide that options become immediately exercisable without condition in the event a public tender offer is launched on the Company.

(1) Article L. 225-100-3 of the French Commercial Code.

23 Third party information, expert statements and declaration of interests

Not applicable.

24 Documents available to the public

The Company's press releases, annual reports, including historical financial information relating to the Company and any related updates filed with the AMF, as well as the Company's Form 20-F filed with the U.S. Securities and Exchange Commission, are available on the Company's website: www.finance.veolia.com. Copies of these documents may also be obtained at the Company's registered office at 36/38, avenue Kléber in Paris, France.

The Company is required, pursuant to directive 2003/71/EC to publish an annual information document that contains or mentions all of the information disclosed to the public by the Company during the preceding twelve months in France, other EU member states, and in the United States pursuant to any securities regulation applicable to the Company. This document is available on the Company's website at the address indicated above, as well as on the AMF's website: www.amf-france.org.

All of the regulated information published by the Company, pursuant to article 221-1 et seq., in the AMF's general regulation, is available on Veolia Environnement's website at the following address: www.finance.veolia.com in the "Regulated Information" section.

Finally, the Company's Articles of Association, as well as the minutes of general shareholders' meetings, the statutory auditors' reports and all other corporate documents, may be viewed at the Company's registered office.

25 Information regarding Company interests

Information concerning companies in which Veolia Environnement holds a portion of the share capital likely to have a material impact on its assets, financial condition or results of operations is set forth in Chapter 6, paragraph 6.1.3 above and in Chapter 20, paragraph 20.1, note 44 to the consolidated financial statements.

Designed & published by Labrador +33 (0)1 53 06 30 80

Printed in France using plant-based ink on 100% recycled FSC-certified paper by an Imprim'Vert® printer that guarantees disposal of hazardous waste in a compliant manner. By selectively sorting waste, the eco-responsible reader can ensure that the paper in this document is once again recycled.

Veolia Environnement
36-38, avenue Kléber
75116 Paris Cedex, France
Tél. : +33 (0)1 71 75 00 00

www.veolia.com