VEOLIA ENVIRONNEMENT
Form 20-F
April 13, 2012

As filed with the Securities and Exchange Commission on April 13, 2012

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g)
OF THE SECURITIES EXCHANGE ACT OF 1934
OR
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2011
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
OR
SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-15248

VEOLIA ENVIRONNEMENT

(Exact name of Registrant as specified in its charter)

N/A	36/38, avenue Kléber,	Republic of France
(Translation of Registrant s name into English)	75116 Paris, France	(Jurisdiction of incorporation or organization)

(Address of principal executive offices)
Eric Haza, Group General Counsel, 36/38 avenue Kléber, 75116 Paris France 011 33 1 71 75 00 75
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Ordinary shares, nominal value €5 per share represented by American Depositary Shares (as evidenced by American Depositary Receipts), each American Depositary Share representing one ordinary share*	The New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:
519,652,960 ordinary shares, nominal value €5 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

* Listed, not for trading or quotation purposes, but only in connection with the registration of the American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

FORWARD-LOOKING STATEMENTS

We make some forward-looking statements in this document. When we use the words aim(s), expect(s), feel(s), wi may, believe(s), anticipate(s) and similar expressions in this document, we are intending to identify those statement as forward-looking. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this document. In particular, from time to time in this document we state our expectations in terms of revenue to be generated under new contracts recently won or awarded or from new investments made and new assets or operations acquired, though we may have not yet commenced operations under these new contracts nor begun operating these new assets and operations at the time we make these statements. Some of these revenue estimates are based on our management s current assumptions regarding future sales volumes and prices, which are subject to a number of risks and uncertainties that may cause actual sales volumes and prices to differ materially from those anticipated. As a result, actual revenue recorded under these new contracts or from these new investments, assets and operations may differ materially from those set forth in this document. Except to the extent required by applicable securities laws, we undertake no obligation to publish updated forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events. We urge you to carefully review and consider the various disclosures we make concerning the factors that may affect our business, including the disclosures made in Item 3. Key Information Risk Factors, Item 5. Operating and Financial Review and Prospects, Item 8. Financial Information Significant Changes and Item 11. Quantitative and Qualitative Disclosures about Market Risk.

Unless otherwise indicated, information and statistics presented herein regarding market trends and our market share relative to our competitors are based on our own research and various publicly available sources.

Information on websites referenced herein is not incorporated by reference in this annual report.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

SELECTED FINANCIAL DATA

You should read the following selected financial data together with Item 5. Operating and Financial Review and Prospects and our Consolidated Financial Statements contained in Item 18. Financial Statements. Our Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and with IFRS as adopted by the European Union. See Item 5. Operating and Financial Review and Prospects for a discussion of accounting changes, business combinations and dispositions of business operations that affect the comparability of the information provided below.

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	At and for the year ended December 31,					
	(in US$) [1]	(in €)				
(millions, except per share amounts) [(3)(4)]	**2011**	**2011**	**2010**	**2009**	**2008**	**2007**
INCOME STATEMENT DATA:						
Revenue	38,360.6	29,647.3	28,764.2	27,847.7	29,063.1	25,303.3
Operating income	1,316.2	1,017.2	1,982.1	1,788.9	1,732.5	2,281.8
Net income from continuing operations	(406.5)	(314.2)	819.7	791.2	501.7	1,233.7
Net income (loss) from discontinued operations	(3.1)	(2.4)	29.3	25.6	193.4	(4.8)
Non-controlling interests	224.1	173.2	290.5	257.8	304.1	326.9
Net income / (loss) attributable to owners of the Company	(633.8)	(489.8)	558.5	559.0	391.0	902.0
Net income/ (loss) attributable to owners of the Company per share Basic	(1.28)	(0.99)	1.16	1.18	0.84	2.07
Net income /(loss) attributable to owners of the Company per share Diluted	(1.28)	(0.99)	1.16	1.18	0.84	2.05
Net income / (loss) from continuing operations attributable to owners of the Company per share Basic	(1.26)	(0.97)	1.07	1.15	0.61	2.16
Net income / (loss) from continuing operations attributable to owners of the Company per share Diluted	(1.26)	(0.97)	1.07	1.15	0.61	2.14
Dividends per share (in €)		0.70 [(2)]	1.21	1.21	1.21	1.21
Dividends per share (in US$) [(5)]	0.91	0.91	1.62	1.74	1.68	1.78
Number of shares (adjusted to reflect changes in capital)	519,652,960	519,652,960	499,126,367	493,630,374	472,576,666	471,762,756

BALANCE SHEET DATA (AT PERIOD END):						
Equity attributable to owners of the Company	9,147.5	7,069.7	7,875.9	7,397.4	6,961.3	7,588.7
Equity attributable to non-controlling interests	3,578.2	2,765.4	2,928.5	2,670.1	2,530.5	2,577.8
Total assets	65,219.8	50,405.6	51,427.3	49,754.7	49,086.2	46,282.7
Total non-current assets	36,820.6	28,457.1	31,055.4	29,558.5	30,010.8	28,948.0
Total non-current liabilities	27,030.0	20,890.3	22,506.5	22,028.9	21,320.0	18,045.4
CASH FLOW DATA:						
Net cash flow from operating activities	3,809.2	2,944.0	3,456.6	3,601.3	3,359.7	3,276.2
Operating Cash Flow before changes in working capital	4,338.3	3,352.9	3,718.7	3,559.4	3,781.5	3,859.1
Net cash from (used in) investing activities	(1,471.9)	(1,137.6)	(1,817.2)	(1,351.9)	(2,964.8)	(3,585.0)
Net cash used in financing activities	(1,780.3)	(1,375.9)	(1,878.4)	(488.4)	309.6	865.8
Purchases of property, plant and equipment	(2,922.0)	(2,258.3)	(2,083.7)	(2,104.8)	(2,390.3)	(2,160.3)

(1) For your convenience we have converted the euro amounts of our selected financial data into U.S. dollars using the December 31, 2011 rate of US$1.00 = €0.77286. This does not mean that we actually converted, or could have converted, those amounts into U.S. dollars on this or any other date.

(2) Amount of dividend per share to be proposed at the Annual Shareholders' Meeting of May 16, 2012.

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

the Clemessy and Crystal entities in the Energy Services division, divested in December 2008;

the entities of the U.S. incineration activity in Environmental Services (Montenay International);

the Dutch activities in the Water division divested in the second half of 2010;

Transportation activities as a whole (which are in the process of being sold), German activities in the Energy Services division, Norway activities in the Environmental services division,

household assistance services (Proxiserve) held jointly by the Water and Energy Services divisions, divested in December 2011, and

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, 2009, 2008 and 2007. Furthermore, as the divestiture process for Water activities in Gabon and Pinellas incineration activities in the United States were interrupted in the first and second semesters of 2011 respectively, these activities are no longer presented in Net income from discontinued operations.*

(4) Figures for the years ended December 31, 2010, 2009, 2008 and 2007 have been adjusted for the application of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - See Note 1 to the Consolidated Financial Statements.

(5) Based on relevant year-end exchange rate.

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Dividends

Under French law and our articles of association (*statuts*), our statutory net income in each fiscal year, as increased or reduced, as the case may be, by any profits or losses carried forward from prior years, less any contributions to legal reserves, is available for distribution to our shareholders as dividends, subject to other applicable requirements of French law and our *statuts*.

At our General Shareholders' Meeting to be held on May 16, 2012, our shareholders will vote on a dividend payment proposed to be €0.70 per share in respect of our 2011 fiscal year, which will be paid beginning on June 18, 2011. The dividend will be payable in cash or in shares, and the period during which shareholders may choose between being paid the dividend in cash or in shares, subject to applicable legal restrictions, will begin on May 22, 2012 and end on June 6, 2012. Subject to the approval of the General Shareholders Meeting, new shares will be issued with no discount off of the average opening price on Euronext Paris of the shares over the twenty trading days prior to the day of the General Shareholders Meeting approving the dividend, less the amount of the dividend, rounded up to the next highest euro cent. We expect that Bank of New York Mellon as depositary will make this option available to ADR holders. On June 17, 2011, we paid a dividend of €1.21 per share in respect of our 2010 fiscal year. On June 9, 2010, we paid a dividend of €1.21 per share in respect of our 2009 fiscal year. On June 8, 2009, we paid a dividend of €1.21 per share in respect of our 2008 fiscal year. On May 27, 2008, we paid a dividend of €1.21 per share in respect of our 2007 fiscal year. On May 15, 2007, we paid a dividend of €1.05 per share in respect of the 2006 fiscal year.

Dividends paid to holders of our ADSs and non-French resident holders of our shares are subject to a French withholding tax generally at a rate of 30%. However, U.S. holders that are entitled to and comply with the procedures for claiming benefits under the applicable tax treaty may be subject to a 15% rate of withholding tax. See Item 10. Additional Information Taxation for a summary of the material U.S. federal and French tax consequences to holders of shares and ADSs. Holders of shares or ADSs should consult their own tax advisers with respect to the tax consequences of an investment in the shares or ADSs. In addition, dividends paid to holders of ADSs will be subject to a charge by the depositary for any expenses incurred by the depositary of the ADSs in the conversion of euro to dollars.

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Exchange Rate Information

Share capital in our Company is represented by ordinary shares with a nominal value of €5 per share (generally referred to as our shares). Our shares are denominated in euro. Because we intend to pay cash dividends denominated in euro, exchange rate fluctuations will affect the U.S. dollar amounts that shareholders will receive on conversion of dividends from euro to dollars.

The following table shows the euro/U.S. dollar exchange rate from 2007 through April 6, 2012 based on the noon buying-rate, as defined below, expressed in U.S. dollars per euro. The information concerning the U.S. dollar exchange rate is based on the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate). We provide the exchange rates below solely for your convenience. We do not represent that euros were, could have been, or could be, converted into U.S. dollars at these rates or at any other rate. For information regarding the effect of currency fluctuations on our results of operations, see Item 5. Operating and Financial Review and Prospects.

Month *U.S. dollar/Euro*	**Period End**	**Average rate***	**High**	**Low**
April 2012 (through April 6th, 2012)	1.31	1.32	1.33	1.31
March 2012	1.33	1.32	1.33	1.30
February 2012	1.34	1.32	1.35	1.31
January 2012	1.31	1.29	1.32	1.27
December 2011	1.30	1.32	1.35	1.29
November 2011	1.35	1.36	1.38	1.32
October 2011	1.39	1.37	1.42	1.33
Year				
U.S. dollar/Euro				
2011	1.30	1.39	1.49	1.29
2010	1.34	1.33	1.45	1.20
2009	1.43	1.39	1.51	1.25
2008	1.39	1.47	1.60	1.24
2007	1.47	1.38	1.49	1.29

* *The average of the Noon Buying Rates on the last business day of each month (or portion thereof) during the relevant period for year average; on each business day of the month (or portion thereof) for monthly average.*

Solely for the convenience of the reader, this annual report contains translations of certain euro amounts into U.S. dollars. These translations should not be construed as representations that the converted amounts actually represent such U.S. dollar amounts or could have been or will be converted into U.S. dollars at the rate indicated or at all. Unless otherwise specified, the translations from euro to U.S. dollars in this annual report are based on US$1.00 = €0.7729, the Noon Buying Rate on December 31, 2011. On April 12, 2012, the exchange rate as published by Bloomberg at approximately 1:00 p.m. (New York time) was US$1.3164 per one euro.

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RISK FACTORS

You should carefully consider the risk factors described below in addition to the other information presented in this document.

Risks relating to the environment in which we conduct our operations

We may fail to maintain or increase our competitiveness and adapt our business model to rapid changes in environment-related businesses.

Our business is highly competitive and requires substantial human and capital resources and cutting-edge technical expertise in numerous areas. Large international competitors, local niche companies and companies whose structure costs or profitability requirements are lower than ours (in particular public sector operators such as mixed public-private companies in France and Stadwerke in Germany) serve each of the markets in which we compete. Accordingly, we must make constant efforts to reduce our cost structure and remain competitive and convince potential customers of the quality and cost value of our service offerings. We may also need to develop new technologies and services in order to maintain or increase our competitive position, which could result in significant costs.

In addition, our contracts may not be renewed at the end of their term, which, in the case of major contracts, may require us to implement costly reorganization measures. When the contract does not provide for the transfer of the related assets and employees to the succeeding operator and/or appropriate compensation to cover our costs of termination, the impact on our results could be substantial. Public authorities may also increasingly seek to assume direct management of water or waste services (particularly under management contracts), increasing the risk of non-renewal.

Even when we are able to renew our contracts, the new terms may be less favorable than the prior terms. Moreover, certain contracts provide for periodic renegotiation of terms, and we may face pressure to agree to less favorable terms upon renegotiation.

Our cost savings and transformation plans may fail to generate the expected cost savings.

We have set cost reduction targets under two plans, but we might not be able to realize the savings objectives in these plans. In 2003, we began our Efficiency Plan to save costs, which we continue to implement. In 2011, we began to implement the new Convergence Plan, which is part of the transformation of our organization, aimed at standardizing processes, reinforcing the control and steering of operations and streamlining our structure. Key features of these plans are described under Item 4. Information on the Company.

These plans could take longer to implement than expected and, with respect to the Convergence Plan, require more costs than planned. In addition, our cost reduction measures are based on current conditions and do not take into account any future cost increases that could result from changes in our industry or operations, including new business developments, wage and price increases or other factors. Restructuring and disposals may harm our labor relations and public relations and could lead to disruptions. Our failure to successfully implement these plans, or the possibility that these efforts may not generate the level of cost savings we expect going forward or may result in higher than expected costs, could negatively affect our results of operations and financial condition.

We may not be able to realize all of the divestments that we are hoping to make. If we do, the proceeds may be lower than we currently expect.

We have announced a divestment program under which we will seek to sell €5 billion of assets over the next two years. In particular, we plan to withdraw progressively from Veolia Transdev, to sell our rate-regulated Water activities in the United Kingdom and solid waste activities in the United States, and to continue to streamline our geographical coverage. Divestitures have inherent risks, including possible delays in closing transactions (including potential difficulties in obtaining regulatory approvals), the risk of lower-than-expected sales proceeds for the divested businesses and unexpected costs associated with the separation of the business to be sold from our integrated systems. We may also lose valuable human resources and significant expertise with respect to financial services, human resources, real estate and general services.

We have conducted and may continue to conduct external growth transactions through acquisitions and/or mergers, which could have a less favorable impact on our activities and results than anticipated, or which could affect our financial condition.

We have conducted and may continue to carry out external growth transactions, in varying legal forms, in particular through acquisitions of businesses or companies or through mergers, and of varying sizes, some of which may be significant at the Group level. These external growth transactions 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) we may fail to successfully integrate the companies acquired and their technologies, products and personnel; (iii) we may fail to retain key employees, customers and suppliers of the companies acquired or merged; (iv) we may be required or wish to terminate pre-existing contractual relationships, which could prove costly and/or be performed at unfavorable terms and conditions; (v) we may increase our indebtedness to finance these acquisitions or mergers; and (vi) we may be forced to divest or to limit the growth of certain businesses so as to obtain the necessary authorizations, in particular with respect to anti-trust authorizations. As a result, the expected benefits of completed or future acquisitions, mergers or other external growth transactions may not materialize within the time periods or to the extent anticipated, or may impact our financial condition.

Currency exchange and interest rate fluctuations may negatively affect our financial results and the price of our shares.

We hold assets, earn income and incur expenses and liabilities in a variety of currencies. Our financial statements are presented in euros. Accordingly, when we prepare our financial statements, we must translate our 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 euros, of our investments held in foreign currencies.

We are also subject to risks related to fluctuations in interest rates. As of December 31, 2011, 47.3% of our gross financial debt bore interest at floating rates after taking into account hedging instruments and fair value remeasurement of fixed-rate debt (see Note 29.1.1 to our Consolidated Financial Statements). Fluctuations in interest rates may also affect our future growth and investment strategy since a rise in interest rates may force us to finance acquisitions or investments or refinance existing debt at a higher cost in the future.

Our business is subject to greenhouse gas market and emission allowance risks.

As an operator of energy installations, we are exposed to the inherent risks of the greenhouse gas allowance system introduced by the European Union in the framework of the Kyoto Protocol. The rise in greenhouse gases in the atmosphere led certain States and the international community to introduce regulatory provisions. The Kyoto Protocol, which was signed in December 1997, came into force in February 2005. In accordance with this Protocol, 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, which began in 2005, led to the creation of National Allowance Allocation Plans (NAAP). These plans are being implemented in several phases. The pilot phase (NAAP 1), which aimed to set a price on carbon and put in place national registers, ran from January 1, 2005 to December 31, 2007. The ongoing phase 2 (2008-2012) reflects the implementation of the Kyoto Protocol. Allowances are granted free of charge to facilities. If a company exceeds its allowance then it must either adapt its facilities or purchase extra allowances, at market price, from a company that does not need them. Phase 3 (2013-2020) will be a strengthening of the system with a view to reducing greenhouse gas emissions by 20% by 2020 (compared to 1990). As a consequence of this, from January 1, 2013, some of the allowances needed by our Group (Dalkia) will have to be purchased (through an auction system), which is expected to generate additional costs.

In this context, we are exposed to a double-sided risk: first, we may not be able to achieve the emission reductions imposed by the system over a number of years, which would result in our Group being required to purchase additional greenhouse gas allowances. Second, we may not be able to adjust our pricing policy so as to pass on the extra cost of purchasing these allowances from January 1, 2013.

Our business operations in some countries may be subject to political risks.

Sales outside of France generated 61% of total Group revenue in 2011. While our operations are concentrated mainly in Europe and the United States, we conduct business in markets around the world. We also conduct business in certain emerging countries. In a complex and sometimes unstable international environment, risks relating to conducting business in certain countries can affect our financial position, results of operations, reputation and outlook. In particular, given the nature of our activities and the term of our contracts, our results can partially depend on external operating conditions, including the geopolitical, economic, social or financial situation or the level of development, working conditions and environmental conditions of a given country.

The risks associated with conducting business in some countries can include the non-payment or slower payment of invoices, which is sometimes aggravated by the absence of legal recourse for non-payment, nationalization, increased foreign exchange risk and currency restrictions on fund repatriation. Furthermore, we may not be able to obtain sufficient financing for our operations in these countries. The setting of public utility fees and their structure may depend on political decisions that can impede any increase in fees for several years, such that they no longer cover service costs and appropriate compensation for a private operator. Major amendments to or the uneven 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 operating conditions, particularly in emerging countries. We may not be able to insure or hedge against these risks. Furthermore, we may find we are unable to defend our rights before a court of law in certain emerging countries should we come into conflict with their governments or other local public entities.

The destabilization of a country may generate emergency situations and exceptional risks.

In certain cases, a combination of factors could lead to the general political and economic destabilization of a country in which we operate and even make it difficult for us to conduct business because of reduced security and stability. The risk of nationalization or expropriation of private assets may also be higher for companies of foreign origin. In addition, very large-scale or repetitive natural disasters may also lead to the exceptional disorganization of certain infrastructure (such as roads and means of communication) on which we depend for the conduct of our business and may cause damage to the infrastructure for which we are responsible. We could thus temporarily be unable to perform services according to the conditions defined by contract.

Our business operations are subject to criminal and terrorist risks.

Our activities must comply with stringent regulations that seek to safeguard sites, resources and infrastructure from criminal or terrorist acts. Water is a strategic resource that contributes to public health. In the areas of public transportation, energy services and waste management, our installations and vehicles may become terrorist targets around the world. In addition, our employees work and travel in countries where the risk of criminal acts, kidnapping or terrorism is either temporarily or permanently high. As a result, despite the preventive and safety measures implemented by us and the insurance policies subscribed, a criminal or terrorist attack could negatively affect our reputation or operating results.

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Risks Relating to Our Operations

Changes in the prices of energy and other commodities or in the price of recycled materials may reduce our profits.

The prices of energy and other commodities can be subject to significant fluctuations and represent major operating expenses of our businesses (particularly diesel fuel, gas and electricity). Although most of our contracts include price adjustment provisions that are intended to pass on any changes in the price of our supplies, often using price indexing formulas, certain events may prevent us from being fully protected against such increases, such as time lags between fuel price increases and the moment when we are authorized to increase prices to cover the additional costs or a mismatch between the price-increase formula and the cost structure (including taxes). A sustained increase in supply costs and/or related taxes could undermine our operations by increasing costs and reducing profitability, to the extent that we are unable to increase our prices sufficiently to cover such additional costs.

In addition, a substantial portion of our 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 raw materials, combined with the impact of economic conditions on volumes, has affected, and could continue to affect, our operating results.

Our business is affected by variations in weather conditions.

Varying weather conditions can have an impact on our results of operations. For example, 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, 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 our results of operations may be affected by significant deviations from seasonal weather patterns.

Our long-term contracts may limit our capacity to quickly and effectively react to general economic changes.

We conduct the majority of our operations through long-term contracts. The initial circumstances or conditions under which we enter 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 they 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 call for a procedure to revise or amend the contract with the agreement of both parties or of a third party. Accordingly, we may not be free to adapt our compensation, whether this consists of a price paid by the customer or a fee levied on end users based on an agreed-upon scale, in line with changes in our costs and demand. These constraints on us are exacerbated by the long-term nature of contracts. In all cases and most particularly with regard to public service management contracts, our actions must remain within the scope of the contract and ensure continuity of service. We cannot terminate unilaterally and suddenly a business that we believe is unprofitable, or change its features, except, under certain circumstances, in the event of proven misconduct by the customer.

Certain of our operations are performed under contracts containing performance objectives that we must fulfill in order to be compensated or the non-fulfillment of which would result in the imposition of penalties.

Through Veolia Water Solutions & Technologies, we perform turnkey contracts for the design and construction of infrastructure in the water sector, compensated at non-adjustable fixed prices. Our compensation is often subject to the fulfillment of certain performance objectives, the non-fulfillment of which results in imposition of penalties.

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The risks to which we are exposed under these types of contracts are generally technical (design and choice of tailored versus tried-and-tested technology), operational (site management during the performance, acceptance and warranty phases, ability to use a technology, that may be imposed by the customer) and economic (fluctuations in raw material prices, other supply prices or foreign exchange rates).

In accordance with standard practice, to the extent possible we seek to cover these risks contractually. We may, however, encounter difficulties over which we have no control, relating, for example, to the complexity of certain infrastructure, weather or economic variations, construction contingencies, the purchase and ordering of equipment and supplies, or changes in performance schedules. In certain cases, we must rely on existing information or studies provided by the customer that may prove inaccurate or inconsistent, or we may be required to use existing infrastructure with poorly-defined operating characteristics. These may lead to non-compliance with contract specifications or generate additional costs and construction delays, triggering, in certain cases, reductions in our revenue or contractual penalties, which could negatively affect our financial position, results or outlook. In certain cases, we must take into consideration public or private customer requests for additional work, whether or not such changes were provided for contractually. These changes may result in changes in the services provided, necessary investments or the invoicing method. While contracts generally include clauses providing for the payment of additional compensation should additional work be requested or should events such as those detailed above occur, we are exposed to the risk of not obtaining amounts sufficient to cover the resulting additional costs, or of obtaining such amounts only after the passage of time.

The rights of governmental authorities to terminate or modify our contracts unilaterally could have a negative impact on our revenue and profits.

Contracts with public authorities make up a significant percentage of our revenue. In numerous countries, including France, public authorities may unilaterally amend or terminate contracts under certain circumstances. While we often are entitled to compensation, this may not be true in all cases, and even when compensation is due, we may not be able to obtain full or timely compensation should a contract be unilaterally terminated by the relevant public authority.

We may make significant investments in projects without being able to obtain the required approvals for the project.

To engage in business, in most cases we must sign a contract and sometimes obtain, or renew, various permits and authorizations from regulatory authorities. The competition and/or negotiation process that must be followed in order to obtain such contracts is often long, costly, complex and hard to predict. The same applies to the authorization process for activities that may harm the environment, which are often preceded by increasingly complex studies and public investigations. We may invest significant resources in a project or public tender without obtaining the right to perform the planned activity or sufficient compensation to cover the cost of our investment. This could arise due to failure to obtain necessary permits or authorizations, or approval from antitrust authorities, or because authorizations are granted contingent on our abandoning certain of our development projects. This result increases the overall cost of our activities and could potentially, were the cost of failure to become too high, force us to abandon certain projects. Should such situations become more frequent, the scope and profitability of our business could be affected.

We incur significant costs of compliance with various environmental, health and safety laws and regulations.

We have incurred and will continue to incur significant costs and other expenditures to comply with our environmental, health and safety obligations as well as in sanitary risk management, in particular with respect to water emissions, drinking water quality, waste processing, soil and ground water contamination, the quality of smoke emissions and gas emissions. We have incurred and will continue to incur significant costs and other expenditures to comply with our environmental, health and safety obligations as well as in sanitary risk management. We are continuously required to incur expenditures to ensure that the installations that we operate comply with applicable legal, regulatory and administrative requirements, including specific precautionary and preventative measures, or to advise our customers so that they undertake the necessary compliance work themselves. Failure by the client to meet its compliance obligations could be prejudicial to us as operator and adversely affect our 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 us 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 our reputation, activities, financial position, results or outlook. If we are unable to recover this expenditure through higher prices, this could adversely affect our operations and profitability.

Each of our businesses, moreover, may become subject to stricter general or specific laws and regulations, and correspondingly incur greater compliance expenditures in the future. Moreover, the scope of application of environmental, health, safety and other laws and regulations is increasing constantly. As environmental laws and regulations are constantly being amended and tightened, these amendments can require significant compliance expenditure or investment that we may not be able to foresee.

Our operations and activities may cause damage or lead us to incur liability that we might be required to compensate or repair.

The increasingly broad laws and regulations expose us to greater risks of liability, in particular environmental liability, including in connection with assets that we no longer own and activities that have been discontinued. In addition, we may be required to pay fines, repair damage or undertake improvement work, even when we have conducted our activities with all due care and in full compliance with operating permits. In addition, due to lack of scientific data or studies, we may not be aware of risks to human health or the environment caused by our operations that may be identified in the future.

We could be the subject of legal action to compensate damage caused to individuals, property or the environment (including the ecosystem). While our policy is to limit our liability contractually, implement prevention and protection measures and take out insurance policies covering our main accident and operational risks, these precautions may be insufficient, leaving us exposed to significant liability.

In addition, our 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 or chemical industry sites). With respect to such sites, we 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 us to customer sites. The regulatory regime governing Seveso facilities applies only within the European Union, but we operate several similar sites outside of the European Union that are often subject to the same level of stringent regulation.

Our business operations may subject our employees to health and safety risks.

Our business operations require significant human resources. The intensity, nature and location of the work required, including on public roads and on customer sites, makes maintaining our employees safety particularly important. Despite our specific attention to the health and safety of our employees, which may require us to incur significant costs, we may nonetheless face increased work accidents and illness (both in frequency and severity).

Human resources management issues and industrial disputes could have a negative impact on our image and business.

Our operations, which we carry out on behalf of industrialists or localities, include the provision of essential services and always require human labor for their implementation. We operate in diverse locations, sometimes under difficult working conditions. We cannot guarantee that we will not encounter labor disputes (strikes, walkouts or the destruction of property in extreme cases) that could interrupt our operations over a significant period of time. In particular, our transformation, including the implementation of our Convergence Plan, which includes significant reorganization and the refocusing of our activities on certain businesses and geographical regions, could cause industrial relations to deteriorate and negatively affect productivity and, consequently, our results. Any such disputes could have an adverse effect on our financial condition as well as on our reputation.

We may be unable to maintain and recruit employees with the skills necessary for our evolving business.

Our activities require a wide range of continually evolving skills in order to keep up with changes in our sector, in particular in our environment-related business. We may be unable to seek out new profiles, train staff in new techniques and recruit and train managers in every country where we do business in a timely manner. The implementation of our Convergence Plan, which involves significant reorganization, may exacerbate this risk.

There are legal matters in which adverse outcomes could have a material adverse effect on our business, results of operations and financial condition.

New legal proceedings and inquiries involving our Group were initiated in 2011, including a procedure launched by the European Commission investigating the possible existence of an anti-competitive cartel in the water sector, several actions concerning Société Nationale Maritime Corse Méditerranée (SNCM) and certain State Aid payments received, as well as a purported class action brought before the United States District Court for the Southern District of New York. Unfavorable outcomes in these matters, or in other matters, could materially and adversely affect our results of operations, financial condition, or business. See Item 8. Financial Information Consolidated Financial Statements and Other Financial Information Litigation and Note 38 to our Consolidated Financial Statements.

The unavailability of our information systems due to disaster or successful hacking could have a material adverse effect on our business, results of operations and financial condition.

Our operations and the management of our business, including the finance and human resources components, depend on the secure and reliable performance of our information systems. The unavailability of information systems because of a disaster or successful hacking involving one or more of these information systems could have major consequences on the quality or even the continuity of service delivered internally and the availability, integrity and confidential nature of our data. Despite all of the efforts and resources implemented to protect and secure our information systems, we may still be the target of a successful cyber attack. Any compromise of our security could result in a loss of confidence in our security measures and subject us to litigation, civil or criminal penalties, and adverse publicity that could adversely affect our financial condition and results of operations.

Risks Relating to Our Shares and ADSs

Because preemptive rights may not be available for U.S. persons, the ownership percentages of our U.S. shareholders may be diluted in the event of a capital increase of our Company.

Under French law, shareholders have preemptive rights (*droits préférentiels de souscription*) to subscribe, on a pro rata basis, for cash issuances of new shares or other securities giving rights to acquire additional shares. U.S. holders of our shares may not be able to exercise preemptive rights for our shares unless a registration statement under the U.S. Securities Act of 1933, as amended (Securities Act), is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not required to file registration statements in connection with issues of new shares or other securities giving rights to acquire shares to our shareholders. As a result, we may from time to time issue new shares or other securities giving rights to acquire additional shares at a time when no registration statement is in effect. If we undertake future unregistered capital increases, holders of our ADSs and U.S. holders of our shares may be subject to dilution, which may not be fully compensated by the proceeds from the sale of rights.

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We are permitted to file less information with the U.S. Securities and Exchange Commission (SEC) than a company incorporated in the United States.

As a foreign private issuer, we are exempt from rules under the U.S. Securities Exchange Act of 1934, as amended (Exchange Act), that impose some disclosure and procedural requirements for proxy solicitations under Section 14 of the Exchange Act. Additionally, our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions of Section 16 of the Exchange Act and related rules with respect to their purchases and sales of our shares. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies with securities registered under the Exchange Act. Accordingly, there may be less information concerning our Company publicly available from time to time than there is for U.S. companies at those times.

The ability of holders of our ADSs to influence the governance of our Company may be limited.

Holders of our ADSs may not have the same ability to influence corporate governance with respect to our Company as would shareholders in some U.S. companies. For example, the ADS depositary may not receive voting materials in time to ensure that holders of our ADSs can instruct the depositary to vote their shares. In addition, the depositary s liability to holders of our ADSs for failing to carry out voting instructions or for the manner of carrying out voting instructions is limited by the deposit agreement. Finally, except under limited circumstances, our shareholders do not have the power to call shareholders meetings.

Our auditors, like other independent registered public accounting firms operating in France, are not permitted to be subject to inspection by the Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.

As a public company, our auditors are required by U.S. law to undergo regular Public Company Accounting Oversight Board (PCAOB) inspections to assess their compliance with U.S. law and professional standards in connection with their audits of financial statements filed with the SEC. Under French law, however, the PCAOB is currently unable to inspect the audit work and practices of our auditors. As a result of this obstacle, investors who rely on our auditors audit reports are deprived of the benefits of PCAOB inspections of auditors, which may identify deficiencies in those firms audit procedures and quality control procedures and improve future audit quality.

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

We are a leading global provider of environmental management services, which include water and wastewater services, waste management services, energy services (excluding the production, trading and sale of electricity, other than production through co-generation) and transportation services. Our clients include a wide range of public authorities, industrial and commercial services customers and individuals around the world.

The legal and commercial name of our Company is Veolia Environnement. Our Company is a société anonyme, a form of limited liability corporation, incorporated in 1995 pursuant to the French Commercial Code for a term of 99 years. Our registered office is located at 36/38, avenue Kléber, 75116 Paris, France, and the phone number of that office is (+33 1) 71 75 00 00. Our agent in the United States is Terri Anne Powers, Director of North American Investor Relations, 200 East Randolph Street, Suite 7900, Chicago, Illinois 60601 USA, and the phone number of that office is (+1) 312-552-2890.

Our operations are conducted through four divisions, each specializing in a single business sector: Water, Environmental Services, Energy Services and Transportation. Our principal operating subsidiaries in each division are Veolia Eau Compagnie Générale des Eaux (Water), Veolia Propreté (Environmental Services), and Dalkia (Energy Services). We are in the process of divesting our Transportation business, which we conduct through Veolia Transdev, which is 50% owned by us and 50% owned by the *Caisse des dépôts et consignations*, a French state-owned financial institution. When referring to the activities of our divisions, we refer to the division names, and when referring to entities within our Group, we refer to their legal names.

Historical Background

Our 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. Our Company developed its municipal water distribution activities in France by obtaining concessions in Nantes (1854), Nice (1864), as well as 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 our Company under the name Vivendi Environnement to conduct all of its environmental management activities, which were then conducted under the names Veolia Water (Water), Onyx (Environmental Services), Dalkia (Energy Services) and Connex (Transportation).

On July 20, 2000, Vivendi Environnement shares were listed on Euronext Paris.

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 on the New York Stock Exchange.

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From 2002 to 2004, Vivendi Universal progressively decreased its stake in our Company through successive disposals and dilution and held only 5.3% of our shares by December 2004. Since July 6, 2006, Vivendi no longer holds any shares in our Company.

In April 2003, we changed our name to Veolia Environnement.

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

In November 2005, we rolled out our new brand policy aimed at increasing consistency between the divisions of the Group, the visibility of our Company and strengthening our identity and common culture of 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.

The development of our business in recent years has been significantly influenced by external factors relating both to our markets and to the economic environment in which we operate. After a series of acquisitions in 2006, 2007 and early 2008, the global financial crisis imposed significant financial constraints on public authorities and public customers. We implemented a policy of increased vigilance with respect to our investment activity, and established in 2009 a divestiture program of €3 billion for 2009-2011, a target that we were able to exceed. We also began to implement our Efficiency Plan, an initiative started in 2003 that targeted significant cost savings. We have met the goals of the Efficiency Plan in each year since then.

In May 2010, we signed an agreement to combine our transportation subsidiary, Veolia Transport, with Transdev. The transaction closed on March 3, 2011, creating Veolia Transdev, in which we hold a 50% interest, with the remainder held by the *Caisse des dépôts et consignations*, a French State-owned financial institution.

In 2011, we were affected by a number of changes in our markets, including pressure on credit markets in Europe as a result of uncertainties relating to the credit quality of certain sovereigns, coupled with lower GDP growth and decreased public spending in mature markets, which put increasing pressure on margins. In this context, we announced a strategic transformation plan (described in more detail below), based on refocusing our activities and business portfolio and changing our organizational structures to reduce costs further. The transformation plan targets €5 billion in asset divestments over the next two years, the concentration of activities on the three main business lines (Water, Environmental Services and Energy Services), the progressive exit from the Transporation business, and the sale of rate-regulated Water activities in the United Kingdom and solid waste activities in the United States.

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Business Overview

The following table provides our revenues by division for the year ended December 31, 2011. We have commenced our progressive withdrawal from the Transportation business. As a result, our share of the results of operations of Veolia Transdev are recorded as a discontinued operation and do not appear in this table.

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 World	*1,048.4*	*363.7*	*197.9*	*1,610.0*
TOTAL	**12,617.1**	**9,740.2**	**7,290.0**	**29,647.3**

Our Overall Strategy

We are the only international company focused on the environmental services sector, currently operating through four divisions, Water, Environmental Services, Energy Services and Transportation, at the service of our public authority, industrial and service-sector customers.

We provide most of our services under long-term contracts that generate recurring income and provide visibility. Through tailored provisions reflecting the needs of different markets, these contracts allow for gains in economic performance and environmental efficiency from technical, labor and organizational improvements.

Over the last fifteen years, we have developed and adapted a range of management models in several countries. This ability allows us to benefit fully from the potential of the environmental services market around the world, by positioning ourselves in areas of high economic growth in countries that have accepted the outsourcing model for the management of public services.

We target balanced and responsible growth, reflecting the long-term nature of our commitments, the extent of needs which also represent opportunities and the impact of our activities on the environment. We consider the long-term interests of all stakeholders shareholders, lenders, employees and customers.

Faced with a changing global environment presenting new challenges, we are adapting and transforming our organization.

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 developing countries presents substantial development opportunities that form part of our selective growth policy. As the corporate reference in sustainable development, we are supported by solid fundamentals, leading positions in several markets, an extensive portfolio of long-term contracts and growth platforms in several emerging countries.

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During 2011, we launched a transformation plan aimed at:

increasing our positions in high-growth markets;

maximizing our competitive advantages;

developing synergies between our different businesses;

strengthening our leading positions.

This transformation policy comprises several components:

refocusing our business, enabling us to decrease net financial debt;

simplifying and tightening our organizational structure; and

cutting costs.

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

As part of our transformation, we are refocusing our business activities and deleveraging our financial structure.

To attain this objective, we have launched a €5 billion asset divestment program for the period 2012/2013. This plan includes refocusing on core geographical regions and the disposal of certain assets, including the following significant assets:

the Transportation business;

rate-regulated water subsidiaries in the United Kingdom; and

solid waste activities in the United States.

We no longer believe that the Transportation business has its place within the Group, following an increase in the capital intensity of this business, and given the limited nature of synergies with our other businesses. Secondly, our rate-regulated water subsidiaries in the United Kingdom offer limited growth potential and are not part of our priority core markets. Finally, following a number of disposals in the environmental services sector in the United States in 2009, our critical size in that country and sector is insufficient to justify continuing solid waste activities there. The disposal program also supports our debt reduction policy, which aims to bring net financial debt to under €12 billion by the end of 2013.[1]

1 *Excluding exchange rate effects.*

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We are simplifying and tightening our organizational structure.

In 2011, we began to implement the new "Convergence Plan", which is part of the transformation of our organization, aimed at standardizing processes, strengthening control and operational management and simplifying our organizational structure through the following steps:

the rationalization of organizational structures across all our entities:

o

redefinition of responsibilities at all management levels,

o

greater control by functional teams,

o

standardization of processes.

and a pooling process that encompasses:

o

certain support functions within the regions,

o

procurement and technology systems,

o

marketing resources, to improve and standardize commercial offerings and solutions proposed to public authorities and industrial companies.

We are aiming to realize significant cost savings.

By continuing the Efficiency Plan implemented in 2003, we aim to boost our 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, we hope to generate savings that can in part be passed on to customers.

Our “Convergence Plan” aims to generate further savings, by reducing administrative, functional and operating costs in the short-term and through the transformation of the organizational structure in the long-term. Under the Convergence Plan , we anticipate a negative net impact on operating income on the order of €20 million in 2012, following which we target positive net impacts of €120 million in 2013, €220 million in 2014 and €420 million in 2015 (after divestitures).

We are positioning ourselves to be able to seize profitable growth opportunities.

With greater financial flexibility and through a strict and disciplined growth policy, we plan to concentrate our efforts on profitable organic growth opportunities that benefit from our technological, commercial and human resource expertise and our ability to offer a wide range of high added-value environmental services.

We will prioritize our investments, focusing first on meeting the objectives set by our transformation program: processing or recovering the most difficult pollutants (including hazardous waste, sludge from sewage treatment plants, CO_2 emissions), offering solutions to deal with the increasing rarity of resources, and managing large-scale public services with efficiency, offering public and industrial customers cutting-edge solutions to increasingly complex challenges. These investments are intended to enable us to seize the best growth opportunities, based on a matrix of regions and businesses offering the highest levels of profitability. We plan to focus in particular 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. Geographically, we plan to continue our development in the European Union, as well as in North America and Northern Asia where we already have a strong presence. Finally, we will accompany major industrial customers as they expand their geographical presence, particularly in emerging countries and Australia.

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We have also launched negotiations with the French Electric company *Electricité de France*, or EDF (which holds 34% of Dalkia and 50%, directly and indirectly, of Dalkia International) to rejuvenate the partnership between our two groups in a bid to optimize synergies and simplify and strengthen the governance of our joint energy services subsidiary.

At the end of 2013, we aim for our Group to be composed of three divisions operating in the water, environmental services and energy services sectors, with an organizational structure that is more reactive and that benefits from increased financial flexibility and operating cash flow enabling us to seize growth opportunities in mature countries where we have leading positions, as well as in developing countries.

Our Strategy by Division

Water

Through our Water division we intend to continue expanding our services around the world, while striving to ensure the quality and safety of the water we provide, 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 Operations 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). Capital intensive municipal activities involve a public client and substantial investment either 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 (in light of significant pressure on margins), and invest selectively in Eastern and Central Europe.

Pillar two comprises municipal activities where capital intensity is low, 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. We aim 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 Operation and Technology and Networks sectors. These activities are performed at customer sites (primarily in emerging countries) and focus on three major industrial sectors:

o

heavy industry or industrial sectors exposed to substantial environmental restrictions, such as the mining or petroleum industries,

o

industries subject to strict specifications governing the use of water (e.g., food industry, cosmetics or semi-conductors), and

o

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, we aim to have our Water division stand out from the competition through the high-tech content of its offerings.

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Environmental Services

Through our Environmental Services division, we intend to continue our 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 drive the progressive move from landfilling and elimination to recycling and the transformation of waste treatment and recovery methods. 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 raw materials prices.

In this evolving context, we will focus our efforts through Veolia Propreté on:

transforming our activities, from elimination to recovery, at the right pace in accordance with local requirements;

developing industrial hazardous waste processing and recycling activities, benefiting from our competitive advantages and the high added value of our services;

adapting our 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 our activities by renegotiating fees, maximizing the use of our 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 our other businesses;

strengthening control of risks relating to energy price volatility; and

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;

Private Finance Initiatives (PFI) and Public-Private Partnerships (PPP) integrated waste management contracts in Europe.

We plan to sell our solid waste activities in the United States and focus on industrial services and hazardous waste.

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Energy Services

Through our Energy Services division, we are 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 our expertise at the disposal of public authorities and companies to help in developing, designing and managing energy solutions with a higher technology component that are more environmentally friendly and less expensive.

Energy needs continue to rise while resources are becoming increasingly rare and expensive (with crude oil prices driven by global demand nearing U.S. $100 a barrel in 2011 and continuing to rise in 2012) and environmental regulations have also 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.

Our strategy focuses on establishing ourselves 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 that is less energy-hungry and more respectful of the environment and climate stability. Biomass-based offerings and energy-performance contracts are our priority.

Through Dalkia, we also intend to refocus our activities on our core businesses and the priority regions for our development, which are those 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; and

Dalkia can become a major player in the market within five years and can mobilize synergies with our 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, we decided to focus our activities on our three business lines and withdraw from the Transportation business, which we conduct through Veolia Transdev, our 50/50 joint venture with *Caisse des dépôts et consignations* since the combination in March 2011 of our subsidiary Veolia Transport with Transdev. We favor an orderly process of 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 Veolia Transport and Transdev, the implementation of performance and efficiency plans and improvements to the performance of certain unprofitable contracts; and

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.

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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 into account environmental concerns and propose increasingly high performing solutions to improve the quality of city travel and reduce car congestion.

Description of Our Main Businesses

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. 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. 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. 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 our strong local presence and more than 150 years of experience providing services to municipal and industrial customers, our 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 ****	**Change 2011/2010**
Revenue	12,617.1	12,250.3	3.0 %
Operating income	860.5	1,046.1	(17.7) %

* *Including our share in the results of the water activities of Proactiva, our 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.*

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

Overview of the Water Division

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 certain framework agreements have enabled us to integrate more elaborate mechanisms into our contracts allowing us 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 we are constantly improving the efficiency of our 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, we offer 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 our water business is on water and wastewater management services for public authorities and industrial customers, which we refer to as Operations activities. We provide integrated services that cover the entire water cycle. Our 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. We also manage customer relationships, 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. We continue to develop our 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 our Technology and Network activities, we develop technological solutions and design/build the infrastructure 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. We treat groundwater, surface water, brackish or seawater, wastewater and refined sludge. Through a combination of physical, chemical and biological treatments, we have developed a comprehensive range of specific solutions for the purification of water or the reduction or elimination of impurities in effluents. Our recycling/reuse systems 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, we also design, build, renew and recover 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.

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Key Factors

The key factors that may have an impact on 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 Operations 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. Our ability to control costs and obtain favorable terms and conditions in our contracts are key success factors, particularly in the Operations business in France. In certain cases, contracts provide for an interim renegotiation of terms and conditions prior to the contractual expiry date.

A number of our contracts in France will expire or face renegotiation in the coming years. The following table presents annual revenue (based on 2010 figures) generated by the principal contracts that are to be renewed or renegotiated during the 2012 to 2014 period:

City	**2010 Revenue** *(in € million)*	**Contract expiry date**
Marseille	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 covered by the Olivet Commune Order: the term of the contract beyond 2015 has not yet been confirmed. See Contracts below, for a description of the Olivet Commune Order.*

** *This contract is covered by the Olivet Commune Order: the term of the contract beyond February 2015 has not yet been confirmed.*

The Technology and Networks 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, rigor 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

Our activity levels increased slightly year-on-year in 2011 and were marked by a contractual erosion in France, mainly due to the new terms and conditions of the renewed Paris suburbs contract (Syndicat des Eaux d Ile de France (SEDIF), renewed in 2010). We recorded 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 in activity levels, 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.

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In France, we provide approximately 24 million residents with drinking water and 17 million with wastewater services. The delegated management public service contracts that were renewed in 2011 represent estimated 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 La 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. We also lost a number of contracts, including the operating contract for the provision of drinking water to the cities of Hyères and Rambouillet and for the wastewater treatment plant in Angers. Overall, lost annual revenue represented by these contracts was offset by new public service delegation contract wins (services previously rendered by local authorities or our competitors) and service contract wins.

In this context and with the continued fall in unit consumption (down approximately 1% on volumes sold in 2010), we launched a plan (called project Hellébore) to reorganize our Water activities in France and to increase standardization of our operations and strengthen our resources allocated to commercial development. In addition, we continue to respond to the ecological emergency and are proposing service with an exemplary environmental footprint in terms of both resource use and carbon emissions.

Over and above the favorable impact of the acquisition of certain United Utilities activities at the end of 2010, activity rose significantly in Europe mainly due to a rise in volumes observed in 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.

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Major Contracts in 2011

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.*

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Main Acquisitions and Divestitures in 2011

The main divestitures during the year include:

in France,

o

the sale to Fonds Latour Capital of Proxiserve, held jointly by Veolia Eau-CGE and Dalkia,

o

the sale to Claire of Sainte-Lizaigne,

o

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 25 companies in 2011 and the liquidation, divestiture or transfer of thirty-eight companies, the Water division (excluding Proactiva) was composed of 742 companies as of December 31, 2011, compared to 755 in 2010.

Environmental Services

Through our subsidiary Veolia Propreté, we are the worldwide reference in this sector(2), where we are involved in waste collection, recycling, processing, treatment and handling 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 public-sector customers, such as local authorities.

As of December 31, 2011, Veolia Propreté employed 77,421 people(3) around the world, in approximately 33 countries. We have partnerships with over 750,000 industrial and public-sector customers(4) and serve nearly 61 million residents on behalf of local authorities. As of December 31, 2011, we manage approximately 746 waste processing units (excluding landfill sites in the post-closure phase and soil decontamination plants).

The term of our 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).

2 Source: Internal Studies and Eurostat.

3 As at December 31, 2011, there were 77,421 managed employees, including 7,070 allocated to Proactiva environmental services and 1,169 shared employees allocated to the Environmental Services division.

4 Figures below (number of inhabitants, population served, tonnages, etc.) do not include Proactiva, unless specifically indicated.

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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.

Environmental Services*

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

* *Including our share in the results of the environmental services activities of Proactiva, our 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 the Environmental Services Division

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, we conduct 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 our activities 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 us apart from the competition in this market;

The management of risks relating to the protection of the environment and the safety of individuals and installations;

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;

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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.); and

Management of economic and financial risks: volume fluctuations, volatility of raw material prices (fuel, materials sold such as paper and metals), customer risk, foreign exchange and interest rate risk.

Environmental Services and Logistics for Public Authorities and Industrial Companies

Maintenance of Public Spaces and Urban Cleaning

Each day, we provide 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

We provide cleaning services at the sites of our 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 we offer specialized cleaning services (high pressure or extreme high pressure cleaning). We also offer cryogenic cleaning, and reservoir cleaning services at refineries and petrochemical sites. Finally, we have developed emergency services to treat site contamination in the event of an accident or other incident.

Liquid Waste Management

Through our specialized subsidiary SARP, we provide liquid waste management services that consist primarily of pumping and transporting sewer network liquids and oil residues to treatment centers.

We have 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 Environmental 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. We provide 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 our waste collection services. We collect household waste through door-to-door pickup or through pickup at designated drop-off sites, and collect commercial and non-hazardous industrial waste. We maintain the cleanliness of green areas and carry away green waste and also collect hazardous waste on behalf of our service sector and industrial customers, including hospital waste, laboratory waste and oil residue (ships, gas stations, etc.) and diffused hazardous waste.

We also provide related services to our public sector and industrial customers, such as preliminary studies of future waste collection needs and waste tracking after collection.

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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

We process waste with a view to reintroducing such waste into the industrial production cycle.

Our 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.

We recover solid waste received at our 286 sorting and recycling centers. These specialized centers separate the different components of complex waste, such as electric and electronic products and fluorescent lamps. We work upstream in partnership with industrial customers and with our 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

We have 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 our 126 Veolia Propreté composting units, we process 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

We operate 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. We use this energy to supply urban heating networks or sell 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). We have 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, we 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 our specialized subsidiaries, SARP Industries and VES Technical Solutions (in the United States), we have a worldwide network of experts, which has helped us become a world leader in the processing, recycling and recovery of hazardous waste.

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Description of Activities in 2011

Major Contracts in 2011

The following table shows the major contracts signed in 2011 with either public authorities or industrial or service-sector companies [(5)]:

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

Main Acquisitions and Divestitures in 2011

On March 25, 2011, we sold our 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.

5 Revenues estimated 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.

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Energy Services

We conduct our energy service activities through Dalkia, a global provider of energy services to companies and public authorities. Primarily in our role as a decentralized producer of thermal and electrical energy, we develop offerings for heating and cooling networks, industrial utilities and energy services. We seize opportunities offered by the development of the energy market and the need to contain energy consumption. We are present at all stages of the energy chain from decentralized production to optimizing distribution and containing demand, to improve the performance of energy systems. We join forces with our customers, helping them optimize their energy purchases and improving the efficiency of their installations both in terms of cost and atmospheric emissions.

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.

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.

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 the Energy Services Division

Dalkia 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 service to 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 are also active in the CO2 allowance markets.

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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. Dalkia has considerably stepped-up development of its biomass sector 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. Dalkia 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 opportunities worldwide, in synergy with our 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 CO2 emissions. This will bring about profound changes in the energy services market over the coming years, through the development of offerings encompassing performance commitments.

Key Factors

Dalkia manages 123,500 energy installations worldwide. Our Energy Services division activities may be influenced by the following key factors, which are primarily of a technical, contractual or economic nature:

contract management, enabling the identification of our risks and those borne by Dalkia s 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 Dalkia s performance and competitive advantage;

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procurement management: primarily purchases of raw materials, to optimize costs and secure fuel supplies for the installations Dalkia manages;

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 positive price effects were offset by unfavorable weather conditions compared to 2010 in the majority of countries where Dalkia operates. In addition, economic difficulties in Southern Europe were reflected by a decline in installation activities, particularly in Spain and Italy.

In 2011, Dalkia launched a strategy to refocus its business, which impacted Dalkia s regional presence.

In France, new business and portfolio contract development proceeded at a rate over one and half times that of erosion, which enabled the division to report substantial revenue growth on an annualized basis. Industrial utilities contributed the majority of this growth,with the Areva La Hague contract alone representing additional estimated annual revenue of nearly €25 million. Dalkia France renewed 70% of the contracts that expired during the year, compared to 80% in 2010, in the face of increased competition between players and the economic slowdown. Contracts not renewed in 2011 represented nearly 2.5% of Dalkia s revenue in France, including the loss of heating network contracts, the cessation 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 estimated 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 estimated annual revenue of €4.9 million over 9 years.

In Southern Europe (Italy and Spain), new management was appointed at the beginning of 2011 and launched a comprehensive restructuring plan (involving, in particular, employee redundancy plans, the regrouping of sites and the discontinuation of certain 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 issues 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 estimated annual revenue of over €40 million. The development of Dalkia’s platform in the United States has fallen behind schedule due to the economic slowdown observed in this country over the last three years, which has had financial consequences. In addition, Citelum urban lighting activities are in the course of divestiture.

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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.

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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, we 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 us to sell all our activities in Germany in 2011, with the exception of 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. We will continue to operate this plant through our 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.

Transportation

Activities in our Transportation division continued as in previous years up until March 3, 2011, when Veolia Environnement and *Caisse des dépôts et consignations* 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, we announced our decision to progressively withdraw from the Transportation business, as described above.

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

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

As a result of our decision to withdraw from the Transportation business and the advancement of the divestiture process, the results of operations of Veolia Transdev are presented as a discontinued operation. See Item 5. “Operating and Financial Review and Prospects,” for further details. We recorded, under discontinued operations, revenues of €5.8 billion in 2010 and €4.3 billion in 2011, although these figures are not comparable, as they include Veolia Transport for all of 2010 and the first two months of 2011, and 50% of Veolia Transdev thereafter. For purposes of providing information about the overall business that is part of Veolia Transdev, we have estimated the combined revenues and operating income of the businesses that are currently conducted by Veolia Transdev, based on unaudited magagement account information, as set forth in the table below.

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Transportation

(in € million)	**Year ended December 31, 2011**	**Year ended December 31, 2010**	**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 Division

Veolia Transdev mainly operates passenger transportation networks and scheduled services in accordance with public service specifications (which stipulate 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 through public tenders.

Veolia Transdev generally manages outsourced 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 Transdev to passengers on its transportation networks are usually insufficient to cover costs, the public authority typically provides Veolia Transdev 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 Veolia Transdev are influenced by key factors of a technical, contractual and economic nature and primarily by:

managing contract risks: we carry on our activities under long-term contracts which, while offering growth opportunities and long-term revenue streams, may also hinder our ability to react rapidly and appropriately to new financially negative situations (See Item 3 Key Information Risk Factors above);

managing the various sustainable development aspects of contracts, which are increasingly included in transportation authority requirements (See Item 3 Key Information Risk Factors above);

a lack of control over contractual changes (See Item 3 Key Information Risk Factors above);

operating in dense, vast and increasingly complex areas brings with it increasing operating complexity, and greater inter-modality in particular, which calls forth all of Veolia Transdev s 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, Reims, 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 agencies, 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 also 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, 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).

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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 (Phoenix), 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. In the United States, Veolia Transdev operates in particular the Boston and Miami suburban networks. In Asia, Veolia Transdev has operated 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). 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.

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Description of Activities in 2011

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 5-year contract (with an extension option for a further 5 years) 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 Nordwestbahn winning the contract for the Wesertal and Lammetalbahn regional network, in particular. In the west of Germany, Nordwestbahn also successfully renewed a large part of the regional network operated 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).

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Major Contracts in 2011

The following table shows the major contracts signed in 2011 with either public authorities or industrial or service sector companies[6]:

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)

Main Acquisitions and Divestitures in 2011

Following the combination with Transdev described above, the new entity, Veolia Transdev, was composed of 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 continues to operate in the United Kingdom, particularly in London and Yorkshire.

6 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.

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Development of Synergies: Multi-Services Contracts with Industrial and Service Sector Customers

Outsourcing and Multi-Service Market

Our position forged over several years 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 us 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 of our businesses, including energy services, management of the water cycle, waste processing and recovery and on-site logistics management. We offer a multi-service alternative to our customers, which involves the provision of services by several of our divisions under a single contract. This option enables us 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.

Our 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 us 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 us 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).

Our Organizational Structure for the Provision of Multi-Services

In order to develop this multi-service activity, we 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 our 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 our 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

Our 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).

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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 (including services like utilities management, water cycle management, maintenance of industrial and service buildings, maintenance of small tooling 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 an estimated €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 our 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 estimated total cumulative revenue over this period of €1.9 million (51%). In November 2011, 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 estimated cumulative revenue over this period of €12.4 million (51%).

PSA Peugeot Citroën awarded us 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 us under the new contract. This 5-year contract will generate total estimated 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 estimated cumulative revenue of €500 million. The quality of the customer relationship developed since 2003 was recognized in 2011 when we 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 us for its Paris region sites. This contract represents estimated annual revenue of over €80 million and primarily concerns the multi-technical management of the Guyancourt Technocenter.

Multi-Service Contracts signed in 2011[7] (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
	Creil	October	New	3 years	5.0 million	services
	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

7 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.

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Market Overview

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 us to demonstrate our expertise and market our technologies in synergy with our 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, we accompany 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, our 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.

Public and private decision-makers alike know 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, we have 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 our customers and the beneficiaries of our 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. We actively participate in a certain number of the increasing 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 resulting strong pressure on prices and supplier margins.

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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, demand for outsourced and increasingly integrated environmental management services should expand and grow for the following reasons:

The global environmental services market is enjoying sustained growth.

Customers need increased competitivity or savings.

As innovative technical solutions favorable to the environment are developed, our expertise is sought to identify, design, control, build and operate these solutions.

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.

Private and public players 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 us apart from the competition.

Customers need to be able to entrust service providers with the coordinated management of services 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 the 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 management 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.

We believe that market developments offer us significant opportunities, because we are 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, we must, more than ever, strive to offer high-quality services, equipment and installations at competitive prices.

Customers

We provide 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 increasingly favor the concept of value-added services. They are aware 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.

We have the know-how to adapt to customer expectations and needs. We increasingly participate 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. We 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. We are also able to adapt to these changes in customer needs.

We believe in the relevance of our comprehensive contract model, which gives us 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 which we assume operating risks 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 to retain control over the construction and financing of installations and merely place them at the disposal of the service provider for the term of the contract, at least for certain public services.

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 contracts have emerged, which, together, are often qualified as Public-Private Partnerships (PPPs). The first of these two types of contracts includes those 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 infrastructure. The second type includes contracts that are equivalent to concessions, as defined by the European Union, but 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 means necessary to gain access those resources. Different IFRS accounting treatments apply in each case and will result in the recognition of a financial asset corresponding to a receivable from the public authority or not, depending on how the contract is structured and classified. We can also distinguish these PPPs based on the nature of the services entrusted, such as Build Operate Transfer (BOT) contracts with financing, or Design, Build, Operate (DBO) contract, excluding financing.

Under European Union law, following the publication of Towards a Single Market Act on October 27, 2010, the European Commission published a proposed directive on December 20, 2011 regarding awards of concession contracts. This proposal requires the publication of a notice prior to awarding concessions with an estimated value, net of VAT, over €5,000,000. There is, nonetheless, a risk that the extensive regulation of PPPs 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. Our 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 , to allow 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 (which is currently being revised) 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. Our 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 calling into question French public service delegation legislation.

Industrial and Service Sector Companies

We offer our 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).

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We offer customers innovative solutions tailored to the needs of each industrial site. We adopt 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.

We consider the development of our industrial customer base as a major growth driver and aim 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.

Competition

Most markets for environmental management 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 we participate 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 we operate, our competitive advantages are our technological and technical expertise, our financial position, our geographical reach, our experience in providing and performing all environmental management services, our management of outsourced employees, and our ability to comply with regulatory requirements.

In the environmental management 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 our 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 that we do. Therefore, in certain cases, our competitors are required to set up special purpose entities to cover the service scope required by customers.

We expect 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 us 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. We may join forces with these service providers 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 our 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 is the worldwide leader in the water and wastewater treatment sectors[8], where its main competitor across all markets is Suez Environnement. In national, regional and international markets, we remain exposed to strong local competition from private, public and mixed private-public operators.

Our main competitors in France are Lyonnaise des Eaux (Suez Environnement), Saur and local public authorities. In Spain, our 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 has recently experienced several changes: the restructuring of Biwater, acquisition of Northumbrian Water by the Hong King company Cheung Kong Infrastructure (which then sold Cambridge Water), the acquisition of a stake in Thames Water by the Abu Dhabi sovereign fund, the 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, in addition to 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.

8 *Source: Pinsent Masons Water Yearbook 2011-2012.*

Environmental Services

Our main competitors in the waste management sector are either regional players, or players who cover only part of the services offered by our Environmental Services division. In Europe (including Central and Eastern Europe), where Veolia Propreté conducts the majority of its business, our 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, our two major competitors are Waste Management Inc. and Republic Services Inc. (the 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, our 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. Through our Energy Services division, we face strong competition from primarily sector-specific players.

Only the group formed by the GDF-Suez merger, Cofely, has the ability to offer a diversified and comprehensive range of services with a strong international presence that is comparable to our own presence and services. Cofely represents a major competitor, mastering a range of expertise similar to ours. This competition increased in 2011, particularly in France, with an aggressive policy to win market share. Among sector-specific players, we face 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, we face historical competition from municipally- or publicly-run companies, principally in Central Europe.

Transportation

In the transportation sector, our 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. Considerable market consolidation took place in 2011, in addition to 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.

In France in 2009, the merger of Keolis, a 45.4% subsidiary of SNCF and the car parking lot management company, Effia, a wholly-owned subsidiary of SNCF, 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.

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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.

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, we are able to find our 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 plays 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.

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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 we easily adapt. The contracts we use generally fall into one of three categories, depending on whether we are entrusted with full responsibility for providing the public service and whether we have a financial and commercial relationship with end users:

If 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;

When 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 as partnership contracts, in France;

The public authority may entrust 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, in France, 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 we operate 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 another 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 Order (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 include the building of infrastructure, or at least the upgrade of existing equipment and in all events its maintenance and may also provide for the financing thereof.

We also enter into outsourcing contracts for the management of complex services with our 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 we operate, our customers tend to demand transparency during the bid process and during contract performance, the formation of a real partnership to improve productivity and execution and a desire for clear performance targets involving penalties or variable compensation depending on achievement.

We are also very attentive to contractual provisions, in particular when we must finance the investments required under a contract. Given the complexity of management agreements and their long-term nature, we possess skills in contract analysis and control and the content of our major bids is decided by Commitment Committees meeting at several levels. The legal and financial departments of our divisions, and potentially our Group as a whole, are involved in the negotiation and preparation of tender bids and contracts. Audits are carried out on our main contracts. Each year, our Internal Audit Department includes a review of the contractual and financial risks inherent in our 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.

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Intellectual Property Company Dependence

We own a number of brands, including the Veolia brand. Since November 2005, our Group has adopted a single 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 we are based, have modified their corporate names to include Veolia. This strategy, implemented by Company Executive Management, illustrates our desire to increase the global consistency of our divisions and our visibility, by strengthening our identity and global culture based on our 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 our growth and profitability and flows from the expertise and know-how of our businesses. The patent portfolio and developed expertise sets us apart from the competition and participates in our reputation as a worldwide reference for environmental services. We capitalize on this expertise primarily through the creation of technical, digital and IT tools that we seek to protect using tailored methods.

In our opinion, our business is not dependent on the existence or validity of any one or group of these patents, nor on any contract covering one or more intellectual property right(s). Furthermore, we are not dependent on any customer, major license or industrial, commercial or financial supply contract.

Seasonality

Certain of our 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 our operations and its worldwide presence, our results are, in general, not significantly affected by seasonal variations.

Raw Materials

Given our 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 our 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 to increase 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 could remain volatile in 2012 and beyond.

Our contracts generally include price review and/or indexation clauses, which enable us 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 carried out 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, we are 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. Veolia Transdev 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 our customers, indexing clauses in contracts generally allow us 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. The portion relating to Transportation was recorded in results of discontinued operations.

In the Energy Services division, given the long-term nature of contracts and the terms of supply agreements, changes in energy prices may have different impacts depending on the areas in which Dalkia intervenes. At the Energy Services division level, the overall positive 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 our other divisions, as part of supply management and cost optimization measures, certain subsidiaries may be required, depending on their businesses, to contract forward purchases or sales of commodities (gas, electricity). We also entered into long-term contracts for the purchase of gas, coal, electricity and biomass in order to secure our supply chain. The majority of these commitments are reciprocal, and the third parties concerned are required to deliver the quantities indicated in these contracts just as we are obliged to accept 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. See Notes 29.1.3 and 37 to our Consolidated Financial Statements included in Item 18 of this annual report on Form 20-F.

Industrial Investments and Divestitures

Our principal industrial investments and divestments for 2009, 2010 and 2011 are set out in this annual report at Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources and Investing Activities Industria Investments and in the Notes to the Consolidated Financial Statements.

Environmental and Employee Regulations, Policies and Compliance

Environmental Regulation

Our 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.

Environmental regulation in European Union countries is primarily tied to European directives and regulations. The majority of our activities require operating permits or authorizations that include rules governing the operation of the installations. These operating permits are delivered by public authorities pursuant to authorization procedures, which include the performance of specific studies presenting, in particular, the environmental footprint of the installations. In France, the majority of our installations operated fall under the control of the ICPE regime (Facilities Classified for Environmental Protection). Our 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.

Our relevant subsidiaries are in compliance with the schedule set by the REACH regulation for chemicals requiring registration. 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 us 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 a global level.

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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 the 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 a 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 decisions, known as the Grenelle 1 Law of August 3, 2009 was supplemented by a law that includes 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 our 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, a decree issued on July 11, 2011 concerns greenhouse gas emissions reports and a territorial climate-energy plan; it 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.

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. This is 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 French 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.

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Water

Water and wastewater treatment activities are highly sensitive to regulation. In Europe and the United States, governments have enacted significant environmental laws at the European, national, and local levels 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 the international level, the WHO directives on health and water are published for countries, 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 countries and access to clean water and sanitation was recognized by the United Nations as a human right on July 28, 2010.

At the 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/EC 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 French law of December 30, 2006 on water and aquatic environments implements EU requirements for high quality water and significantly modifies French legislation on water, as well as implementing 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.

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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 action 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 the 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.

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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. Our 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 French Environmental Code 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 our 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

Our 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 have been 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, we are 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.

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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 BWGLI. 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 Transdev is subject to a number of national and European regulations that seek, among 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 ce